



Management
Report
2015

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Chairman & Chief Executive Officer's Statement

Two years after its privatisation, CTT continues to demonstrate its full potential and determination to reach further.

The main trends of a sector undergoing profound transformation were reaffirmed in 2015, and CTT continued to define and implement business development initiatives based on its key strategic pillars, while providing a substantial return to its shareholders.

The year 2015 will be marked by the launch of Banco CTT, the additional driver we needed in order to accelerate the growth in the financial services business and upon which we place high expectations for the future. And also by the re-introduction of the variable compensation for employees and management after 6 years, thus aligning the incentives and compensating the ones that determine the success of CTT.

The way our employees and the company have responded to the various challenges that we faced over the last three years make me very proud of the quality of our organisation and optimistic about the road ahead.

A Postal Sector undergoing Profound Transformation on a Global Scale

The Postal Sector is changing deeply and several trends are contributing to this change, among which I would highlight:

- i. **The competitive environment and the growing scrutiny of all the stakeholders** – nowadays postal operators (i) operate in completely liberalised/deregulated markets, which means greater competition in their natural markets, (ii) compete in a global market with international integrators with a high level of technological sophistication, entailing increased customer requirements and (iii) undergo an ever greater scrutiny from the competent authorities and/or the investors.
- ii. **The substitution effect/digitalisation and the need for diversification** – is a reality. We all know mail volumes are declining every year – even if, in CTT's case, the decline is



Francisco de Lacerda
Chairman & CEO

slowing down – as a consequence of the penetration of new technologies. This fact obliges the operators to find new ways to preserve their core business and diversify their sources of revenues.

iii. **The explosion of E-commerce** – Portugal and Spain (CTT’s main markets), are still below the European average in e-commerce and online purchases. Projections point out to a significant growth in the revenues generated by e-commerce in the Iberian Peninsula and this is obviously an opportunity to be captured by the postal operators.

iv. **Internet of postal things/data-driven marketing** – The new digital world opens up several opportunities, besides e-commerce, for the postal operators to leverage their assets – proximity, capillarity and trust – maximising the technological capacities of data processing and use of information. The collection of data with market value, the new advertising mail functionalities, smart cities, new last-mile delivery models or the deliveries with recourse to crowd are some examples of that trend, which is still at its early stages and starting to be explored by the operators.

Thus, the Postal Sector is no longer a closed one. The mentioned trends are just some examples of developments that compel postal operators to be more dynamic, not simply focused on their traditional businesses but instead always with an eye on new opportunities, namely Banking/Financial Services, Transport and Logistics or even the possibilities offered by Digitalisation.

A Dynamic Benchmark Operator in the postal sector all over the world

CTT is today one of the benchmarks in the postal sector, both for its ability to innovate and diversify its businesses while maintaining the solid performance of its universal postal service quality indicators and for its outstanding track record in the capital markets since its privatisation.

CTT is also one of the most valuable national brands, considered a Trusted Brand in many consecutive years, not only in terms of consumer recognition but also in terms of the values attributed to the brand, mainly proximity and trust. CTT occupies a unique position in the minds of the Portuguese population, which we wish to protect and maximise.

Finally, CTT sees in its networks (retail and distribution) one of the most powerful demonstrations of its identity and a clear competitive advantage. We are present all over the country, directly or through our partners. Our network of over 600 post offices combined with our Partnership branches and Payshop network provide us with more than 6,000 contact points with

our customers. Additionally, we have around 5,000 postmen and women, the only network in the country to reach all households and addresses every working day.

Laying today the Foundations for our Future Development

In 2015, we continued to lay the foundations for our future with the vision of becoming increasingly a multiservice postal operator acknowledged as a world reference in quality, efficiency and value creation. Our strategy is clear and well defined, based on 4 strategic pillars:

1 - Focus on the preservation of the Mail business: efficiency programmes, regulatory management and new initiatives in the physical-digital area and specialised segments

Mail is our core business, hence the focus on Mail continues to be one of our strategic priorities. Besides launching efficiency programmes and addressing regulatory management, CTT’s ambition is also to capture its natural digital fringe and develop specialised segments, such as, for instance, advertising mail.

Advertising Mail is increasingly becoming a preferred means of advertising in comparison to digital channels due to the fact that consumers rely more on printed advertising and consider it safer. CTT is implementing a new strategy in which technology and digitalisation have a key role in the revitalisation of this mail service, which is expected to generate relevant additional revenues in the future.

In the digital area, CTT already has some solutions available (e.g. ViaCTT, mailmanager), oriented to the business world in order to digitalise and facilitate the mail posting and reception processes. Also underway is an analysis on the positioning of our portfolio based primarily on boosting new physical/digital hybrid solutions to mitigate the negative impact of the mail volumes decline and leverage the power of physical communication.

Projects aiming at continuous operational and efficiency improvements remain a priority for CTT, and in 2015 several initiatives were carried out to optimise the operations and the network, of which I would emphasize the installation of a new sorting machine for postal parcels (“Rest Mail”), the transfer of the subsidiary Mailtec to Cabo Ruivo and the integration of a significant part of non-time-definite Express & Parcels products in the Mail distribution network, which will allow for significant cost savings.

2 - Capture the growth trend in Parcels: E-commerce with High Development Potential in Portugal and Spain

Technological advances and the whole new digital universe open a number of options on the supply and demand sides that greatly facilitate the choice of e-sellers and end-users (online shopping experience, forms of payments, track & trace, etc.), representing a wide set of opportunities for all stakeholders.

This is a priority and as such we have defined a detailed action plan in order to make CTT one of the driving forces of the transition of the national business fabric to e-commerce. I point out some of the key initiatives that we have defined:

- Foster the development of the domestic markets:** Leveraging an e-commerce ecosystem for SMEs (still under study), integration of processes in existing “marketplaces” and creation of partnerships with relevant digital players.
- Focus on the e-seller customer:** Development of a new modular e-commerce offer fully adapted to the needs of sender customers.
- Focus on e-buyer customer:** by integrating the offering of new features to the end customer focused on (i) Simplicity, (ii) Convenience, (iii) Flexibility and (iv) Interactivity. In order to expand its PuDo network, CTT also signed an agreement with an important retailer (> 140 points), currently providing more than 1,000 pick-up and drop-off points.
- Capture of international volumes:** by providing solutions to increase international inbound flows through add-ons such as postal virtualisation and cargo-postal line hauls (both in progress).

In the context of Express & Parcels Operations, in 2015, CTT completed an integration project of the Express & Parcels distribution network with the Mail distribution network for slower and less customised services (24h to 48h) that is already having a relevant impact on operational efficiency and can be even more significant in the future. This process took place gradually in order to ensure compliance with the service level which our customers have become used to, while minimising any disruptions.

3 - Launch of Banco CTT: a very important step that Completes the Financial Services business

Banco CTT is a step change that completes the product offer of our financial services business. CTT has a very close and capillary network, present throughout the country, and an unparalleled capital of trust. To this we add a team of professionals in our post offices that have a unique knowledge about our customers and an extensive experience in selling financial products developed over decades, namely by selling public debt certificates and other

products such as insurance. The bank is, therefore, in the DNA of CTT and it represents a long lasting ambition of the company.

Banco CTT fills a clear market opportunity. In recent years, the Portuguese banking and financial institutions suffered a severe reputational damage caused by a long and deep economic crisis aggravated by the sovereign debt crisis that specially affected the banking sector. Through a thorough and careful analysis of the market, CTT identified an opportunity to launch a bank aimed at a population that values trust and favours simplicity (instead of complexity) for their day-to-day banking needs.

The differentiating concept of Banco CTT is its positioning as an alternative to the current offer on the market, capitalising on its clear competitive advantages, in particular :

- Simplicity:** Concept based on the principle of simplification (“no-frills”) both in terms of product portfolio and communication with which we also intend to capture a younger segment prone to new digital channels.
- Trust:** Strong reputation and image of the CTT brand.
- Proximity:** Proximity to the population by leveraging on the physical network already in place and comparable with those of the largest banks.
- Efficiency:** Extensive experience and strong track record in the sales and marketing of financial products.
- Strength:** Opportunity to start a bank from scratch with a clean balance sheet, without a legacy of non-performing loans and real estate assets and with innovative information systems.

Banco CTT started its operation in November through a soft opening only for CTT employees in order to extensively test all operational functions in a real-life but protected environment. The commercial rollout will begin on 18 March 2016 in 52 CTT post offices throughout the country, a number that will be increased to up to 200 post offices by the end of the year and further expanded in future years.

The ambition and drive of Banco CTT project, unparalleled in the Portuguese banking landscape, has attracted to the team a well-diversified group of talented, committed and experienced professionals that we believe will be key to ensure the success of the Bank.

It has been an extremely demanding process for all, involving many challenges, some of an internal nature due to the tight project schedule, the necessary additional training to be carried out (+40,000 hours and +500 trained employees) and the cultural transformation required in CTT in order to assure that the people

who are connected with customers and other external stakeholders are able to communicate properly our competitive advantages and value proposition, projecting a differentiating strength and confidence, capitalising on the values of the CTT brand.

4 - Continue to Leverage the Scalability of our Assets

Finally, we continue to see growth potential through the scalability of our Assets, i.e., looking at our Distribution Network and Retail Network not as postal assets but rather as relevant group assets that will allow us to constantly improve CTT's value creation through key partnerships. The services of general economic interest agreed with the Government of Portugal as well as the toll payment solution in partnership with Brisa are two examples of successful partnerships. Others will come.

Solid Results and Strong Investment in the Launch of Banco CTT

In 2015, CTT remained focused on creating shareholder value by delivering strong results. After reversing the trend of decreasing revenues in 2014, CTT continued on a sustainable growth path with total recurring revenues growing to €727.2m (+1.3% over the previous year). This achievement was possible due to the positive contribution from all business units of the group:

- i. **Mail** revenues increased by 1.5% to €554.6m due to the combined effect of the increase in the average addressed mail prices, the change in the discount policy and the slowdown in the rate of decline in addressed mail volumes which stood at 3.2 % (vs. a 5.7% decrease in 2014 compared to 2013). Also worth noting is the 6.0% growth in addressed advertising mail volumes due to the increased number of advertising campaigns by large customers - it supports our strategy of additional focus in this segment.
- ii. **Express & Parcels** revenues grew by 1.7% to €131.3m, as a result of a 3.2% growth in volumes. In this business unit the main focus was on increasing profitability through the network integration project in Portugal and the ongoing restructuring in Spain in order to maximise operating results. It is expected that the market trends, particularly related to e-commerce, will drive an even stronger growth in the future, although the competition in this market, the price pressure and the impacts of the turnaround of Tourline are very significant.
- iii. **Financial Services** continued to be a key lever for the overall growth of CTT, consolidating their offer and market position, and paving the way for Banco CTT. Recurring revenues amounted to €75.3m, an increase of 1.9% over the previous year. This growth was mainly supported by the contribution of the Savings & Insurance business, presenting an increase in revenues of 7.9% compared to 2014, showing once again the extraordinary ability of the CTT Retail Network to

attract savings by capturing about €4.3 billion of placements throughout the year, including PPR, capitalisation insurance and especially public debt products.

In line with the strategy announced and adopted in recent years, CTT continued on its path of operational efficiency improvement and increased productivity levels. Thus, the recurring operating costs stood stable at €583.2m (+0.1% compared to the previous year) absorbing salary increases and recurring variable remuneration and Banco CTT recurring costs, as they were offset by lower costs related to the new healthcare plan, the outsourcing of information systems and the initiatives carried out for the optimisation and rationalisation of the Retail Network and operations, such as the integration of the distribution networks that brought greater synergies between the Mail and the Express & Parcels distribution networks.

Recurring EBITDA grew by 6.6% year-on-year to €144.0m and, on a like-for-like basis excluding recurring costs with Banco CTT, the EBITDA grew by 10.3%. This performance was driven primarily by the growth in the recurring EBITDA of the Mail (+€11.0m, +12.0%) and in the Financial Services business units (+€4.6m, +12.2%), which posted a recurring EBITDA of €102.7m and €41.9m, respectively.

It is also worth highlighting the operational revitalisation plan in Spain. Due to its very nature, this plan - intended to reinforce in the long term the network of commercial representatives and the distribution network of Tourline (franchisees) - has negative impacts in the short term as the strong reduction of franchisees (typically the least efficient and profitable ones that did not accept the changes introduced in the commercial agreements) has resulted in an increase in distribution costs and in the (temporary) loss of commercial capillarity. The Spanish market is growing and we are confident that Tourline is taking the necessary steps to capture its potential.

The year was also marked by the strong investment which stood at €32.3m (almost twice as much as in the previous year), mainly due to key investments in the Banco CTT project (€11.7m), especially in information systems (acquisition of the Core Banking System and creation of the bank's digital channels). Several operational infrastructures were also strengthened, e.g. through the acquisition of a sorting machine for Rest mail items (€1.9m) to support the growth of e-commerce, the acquisition of cargo and transport vehicles, renovation/maintenance of buildings and even some investments arising from the transformation programme related to information systems in order to modernise this component of the organisation and provide teams with better management tools.

CTT maintains a high financial strength (net cash of €271m in December 2015, €83m net of liabilities related to employee benefits, +€8m vs. the same period of last year) due to its extraordinary capacity to generate operating cash flow. It continues to be one of the most profitable postal operators in the sector with a recurring EBITDA margin of 19.8% (+1.0 p.p. than in 2014 driven by the increased weight of the highly profitable financial services).

CTT's strong financial position and the level of results achieved allow the maintenance of a policy offering a sustainable growth of dividends, reconciling the shareholder remuneration objectives with the development needs of CTT.

CTT counts with a stable, well-diversified (geographically and by investment strategy), blue-chip institutional shareholder base (c.90% of capital). In 2015, the CTT shares displayed the strongest Total Shareholder Return (TSR) in the European postal sector (+15.9%) and once again outperformed the local index (PSI 20). The bond with the investment community remains strong - throughout 2015 we held more than 400 investor meetings and conference calls. More than 55% of our capital base voted at the Annual Shareholders Meeting in May, overwhelmingly supporting all resolutions. We also held the first ever CTT Capital Markets Day in Lisbon in November. The stock is now closely covered by 16 research analysts.

My sincere Thanks to All Those who Contributed to a Successful 2015 and let's make 2016 Even Better...

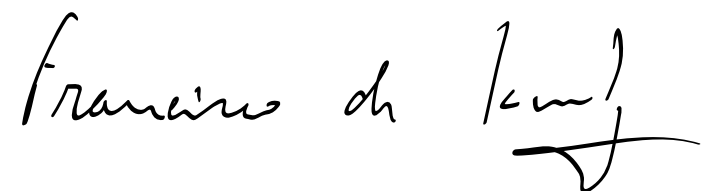
I would like to thank all those who work in CTT and its subsidiaries, my colleagues of the governing and management bodies of the company and also our shareholders, customers and other stakeholders for your dedication and exceptional collaboration. Together, we have been doing an excellent job and I feel extremely proud to be leading this extraordinary group, and to count, each day, with your valuable contribution.

I wish to thank the capital market participants for your close involvement with CTT, for your active participation in the company's governance, and for the straightforward and open feedback at the meetings. Long may it continue.

We remain very confident about our position in the market. Our strategic vision has allowed us to anticipate, prepare and adapt to the recent transformation of the industry by leveraging our strong capabilities and clear competitive advantages. We remain fully focused on our sustainable growth objectives in the short and long term, improving the profitability of each of our business areas and creating value for our shareholders.

Last but not the least: The people. CTT has been able to attract and retain an impressive set of very talented people. Over the last years, we have been able to progressively renew the company's management at all levels while retaining a set of very committed, experienced and trustworthy professionals. In fact, the transformational period that our industry is undergoing has impacted in our people willingness to change. The cultural transformation, while retaining the core and best of CTT's culture, is undergoing and different HR policies (employer's brand, new incentive scheme, corporate events, etc.) are being set and implemented in line with such ambition.

The year 2015 was another landmark year in the history of nearly 500 years of CTT and 2016 will certainly be another one...



Francisco de Lacerda

Chairman of the Board of Directors & CEO

Governing and Management Bodies

Board of the General Meeting

Chairman:

Júlio de Lemos de Castro Caldas

Vice-Chairman:

Francisco Maria de Moraes Sarmento Ramalho

Board of Directors

Chairman:

Francisco José Queiroz de Barros de Lacerda (CEO)

Vice-Chairmen:

António Sarmento Gomes Mota
(Chairman of the Audit Committee)

Manuel Cabral de Abreu Castelo-Branco

Members:

André Manuel Pereira Gorjão de Andrade Costa (CFO)

Dionízia Maria Ribeiro Farinha Ferreira

Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

António Manuel de Carvalho Ferreira Vitorino

Nuno de Carvalho Fernandes Thomaz
(Member of the Audit Committee)

Diogo José Paredes Leite de Campos
(Member of the Audit Committee)

Rui Miguel de Oliveira Horta e Costa

José Manuel Baptista Fino

Remuneration Committee

Chairman:

João Luís Ramalho de Carvalho Talone

Members:

José Gonçalo Ferreira Maury⁽¹⁾

Rui Manuel Meireles dos Anjos Alpalhão

Executive Committee

Chairman:

Francisco José Queiroz de Barros de Lacerda (CEO)

Members:

Manuel Cabral de Abreu Castelo-Branco

André Manuel Pereira Gorjão de Andrade Costa (CFO)

Dionízia Maria Ribeiro Farinha Ferreira

Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

Audit Committee

Chairman:

António Sarmento Gomes Mota

Members:

Diogo José Paredes Leite de Campos

Nuno de Carvalho Fernandes Thomaz

Statutory Auditor and External Auditor⁽²⁾

Statutory Auditor:

KPMG & Associados, SROC, S.A., represented by
Maria Cristina Santos Ferreira

Alternate Statutory Auditor:

Vitor Manuel da Cunha Ribeirinho

⁽¹⁾ Elected on 24 March 2014 as Member of the Remuneration Committee for the 2014-2016 term-of-office, he submitted his resignation on 15 January 2016.

⁽²⁾ The Statutory Auditor KPMG & Associados, SROC, S.A. was elected for the mandate 2015-2017 at the Annual General Meeting held on 5 May 2015.

Executive Committee



Manuel Castelo-Branco



Ana Maria Jordão



André Gorjão Costa
CFO

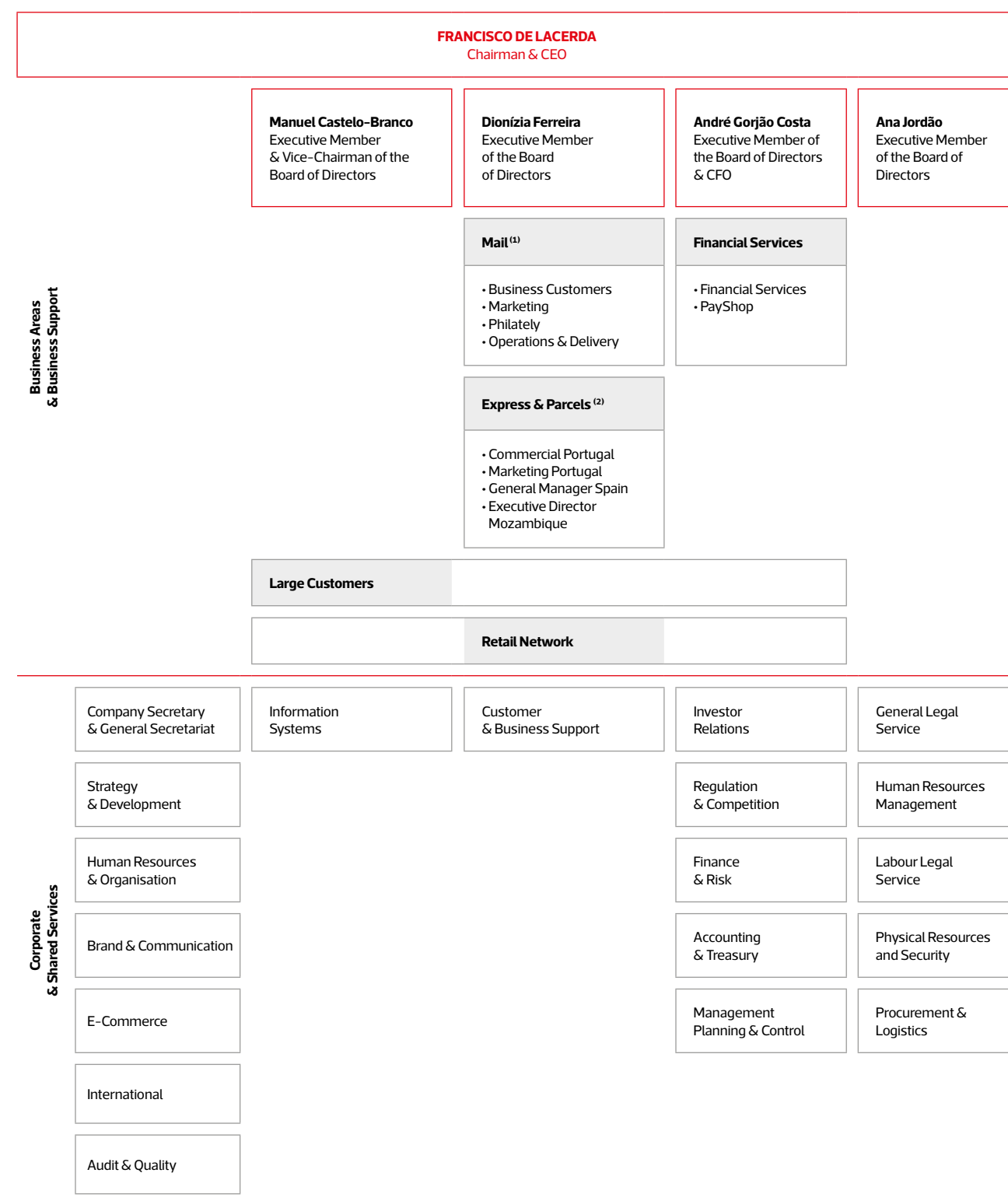


Dionízia Ferreira



Francisco de Lacerda
Chairman & CEO

Management Organisation


⁽¹⁾ Includes Mailtec Comunicação and CTT Contacto.

⁽²⁾ Includes CTT Expresso, Tourline and CORRE.

Note: Banco CTT has its own management structure, autonomous from CTT's Executive Committee.

Banco CTT

Banco CTT adopts an Anglo-Saxon governance model, based on the existence of a Board of Directors, an Audit Committee and a Statutory Auditor.

As at 31 December 2015, the Board of Directors of Banco CTT was composed of nine Directors, including five Non-Executive Directors (including the Chairman of the Board of Directors and three independent Directors) and four Executive Directors (including the Chairman of the Executive Committee). In January 2016, the composition of the Board of Directors increased to 10 members, including five Executive Directors.

Banco CTT has thereafter adopted the following organisation:


⁽¹⁾ Appointed only on 14 January 2016 as Director and on 15 January 2016 as Member of the Executive Committee.

⁽²⁾ Resignations from their positions in Banco CTT: Luíana Nunes, on 29 January 2016 effective as of 12 March 2016, and Sílvia Correia, on 19 February 2016 effective as of 31 March 2016.

In turn, on 18 November 2015, CTT and Banco CTT signed three agreements which basically govern the CTT/Banco CTT partnership related to the Retail Network Channel and provide for

four discussion fora for said partnership: Partnership Governance Committee, Retail Network Committee, Products Committee and Shared Services Committee.

KEY FIGURES

Economic and financial indicators (consolidated IFRS data)

€ thousand or %, except where indicated	2015	2014	Δ% 15/14
Revenues ⁽¹⁾	727,180	717,774	1.3
Operating costs excluding depreciation, amortisation, impairments, provisions and non recurring -costs	583,205	582,674	0.1
Recurring EBITDA ⁽²⁾	143,975	135,100	6.6
Recurring EBIT ⁽²⁾	119,762	111,522	7.4
EBIT	109,932	135,418	-18.8
EBT	104,610	127,999	-18.3
Net profit for the period	72,071	76,844	-6.2
Net profit attributable to equity holders	72,065	77,171	-6.6
Earnings per share (euro) ⁽³⁾	0.48	0.51	-6.5
Recurring EBITDA margin	19.8%	18.8%	1.0 p.p.
Recurring EBIT margin	16.5%	15.5%	1.0 p.p.
Net profit margin	9.9%	10.8%	-0.9 p.p.
Return on Equity (ROE)	28.8%	29.4%	-0.6 p.p.
Return on Invested Capital (ROIC)	21.3%	26.2%	-4.9 p.p.
Return on Capital Employed (ROCE)	20.2%	24.0%	-3.8 p.p.
Capex	32,331	16,596	94.8
Operating free cash flow ⁽⁴⁾	68,322	106,434	-35.8
Cash and cash equivalents	603,650	664,570	-9.2
Net cash	278,999	278,891	0.0
	31.12.2015	31.12.2014	Δ% 15/14
Assets	1,119,472	1,180,997	-5.2
Liabilities	867,637	931,787	-6.9
Equity	251,835	249,210	1.1
Share Capital	75,000	75,000	-
Number of shares	150,000,000	150,000,000	-
Current liquidity ratio	133.0%	134.5%	-1.5 p.p.
Solvency ratio	29.0%	26.7%	2.3 p.p.
Adjusted Solvency ratio ⁽⁵⁾	46.4%	45.6%	0.7 p.p.
Net debt ⁽⁶⁾	-82,590	-74,876	10.3
Net debt/EBITDA ⁽⁷⁾	-0.6 x	-0.6 x	0.0 x
Tangible fixed asset coverage	237.0%	239.0%	-2.0 p.p.

⁽¹⁾ Excluding non-recurring revenues.

⁽²⁾ Before non-recurring revenues and costs.

⁽³⁾ It is considered in 2015 the number of shares outstanding excluding own shares acquired in the 1st half of 2015.

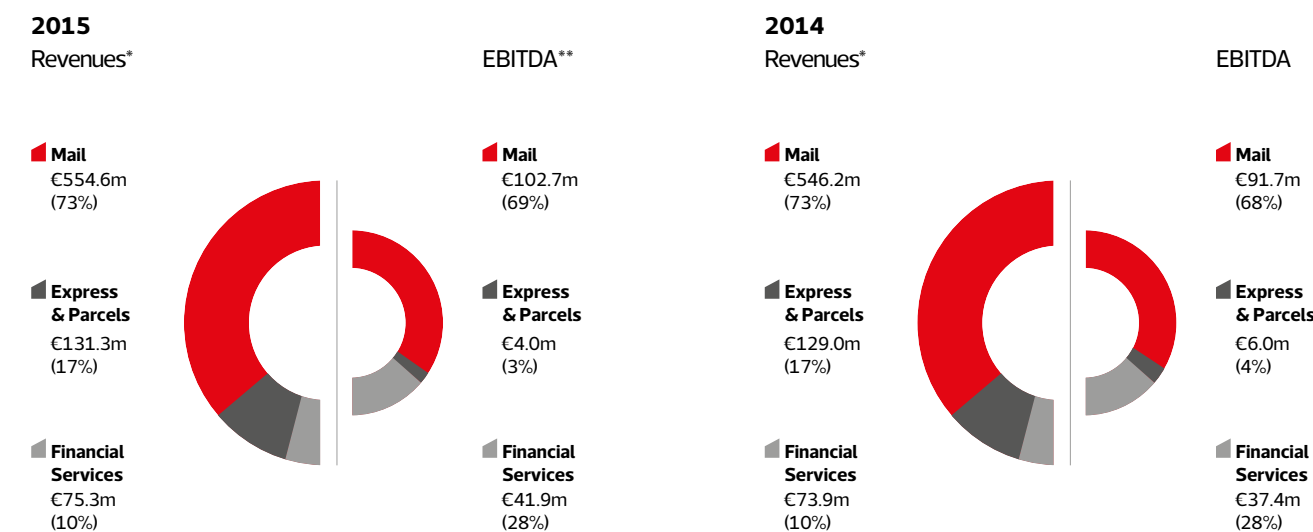
⁽⁴⁾ Cash flow from operating and investment activities excluding change in net Financial Services payables.

⁽⁵⁾ Equity / (Total liabilities - Financial Services payables).

⁽⁶⁾ Net debt includes the responsibility with employee benefits, net of deferred tax credit.

⁽⁷⁾ If negative indicates a positive net cash position.

Recurring Revenues* and EBITDA by Business unit



* Including internal provision of services and intra-group transactions eliminated in the consolidation process; excluding income related to CTT Central Structure and intra-group eliminations amounting to -€34.0m in 2015 and -€31.3m in 2014.

** Weight calculated excluding -€4.7m related to Banco CTT EBITDA.

Operating indicators

	2015	2014	Δ% 15/14
Mail			
Addressed mail volumes (million items)	814.7	841.3	-3.2
Transactional mail	688.3	718.0	-4.1
Editorial mail	46.2	47.6	-2.9
Advertising mail	80.2	75.7	6.0
Unaddressed mail volumes (million items)	473.4	507.7	-6.7
Express & Parcels			
Portugal (million items)	14.4	13.8	4.8
Spain (million items)	14.0	13.7	2.3
Financial Services			
Payments (number of transactions; millions)	61.5	67.0	-8.2
Savings and insurance (subscriptions and redemptions; € millions)	5,288.4	6,655.6	-20.5
Staff			
Staff (FTE) ⁽¹⁾	12,462	12,523	-0.5
Retail, Transport and Delivery Networks			
Post offices	619	623	-0.6
Postal agencies (partnership branches)	1,711	1,694	1.0
PayShop agents	3,939	3,876	1.6
Postal delivery offices	254	262	-3.1
Postal delivery routes	4,731	4,659	1.5
Fleet (number of vehicles) ⁽²⁾	3,530	3,478	1.5

⁽¹⁾ FTE = Full-time equivalent.

⁽²⁾ Operational fleet.

Sustainability indicators

	2015	2014	Δ% 15/14
Customers			
Customer satisfaction (%) ⁽¹⁾	85.2	84.8	0.4 p.p
Total number of operating units certified (ISO standard and retail and delivery networks certification)	1,183	1,159	2.1
Retail and delivery networks certification (% coverage)	100	100	-
Overall Quality of Service Indicator (points)	206.4	236.5	-30.1
Staff			
Number of accidents	905	955	-5.2
Training (hours)	316,042	263,828	19.8
Women in management positions (1 st management level) (%)	35.3	38.3	-3.0 p.p
Community/Environment			
Value chain - contracts with environmental criteria (%)	99.2	99.5	-0.3 p.p
Total CO2 emissions, scope 1 and 2 (kton.) ^{(1) (2)}	21.6	20.7	4.3
Energy consumption (TJ) ^{(1) (2)}	370.5	357.9	3.5
Weight of Eco product range in Direct Mail line (%) ⁽³⁾	34.3	22.8	11.5 p.p
Investment in the Community (€ thousand)	908	1,039	-12.6

⁽¹⁾ Change in the series - new methodology.

⁽²⁾ Not including values from the subsidiary Corre and values relating to the fleet of subsidiary Tourline Express.

⁽³⁾ Volumes.

Highlights of the year

January

- Registration of the **merger by incorporation of Mailtec Holding, SGPS in CTT – Correios de Portugal, S.A.**, through the global transfer of Mailtec Holding, SGPS, S.A.'s assets and liabilities.
- Signing of the protocol between the Government and CTT for the opening of **300 Citizen's Bureau Areas** at CTT post offices by the end of 2016.

February

- **Incorporation of the company CTT Serviços, S.A.**, with the share capital of 5,000,000.00 Euros, whose corporate scope was the provision of advisory and support services in the acquisition, development, structuring and preparation of the incorporation of the Postal Bank.
- Signing of the **new Company Agreement** and revision of the **Regulation of Social Works (Healthcare Benefits Plan)**, CTT's internal healthcare and social welfare system, with the eleven trade unions represented within the Company.

March

- **Selection of the IT platform provider for the Postal Bank (Core Banking System)**. The consortium Misys/Deloitte was selected through a tender process.

April

- **Share capital increase of CTT Serviços, S.A.** to 20,000,000.00 Euros.

May

- **CTT's Annual General Meeting** where the 2014 financial reporting documents were approved, including the management report, the individual and consolidated accounts, the corporate governance report, the year's profit allocation including the payment of a gross dividend per share of €0.465 pursuant to the terms proposed by the Board of Directors and votes of recognition for the members of the management and supervisory bodies. KPMG was appointed for the 2015/2017 mandate.

- **Payment of a gross dividend** per share of €0.465.

- Attribution of a **share in profits to the Company's employees and executive directors**.

July

- **Presentation of the CTT Cup**, the new designation for the football League Cup, an agreement valid for three athletic seasons until the end of the 2017/2018 season.

August

- **Commercial registration of the acts regarding the setting up of the subsidiary Banco CTT, S.A.** with a share capital of 34 million euros (and formation of CTT Serviços, S.A. in a bank and respective amendment of the statutes) **and the appointment of the respective governing bodies**.
- Final registration of the **merger by incorporation** through the global transfer of the assets and liabilities of the companies **PostContacto – Correio Publicitário, Lda. and Mailtec Processos, Unipessoal, Lda., to CTT Gest – Gestão de Serviços and Equipamentos Postais, S.A.** whose name was changed to CTT Contacto, S.A..

October

- **Banco CTT, S.A. was notified by the Bank of Portugal** in respect of (i) the decision adopted by this entity to consider the authorisation filing for the setting-up of the Banco CTT, S.A. duly formalised and all conditions imposed by the Bank of Portugal in the authorisation granted on 27 November 2013 met, and (ii) the completion of the special registration of the Banco CTT, S.A..

November

- **Launch of Banco CTT's Brand**, at the Torreão Nascente of Praça do Comércio in Lisbon.
- **Capital Markets Day 2015** is held in Lisbon bringing together CTT investors and analysts. Results of the last three years were presented, along with the Banco CTT project and the company's business ambition and goals until 2020.

- **Banco CTT initiates its activity**, on a limited basis, with a soft-opening. It operates at the Head branch, in a reserved environment, exclusively for CTT and Banco CTT employees.

December

- Final registration of the **merger by incorporation through the global transfer of Mailtec Consultoria, S.A.'s assets and liabilities to CTT – Correios de Portugal, S.A.**
- Decision on **undertaking an analysis of the best corporate structure for ownership of Tourline** as an instrument for possible future restructuring strategies of the company's business and of **CTT's presence in the Spanish express and parcels market**.
- **Acquisition of the company Escrita Inteligente, S.A.**, which enabled the acquisition of the patented RecibosOnline (online invoices) solution present in more than 200 retail stores in Portugal and that brings the concept of the e-invoice to any retail counter.

Awards and recognitions

CTT was awarded the following distinctions/recognitions in 2015:

• FRANCISCO DE LACERDA RECEIVES THE BEST CEO IN INVESTOR RELATIONS AWARD OF THE 2015 IRGA

CTT's Chairman and CEO, Francisco de Lacerda, was distinguished with the Best CEO in Investor Relations Award of the Investor Relations & Governance Awards 2015 (IRGA). This award is promoted by Deloitte and distinguishes the best company performances and best governance practices.

• "EXTEL WECONVENE - IR AWARDS 2015"

Last 28 September, CTT took the stage at the "Extel WeConvene - IR Awards 2015", in the 4th edition of the Pan-European Investor Relations (IR) Conference in Amsterdam. CTT was distinguished in the "Corporate Best for Investor Relations" category, in addition to the recognition of the performance of the Investor Relations director, who received the accolade of "IR Professional Best for Investor Relations". Both awards were granted in the "Small and Mid-Caps Portugal" category.

• HUMAN RESOURCES PORTUGAL DISTINGUISHES CTT WITH TWO AWARDS

CTT was awarded first place by the magazine Human Resources Portugal in the Human Resources Portugal 2014 awards in the categories of "Company with the best Senior Employees optimisation policy" and "Company that most promotes Gender Equality".

• THE LUSOS PRIZES DISTINGUISH "THE COUNTRY'S LARGEST THANKS NETWORK"

The campaign "The Country's Largest Thanks Network", which successfully encouraged the Portuguese to send over 70 thousand "thanks", was distinguished with two bronze medals in the categories of "Relationship Marketing - Digital Direct Marketing" and "Relationship Marketing - Printed Direct Marketing", at the awards ceremony for the 2nd four-monthly edition of the Lusos Prizes.

• CTT IS RECOGNISED AS "COMMITTED TO EXCELLENCE"

CTT earned the "Committed to Excellence - 1 star" award from the Portuguese Quality Association [Associação Portuguesa para a Qualidade (APQ)], encompassing the Company's entire operational network: post offices, postal delivery offices and production and logistics centres, under the European Foundation for Quality Management's European Excellence Model.

• CTT IS DISTINGUISHED WITH THE "TRUSTED BRANDS" AWARD

CTT was once again distinguished at the "Trusted Brands" awards ceremony, following a study undertaken by the Reader's Digest Selections for 40 distinct product and service categories. CTT was awarded first place as a Trusted Brand for the 13th time.

• ENVIRONMENTALLY TRUSTED BRAND

CTT was also distinguished, for the second consecutive time, as an Environmentally Trusted Brand, an important recognition of the environmental policy the Company has implemented over the past years, earning it votes for first place.

• THE IPC RENEWS THE CERTIFICATE OF EXCELLENCE OF THE LISBON OFFICE OF EXCHANGE

The International Post Corporation (IPC) renewed the Certificate of Excellence of the Lisbon Office of Exchange, made up of the Lisbon Production and Logistics Centre and the Airmail Unit. This demanding distinction recognises CTT's excellent quality of service, based on the ability to ensure the best practices in international mail processing (inbound and outbound) from among the operators that are members of this reference organisation.

• CTT'S CUSTOMER SERVICE LINES DISTINGUISHED IN THE APCC BEST AWARDS 2015

CTT's and CTT Expresso's customer service lines were awarded the bronze and silver medals, respectively, in the APCC Best Awards 2015, in the category of "Delivery and Logistics", by the Portuguese Contact Centre Association [Associação Portuguesa de Contact Centers (APCC)].

• THE WORLD MAIL AWARDS 2015 DISTINGUISHES CTT

CTT was Highly Commended in the categories of "Corporate Social Responsibility" and "Retail Customer Access" in the 2015 edition of the World Mail Awards, the Oscars of the World Mail Industry, for its "Mobility Plan Programme" and "Largest Thanks Network" projects, respectively. The Mobility Plan Programme, presented under the subtitle "Moving smarter, moving greener", addresses the way the Company promotes soft mobility to its employees in their commutes to and from work and on business trips by explaining how it is the best option both business-wise and in terms of social and environmental responsibility.

• CTT INTAGLIO STAMP DISTINGUISHED IN THE GRANDS PRIX DE L'ART PHILATÉLIQUE

CTT was awarded third place in the *Grands Prix de l'Art Philatélique Européen* for the commemorative sheet of stamps of the "500 Year Anniversary of Andreas Vesalius (1514-1564)", joint issue with the Belgian Post, put into circulation on 19 and 21 April 2014, in Belgium and Portugal respectively. This marks the first time CTT has received an award for the intaglio technique. The 11th edition of the *Grands Prix de l'Art Philatélique Européen*, that recognise the best philatelic and artistic work made in the European Union, awarded 3rd place to the issue of Portugal and Belgium, in the "Intaglio" category.

• 45th ASIAGO PRIZE

CTT was again distinguished in the International Prize of Philatelic Art of Asiago. This time, the recognised stamp issue was the issue called "150 Years of the Geophysical Institute of the University of Coimbra", designed by the national studio "Design&Etc". The issue was awarded in the "Tourism" category.

• INTERNATIONAL PRIZE FOR THE BOOK "EXPERIENCING PORTUGAL WITH THE MEDITERRANEAN AT THE TABLE"

The Book "Experiencing Portugal with the Mediterranean at the Table", written by Fortunato da Câmara and edited by CTT, will represent Portugal in the most important global cookbook competition, the Gourmand World Cookbook Awards, in the Mediterranean cuisine category. The final decision will be announced in China next May. To represent Portugal, this organisation considered this edition the best Portuguese book dedicated to Mediterranean cuisine published in 2015.

• PORTUGUESE STAMP ISSUE CONSIDERED AS THE MOST UNIQUE IN THE WORLD

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

• PAYSHOP, BEST PAYMENT SOLUTION

PayShop received the "Best payment solution in Portugal" prize from the magazine CFI.co, a prestigious British publication. The accolade distinguishes the work of those "offering the most convenient invoice processing service in the market, for both private customers and companies".

• APCE 2015 GRAND PRIZE - EXCELLENCE IN COMMUNICATION

CTT was once again distinguished by the Portuguese Association of Corporate Communication [Associação Portuguesa de Comunicação de Empresa (APCE)] and by the APCE 2015 Grand Prize jury for the various communication projects submitted to the competition. CTT collected three first prizes and seven honorary mentions.

• SILVER MEDAL IN MEDIA & ADVERTISING'S MARKETING AWARDS FOR "THE COUNTRY'S LARGEST THANKS NETWORK" CAMPAIGN

CTT was awarded a Silver medal in the Marketing Awards of the publication Media & Advertising (*Meios & Publicidade*) for "The Country's Largest Thanks Network" campaign and was the only winning project in its category.

• GREEN PROJECT AWARDS 2015

CTT was a finalist in the Green Project Awards with the "a tree for the forest" project, in partnership with Quercus, in the "mobilisation initiative" category.

• POSTEUROP'S "2015 CSR COUPS DE COEUR"

CTT was a finalist with the projects "adding to divide" and "drivers' competition", in the society and environment categories, respectively.

• "BICYCLE-FRIENDLY COMPANY 2015"

CTT was awarded the "bicycle-friendly company" merit badge by mubi, the association for bicycle urban mobility.

• CALL CENTRE TROPHY

The head of Ongoing Improvement in CTT's Customer and Business Support Department won the Person of the Year award in the Call Centre Trophy, organized by IFE - International Faculty for Executives.

Management Report

We are more CTT

Today we are the sum of everything we have already built.
We collect victories, especially those we will still celebrate.
We take pride in our past, but it is the pulse of the future that impels us to conquer even more.
With our feet on the ground, we lift up the wings that will make us fly above the dream.
Because our will knows no bounds and the sky above us does not stop us, only inspires us.



01

Strategic Lines

1.1. Sector trends

In 2015, CTT's strategy remained in line with the plan established and disclosed to the market in the context of the privatisation. The ongoing revisiting of initiatives to be launched (arising from the strategic plan) is based on new consumer demands and the main trends currently detected in the sector, which are contributing towards its profound transformation on a global scale:

1. **The postal tripod "Globalisation, Liberalisation and Privatisation"** – growing competition, scrutiny and requirements by the various stakeholders.
2. **Digitalisation/substitution effect** – structural decline in mail volumes year-after-year due to the growing digitalisation of services and new forms of communication.
3. **Growth of e-commerce** – the online retail world represents not only a new paradigm, but also a new business opportunity for postal operators to capture/seize.
4. **Focus on efficiency** – continuous operational improvement and resource optimisation in order to improve profitability, which is increasingly based on a flexible and wide-reaching technological architecture that maximises the offer with new features and services.
5. **Service diversification** – leverage the unique distribution and retail networks and maximise return on existing assets (a focus on financial services, partnerships with the Government, network integration, etc.).
6. **Data-driven marketing** – allow customers to benefit the most from the postal operators' profound knowledge of the public to which they render services.

1.2 Strategic lines

During the year, CTT reaffirmed its three strategic axes directly related to its business areas (Mail, Express & Parcels, Financial Services), while consolidating one more which cuts across the entire organisation and that entails leveraging scalability of its assets. Therefore, CTT's current strategic pillars are four, among which are some of the main initiatives carried out or currently underway:

1. **Leverage the scalability of its assets:** (i) carry out initiatives to define the Retail Network's portfolio and segmentation, thereby maximising and optimising its use; and (ii) diversify and expand the use of existing networks (retail and delivery, as well as the PayShop) thereby more efficiently profiting from assets and leveraging growth.

2. **Focus on the preservation of the value of the Mail business:** (i) active regulatory management (price and others); (ii) develop specialised segments, such as advertising mail; (iii) review positioning in the convergence of physical and digital services; and (iv) continuous effort on efficiency programmes in order to adjust the structure and sustain an operation of excellence.
3. **Capture the growth trend in Parcels (CEP):** (i) upgrade the offer through innovative solutions in the product portfolio in line with principles of simplicity, convenience, flexibility and interactivity; (ii) develop specific initiatives for e-commerce development; (iii) carry out the network integration project (Mail and Express) for less urgent (19h to 48h) and less tailored services; (iv) monitor growth opportunities in businesses adjacent to CEP such as logistics and specialised delivery services; and (v) focus on restructuring Tourline's business in order to ensure future profitability and a strong presence in Spain.
4. **Launch Banco CTT to expand the Financial Services business:** (i) expand the financial products portfolio with new offers such as a credit card in partnership with BNP Paribas and health insurance products; (ii) launch Banco CTT using the Retail Network and offering a portfolio of no-frills banking products, leveraged on the proximity and trust associated with the CTT brand and (iii) develop new solutions/services outside the banking realm to pursue the diversification of the offer to clients and thereby foster further growth resilience.

CTT's strategy is based on its competitive advantages and differentiating factors and is grounded on its (i) financial strength; (ii) capillarity and proximity of its distribution and Retail networks (post offices); (iii) constant operational excellence; and (iv) growing enhancement of human capital.

CTT's Strategy

Physical & Digital
Convergence



- Preserve the value of the mail business

E-commerce
Growth



- Capture the growth trend in parcels

CTT as
'One-Stop -Shop'



- Launching Banco CTT to expand financial services business

Leverage on the
Scalability of our
Assets



- Financial Strength
- Operational Efficiency
- Physical Proximity
- Human Capital

We are more ambition

There is a relentless desire to grow and achieve the impossible.
We wake up every day with the desire to conquer the world and get to where no one ever came.
We have the talent, we have the will, why not dream away?
Our history inspires us, our heritage makes us want to legitimately be an undisputed leader.



02

Business

2.1. Economic, sectoral and regulatory environment

2.1.1. Economic environment

International

In 2015, the world economy maintained a moderate growth trend. According to the last IMF estimates, the world GDP grew by 3.1%, slightly lower than the 3.4% recorded in 2014. The growth rates continued to diverge among regions – advanced economies registered a gradual recovery (1.9% growth in 2015 compared to 1.8% in 2014) while emerging and developing market economies slowed down (from 4.6% in 2014 to 4.0% growth in 2015). This trend, which started in 2013, became even stronger due to the recent fall in the price of commodities, particularly oil, leading to a substantial redistribution of revenues among exporting and importing countries. The continuation of accommodating monetary policies and less restrictive budgetary policies also had a positive contribution. Consequently, there was a recovery in salary growth in developed countries and consumer confidence increased to pre-crisis levels. The economic activity in emerging market economies continued to slow down. The change in China's economic policy to a model rather based on internal consumption led to a gradual reduction in economic growth when compared to the very high rates of the last decade (7.3% in 2014 to 6.9% in 2015). The decrease in the prices of raw materials and the market contraction significantly affected many commodity-exporting emerging economies. In Brazil and Russia, additional political and structural factors were present, resulting in the contraction of economic activity (0.1% in 2014 to -3.8% in 2015 in Brazil, 0.6% in 2014 to -3.7% in 2015 in Russia). Despite the reduction of their relative contribution to the growth of the world GDP, the emerging and developing market economies were still responsible for more than 70% of the world GDP in 2015. The weak demand in these economies led to a strong reduction in the world trade of goods and services, which grew by 2.6%, lower than the 3.4% of 2014.

In the Euro area, the improved growth rate evidenced at the end of 2014 continued throughout the year 2015 while the GDP increased from 0.9% in 2014 to 1.6% in 2015, according to the last European Commission estimates. As in other advanced economies, the sharp fall in the prices of energy products increased the real disposable income and helped the further increase of private consumption, resulting in its highest rate since the beginning of the crisis. The growing confidence of the consumers in an environment of gradual improvement of the labour market lent further impetus to consumption. Besides, a higher degree of monetary accommodation from the ECB by means of unconventional measures contributed to strengthen the economic activity. In this context, the cost of credit decreased as well as the interest rates for loans. These developments, together with a more neutral budgetary orientation in most countries, contributed to a broader recovery of the euro area. The activity in Spain in particular continued to accelerate strongly, as the GDP grew

from 1.45% in 2014 to 3.2% in 2015. Simultaneously, countries such as Italy (-0.4% in 2014 to 0.8% in 2015) and France (0.2% in 2014 to 1.1% in 2015) recovered from the stagnation observed at the end of 2014.

National

In 2015, a gradual recovery of the economic activity took place as well as improvements in the labour market and in the adjustment of external accounts.

Gross Domestic Product (GDP) increased by 1.5%, corresponding to an increase of 0.6 p.p. vs. the previous year, according to INE – Instituto Nacional de Estatística (Statistics Portugal). Internal consumption contributed in a larger extent to the annual growth of GDP in 2015, increasing from 2.2 p.p. in 2014 to 2.5 in 2015, which reflects the acceleration in private consumption (2.6%) and the increase in public consumption (0.8%) given that investment slowed down. The net external demand posted a less negative contribution of -1.0 p.p. in 2015 (-1.3 p.p. in 2014), as a result of the acceleration of the exports of goods and services, which grew by 3.9% in 2014 while in 2015 growth was 5.1%. A substantial gain in the terms of trade resulting from lower energy prices should also be noted. Investment slowed down from 5.5% growth in 2014 to 3.6%, as a consequence of the performance of the change in inventories, which posted a nil contribution to the GDP variation in 2015 following the positive contribution of 2014 (0.4 p.p.). Gross Fixed Capital Formation (GFCF) accelerated in 2015, increasing by 3.7% (2.8% in 2014) mainly due to the recovery of the GFCF in construction, which went from a -3.2% decline in 2014 to 4.1% growth in 2015, as well as to the GFCF in Transportation Equipment which grew by 18.8% in 2014 and 25.4% in 2015.

Employment registered a growth rate of 1.4% in 2015, similar to that of the previous year. Unemployment rate stood at 12.4% in 2015, a 1.5 p.p. decline vis-à-vis 2014.

The inflation rate, as measured by the annual average rate of change in the Harmonised Index of Consumer Prices (HICP) stood at 0.5% in 2015 (-0.2% in 2014), 0.5 p.p. above that of the Euro area. Food products, alcoholic beverages and tobacco posted a growing contribution to the HICP throughout the year, as the contribution of services remained stable; energy, on the contrary, reflected the fall of oil and refined products prices in the international markets and exerted a negative pressure on the index.

The year of 2015 was marked by a continued depreciation of the real effective exchange rate, even if at a slower pace than in the Euro area, which translated into a positive impact in the competitiveness of national exports.

In the whole year of 2015, the export of goods increased by 3.6% (1.7% in 2014) and imports grew by 1.9% (3.4% in 2014) compared to the previous year, thereby leading to a coverage rate

of 82.9% (81.6% in 2014). Excluding fuel and lubricants, exports increased by 4.2% and imports grew by 6.7% in 2015 (4.1% and 6.2% in 2014, respectively). This evolution produced a positive performance of the trade balance, which presented a surplus of 10.3 billion euros, an increase of around 569.8 million euros when compared to the year 2014.

In 2015, the public accounts were strongly influenced by the injection of funds in several companies which were registered as expenditure, as well as the resolution and disposal of Banif bank, the impact of which is estimated at 1.2% of the GDP. The budget deficit is projected to reach 4.3% of the GDP, exceeding the 3% limit stipulated in the Stability Pact (SP). However, the European Union's Code of Conduct of the SP provides for a one-year extension of the deadline for the correction for a Member State under an Excessive Deficit Procedure and for adopting fiscal policy measures to cut down the budget deficit.

2.1.2. Sectoral environment

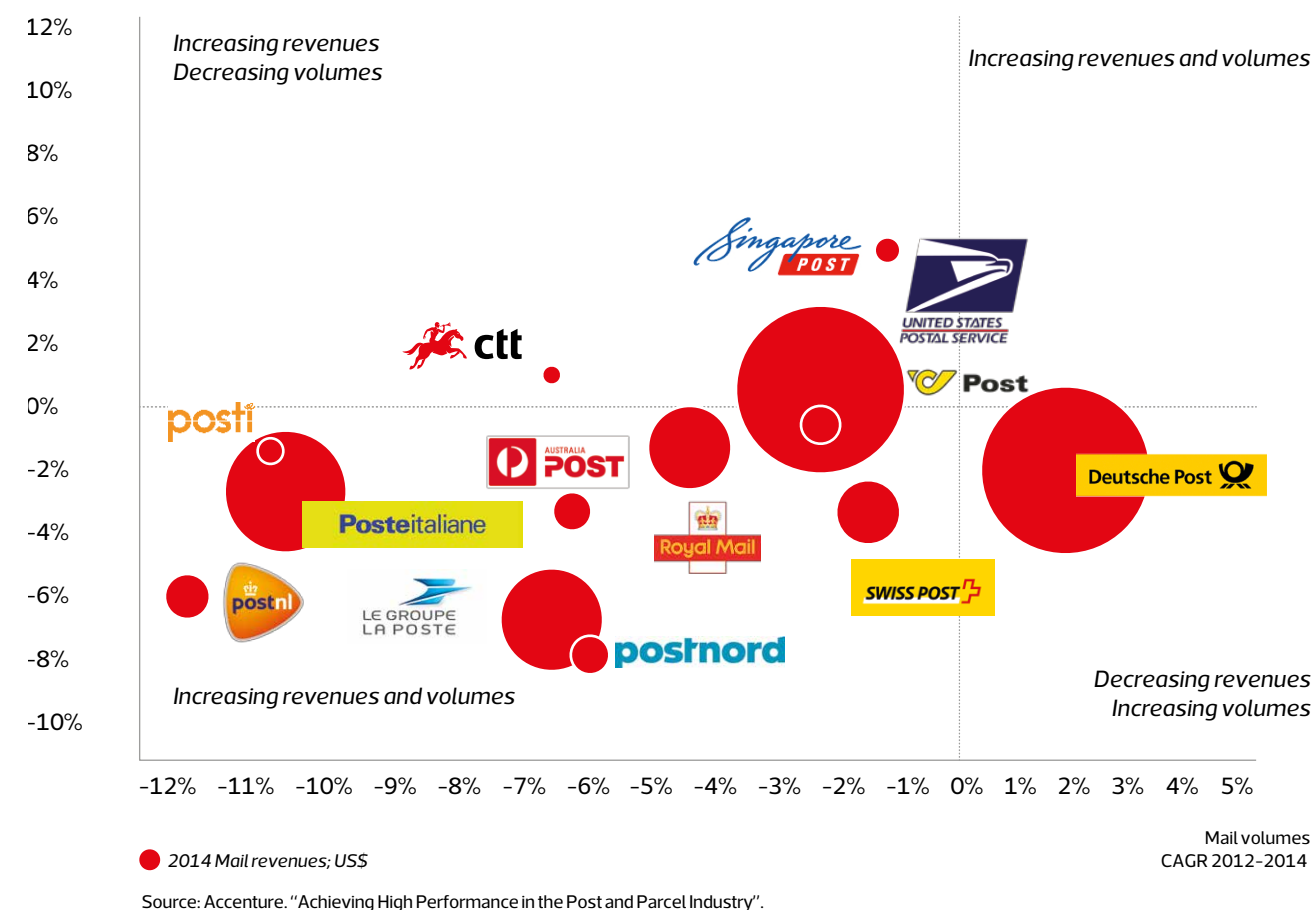
2.1.2.1. Postal Sector

In 2015, the postal sector went through an even more marked transformation moment as a consequence of the sectorial transformations already mentioned that led the operators to adopt business diversification strategies.

With respect to mail, there is in fact a pressure on volumes in most postal operators, which resulted from a volume decline in the last years and consequently in a reduction of the revenues associated with the mail business, CTT being an exception in this topic. The following chart presents the relationship between volume growth versus revenue growth in a number of postal operators in a sectorial trend analysis for the years 2012 to 2014 (no sectorial data for 2015 is available yet, but in general terms this trend is expected to be confirmed).

Mail Volumes vs Revenues Evolution by Operator

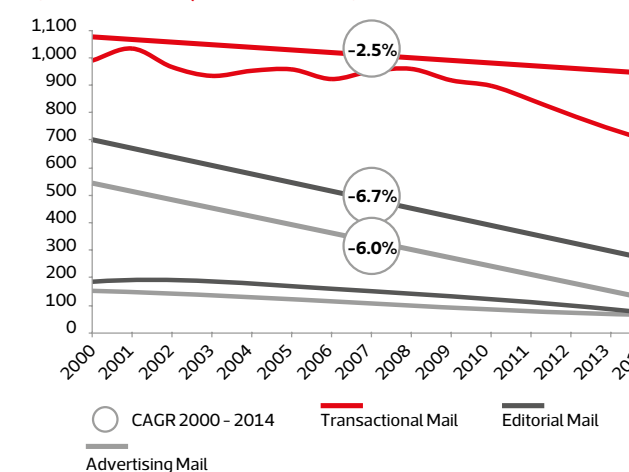
Mail revenues
CAGR 2012-2014



In the domestic market, the panorama is similar to the international markets, with a historical downward trend of the volumes of all mail segments in the last 15 years. However, it is important to mention that the segments presenting most significant downward volume trends are those that are most permeable to the digital substitution effect, such as the advertising mail and editorial mail. Transactional mail, as the one that represents the vast majority of the postal volumes, has been more resistant to the trends that impact the sector, presenting historical market volume decline trends of 2.5% a year.

The following graph illustrates mail volume evolution in the last 15 years (total market).

Mail Market Volume Evolution in Portugal (2001-2014; million items)

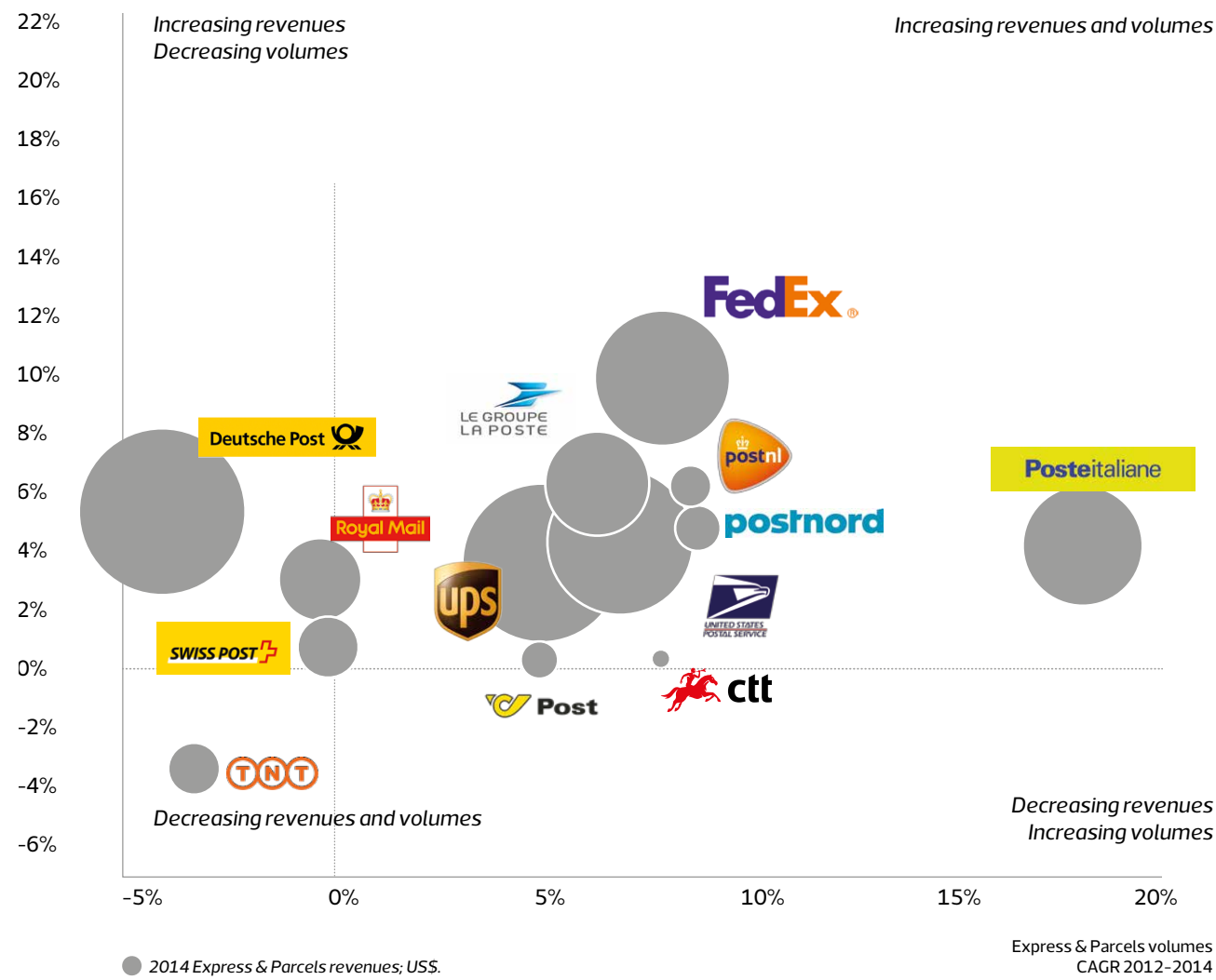


Source: ANACOM, "Desenvolvimento do Setor Postal em Portugal". (Development of the Postal Sector in Portugal).

On the contrary, the global express & parcels market is in a strong upward phase, with overall volumes and revenues growing, as the following chart by postal operator shows.

Express & Parcels Volumes vs Revenues Evolution by Operator

Express & Parcels revenues
CAGR 2012-2014

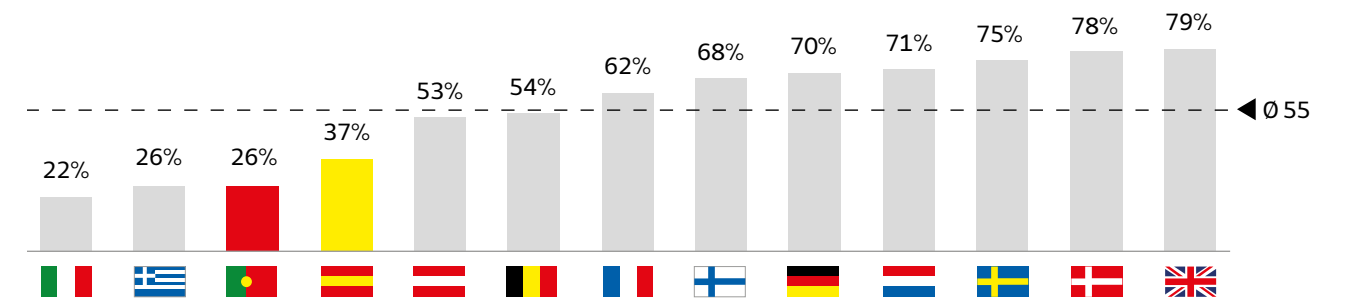


Source: Accenture. "Achieving High Performance in the Post and Parcel Industry".

Additionally, in the markets where CTT directly operates, particularly Portugal and Spain, there is a very significant opportunity to

capture share in e-commerce, as the percentage of purchases from local e-sellers is still quite lower than the European average.

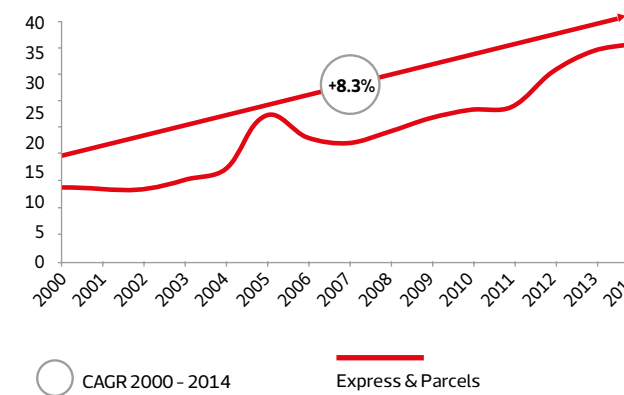
Percentage of users buying from local e-sellers (2014)



Source: Ecommerce Report Europe, 2014.

In relation specifically to the domestic Express & Parcels market, the growth trend is consistent with the global market and the opportunity resulting from e-commerce, with a volume growth pace of 8.3% a year in the last 15 years, as shown in the graph below.

Express & Parcels Market Volume Evolution in Portugal (2001-2014; million items)



Source: ANACOM, "Desenvolvimento do Setor Postal em Portugal" (Development of the Postal Sector in Portugal).

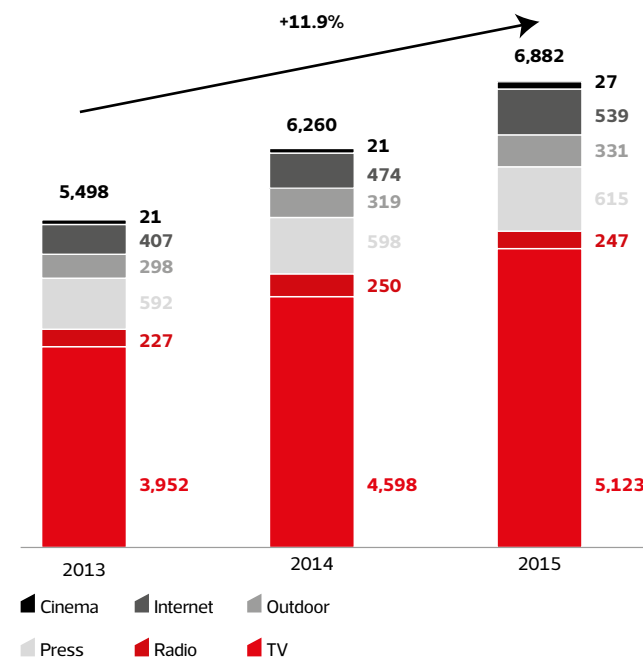
2.1.2.2. Other business sectors

The evolution of the postal sector and the trends that impact it lead to an increasingly narrow connection of the postal operators to other industries, such as logistics and transport, the financial sector or the advertising sector.

Advertising market

The advertising sector in particular has a very direct and significant impact on the postal operators' business, especially in the performance of the product line offer related to advertising mail. It is thus relevant to note that the advertising sector in Portugal is in an important growth phase after a period of divestment from the advertisers coinciding with the period of greatest deterioration of the economic situation (as indicated in the following graph).

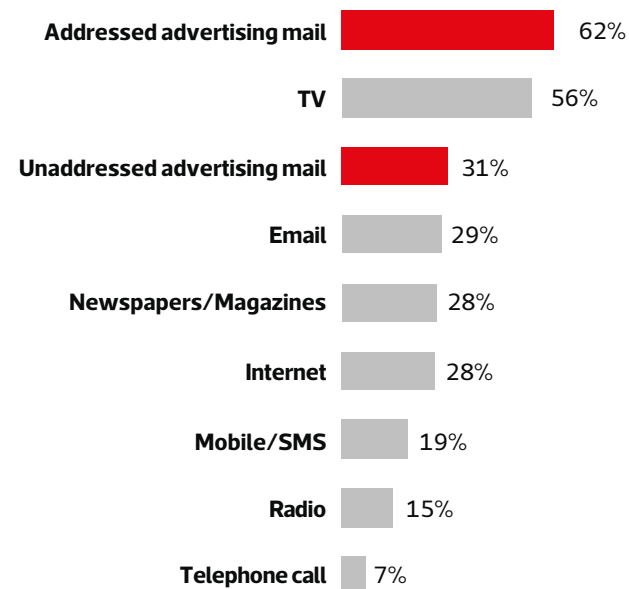
Advertising Investment Evolution in Portugal by Channel (€ million)



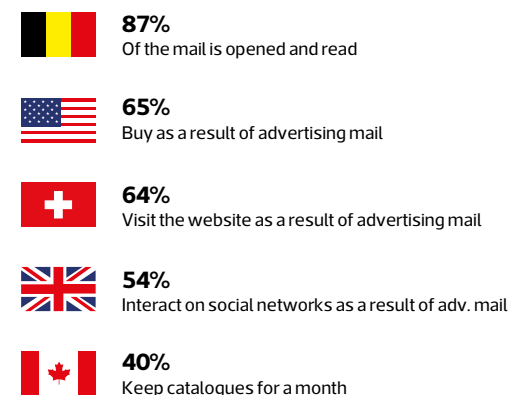
Besides the advertising sector's growth trend, it is also important to mention the goodwill advertising mail generates in Portugal, as well as the relevance it has gained globally in the advertisers' marketing mix. In some international markets, the postal operators have also witnessed good results from their focus on this sector. It is expected that these factors, together with the CTT strategic revitalisation of the advertising mail/direct marketing offer will have positive impacts that tackle the mail volumes declining trend.

Preferred Advertising Channel in Portugal and Advertising Mail Indicators in: Belgium, USA, United Kingdom, Switzerland and Canada

Preferred channel for advertising (n=602) Portugal, 2014



Indicators related to advertising mail



Source: CTT Market Study on advertising mail; n=602; IPC.

Finally, the growing slowdown in the written press at a global level, and likewise in Portugal, with the migration of some newspapers and magazines to online distribution only, opens a window of opportunity for the growth of advertising mail as a physical written medium of choice for the advertising market.

Financial Markets

In 2015, the financial markets were characterised by a promising start to the year, supported by the monetary stimulus policies of the main central banks, which fueled the debt and stock markets, followed by a general slowdown, triggered by the concern surrounding the Chinese economy, the weak economic recovery in the eurozone and the asynchronous economic policies of the major world powers.

The European debt market was influenced by the start of the European Central Bank asset purchase programme, with monthly volumes of €60 bn, which held the yields of the Eurozone members bonds at historically low levels. On the other hand, in the United States of America (US), the postponement of the fed interest rate hike cycle to the end of the year, together with a higher risk aversion due to emerging economies slowdown, countered the expectations for the increase of US bond yields, which stood relatively stable throughout the year.

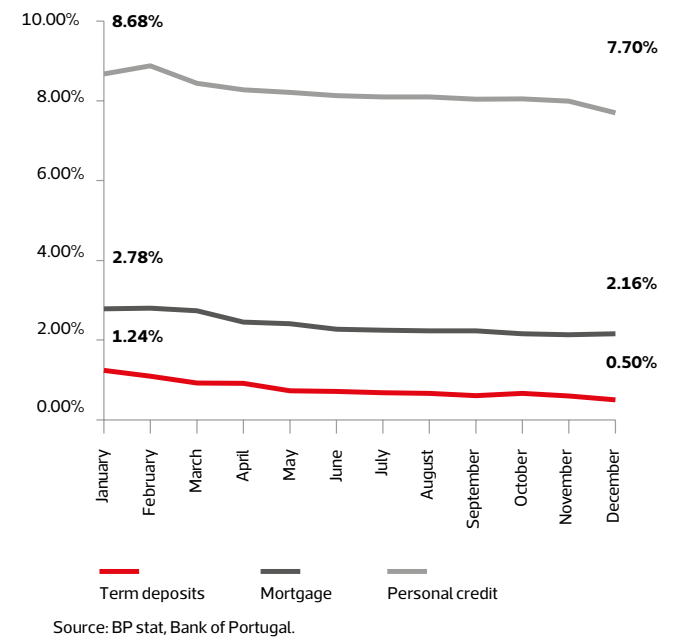
In the stock market, the year was characterised by positive performances in the developed economies, whereas in emerging markets it was a disappointing year. On the other hand, volatility intensified, especially due to the concerns about the slowdown in emerging economies, namely China, and to the postponement of the interest rate hikes in the US, which caused great turbulence in the markets.

Banking System

In the banking sector, the year 2015 was marked by indefinities in the competitive landscape. The slowdown in the banking business and the low interest rate environment, as well as the enforcement of a resolution procedure to Banco Espírito Santo, S.A. and to Banif – Banco Internacional do Funchal, S.A., resulted in several merger and acquisition rumours in the sector, which materialised in the entry of Bankinter in Portugal, through the acquisition of part of Barclays business, and in the consolidation of Banco Santander Totta, S.A.'s position, through the acquisition of the activity and part of the assets and liabilities of Banif – Banco Internacional do Funchal, S.A..

Yet, in spite of all of these signals, the Portuguese banking sector achieved an improvement in profitability in 2015, mainly due to the significant reduction of impairments, which have been penalising the sector's results, but also due to the gains obtained through the sale of sovereign bonds, which have more than compensated for the impact of lower interest margins on the net interest margin.

Interest rates on new operations – 2015 (%)



Additionally, the trend of operating cost reduction was maintained throughout the year, supported mainly by branch closures and headcount reductions, measures that allowed for the reduction of the system's cost-to-income. In turn, the effort to resize the balance sheets was reinforced, mainly through the reduction of the stock of loans to customers, which allowed for the renewed deleveraging. Finally, it is important to note the reinforced uptrend in the volumes of new credit production, although these remain at levels significantly below the ones registered prior to 2011.

Portuguese banking system – indicators (%)

	2010	2011	2012	2013	2014	9M15
Assets to GDP ratio - Portugal	3.0%	2.9%	2.9%	2.7%	2.5%	2.3%
Loan to deposit ratio	157.8%	140.2%	127.9%	116.9%	107.2%	104.2%
Provisions to loans (gross)	3.2%	4.2%	5.5%	6.2%	7.7%	7.9%
Cost-to-income	57.6%	61.5%	58.8%	71.9%	65.6%	58.8%
Return on Equity	7.7%	-6.3%	-5.5%	-11.7%	-19.2%	3.7%

Source: Evolution of the Portuguese banking system report, Bank of Portugal (3Q15).

2.1.3. Regulatory framework

2.1.3.1. Postal Sector

At the level of the European Union

The approval of the third Postal Directive (Directive 2008/6/EC) of the European Parliament and Council, on 20 February 2008, established the final schedule for the total liberalisation of the postal market (until 31 December 2010), safeguarding a common universal postal service level for all users of the Member States of the European Union (EU) and defined the harmonised principles for the regulation of postal services in a free market environment.

In terms of the funding of the universal service, and since the provision of reserved postal services as a means of funding has been abolished, the new legal framework establishes a series of mechanisms that Member States can adopt to safeguard and fund the universal postal service. The new Directive also contains guidelines on how to calculate the net cost of the universal service.

The provision of the universal service tends to operate at a loss in the EU, with various countries having implemented measures to mitigate this cost without requiring direct compensation. The regulators, aware of the challenges that the postal sector and primarily the provider of the universal service face, have permitted the diversification of activities and a more efficient allocation and use of resources, always safeguarding the obligations established in the European Directive.

With the creation of the Single Digital Market and measures carried out to improve consumer and corporate access to digital goods and services, namely those facilitating cross-border e-commerce, the European Commission (EC) launched a public consultation on 6 May 2015 to hear from all stakeholders on the main issues and possible areas of improvement for cross-border delivery services for goods acquired online across the EU. This initiative arises from concerns that the European market has not grown to its full potential as a result of a still fragmented offer of solutions at a European level for goods and services offered online.

The digital market



Nowadays the digital market is made up of:

- **National** online services(42%)
- and **USA-based** online services(54%)
- **EU cross-border** online services represent only 4%

■ 54% (USA) ■ 42% (National - 28 Member States) ■ 4% (EU cross-border)

Source: European Commission, "Why we need a Digital Single Market".

Capture the potential of e-commerce



15% of consumers bought online from other EU countries in 2014, while **44%** did so **domestically**.

EU consumers could **save €11.7 billion** per year if they could choose from a full range of EU goods and services when shopping online.

Only **7% of SMEs** in the EU sell cross-border.

Small online businesses wishing to trade in another EU country face around **€9,000 in extra costs** for having to adapt to national laws.

If the same rules for e-commerce were applied in all EU Member States, **57% of companies** would either start or increase their online sales to other EU countries

Source: European Commission, "Why we need a Digital Single Market".

Following the outcome of the public consultation, disclosed on 22 December 2015, the EC intends to change this situation through better supervision and ensured transparency in the delivery of goods acquired online in the EU and intends to propose specific measures thereon in the spring of 2016.

As the European postal industry has identified a set of obstacles to the development and growth of the e-commerce market, the European postal operators are working together to implement the Interconnect project, which will initiate operations throughout this year and basically includes 5 commitments: flexible delivery options; return solutions; track & trace for light items; improved customer service; and harmonised labels concept. The aim of this project is to remove the obstacles that keep consumers from buying online outside their own country and thus maximise the growth potential of the cross-border electronic commerce for the postal operators.

Through the Interconnect project, the European operators should have a very relevant contribution to the development of the Single Digital Market, with the electronic commerce (e-commerce) as

one of its main growth drivers, especially considering that in the last years the e-commerce achieved an annual growth rate close to 19% at a global level, and that it is expected to keep growing until 2019 at an average annual growth rate of 20%, thus increasing its weight in the total retail market to 12.8%.

At a national level

The Postal Law entered into force in April 2012 (Law no. 17/2012, of 26 April, as amended by Decree-Law no. 160/2013, of 19 November), transposing to the Portuguese legal system Directive 2008/6/EC. The postal market in Portugal was fully opened to competition, eliminating the areas under the universal service that were still reserved to CTT. However, for reasons of public order and security and general public interest, some activities and services remain reserved up to 2020: placement of letter and mailboxes on public roads for the acceptance of mail, issuance and sale of postage stamps with the word "Portugal" and registered mail used in legal or administrative proceedings.

The universal service includes the following services, of national and international scope:

- a postal service for letter mail, excluding addressed advertising, books, catalogues, newspapers and other periodicals weighing up to 2 kg;
- a postal service for parcels weighing up to 10 kg, as well as delivery in the national territory of postal parcels received from other Member States of the European Union weighing up to 20kg;
- a registered mail and insured mail service.

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

As the concessionaire of the universal postal service, CTT shall remain the universal service provider until 2020, with the Government having reviewed the principles of the concession pursuant to the system established in the Postal Law, through the publication of Decree-Law no. 160/2013, of 19 November, with the finalisation, under this Law and in order to reflect the legislative modification, of the amendment to the concession contract on 31 December 2013.

Pursuant to the XV Principles of the Concession of the Universal Postal Service, in August 2014, ANACOM approved the final decision on the objectives of postal network density and minimum services offer with which CTT should comply until 2017. The objectives defined in terms of postal network density and minimum services offer, which did not significantly alter the current postal network, reinforce the assurance of the existence of availability and accessibility of the universal service provision entrusted to CTT. In 2014 and 2015, CTT had to make marginal changes to its network, namely through the reinforcement of the number of letter/mailboxes in order to fully meet the set objectives and has currently surpassed the minimum requirements.

Under the criteria for formation of prices for the 2015/2017 period as established by an ANACOM resolution of 21 November 2014, ANACOM approved the universal service price proposal presented by CTT on 17 December 2014, as adjusted on 6 February 2015,

by a resolution of 12 February 2015. The prices inherent to this proposal, which complied with the established price formation principles and criteria, became effective on 1 March 2015, save for the prices of the delivery of newspapers, periodicals and books, which became effective on 1 June 2015.

Special prices for postal services included in the universal service offer applicable to bulk mail senders were also updated on 1 March 2015, following the proposal submitted to the Regulator on 14 January 2015.

Some mail service operators, or entities intending to offer this service, requested access to the postal infrastructure and network. In order to provide a standardised and non-discriminatory service for operators that wish to use the postal network, CTT established a competitive access offer that safeguards the security and efficiency of the universal postal service. It will enter into force from February 2016.

In terms of the quality of the universal postal service and in the aftermath of the new Postal Law, a new quality measurement and control system is being implemented and will be carried out by an external entity. To ensure effective and efficient measurement of quality levels due to the specificities of the postal sector, CTT launched a pre-qualified international tender on 5 November 2015 in order to select the external entity responsible for measuring the levels of quality.

In terms of the objectives and minimum quality of service levels, whose quantification is presented in section 5.1, the quality of service standards and the performance goals associated with the provision of the universal service in the 2015/2017 period, defined by an ANACOM resolution of 30 December 2014, maintain the high standards required for postal services in Portugal, which CTT has continuously surpassed.

2.1.3.2. Financial Sector

Although the financial component has been assuming growing importance in the banking sector, mostly due to the continuing decline of the use of cash, this segment has been subject to a constant industry-challenging regulatory pressure. An example of this is the recent legislation endorsed by the European Union in 2015 to protect the consumers' interests, which set a ceiling for the fees to be charged by the payment services providers on operations performed with debit cards. On the other hand, the creation of SEPA – Single Euro Payments Area, with the objective of strengthening European integration and promoting the completion of single payments market, has forced the banking institutions to make developments in their offer of means of payment. In Portugal, although available since 2008, only in August 2014 did the providers and the users of payment means fully migrate from the traditional credit transfer direct debit scheme of their respective subsystems of the Interbank Clearing System (SICOI) to SEPA.

Money laundering, terrorist financing and organised crime are topics of utmost importance within the European Union as they cover aspects capable of jeopardising the integrity and stability of the credit and financial institutions as well as of the whole financial system. With the aim of intensifying the prevention and fight of these phenomena, the European Union has enacted legislation in 2015 – the 4th AML (Anti-Money Laundering) Directive – to strengthen the scope and enlarge the duties of the financial institutions when performing that duty, by imposing the adoption of certain more restrictive practices to control and monitor their customers and their respective banking activity. Those requirements have forced banking institutions to further develop their management information systems and provide their teams with specific skills in the detection of money laundering activities and terrorist financing, thus imposing a growing pressure upon their operating costs structure.

Given the instability that has affected the financial industry over the last decade, the supervisory authorities' main concern has been to increase the resilience of the sector, endeavouring to promote better quality in the financial institutions' balance sheets. The legislation produced, including that enacted in the scope of the so-called Basel III agreements, has tried to address that concern by defining new capital requirements that the financial institutions had to meet in a phased manner, from 2013 and until 2019. First, in a so-called phased in stage that took place until the end of 2015 the banks had to increase their Common Equity Tier 1 ratio (which is the banking institutions' best quality asset) from 3.5% to 4.5%. As from 1 January 2016 and for a period of three years, it is the fully implemented stage within which the financial institutions are obliged to create an additional conservative buffer of 2.5% of their share capital.

Hence, the growing regulatory requirements have created some restrictions to the profitability of the assets of the banking institutions. In the case of Banco CTT, the conservative and prudent approach of this matter from the beginning has enabled to incorporate the full impact of the ratio in the model of the Bank.

2.2. Mail

2.2.1. Activity

The revenues⁽³⁾ of the Mail business unit reached €554.6m (73% of the consolidated total⁽⁴⁾) in 2015, corresponding to a growth of 1.5% in relation to 2014.

This business unit includes the postal services and upstream and downstream mail business solutions, namely printing & finishing, mail manager, video encoding, hybrid mail and other solutions complementary to the business. The Retail Network is also included in this business unit, that in addition to postal and retail

services renders services to the other business units as a sales channel. The services mentioned above are provided by CTT, S.A. (parent company), CTT Contacto, CTT Gest and Mailtec.

In 2015, despite the fall in volumes (explained below), there was a favourable evolution in the revenues of this business unit, mainly due to greater use of the distribution and Retail Networks to provide other services. Postal services performance also contributed to this. Price and discount policies, product mix, the foreign exchange appreciation of international mail (inbound) and mail items weight structure were further contributors.

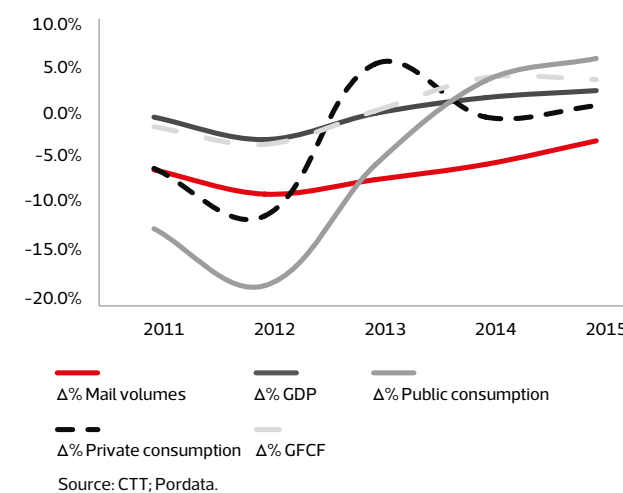
Changes in product prices for the Universal Service and bulk mail from 1 March 2015, as well as for books, newspapers and periodicals of the domestic service from 1 June 2015, resulted in a global average year-on-year increase of 4.1% in 2015. Prices for advertising mail also increased from 1 March 2015 (average increase of 2%). The revision of the discount policy increased the clients' demand for pre-sorting and compliance with payment dates, which fostered efficiency-oriented behaviour but also led to the loss of some discounts by large customers.

Mail

The decrease in **addressed mail** volumes (including letter mail and direct mail) in 2015 was 3.2%.

The comparison of the decrease in addressed mail volumes in 2015 (-3.2%) versus 2014 (-5.7%) is favourable and reflects the impact on mail consumption of positive developments in the national economy, mainly domestic consumption, as shown in the graph below.

Annual Change of Mail Volumes, GDP, Public and Private Consumption and GFCF



⁽³⁾ Including internal services and intra-group transactions which are eliminated for the purposes of consolidation.

⁽⁴⁾ Excluding revenues from the CTT Central Structure and intra-group eliminations, amounting to -€34.0m in 2015.

Transactional mail volumes decreased by 4.1% in 2015. This evolution is the result of changes in the volumes of priority mail (-0.1%), ordinary mail (-4.3%), registered mail (-8.2%) and international outbound mail (-8.1%). These changes were mitigated by the positive evolution of the volumes of international inbound mail (+5.9%) and “Green Mail” (+8.0%). The following factors were fundamental to the mentioned evolution: the decrease in registered mail mainly due to the reduction in consumption by the State and Public Administration, especially in the 4th quarter and the significant influence of growth in e-commerce on growth in international inbound mail. Packets parcels of reduced value sent mainly from China grew significantly due to the large number of apps and websites that appeared in the market.

The price increase mentioned above and especially the new discount rules allowed transactional mail revenues to grow 0.7% in 2015.

Editorial mail declined (-2.9%) in 2015, following the drop that took place in the 4th quarter (-3.5%), which was greater in the non-contractual segment. However, and as result of the important price review that took place on 16 August 2015, an increase of 10.7% on average, this segment’s revenues grew by 4.7% in 2015.

Addressed advertising mail volumes grew (+6.0%) in 2015, due to the significant increase in volumes in the 4th quarter (+19.8%), due to the revitalisation of this business, assumed as a strategic priority within the CTT Group. This was the result of a higher number of advertising campaigns by large customers relative to the previous year. For this reason, the growth of revenue for this product was only 2.1%, as a result of the effects of the price mix.

Unaddressed mail volumes decreased by 6.7% in 2015, mainly due to fewer campaigns by current customers. The selection of addressed versus unaddressed advertising mail is always a solution of greater cost, but also greater value for customers who, in periods of growth, tend to prefer this advertising medium, which is more direct and effective. The non-contractual segment had a positive impact due to government elections, which was not clearly reflected in the total because of its lesser weight vis-à-vis the contractual segment.

Business Solutions

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

There is a growing market demand from a wide variety of business sectors for CTT’s integrated solutions, which include features tailored to the needs and goals of each organisation, based on the portfolio and capabilities inherent to CTT’s two capillary networks – Retail and Distribution. In addition, the Integral Sorting Solution for Administrative Offenses and the Integrated Water Management Solution bring together in a unique offer a set of services made available by the CTT group: printing & finishing, despatch, mailmanager, collections, among others.

As regards Digital Communication, several features were implemented in the ViaCTT service support system that complement automated communication between sender and receiver by putting in operation the automated receipt of responses generated by receivers regarding documents sent by senders. This feature fosters and facilitates the electronic processing of electronic pledges between the tax authorities (AT – *Autoridade Tributária e Aduaneira*) and banks.

In addition, a set of new features was implemented in the electronic mailbox. On the one hand, these features seek to make the service more user-friendly by, for instance, using the national identification card to access the box and improving electronic mailbox access recovery procedures and, on the other hand, reducing operating costs of the service. Given CTT’s awareness that electronic communications (e-mail) will have an ever-growing importance in transaction communications, CTT focuses on creating reliable, safe and custom-made solutions to address this market’s concerns. On the other hand, physical communications will increasingly be a form of effective fulfilment of electronic communications and its integrated offer a trend.

Philately

The Philately business achieved €8.2m in revenue in 2015, corresponding to an increase of 11.0% as compared to the previous year.

Contributed to this positive evolution: the launch of 27 commemorative stamp issues, the 2nd group of the definitive issue on Extreme Sports and the booklet of self-adhesive stamps of Madeira, 27 postal stationery postal cards and 1 letter card, 4 prestige thematic books, 2 books with the year’s stamps (one of which was dedicated to young people) and a children’s Christmas book. The wider offer adapted to demand and topics of vast interest from customers, such as the Lynx, Dinosaurs or Portuguese Motorbikes enabled the continued upward trend observed since 2014, reversing the downward trend observed until then.

Given the success of promoting commemorative issues to institutional clients, such as Montepio Geral’s 175-year anniversary issue in 2015, CTT intends to make this strategy an important

incentive for commercial contacts with this type of client in the future, by focusing on the exclusivity and prestige inherent to the issue of stamps of the Portuguese Republic.

In 2015, CTT received three international awards for the quality of the design. It was recognised for the 7th time at the International Competition of Philatelic Design, promoted by the municipality of Asiago, in the Vincenza province of Italy. The stamp issue commemorating the “150 Years of the Geophysical Institute of the University of Coimbra” was distinguished in the “Tourism” category.

The commemorative sheet of stamps of the 500 Year Anniversary of Andreas Vesalius (issued in 2014) won two awards in 2015 in the category of intaglio printing. It was awarded 3rd place in Brussels and was considered best in the world (1st place) in Madrid.

The Book “Living Portugal with the Mediterranean on the Table”, written by Fortunato da Câmara was considered the Best Mediterranean Cuisine Book in 2015 in Portugal and qualified to compete with the other winning books from each country in the same category on a global level.

The issue of stamps “International Year of Light and International Year of Soils” was considered by the monthly magazine “L’Arte del Francobollo” of February 2016 the most original in the world by addressing the United Nations decision to proclaim 2015 as both the “International Year of Light” and the “International Year of Soils”.

The topics illustrated by the commemorative issues covered various areas of human knowledge, as shown in the list presented in the table below:

Commemorative issues	
<ul style="list-style-type: none"> 25 Years of AICEP 150 Years of the International Telecommunication Union 500 Years of the Torre de Belém 40 Years of the Ombudsman Laws of Heredity – 150 Years 150 Years of the Coimbra issue 600 Years of the Portuguese in Ceuta 175 Years of Montepio Geral 500 Years of the Arrival in Timor International Year of Light and Soils 	History
<ul style="list-style-type: none"> Figures of Portuguese History and Culture 100 Years of Orpheu Magazine Great Musicians of the World: Elizabeth Schwarzkopf and Sibelius Popular Clay Figurines Azores Handicraft Roads to Santiago EUROPA – Old Toys Flower Festival – Madeira Mediterranean Boats The Mediterranean Diet Great Figures of the Church: Saint Teresa of Ávila Great Figures of the Church: St. John Bosco Pioneers of Dance in Portugal 	Music, art and culture
<ul style="list-style-type: none"> Sustainable Mobility Reintroducing the Iberian Lynx in Portugal Portuguese Fruits The Portuguese Sea 	Environment

As mentioned above, the following thematic books have been launched with the usual enormous success:

Thematic books
<ul style="list-style-type: none"> Talking about Coffee – Fátima Moura Portuguese 50cc Motorbikes – Pedro Pinto Living Portugal with the Mediterranean on the Table – Fortunato da Câmara From the Mar Oceano to the Portuguese Sea – coordination by Mário Ruivo

2.2.2. Retail Network

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

The business strategy of the Retail Network is based on three fundamental axes:

- Development of the Mail business, promoting operating excellence and better quality of service, as a result of the greater proximity to and knowledge of its customers, ensuring enhanced productivity levels;
- A channel of proximity for the marketing of financial products and services (savings and investment, payment solutions and personal credit among others), affirming itself as an alternative in terms of offer of innovative and competitive financial products to the population. The partnership with Western Union also enables a unique channel of proximity and capillarity for urgent cash transfers to any part of the world. The role of the Network as a fundamental pillar to the Banco CTT project also applies. The latter is essential in order to provide a wide array of financial services in a "one-stop-shop" logic, where the offer of current accounts and mortgage loans will be fundamental.
- Creation and development of businesses and services of convenience for the population, services of general interest, by taking on the vocation of local multi-service assistance, in addition to offering postal services, and operating as a preferred location for services to citizens (such as in the EDP partnership and the Citizen's Bureau Areas project), in addition to acting as yet another delivery and collection option in the solutions offered for e-commerce in the Express & Parcels unit.

At the end of 2015, the Retail Network comprised 5,208 contact points, with 619 post offices, 1,711 partnership branches (postal agencies) and 2,878 stamp sales points. The offer of services,

under self-service and in some cases available 24 hours a day, is complemented by 222 automatic stamp vending machines and 18 automatic postal products vending machines.

The new 24-hour P.O. Box ("Apartado 24H") service was launched at the Delivery self-service machine located at the Parque das Nações post office. It is a new version of the P.O. Box that allows the customer to collect mail after being automatically notified thereof, including bulkier mail.

In 2015, optimisation activities were carried out under the ongoing Transformation Programme, focused on the following:

- Core/satellite post offices (a transformation that entails placing smaller post offices under the management of core post offices);
- Change/reduction of opening hours – adequacy analysis of post office opening hours in order to match supply to demand.

The post offices where this project will be implemented, in coordination with the launch of Banco CTT, have been identified. Additionally, a post office segmentation study was also carried out in order to maximize the available capacity to provide banking and other added-value services, thereby determining the offer basket according to the type and demand of the post offices, trying to reduce the offer of third-party products only to those that add value to the network and are consistent with the image of provision of banking services but keeping the CTT matrix and DNA as a basis. The segmentation study resulted in four post office clusters where the significant reduction of third-parties portfolios in priority post offices upon Banco CTT opening is noticeable. These post offices are thus more capable of focusing on the provision of Mail, Express, Financial Services and Banco CTT services, as well as on the provision of specialised services and partnership services, e.g. Citizen's Bureau. The chart below summarises the result of the segmentation.

Result of the Retail Network Segmentation for Portfolio Optimisation (2015)

	CTT DNA	CTT DNA + Books	Extended CTT DNA	Optimised CTT bazaar
% of total network revenue	14%	25%	50%	11%
Postal Services	✓	✓	✓	✓
Financial Services	✓	✓	✓	✓
Specialised partnerships	✓	✓	✓	✓
Banco CTT implementation	Year 1	2 nd priority	2 nd priority	3 rd priority
Third-party products sold	Top 10 books Telco services	Books Telco services	Books Telco services CDs DVDs	Books Telco services CD/DVDs Gifts Cards

Source: CTT.

Under the Retail Network Reorganisation Project, a Customer Support Line was implemented in December, thereby freeing post offices from daily telephone calls from customers (as contacts are funnelled to the call centre). The provision of the service through a specialised line allows a more uniform and consistent message to be disseminated and the Post Offices will be able to organize their time by refocusing on the client and commercial activity.

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

In addition to being an important sales channel for products and services from all CTT's business units, principally Mail and Financial Services, the Retail Network has promoted initiatives to stimulate other retail business. Besides the Citizen's Bureau Areas project within CTT post offices, detailed below, business stimulation in the Retail Network involved leasing space, establishing partnerships with well-known reference brands in the national market and sales via catalogue by offering products with potential for cross selling with credit solutions.

Citizen's Bureau Areas

Proximity solutions for the public administration can play a very important role in the development of Services of General Economic Interest in the CTT Retail Network.

The Government intends to set-up nearly 1,000 Citizen's Bureau Areas throughout the country and CTT, with its Retail Network, is its main partner. Renewing a driver's license, requesting Social Security statements, property registration or Municipal Property Tax exemptions, submitting tax returns, and registering pupils in schools are a few of the tasks that citizens will be able to perform in these spaces, to which 11 official entities are already joined.

The expansion model and the business model were negotiated with the Government in the last quarter of 2014 and on 20 January 2015, a protocol was signed between the Government and CTT which lays down the following timetable for the implementation of Citizen's Bureau Areas in the CTT Retail Network:

- Stage I, until 31 December 2015, set-up of 200 Citizen's Bureau Areas (24 pilot post offices of 2014 and 176 new post offices);
- Stage II, depending on the renewal included in the agreement, set-up of 100 more Citizen's Bureau Areas until 31 December 2016.

After the conclusion of Stage II, this partnership will be reassessed by the partners and may be expanded, as long as the economic rationale supports it, based not only on the services provided, but also its cross-selling potential.

Following this protocol, a training cycle began in 2015, which endowed 370 employees with the skills and knowledge necessary to provide services for the protocolled entities. This initiative had to be coordinated with the training underway for the launch of Banco CTT. This service is already available in 127 post offices in CTT's Retail Network and CTT has concluded preparatory initiatives to make it available in the remaining post offices.

This is yet another project of great importance for the Retail Network. It not only increases proximity to citizens, but also makes the network more encompassing, qualified and diversified in its offer of services. It works as a one-stop shop for all services that clients need.

2.2.3. Operations

In 2015, in addition to the continuous reorganisation of the sorting, transport and distribution networks in order to improve productivity and operational efficiency, the Transformation Programme focused on deepening the integration of the Express & Parcels distribution network in the CTT mail distribution network, which resulted in better use of the network's capabilities and greater capillarity of the offer, a factor which customers increasingly value more than speed of delivery.

The other initiatives of 2015 pertained to streamlining and reorganising the operational cycle, grouped into three major lines of action: sorting, transport and delivery.

Sorting

The sorting network is composed of three production and logistics centres, six logistics support centres and one business mail centre. The activities of the production and logistics centres are supported by 44 automated sorting machines (of which 24 are mail sequencing machines, one for sorting non-standard items (*Restmail*) and 78 video encoding posts.

In 2015, 2.13 million items (ordinary letter mail) a day were automatically sorted by postal delivery route. Nearly 1.83 million (85.9%) were automatically sequenced (door-to-door) for 4,731 postal delivery routes of 250 postal delivery offices.

Automation of the postal service continues to produce excellent results in address recognition, with letter mail achieving correct assignment rates of 93% for 7-digit postcodes and 66% for 10-digit postcodes. The redefinition of pre-sorting discount rules was important to achieve this result, given that it maximized automatic readings.

Processing of the mailmanager service and video encoding have been consolidated at the Taveiro (Coimbra) production and logistics centre. After the insourcing of video encoding at the production and logistics centre of Maia (Porto) in 2014, video encoding was also insourced at the production and logistics centre of Cabo Ruivo (Lisbon) in the 1st half of 2015. This resulted in a fall in outsourcing needs.

Also regarding operational optimisation, printing & finishing operations and CTT Contacto's operations (previously in Pinheiro de Fora) were reinstalled at the premises of the Production and Logistics Centre of Cabo Ruivo (Lisbon). This brought the mail production and sorting stages closer together both in terms of time and distance, thereby making for a better use of resources.

Of note is the implementation of new automated postal equipment for the sorting of non-standard items (*Restmail*). This gives CTT a distinctive feature given that this volume type is strongly associated with e-commerce. Packets of reduced value are delivered, under cross-border agreements, as ordinary mail and China is an important market of origin.

A new model for manual sorting was also implemented in the production and logistics centre of Maia (Porto), with the acquisition of new postal equipment, developed based on a new sorting methodology. Its implementation was concluded in the remaining production and logistics centres.

Worth mentioning is also the Zonal project, installed in 11 indexation devices. It is a new feature that allows the real time control of items delivered to each pricing zone, thereby addressing the need for a more effective control of acceptance and increasing the level of revenue protection for corporate clients.

New business mail check-up, acceptance, reporting and monitoring procedures were defined in order to mitigate identified revenue loss risks, make sure that the discounts are granted to the despatches that actually comply with the pricing requirements in force, and ensure uniform procedures regardless of the counter where the services are provided or the customer to whom they are rendered. This had two main objectives:

- the full and correct invoicing of the services provided on credit, in accordance with the pricing rules approved by the regulator;
- the provision of a quality service to the customers.

The above-mentioned uniformity of the procedures avoided the risk of loss of revenue due to inefficiencies in the mail acceptance process.

Transport

The transport network operates with 252 vehicles, which travel approximately 48 thousand km/day. In 2015, the national transport network covered a total of 11.1 million km.

The continuous reorganisation of the national transport network (made up of the "primary", "secondary" and "tertiary" networks) and fleet renewal with recourse to ever more efficient vehicles adapted to specific needs are among the initiatives carried out.

The following measures are also of note:

- Operational adjustments as a result of changes to air transportation to the Azores region due to the liberalisation of the air space;
- Implementation of the project for the new customs clearance model for mail from outside the EU in the Airmail Unit (AMU);
- Integration in the International Post Corporation (IPC) production network of the equipment installed in the AMU, for the control of delivery and reception of postal volumes from airlines;
- Participation in certain initiatives, such as FREVUE (Freight Electric Vehicles in Urban Europe), a CTT partnership with the Mitsubishi Canter E-cell and European Mobility Week in collaboration with the Municipal Council of Lisbon in showcasing the use of electrical vehicles in urban logistics;
- Participation in the Drivers Challenge within IPC, which rewards the best in ecological and defensive driving, with a guest participation of a Portuguese team in Ivalo (Finland).

Delivery

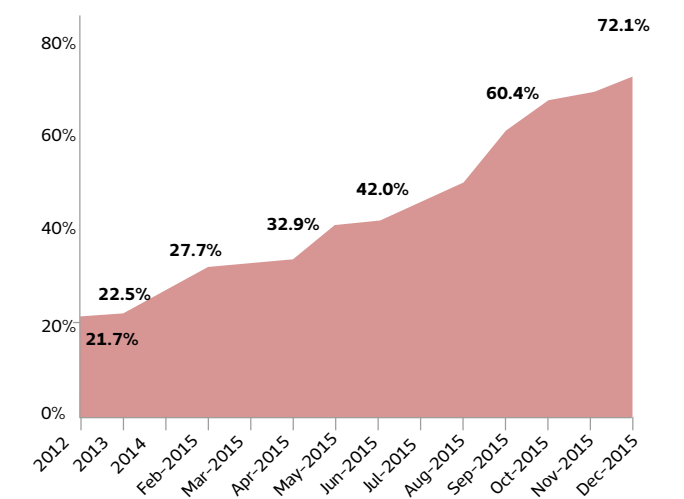
The distribution network is composed of 254 postal delivery offices (PDO), including 80 delivery support offices, two delivery support services in Lisbon and another in Coimbra, and one logistics and distribution centre in Torres Novas. It manages 4,731 external postal delivery routes, which cover around 236 thousand km/day.

The fleet provided for delivery is primarily comprised of light vehicles, motorcycles and bicycles (mostly electric). Therefore, 75% of postal delivery routes are run using some type of vehicle, thus facilitating network integration by enabling the transport of greater loads and greater displacement flexibility.

During 2015, the main delivery objective was to increase operational efficiency, through the following measures:

- Consolidation of new delivery models that are more efficient and geared toward meeting product service standards, through the implementation of delivery segmented by priorities at all PDOs in mainland Portugal;
- Expansion of mail delivery with automatic sequencing, with no prior PDO handling, enabling increased efficiency in internal operations and creating conditions for the simultaneous delivery of manual and automatically sequenced mail. In 2015, this delivery model was implemented in 24 more PDOs, making up a total of 66 to date;
- Consolidation of the Mail and Express & Parcels distribution network integration project. In 2015, the CTT mail distribution network internalised the delivery of the EMS 19 product in 135 postal delivery offices, thereby increasing the delivery of EMS products in the Mail distribution network to more than 70% of the total;

Evolution of the integration process (% of CTT Expresso volumes delivered by the basic distribution network)



- Streamlining physical structures by centralising and aggregating 10 postal delivery offices and delivery support centres.

Along with greater operational efficiency, sorting reliability and commitment to excellent quality of service, the focus continued to be on incentivising the network of postmen and women, as the preferred proximity channel and network for the marketing and sale of products and services.

2.3. Express & Parcels

The revenues⁽⁵⁾ of this business unit were €131.3m (17% of the consolidated total ⁽⁶⁾) in 2015.

This business unit is comprised of the activities of CTT Expresso in Portugal, Tourline Express in Spain and CORRE in Mozambique.

CTT has an Iberian offer for the Express & Parcels market, through CTT Expresso and Tourline Express, providing customers with the same delivery solutions in Portugal and Spain and an array of integrated, simplified and competitive services. With this portfolio, CTT intends to position itself as one of the main operators in Portugal and Spain. The Iberian offer does not have integrated Iberian operations given the distinct business models with which CTT operates in each market, thereby hindering relevant economies of scale. Instead, the Express & Parcels distribution network in Portugal was integrated with CTT's Mail distribution network given the clear synergies and economies of scale. Following this decision, the best corporate structure for both CTT Expresso and Tourline Express is under analysis.

In 2015, CTT launched a new convenience offer to support e-commerce in Portugal. It includes the pick-up service, which allows the e-buyer that buys a product from an online shop of a CTT Expresso customer (e-retailer) to pick up that shipment directly at a point of his/her choice (CTT post office or postal agency, for proximity, or with the possibility of choosing a Worten store for longer opening hours), and the drop-off service, that ensures non-contractual clients may make shipments from the same point. At the end of 2015, the number of CTT access points within the national territory from which parcel pick-up or drop-off was possible totalled more than 1,000, thus allowing for better coverage and convenience for online retailers and purchasers.

Given e-commerce's growing importance, which is a fundamental lever for the growth of parcels, CTT continued to carry out initiatives to develop this business, namely through:

- Based on an in-depth market survey on e-commerce on an Iberian level, including e-buyers, e-retailers and e-commerce platforms a new modular e-commerce offer was developed and became operational in 2015, with gradual developments throughout 2016. It is expected to be completed at the end of the 2nd quarter of 2016;
- Launch of the abovementioned Pick-Up and Drop-Off solution in the Retail Network and Worten stores, with new points under assessment;
- Making the "Click & Ship" service available in December, which enables the online preparation and payment of deliveries of items up to 10 kg with a simple tariff to any national or

international destination, including collection at the residence of the sender or delivery at one of the 1,000 points across the country;

- Commercial incentives focused on e-commerce activities, through the definition of commercial goals by the Company's various sales channels at the Iberian level;
- Establishing national and international partnerships, namely:
 - Making an "Easy Send" solution available to delivering customers of the website olx.pt, that allows the online preparation of the delivery of books to any CTT post office that the receiver chooses;
 - Establishing, in December, a partnership with the Singapore Post to launch a postal virtualisation service in Portugal that allows Portuguese e-buyers to access online shopping on websites located in geographies (e.g. the USA) where such is only possible for buyers living therein. This service will be launched in the first quarter of 2016;
 - Development and implementation of the various scheduled activities within the InterConnect programme, that strives to create a network and the integrated offer of cross-border e-commerce services involving over 30 postal operators at its current stage of development. Under this programme, Premium, Standard and Economy products integrated in the modular offer are being developed and integrated.

In **Portugal**, CTT maintains the lead in the domestic market with a 34.8% share (source: Postal Services Report – Statistical Information – 3rd quarter 2015, ANACOM).

Worth highlighting is the progress of the integration of the Mail and outsourced Express & Parcels distribution networks that began in 2014. In 2015, a new phase began for the greater integration of the networks. The goal is to attain better use of the network of postmen and women for last-mile delivery of date-specific parcels and packages, using the installed capacity and high capillarity of the network to ensure delivery of EMS 48 and EMS 19 products.

Since the end of 2014, the delivery of EMS 48 products is ensured by CTT's Mail distribution network. The internalisation in CTT's Mail distribution network of EMS 19 products delivery was done gradually over 2015, based on geographic areas covered and was concluded at the end of the third quarter. It involved a total of 135 postal distribution centres (all those planned for), thereby increasing the delivery of EMS products through CTT's Mail distribution network to more than 70% of the total.

In **Spain**, CTT is in the Top 10 players in the Express & Parcels market, with a 5.2% share in 2014, according to the *paqueteria* empresarial study undertaken by DBK Informa.

In this market, CTT continued to implement the restructuring plan for Tourline's activity and franchisee network, in order to achieve better control and franchisee quality, in terms of business capacity, financial soundness and management skills. Given difficulties in finding partners that meet this dual criteria, this process has resulted in a more direct presence, both in stronger business areas and, temporarily, in delivery zones the Company does not intend to cover directly, but where it was necessary to compensate for the loss of franchisees. This latter aspect has penalised the Company's profitability, due to an increase in transport and delivery costs.

Tourline is also carrying out a human resources optimisation and restructuring process to increase its operational efficiency by reducing staff costs, as well as to improve and streamline procedures. The process entailed consultations with Tourline's employee representative structures, with staff reductions totalling 126 employees.

The initiatives carried out did not result in the full compliance with the set objectives, hence a procedure for reviewing the strategy is underway which will soon lead to decisions on the best way to address the future challenges of CTT's presence in Spain.

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

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

CORRE's quality of service continues to win the trust of its customers, as a result of which the company has become the sole supplier of the biggest commercial bank in Mozambique, for logistics, sorting and delivery to all its branches. Close ties remain in place with the South African Post Office (SAPO), in order to use the Johannesburg transit hub, thereby enabling international routes with the various countries that are linked to this hub, as well as with CTT that handles transit operations to European destinations.

After operational difficulties in 2014, the situation stabilised in 2015 and CORRE was able to maintain a strong presence in that market thanks to its dedicated professional management. In 2015, the local currency (metical) suffered a significant devaluation in relation to the dollar/euro with an immediate impact on the costs of imported goods and companies' exposure to debts and agreements denominated in those currencies. However, measures have been taken in the last few years to reduce foreign currency expenses and to enter into agreements in the local currency.

Under the annual pricing strategy, a price update was carried out, in order to mitigate the effect mentioned above, which led to a price increase greater than 5%.

2.4. Financial Services

The recurring revenues⁽⁷⁾ of this business unit totalled €75.3m (10% of the consolidated total⁽⁸⁾) in 2015, which is an increase of 1.9% as compared to 2014.

This business unit includes the financial services provided by CTT, S.A. (developed either internally or in partnership with leading operators in their respective areas of business, such as Western Union and BNP Paribas Personal Finance) and the PayShop business, a network of highly convenient agents for payments through face-to-face channels.

The systematic nature of the positive results that have occurred repeatedly since 2013 is evidence of the validity of the pillars of the implemented strategy, bringing together the technical skills and selling ability of CTT post offices, the solidity and good fit with partners, the quality and competitiveness of the offer made available, the convenience and high level of trust in the CTT brand in the financial market.

The year of 2015 was marked by the project to launch Banco CTT which, due to resource availability and team focus, took centre stage in the entire development strategy of this business unit. The need to train teams in the Retail Network, in addition to measures to launch Banco CTT in the Retail Network led to the postponement of some scheduled initiatives such as those related to the offer of health insurance.

In respect of the current businesses, the Savings business had a decisive impact, with revenue increasing 7.9% relative to 2014, which again showcases the CTT's Retail Network's extraordinary ability to attract savings, as well as the recurring maintenance commissions of the product portfolio placed with customers. Nearly 4.3 billion euros were placed throughout the year, including Retirement Savings Plans, Capitalisation Insurance and, above all, Public Debt Certificates. In this regard, special note is made to the placement of 2.2 billion euros in January, which was an absolute record in CTT's 50-year history of selling Public Debt Certificates.

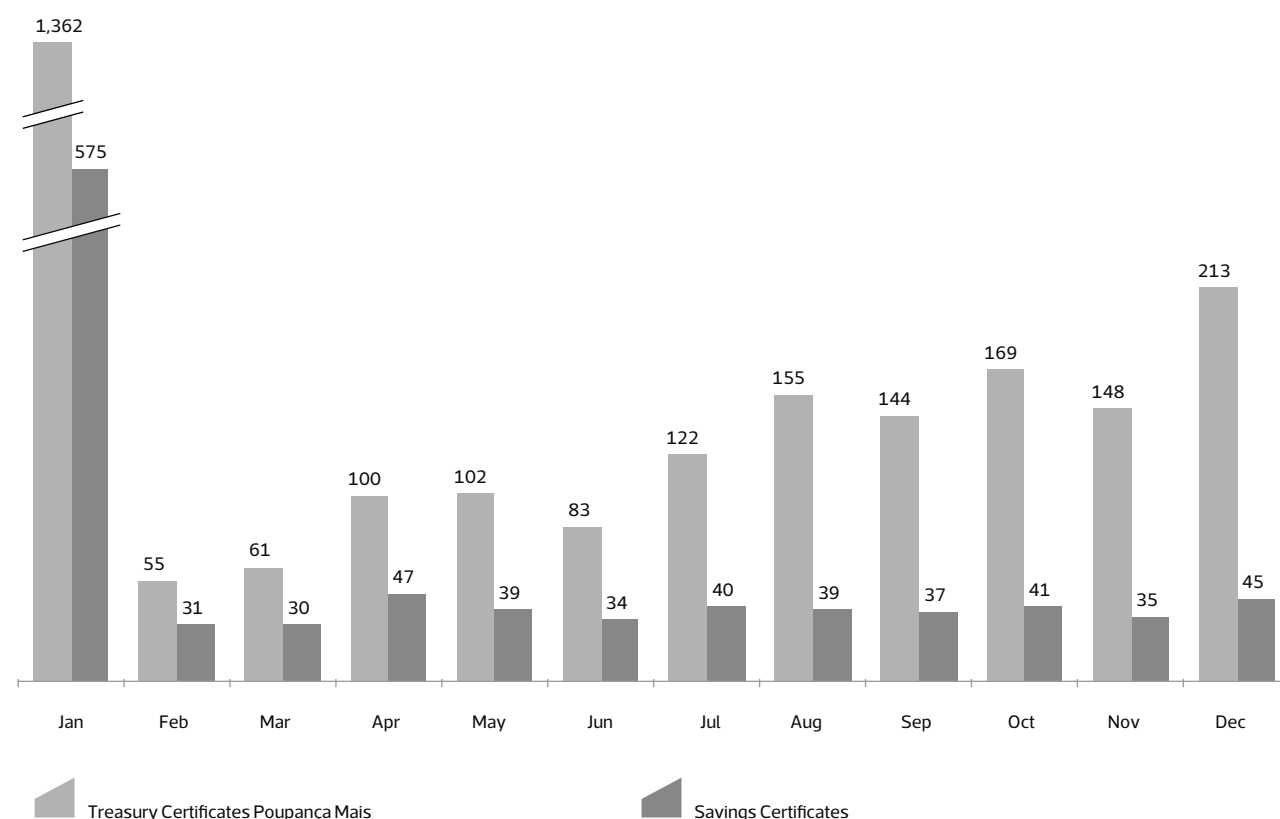
⁽⁵⁾ Including internal services and intra-group transactions which are eliminated for the purposes of consolidation.

⁽⁶⁾ Excluding revenues from the CTT Central Structure and intra-group eliminations, amounting to -€34m in 2015.

⁽⁷⁾ Including internal services and intra-group transactions which are eliminated for the purposes of consolidation.

⁽⁸⁾ Excluding revenues from the CTT Central Structure and intra-group eliminations, amounting to -€34m in 2015.

Public Debt Placements – 2015 (€ million)



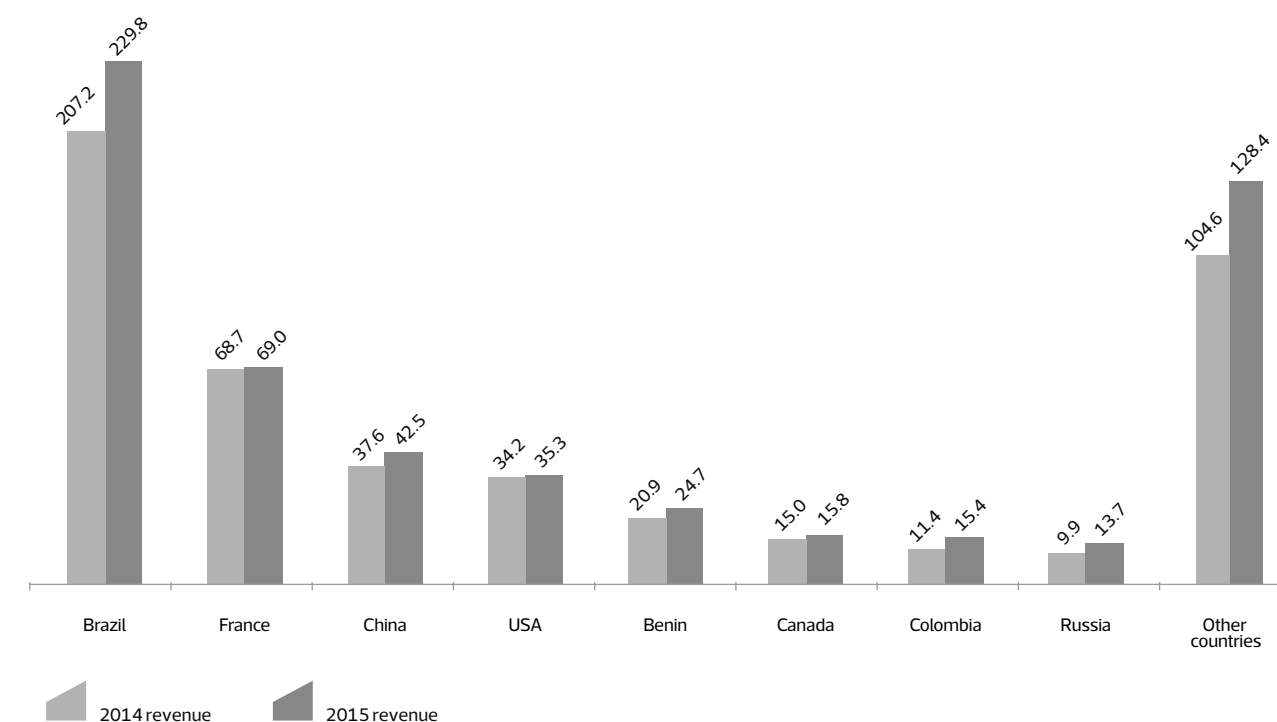
Source: CTT/IGCP.

This positive impact was lessened by the evolution in the Service Payments business, mainly by the negative effect of the sharp fall in mobile phone top-ups due to a migration to 4P offers (post-paid) and Money Orders and Transfers (the national segment, in particular, where the payment of social benefits, which are of great importance, showed signs of a fall in revenues).

The Payments business, the second most profitable, fell by 7.4%, mainly due to the negative effect of the sharp fall in mobile phone top-ups due to a migration to 4P offers (post-paid). The launch of new integrated payment solutions, as well as the positive performance in toll collections whose revenues grew a significant 10.5% vis-à-vis to 2014, had a positive impact.

The Money Orders and Transfers business decreased in revenues relative to 2014, due to its strong dependence on the evolution of the national segment, in particular the fall in social benefit payments via money orders. New benefits became payable through this channel, however, which could drive growth in 2016. In 2015, in the international segment of Transfers, urgent electronic transfers grew by 18.3% compared to 2014, due to a more aggressive pricing strategy (price reduction in the more important immigration channels) and the opening of new channels with countries showing an immigration influx to Portugal in the last few years (namely, Eastern Europe).

International transfers – Main outbound flows (€ thousand)



Source: CTT.

In the new Consumer Credit area, the year of 2015 was marked by the launch in April of the new CTT Credit Card in April. This product line was not actively promoted, given the proximity of the launch of Banco CTT. This segment, which will be integrated in Banco CTT's offer from the outset, will be leveraged within the banking offer and will have a strong cross-selling effect with current accounts.

2.5. Banco CTT

On 4 November 2014, CTT's Board of Directors approved the launch of the Postal Bank, thereby providing continuation of the established strategy to expand the offer of financial products and services. The Bank of Portugal approved a 12-month extension (until 27 November 2015) of the authorisation.

Since February 2015, CTT has carried out numerous procedures and activities for Banco CTT to begin operating. By creating CTT Serviços, S.A. – a vehicle that would later give rise to Banco CTT, S.A. – it was able to interact with the Regulator in assessing and implementing all the conditions set out and listed in the Bank of Portugal's License authorisation letter of November 2013 and reiterated in November 2014.

In a process that involved more than 150 people, Banco CTT became a reality last 27 November, having passed with honours a demanding and exhaustive process that marked some of 2015's milestones:

- 6 July: date the supporting file to the authorisation is submitted to the Bank of Portugal for the purposes of the Special Registration;
- 24 August: following the Regulator's authorisation, CTT Serviços is transformed into Banco CTT, with a share capital of €34m, and its governing bodies are appointed;
- 8 October: the Bank of Portugal gives notice stating it considers the authorisation request for the incorporation of Banco CTT duly instructed and the conditions it set out in the authorisation granted on 27 November 2013 duly complied with;
- 8 October: the Bank of Portugal confirms the conclusion of Banco CTT, S.A.'s special registration process as soon as the regulatory requirements are complied with;

- 18 November: approval of the contracting model between Banco CTT and CTT;
- 19 November: presentation of the Banco CTT Project to CTT investors, within the Capital Markets Day;
- 27 November: Banco CTT begins operations, 2 years after the letter of the Bank of Portugal on the conditions set out for granting the license.

For more than 9 months, the definition of the governance model, the implementation of the IT system (core banking system, which is currently being implemented by Misys/Deloitte, and respective components), the definition of policies, procedures, manuals and support aids were all determinant. Special emphasis was also given to training and preparing CTT's Retail Network structure, which will be the main location, in terms of face-to-face presence, of Banco CTT's offer distribution.

Banking Training

1. Banking training	2. Offer, processes & systems	3. Behavioural & commercial	4. Money laundering prevention
<ul style="list-style-type: none"> Training in banking to develop the technical and commercial skills required for providing high-standard banking services to clients Topics covered include, among others: <ul style="list-style-type: none"> Financial system Bank accounts & deposits Savings & investments Payment systems Credit to individuals Commercial activity 	<ul style="list-style-type: none"> Provide an overview of Banco CTT's strategy, positioning, operating model and product portfolio Instil Banco CTT's value proposition Train front-office processes, namely: <ul style="list-style-type: none"> Account opening, deposits & withdrawals and product activation & management Branch management & cash handling Payments services Digital channels 	<ul style="list-style-type: none"> Improve employees' soft skills necessary to implement Banco CTT's strategy Train desired behaviours in practical contexts related to a banking activity Shape employees' interactions with clients to the requirements of a banking setting Support understanding of the new organisational setting with the bank's launch and prepare employees to act as change agents 	<ul style="list-style-type: none"> Improve understanding on money laundering impact and importance of robust controls Discuss most common signs of suspicion and their applicability in CTT's daily operation Train employees on Banco CTT's controls and on how to deal with likely day-to-day situations

Instituto de Formação Bancária
IBF - The Portuguese Bank Training Institute
ASSOCIAÇÃO PORTUGUESA DE BANCOS

+40.000
horas em formação
bancária até
à data

+500
empregados concluíram
a formação bancária
inicial

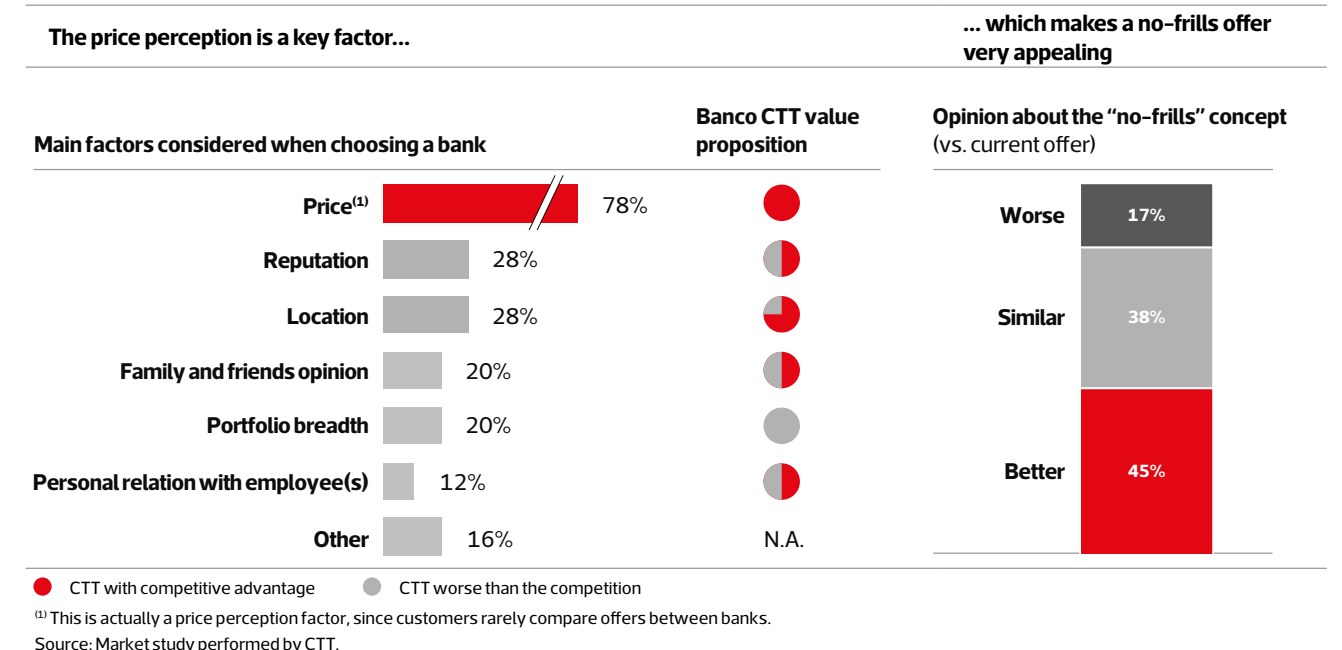
>€1.5m
investimento em formação de
empregados da Rede de Loja da
Implementação do rollout de lojas

Source: CTT.

Various market surveys were carried out in order to confirm the opportunity of launching banking operations in the Portuguese market. Visits to postal banks in Europe were also carried out, whereby detailed knowledge was gained of international postal banking models and their strategies in terms of offer and growth procedures.

The results of the market surveys showed a high level of acceptance of Banco CTT, as can be seen in the graphs below.

Results of the Market Surveys

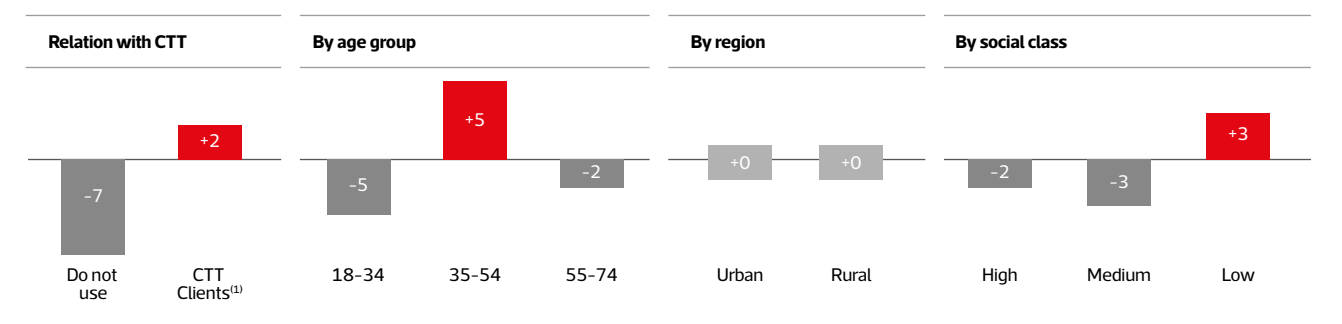


CTT costumers and the 35-54 year segment are the most interested in the Bank's value proposition.

Participants interested in subscribing to Banco CTT's offer



Delta vs. average Percentage points



⁽¹⁾ Clients that made at least one transaction in CTT post offices in the last six months (estimated clients ~3.7m in 2014).

Source: Market study performed by CTT (1,507 interviews representative of the Portuguese population conducted during May 2015).

After confirming its offer and positioning, some focus groups were held throughout the year based on potential clients from the target segment, initially to get their input and assessment prior to designing/structuring the offer and, later, to validate the value proposal for Banco CTT's target segment.

External consultants, with significant know-how and sector recognition, supported and were involved in the entire process.

The Head Branch opened on 27 November with a soft opening, in which the implementation of all the KYC – Know Your Customer procedures inherent to the opening of accounts, as well as deposits and transfers were undertaken in a controlled environment for CTT employees. This stage has allowed the “on the job” training of teams, the correction of errors and the preparation of the opening to the general public.

With values such as solidity, trust, transparency and proximity, Banco CTT arrives in the market as a simple bank that is close to citizens. The product portfolio will be composed of an offer of simple products that cover the main banking needs of the market, besides gradually integrating the financial services of CTT aimed at the residential customer (non-corporate) that are currently offered (life insurance, property & casualty insurance, individual credit, credit card, ...). The product mix will be enlarged throughout Banco CTT's rollout period, in order to provide its future customers with increasing added value.

After the soft opening period, in a controlled environment that allows testing of systems and procedures and that will last until the end of the 1st quarter of 2016, Banco CTT will be open to the general public, with a simple, diversified offer. Above all, it will be geographically close to its customers throughout the country, thereby enabling financial inclusion, one of the bank's strategic goals.

CTT thereby attains one of strategic goals set out at the time of the IPO in 2013 – the expansion of Financial Services through the launch of its own bank, in a process of distinctive positioning and with added value to its offer. The decision is in line with the natural development of the Financial Services business unit, which has grown significantly in recent years, not only by maximising revenues in its base portfolio, but also by launching new products and services, often in partnership with leading companies in their respective areas of business.



We are more enthusiasm

We take the challenges as opportunities to grow and prove our worth.
We welcome each day with a smile and the vibrant will to do better and better.
We know that we are writing our history and, more importantly, each page counts.
That's why we fully invest in and live each project intensely.
We are the engine of our destiny.



03

Economic and Financial Review and CTT Share Performance

3.1. Economic and financial review

This section summarises the consolidated results achieved by CTT and the consolidated assets, liabilities and financial position of the company as at 31 December 2015. This section should be read in conjunction with the consolidated financial statements and the accompanying notes. The present analysis includes the consolidation of the activities of the parent company and its subsidiaries (as included in note 8 of the consolidated financial statements).

It should be noted that during the year of 2015:

- The company CTT Serviços, S.A. was created (in February) in the context of the Postal Bank's incorporation. In October, the Bank of Portugal authorised the setting-up of Banco CTT, S.A., which resulted in the transformation of CTT Serviços, S.A. in a bank and respective amendment of statutes. Banco CTT initiated its activity on 27 November operating at the respective head branch reserved to CTT employees and the opening of Banco CTT at CTT Retail Network is scheduled for the end of the first quarter of 2016. The share capital in December was €34m.
- Following the Memorandum of Understanding signed with Altice and the completion of the acquisition of PT Portugal, CTT received the agreed initial payment, which will be recognised over the period specified in the memorandum, i.e. 18 months until the end of 2016. In 2015 the company recognised revenues of €5.4m.
- An increase of €12m in Tourline's equity occurred in December and CTT is currently examining the best corporate alternative to finalise the restructuring plan which is being implemented in the company, namely to support the recurring capital needs of the company.
- CTT, S.A. acquired, on 17 December, the entire share capital of the company "Escrita Inteligente, S.A.", a digital area start-up, dedicated to the operation of the solution called "Recibos Online" (online receipts), for the amount of €0.4m.

In 2015, CTT achieved a consolidated net profit of €72.1m, -6.6% (-€5.1m) than that of the previous year, excluding important non-recurring income in 2014 net profit remained almost unchanged at the level of €72.5m of recurring results, referred in the 2014 results presentation. The 2015 results were strongly influenced by the implementation costs of the Banco CTT, mostly non-recurring. The Banco CTT project impacted this result by -€8.8m. Excluding the Banco CTT project, the consolidated net profit of CTT would have been €80.9m, corresponding to a growth of €3.7m (+4.8%) vs. last year. This result corresponds to a consolidated net profit per share of €0.48, compared to €0.51 in 2014 (€0.483 considering the €72.5m comparable).

The year 2014 was a year very positively marked by the health-care plan negotiation which significantly reduced the liabilities, generating a large non-recurring gain in the income statement. More specifically, the net profit of 2014 which included gains of €83.0m with the reformulation of the Regulation of the Social Works ("RSW") system (healthcare plan of CTT), partially off-set by the corresponding increase in the income tax (deferred tax effect) of €24.7m and the impairment loss of €16.6m related to the goodwill of Tourline.

The operating activity generated earnings before non-recurring items, interest, taxes, impairments, depreciation and amortisation (recurring EBITDA) of €144.0m, +6.6% (+€8.9m) above that obtained in the same period of the previous year, with an EBITDA margin of 19.8% compared to 18.8% in 2014. These results reflect an increase of 1.3% (+€9.4m) in the recurring revenues, which more than offset the growth of 0.1% (+€0.5m) in the recurring operating costs (excluding impairments, provisions, depreciation/amortisation and non-recurring costs), as a result of the costs with Banco CTT, although the bank has not generated income for the moment.

Recurring EBITDA in 2015, excluding the recurring expenses incurred with Banco CTT and the expenses at CTT, S.A. associated with Banco CTT, totalled €149m, a like-for-like growth of 10.3% (+€13.9m). This growth in recurring EBITDA, despite the recurring costs already incurred with Banco CTT, demonstrates the ability of CTT to implement the bank without substantially affecting its capacity to generate results, as a consequence of optimisation measures of the main business namely through optimal and best use of delivery networks and the Retail Network.

In 2015, the non-recurring results affecting CTT results were -€9.8m. This value results mainly from costs associated with studies and advisory services for strategic projects, especially those related to the Banco CTT launch, as well as the continuation of actions on organisational matters, namely the compensation for the termination of the continuous working time, the compensations resulting from the new Social Works Regulation, the indemnities paid under mutually agreed employment contract terminations and the restructuring of the Express & Parcels segment, especially in the framework of human resources in Spain ("ERE - Expediente de Regulación de Empleo") and the continuation of the network optimisation measures.

As a result, reported earnings before interest and taxes reached €109.9m, €25.5m (-18.8%) below those recorded in the same period of the previous year, due to the above-mentioned non-recurring net gains obtained in 2014 (with a net impact of €23.9m).

The financial results amounted to -€5.3m, representing an improvement of +28.3% (+€2.1m) relative to the same period of the previous year, due to the €4.8m decrease in financial costs with employee benefits resulting from the strong reduction in

liabilities with the reformulation of the Regulation of the Social Works ("RSW") system (healthcare plan of CTT) and the decrease of the discount rate from 4.0% to 2.5% on 31 December 2014 which compensated the decrease of 65.7% (-€2.8m) of interest income affected by the decline in the interest rates of cash investments.

Interest income reached €1.5m, with CTT maintaining a prudent strategy in regards to its liquidity, and interest expenses were €6.9m, the latter value resulting mainly from financial costs with the update of employee benefits, which represented 98.0% of the total.

Earnings before taxes and non-controlling interests (EBT) reached €104.6m, 18.3% lower than in 2014, due to the above-mentioned non-recurring net gains obtained in 2014.

In the year of 2015, the effective income tax rate was 31.11%, much lower than the 39.97% in 2014 due to the impairment loss of goodwill recorded in 2014, which is not accepted for tax purposes, and to the effect of the 2014 tax rate update on deferred taxes.

Consolidated income statement

Thousand Euros	2015	2014	Δ% 15/14	2015 Excluding Banco CTT project (like- for-like) *	2014	Δ% 15/14 "like-for- like"
Revenues	727,180	717,774	1.3	727,178	717,774	1.3
Sales and services rendered	705,169	703,284	0.3	705,169	703,284	0.3
Sales	23,807	22,675	5.0	23,807	22,675	5.0
Services rendered	681,361	680,609	0.1	681,361	680,609	0.1
Other operating income	22,011	14,491	51.9	22,009	14,491	51.9
Operating costs excluding impairments, provisions, depreciation/amortisation and non-recurring costs	583,205	582,674	0.1	578,157	582,674	-0.8
Cost of sales	16,316	16,998	-4.0	16,316	16,998	-4.0
External supplies and services	224,687	234,843	-4.3	221,973	234,843	-5.5
Staff costs	331,738	320,429	3.5	329,485	320,429	2.8
Other operating costs	10,463	10,404	0.6	10,381	10,404	-0.2
Earnings before depreciation/amortisation, impairments and provisions, non-recurring results, interest and taxes (recurring EBITDA)	143,975	135,100	6.6	149,021	135,100	10.3
Impairment of inventories and accounts receivable, net	(233)	(936)	-75.1	(233)	(936)	-75.1
Provisions, net	(240)	(1,070)	-77.6	(240)	(1,070)	-77.6
Impairment of non-depreciable assets	0	(10)	-100.0	0	(10)	-100.0
Depreciation/amortisation and impairment of investments, net	(23,740)	(21,562)	10.1	(23,570)	(21,562)	9.3
Earnings before non-recurring results, financial income and taxes (recurring EBIT)	119,762	111,522	7.4	124,979	111,522	12.1
Company restructuring	(1,562)	37,192	-104.2	(1,562)	37,192	-104.2
Costs associated to studies and advice services for strategic projects	(8,397)	(2,837)	196.0	(1,987)	(2,837)	-30.0
Other non-recurring income and costs	130	(10,460)	101.2	130	(10,460)	101.2
Earnings before interest and taxes	109,932	135,418	-18.8	121,559	135,418	-10.2
Financial results, net	(5,376)	(7,473)	28.1	(5,394)	(7,473)	27.8
Gains/losses in associated companies	54	54	0.0	54	54	0.0
Earnings before taxes (EBT)	104,610	127,999	-18.3	116,219	127,999	-9.2
Income tax for the period	(32,539)	(51,155)	-36.4	(35,300)	(51,155)	-31.0
Net profit before non-controlling interests	72,071	76,844	-6.2	80,919	76,844	5.3
Net profit attributable to non-controlling interests	5	(327)	101.5	5	(327)	-101.5
Net profit for the period attributable to equity holders	72,065	77,171	-6.6	80,913	77,171	4.8

Note: Revenues exclude non-recurring items.

* Excluding Banco CTT business unit revenues/costs and Banco CTT project revenues/costs booked in the Financial Services business unit.

3.1.1. Revenues

Thousand Euros	2015	2014	Δ% 15/14	2015 Excluding Banco CTT project (like- for-like) *	2014	Δ% 15/14 "like-for- like"
Sales and services rendered	705,169	703,284	0.3	705,169	703,284	0.3
Sales	23,807	22,675	5.0	23,807	22,675	5.0
Services rendered	681,361	680,609	0.1	681,361	680,609	0.1
Other operating income	22,011	14,491	51.9	22,009	14,491	51.9
Revenues	727,180	717,774	1.3	727,178	717,774	1.3

Note: Revenues exclude non-recurring items.

* Excluding Banco CTT business unit revenues/costs and Banco CTT project revenues/costs booked in the Financial Services business unit.

The business of CTT is organised in the following segments:

- Mail – CTT, S.A. excluding Financial Services, but including the Retail Network, Business Solutions, corporate and support areas, CTTContacto (the merger of Postcontacto and Mailtec Processos into CTT Gest), Mailtec Comunicação and Escrita Inteligente, S.A.. It is to be noted the merger of Mailtec Consultoria into CTT, 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..

2015 – Revenues by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup Eliminations	Revenues
Sales and services rendered	511,167	127,014	70,854	-	-	(3,867)	705,169
Sales	22,893	916	-	-	-	(1)	23,807
Services rendered	488,274	126,098	70,854	-	-	(3,865)	681,361
Other operating revenues	43,470	4,242	4,460	2	72,595	(102,759)	22,011
Allocation to CTT central structure	-	-	-	-	36,000	(36,000)	-
Revenues	554,637	131,256	75,315	2	108,595	(142,625)	727,180

Note: Revenues exclude non-recurring items.

2014 – Revenues by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	CTT Central Structure	Intragroup Eliminations	Revenues
Sales and services rendered	510,087	126,921	71,227	-	(4,951)	703,284
Sales	21,606	1,073	-	-	(4)	22,675
Services rendered	488,480	125,848	71,227	-	(4,947)	680,609
Other operating revenues	36,092	2,091	2,682	87,235	(113,609)	14,491
Allocation to CTT central structure	-	-	-	26,063	(26,063)	-
Revenues	546,179	129,013	73,908	113,298	(144,623)	717,774

Note: Revenues exclude non-recurring items.

The Mail segment, which includes the core mail business revenues of CTT and represents the greatest weight in terms of revenues amounting to €554.6m, increased by 1.5% (+€8.5m) in 2015 in comparison to the previous year.

Sales and services rendered increased by 0.2% (+€1.1m), with emphasis on the increase of €1.0m (+15.3%) in sales of philatelic products. In 2015 in the Mail segment, the decrease in services rendered in the subsidiaries (e.g. printing & finishing) that belong to this segment absorbed the growth in mail.

However, the addressed mail revenue increase of €4.6m (+1.0%) should be noted. This increase results from the combined effect of the year-on-year increase in the average change in prices of the Universal Service in 2015 (+4.1% on average) and from the changes in the discount policy (making it clearer and more effective). These variables compensate the 3.2% reduction in addressed mail volumes. To note the favourable performance of contractual mail and advertising mail (Direct Mail) and to the unfavourable performance of registered mail, specifically in the last quarter of 2015.

The increase of €7.4m in other operating revenues is mainly associated with the increase in the distribution network integration of CTT and CTT Expresso, particularly in EMS (Express Mail Service) delivery, with a positive impact of €2.8m on revenues. It also includes revenues from the MoU with Altice⁽⁹⁾ of €1.8m and revenues from the improvements made in the actual allocation (VAT deduction) with a positive impact of €3.6m in other operating revenues in the Mail segment.

The Express & Parcels segment with €131.3m of revenues showed an increase of 1.7% (+€2.2m) in comparison to the previous year, resulting mainly from the growth in the provision of services in Portugal and Mozambique. In Portugal revenues grew 3.1%, including the upfront commission from the MoU with Altice (€1.8m).

The Financial Services segment with €75.3m of revenues registered an increase of 1.9% (+€1.4m) relative to the same period of 2014. There was a reduction of €1.0m in services rendered in Payshop due to the decrease of customer mobile phone top-ups, which was partly offset by the growth in other financial products.

Commissions revenues from savings and insurance products revenues rose by 7.9% (+€2.4m), as a result of growth in the public debt treasury certificates revenues ("Certificados do Tesouro Poupança Mais") which grew by 9.2% (+€1.5m), and to the capitalisation insurance products revenues which increased by 96.4% (+€1.5m) due largely to maintenance commissions of the amounts achieved in the last years. Conversely, there was a

reduction of 17.3% (-€2.0m) in public debt certificates revenues ("Certificados de Aforro"), result of the sharp reduction in interest rate set by the Government in January 2015.

It should be noted the higher growth in financial products revenues occurred in the first quarter of 2015 due to the strong adherence to the public debt certificates when the Government/IGCP informed the market of the interest rate reduction as of 1 February 2015. This effect led to a lower demand in the 2nd and 3rd quarters of 2015, albeit a gradual improvement in the demand for those products was noticed in the second half of the year and especially in the 4th quarter of 2015, when savings and treasury certificates subscriptions approached the usual levels observed in some months of 2014. In the remaining products the decrease continues to be observed in mobile phone top-ups, due to the increased penetration of 4 Play offer by telecom providers.

The decrease of €1.8m (-77.6%) in operating financial interest as a result of the decline in the remuneration rates of financial investments is also noteworthy. It was offset by the MoU with Altice revenues of €1.8m and by the improvements made in the actual allocation (VAT deduction) with a positive impact of €1.8m in other operating revenues in the Financial Services segment.

In CTT Central Structure there was a decline in the internal provision of IT systems (-€8.5m) and human resources services (-€4.4m), as a result of the optimisation and efficiency measures undertaken in these areas in 2014 with the new outsourcing contacts and the renegotiation of the healthcare plan.

3.1.2. Operating costs⁽¹⁰⁾

Thousand Euros	2015	2014	Δ% 15/14	2015 Excluding Banco CTT project (like- for-like) *	2014	Δ% 15/14 "like- for-like"
Cost of sales	16,316	16,998	-4.0	16,316	16,998	-4.0
External supplies and services	224,687	234,843	-4.3	221,973	234,843	-5.5
Staff costs	331,738	320,429	3.5	329,485	320,429	2.8
Other operating costs	10,463	10,404	0.6	10,381	10,404	-0.2
Operating costs	583,205	582,674	0.1	578,157	582,674	-0.8

Note: Excluding non-recurring items.

* Excluding Banco CTT business unit revenues/costs and Banco CTT project revenues/costs booked in the Financial Services business unit.

⁽⁹⁾ MoU with Altice affected three segments (Mail, Express & Parcels and Financial Services).

⁽¹⁰⁾ Cost of sales + ES&S + Staff costs + other operating costs (excludes non-recurring items).

Recurring operating costs amounted to €583.2m, up 0.1% (+€0.5m) vs. the previous year, in particular:

- a) Recurring external supplies and services costs decreased by 4.3% (–€10.2m) compared to 2014.

Efficiency measures undertaken in CTT have allowed this reduction in costs, of which it is worth mentioning the (i) reduction of €14.7m in communication and IT outsourcing costs, due to a change in the services providers during the second half of 2014, for basic infrastructure services, helpdesk & desktop management services, as well the fixed voice and data telecommunications services and (ii) the increased synergies in the use of internal resources in CTT, namely the continuous insourcing of the processes of delivery/processing and transportation of Express & Parcels, allowing an increase of approximately €2.8m in internal transactions and consequently a reduction in external costs, especially the ongoing process of insourcing delivery, processing and transport services (integration of distribution networks).

Conversely, there are adverse deviations of (i) €1.3m due to the increase in the number of post offices which had to contract secure transport of valuables due to a legal obligation (set by Law 34/2013, of 16 May), (ii) €2.7m increase in maintenance of IT systems namely in Banco CTT and the hardware maintenance and repair of computer peripherals and (iii) €2.3m of costs with foreign operators.

The increase in costs with foreign operators was influenced by the appreciation of the SDR (Special Drawing Right) (+6.7% at the end of 2015 compared to 2014), which influenced all rates set in this currency. On the other hand, international priority mail started to be processed by the Prime line, which had a significant impact in 2015 when compared to 2014 (its payment only began in May 2014). This increase also resulted from the changes in mail flows (in terms of weight and destination countries) and from bilateral agreements that had a positive influence on costs and revenues generated in the year.

- b) Recurring staff costs reached €331.7m, increasing €11.3m (+3.5%) when compared to the previous year. This increase is explained primarily by (i) the variable remuneration accrual of €9.7m estimated as at December 2015 referring to amounts to be paid in 2016 that in 2014 were recorded as non-recurring, since it was the first year of its implementation; (ii) the 2% salary increase in CTT, S.A. and 1.25% in the subsidiaries (with cap and floor) in the region of €3.9m and (iii) €2.3m of staff costs in Banco CTT.

These unfavourable variances were compensated by a decline of €3.9m in health costs due to the renegotiation of the Social Works Regulation and to the contracting of a new management provider, with a reduction in the commission paid for the management of the Healthcare Plan.

The operating costs by segment are as follows:

Mail recorded a significant amount of operating costs as it includes the functions of mail sorting, transport, delivery and the Retail Network, areas of major significance, particularly in terms of the number of workers. These operational activities are provided to the other segments – processing/transport and parcels delivery for the Express & Parcels and financial services rendered in the retail network – increasing synergies by the scalability of the unique assets, in both the distribution and retail networks. In 2015 the Mail segment incurred in €451.9m of recurring operating costs, a reduction of €2.6m (–0.6%) relative to the previous year, essentially in the internal provision of IT systems (outsourcing cost reduction) and human resources services (healthcare plan).

Express & Parcels recorded an increase of €4.3m (+3.5%) of its recurring operating costs, mainly due to the increase in costs with the transportation of goods in Spain (+€4.8m), along with the reduction of €1.0m in delivery costs, as part of the ongoing restructuring process. It is also to be noted the increase of staff costs in Portugal by €1.4m, essentially due to the accrual of variable remuneration of 2015 to be paid in 2016, and to the increase in the number of human resources for the operational area, responding to the growth in volumes (+4.8%), offset by the reduction of €0.7m in temporary work, as well as the reduction of €1.2m in courier staff work and a decrease of €0.5m in the sorting of banking network mail and parcels.

Financial Services reported a decrease of €3.1m (–8.6%) in recurring operating costs, due to the decrease of €1.4m in the commissions to Payshop agents and to the decrease of €1.8m in bonuses and incentives related to the sales of financial services in CTT post offices, showing the close relationship of the costs, mostly variables ones, to the revenues generated.

Banco CTT had €4.7m of recurring expenses in 2015, namely in staff costs, IT systems costs, rentals and various consumables. Notwithstanding the fact that the Banco CTT segment does not have revenues from its business, the costs related to the necessary infrastructure for provision of services was considered recurring for its future continuity. At the start of 2015, it was not possible to separate between Banco CTT costs & investments, therefore a guidance was provided for the total spending of €30.0m.

The Central Structure shows a favourable variance of €4.7m (–4.2%), due to the contribution of the reduction in communication and IT outsourcing (–€14.7m) and the reduction in staff costs as a result of the healthcare plan renegotiation (–€3.9m), which offset the increase in IT systems maintenance (+€1.4m), computer specialised works (+€0.8m) and the recognition of variable short and long term remuneration costs of CTT, S.A..

3.1.3. Recurring EBITDA

Recurring EBITDA⁽¹¹⁾ amounted to €144.0m, corresponding to an increase of €8.9m relative to the amount generated in 2014, as a result of revenue growth that exceeded the increase in operating costs.

2015 – Operating costs by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup Eliminations	Operating costs
External supplies and services	103,439	99,995	11,087	2,359	41,262	(33,454)	224,687
Staff costs	239,164	24,666	3,497	2,252	62,159	-	331,738
Other costs	73,610	2,573	18,515	78	5,175	(73,171)	26,780
Allocation to CTT central structure	35,718	-	282	-	-	(36,000)	-
Operating costs	451,931	127,233	33,381	4,689	108,595	(142,625)	583,205

Note: Excluding non-recurring items.

2014 – Operating costs by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	CTT Central Structure	Intragroup Eliminations	Operating costs
External supplies and services	104,979	96,963	13,233	52,430	(32,763)	234,843
Staff costs	236,880	23,583	4,379	55,588	-	320,429
Other costs	86,776	2,427	18,716	5,280	(85,797)	27,402
Allocation to CTT central structure	25,867	-	196	-	(26,063)	-
Operating costs	454,502	122,972	36,525	113,298	(144,623)	582,674

Note: Excluding non-recurring items.

⁽¹¹⁾ Recurring EBITDA = Operating results + amortisation and depreciation + net change of provisions and impairment losses (does not include non-recurring revenues and expenses, as company restructuring, impairment of investment properties, provisions for onerous contracts and labour contingencies)

Recurring EBITDA

Thousand Euros	2015	2014	Δ% 15/14	2015 Excluding Banco CTT project (like- for-like) *	2014	Δ% 15/14 "like- for-like"
Recurring revenues	727,180	717,774	1.3	727,178	717,774	1.3
Operating costs excluding impairments, provisions, depreciation and non-recurring costs	583,205	582,674	0.1	578,157	582,674	-0.8
Recurring EBITDA	143,975	135,100	6.6	149,021	135,100	10.3
Recurring EBITDA margin	19.8%	18.8%	1.0 p.p	20.5%	18.8%	1.7 p.p

* Excluding Banco CTT business unit revenues/costs and Banco CTT project revenues/costs booked in the Financial Services business unit.

Recurrent EBITDA grows in Mail and Financial Services as a result of the growth in revenues but mainly due to a significant growth of the EBITDA margin, which benefits from the scalability of the Retail Network and the Distribution Network (only in Mail). The Express & Parcels segment, despite similar effects obtained in Portugal by the distribution networks integration, was negatively impacted by the results obtained with operations in Spain whose recurring

EBITDA deteriorated. Under the restructuring process in Spain and due to the results achieved and to the few synergies with the business in Portugal as a result of different business models, alternatives are being analysed at corporate level.

2015 - Recurring EBITDA by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT
Revenues	554,637	131,256	75,315	2
Operating costs	451,931	127,233	33,381	4,689
Recurring EBITDA	102,706	4,023	41,934	(4,688)
Recurring EBITDA margin	18.5%	3.1%	55.7%	n.a.

2014 - Recurring EBITDA by segment

Thousand Euros	Mail	Express & Parcels	Financial Services
Revenues	546,179	129,013	73,908
Operating costs	454,502	122,972	36,525
Recurring EBITDA	91,676	6,040	37,384
Recurring EBITDA margin	16.8%	4.7%	50.6%

3.1.4. Non-recurring results

In 2015, CTT recorded negative non-recurring results of €9.8m, as a result of:

(i) Fornecimentos e serviços externos:

- €8.4m of costs associated with studies and advisory services for strategic projects, especially those related with the launch of Banco CTT (€6.4m), but also with the strategic plan for

Information Systems, with regulation and with a management information improvement plan (which allows in part the improvements with the actual allocation).

(ii) Staff costs:

- €0.04m of staff costs including: €0.7m due to the termination of employment contracts by mutual agreement in the scope of the transformation programme; €1.7m due to the provision for restructuring in Tourline; €2.3m due to the compensation for the suspension agreements and the €4.8m

corresponding employee benefits costs reductions; and €2.2m with the compensation for termination of continuous working hours resulting from the 2015 Company Agreement.

(iii) Net impairments and provisions, with a net reversal of €0.4m, as follows:

- €1.2m from the reversal of net impairments recorded in the scope of the restructuring of the Express & Parcels segment, which includes the optimisation of Tourline network.

- €0.04m resulting from net provisions increase, related to labour contingencies reversal and to onerous contracts increase.

- €0.8m impairment reversal of buildings and the stake in Tourline.

(iv) Other costs:

- €1.0m deemed uncollectible in the scope of the restructuring of the Express & Parcels segment.

2015 - Non-recurring results

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup Eliminations	Others non allocated	Total
Other operating revenues	-	-	-	-	-	-	-	-
External supplies and services	-	140	3,703	2,707	1,847	-	-	8,397
Staff costs	2,811	2,131	58	-	(4,965)	-	-	35
Other costs	-	973	-	-	-	-	-	973
Non-recurring results that affect EBITDA	(2,811)	(3,244)	(3,761)	(2,707)	3,118	-	-	(9,405)
Depreciation/amortisation and impairment of investments, net	-	-	-	-	-	-	(167)	(167)
Impairment of inventories and accounts receivable, net	-	1,237	-	-	(59)	-	-	1,177
Impairment of non-depreciable assets	-	(623)	-	-	-	-	-	(623)
Provisions net	-	223	-	-	(185)	-	-	38
Non-recurring results that affect EBIT	(2,811)	(4,080)	(3,761)	(2,707)	3,362	-	167	(9,830)

2014 - Non-recurring results

Thousand Euros	Mail	Express & Parcels	Financial Services	CTT Central Structure	Intragroup Eliminations	Others non allocated	Total
Other operating revenues	-	-	1,000	-	-	-	1,000
External supplies and services	-	-	-	2,837	-	-	2,837
Staff costs	1,954	179	6	(64,561)	-	-	(62,423)
Other costs	-	44	-	-	-	-	44
Non-recurring results that affect EBITDA	(1,954)	(222)	994	61,724	-	-	60,542
Depreciation/amortisation and impairment of investments, net	-	-	-	-	-	(156)	(156)
Impairment of inventories and accounts receivable, net	-	3,456	-	1,486	-	-	4,942
Impairment of non-depreciable assets	-	18,922	-	-	-	-	18,922
Provisions net	911	3,292	-	8,736	-	-	12,939
Non-recurring results that affect EBIT	(2,865)	(25,892)	994	51,502	-	156	23,895

The non-recurring costs with the implementation of Banco CTT were recorded in part in CTT, mostly in Financial Services (€3.7m) and in part in Banco CTT (€2.7m). In Mail, the main non-recurring expense was due to the compensation for termination of continuous working hours that generated benefits in terms of productivity.

3.1.5. Financial results

In 2015, the consolidated financial results reached -€5.3m, representing an improvement of €2.1m in relation to 2014.

The interest income and financial revenues decreased by 65.7 % when compared to the previous year, directly influenced by the sharp decrease in interest rates offered by banks on term deposits, and by the fact that the company decided to maintain a conservative investment policy of its assets.

Thousand Euros	2015	2014	Δ% 15/14
Interest income	1,485	4,325	-65.7
Interest expenses	6,861	11,798	-41.8
Interest expenses (financial)	137	242	-43.4
Interest costs with employee benefits (accounting)	6,724	11,556	-41.8
Gains/losses in associated companies	54	54	0.0
Financial results	(5,322)	(7,419)	28.3

Interest expenses incurred reached €6.9m, which include costs associated with employee benefits of €6.7m and interest related to financial leasing and bank loans of €0.1m.

There was a decrease of €4.8m in the financial costs with employee benefits resulting from the impact of the strong reduction in employee benefits liabilities with the healthcare plan renegotiation and the reduction in the discount rate from 4.0% to 2.5% on 31 December 2014.

The gains in associated companies reached €0.05m in 2015, specially related with the gain in Multicert.

3.1.6. Net profit, profitability and Gross Added Value

In 2015, CTT achieved a consolidated net profit attributable to equity holders of €72.1m, 6.6% below that of last year, corresponding to consolidated earnings of €0.48 per share and a net margin of 9.9% (10.8% in 2014). Excluding non-recurring effects in both years, positive in 2014 and negative in 2015, the net profit would have increased by 12.5%.

The reported and recurring consolidated income statement for 2015 and 2014 is summarised below:

Thousand Euros	Reported		Recurring *		
	2015	2014	2015	2014	Δ% 15/14
Revenues	727,180	718,774	727,180	717,774	1.3
Operating costs	592,610	523,132	583,205	582,674	0.1
EBITDA	134,570	195,642	143,975	135,100	6.6
EBITDA margin	18.5%	27.2%	19.8%	18.8%	1.0 p.p
EBIT	109,932	135,418	119,762	111,522	7.4
EBIT margin	15.1%	18.8%	16.5%	15.5%	1.0 p.p
Earnings Before taxes	104,610	127,999	114,440	104,103	9.9
Income tax for the period	32,539	51,155	32,865	31,897	3.0
Losses (gains) attributable to non-controlling interest	5	(327)	5	(327)	101.5
Net profit for the period	72,065	77,171	81,570	72,534	12.5

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

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

Return on Equity (ROE) decreased by 0.6 p.p., from 29.4% in 2014 to 28.8% in 2015, as a result of the reduction in net profit by 6.6%.

The Return on Invested Capital (ROIC) of 21.3% and the Return on Capital Employed (ROCE) of 20.2% decreased by 4.9 p.p. and 3.8 p.p., respectively, in relation to 2014, primarily due to the 18.8% decrease in earnings before interest and taxes and the strong increase of investment (+94.8%).

The net profit of 2014 which included gains of €83.0m with the reformulation of the Regulation of the Social Works ("RSW") system (healthcare plan of CTT), partially off-set by the corresponding increase in the income tax (deferred tax effect) of €24.7m and the impairment loss of €16.6m related to the goodwill of Tourline.

Returns on Capital

	2015	2014	Δ% 15/14
Return on Equity (ROE) ⁽¹⁾	28.8%	29.4%	-0.6 p.p
Return on Invested Capital (ROIC) ⁽²⁾	21.3%	26.2%	-4.9 p.p
Return on Capital Employed (ROCE) ⁽³⁾	20.2%	24.0%	-3.8 p.p

⁽¹⁾ Net profit/Average Equity

Average Equity = (EQ year n + EQ year n-1)/2

⁽²⁾ Earnings before financial income and taxes/(Net assets-Cash)

⁽³⁾ Earnings before financial income and taxes (Net assets-ST Liabilities)

The gross value added amounted to €441.7m corresponding to a GVA/average number of employees of about of 35.5 thousand euros, 3.2% lower than that of the previous year, due to the

reduction of net profit and income tax for the period. This indicator highlights the effort to optimise operations and maximise the productivity of resources.

Gross Added Value (GAV)

	2015	2014	Δ% 15/14
GAV (Delivery) - € thousand	441,719	456,228	-3.2
Average Staff	12,445	12,448	0.0
GAV (Delivery)/Average Staff (euros)	35,494	36,651	-3.2

3.1.7. Capex

Capex reached €32.3m, 94.8% above that of the previous year (+€15.7m), mainly due to the investments in the context of the incorporation of Banco CTT (€11.7m), particularly in IT systems. In addition, investments have been made in: (i) acquisitions of freight vehicles (€3.0m), especially electric ones; (ii) reinforcement of productive infrastructures, which includes the acquisition of a sorting machine (€1.9m) for non-standard mail items and small B2C parcels to cope with the strong growth of e-commerce; (iii) various investments in renovation and maintenance of buildings and (iv) in information systems.

3.1.8. Financial position and Cash flow

Consolidated statement of financial position

Thousand Euros	2015	2014	Δ% 15/14
Non-current assets	354,906	350,481	1.3
Current assets	764,566	830,516	-7.9
Total assets	1,119,472	1,180,997	-5.2
Equity	251,835	249,210	1.1
Total liabilities	867,637	931,787	-6.9
Non-current liabilities	292,668	314,394	-6.9
Current liabilities	574,970	617,393	-6.9
Total equity and liabilities	1,119,472	1,180,997	-5.2

Total assets recorded a decrease of €61.5m (-5.2%), reflecting:

- The increase in non-current assets (+€4.4m) with the increase of €14.2m in intangible fixed assets, the €3.9m decrease in deferred tax assets and the reduction of €3.5m in investment properties.
- The decrease in current assets (-€65.9m) resulting from the reduction in cash and cash equivalents at €60.9m (-9.2%), resulted from the reduction in net financial services payables due to the high amounts subscribed in December 2014 in Treasury Certificates "Poupança Mais" and to taxes payments.

Equity increased by €2.6m (+1.1%), resulting from the dividend distribution for the year 2014 (€69.8m), which occurred in May, and the net profit of the current period (€72.1m). In June occurred the purchase of own shares (200,177 shares) for the amount of €1.9m. It is also relevant to point out the amount of €1.6m related to the variable long-term compensation of the Executive Committee.

Liabilities reduced €64.1m (-6.9%) mainly by the:

- Decrease of financial services payables in the amount of €67.0m (-16.8%), reflecting the impact observed in December 2014 of the substantial amounts of public debt certificates subscriptions and taxes payments;

- Decrease of employee benefits liabilities €17.4m (-6.3%);

- Increase in other current liabilities of €9.2m (+11.2%), mainly resulting from a temporary situation of process adaptation by the new provider for the healthcare plan management services;

- Increase of current deferrals by €8.2m, reflecting the amount to be recognised in 2016 referring to the agreement with Altice (its recognition was spread over a period of 18 months corresponding to the "first refusal" period granted to Altice);

- Increase in currents debts by €5.2m, as a result of Tourline's cash pooling.

The employee benefits liabilities in 2015 amounted to €262.8m, a decrease of 5.7% vs. in December 2014. It stands out:

- The reduction of €9.6m in liabilities related to suspension contracts, resulting essentially from the negotiation of termination agreements with some workers in this situation and the payments occurred in 2015;

- The reduction in liabilities related to the benefit "Monthly life annuity" (-€1.9m) and to the benefit "pensions for accidents at work" (-€1.3 M) as a result of the update of the growth rate of pensions from 2.75% in 2014 to 1.50% in 2015.

Liabilities with post-retirement employee benefits

Thousand Euros	2015	2014	Δ% 15/14
Liabilities	262,832	278,668	-5.7
Healthcare	236,806	241,166	-1.8
Staff (suspension agreements)	8,234	17,810	-53.8
Other benefits	14,805	18,315	-19.2
Share plan	2,987	1,376	117.1

The net change in cash and cash equivalents amounted to -€60.9m, €180.6m below the previous year of 2014 but, excluding the change in net Financial Services payables (decrease of €138.6m), the variation was practically nil (+€0.11m), resulting from the:

- Increase of €9.8m in the amount of dividends and €5.5m in income taxes payments paid in 2015 versus the amount paid in 2014;

- Increase of €5.4 m (+ 0.8%) in the collections from customers;

- Reduction of €17.5m in payments to suppliers;

- Increase of €19.2m in payments to employees, impacted mainly by the variable remuneration pertaining to the 2014 financial year (€9.0m), the salary increase of 2% in CTT, SA and 1.25% in subsidiaries (€3.9m) and the staff costs in Banco CTT (€2.3m);

- Increase of €20.8m in investment payments, primarily from acquisitions made at the end of 2014 and from 2015 strong investments (in Banco CTT and information systems);

- Reduction of €4.7m in interests income affected by the decline in the interest rates;

- Reduction of €4.4m in financial investments receivables, due to the sale in 2014 of the subsidiary EAD (€4.0m) and the acquisition in 2015 of "Escrita Inteligente" (€0.4m).

Cash flow

Thousand Euros	Reported			Adjusted FS flows*		
	2015	2014	Δ% 15/14	2015	2014	Δ% 15/14
Cash flow from operating activities	32,832	178,706	-81.6	93,860	101,086	-7.1
Cash flow from investment activities	(25,539)	5,348	-577.5	(25,539)	5,348	-577.5
Capex	(28,362)	(7,519)	-277.2	(28,362)	(7,519)	-277.2
Other	2,823	12,868	-78.1	2,823	12,868	-78.1
Operating free cash flow	7,294	184,055	-96.0	68,322	106,434	-35.8
Cash flow from financing activities	(68,230)	(63,669)	-7.2	(68,230)	(63,669)	-7.2
Dividends	(69,750)	(60,000)	-16.3	(69,750)	(60,000)	-16.3
Change in consolidation perimeter	17	(692)	102.5	17	(692)	102.5
Net change in cash and cash equivalents	(60,920)	119,694	-150.9	108	42,073	-99.7

* Cash flow from operating activities excluding changes in net financial services payables.

3.1.9. Financing

Financing is focused on financial leasing operations related to operating facilities and the acquisition of basic equipment performed until 2013 and on current bank loans in Tourline and Corre to fund operating activities, emphasising the cash pooling system used by CTT.

The calculated net debt is negative, which means CTT has liquidity after financial debt and liabilities with employee benefits. Net cash (incl. Liabilities with employee benefits) stood at €82.6m in 2015, increasing €7.7m (+10.3 %) vs. 2014. The stability of the amount of net cash (excluding financial services creditors) is to be noted, despite the strong investments made in the project of Banco CTT and in the parent company, as well as the dividend paid. Another highlight is the reduction of liabilities for employee benefits.

Net debt

Thousand Euros	2015	2014	Δ% 15/14
Financial debt	8,114	3,759	115.9
Bank loans and other loans	6,123	891	587.2
Financial leasings	1,990	2,869	-30.6
Net cash	278,999	278,891	0.0
Net financial debt	(270,885)	(275,132)	-1.5
Liabilities with employee benefits *	262,832	278,668	-5.7
Deferred tax assets related to employee benefits	(74,537)	(78,412)	-4.9
Net debt (incl. Liabilities with employee benefits)	(82,590)	(74,876)	10.3

*Includes Share plan recorded in equity.

Net cash

Thousand Euros	2015	2014	Δ% 15/14
Net cash			
(+) Cash and cash equivalents	603,650	664,570	-9.2
(-) Net Financial Services payables	(324,651)	(385,679)	-15.8
Net cash	278,999	278,891	0.0

3.1.10. Financial ratios

As at 31 December 2015 the strong position of the Balance Sheet is preserved, as evidenced by the indicators below that confirm the strengthening of the financial soundness of CTT, with strong liquidity levels and high cash position.

Financial indicators

	2015	2014	Δ% 15/14
Current liquidity ratio ⁽¹⁾	133.0%	134.5%	-1.5 p.p
Solvency ratio ⁽²⁾	29.0%	26.7%	2.3 p.p
Adjusted solvency ratio ⁽³⁾	46.4%	45.6%	0.7 p.p
Net debt (Cm)	(82,590)	(74,876)	10.3
Net debt/EBITDA ⁽⁴⁾	-0.6 x	-0.6 x	0.0 x
Tangible fixed asset coverage ⁽⁵⁾	237.0%	239.0%	-2.0 p.p
Dividend/Net profit ⁽⁶⁾	97.8%	90.4%	7.4 p.p
Dividend/Adjusted operating free cash flows ⁽⁶⁾	103.2%	65.5%	37.7 p.p

⁽¹⁾ Current assets/Current liabilities

⁽²⁾ Equity/Total liabilities

⁽³⁾ Equity/(Total liabilities - net Financial Services payables)

⁽⁴⁾ If negative indicates positive net cash situation

⁽⁵⁾ (Non-current liabilities+Equity)/Tangible fixed assets (includes investment properties)

⁽⁶⁾ € 70.5m dividends in 2015 and € 69.75m dividends in 2014.

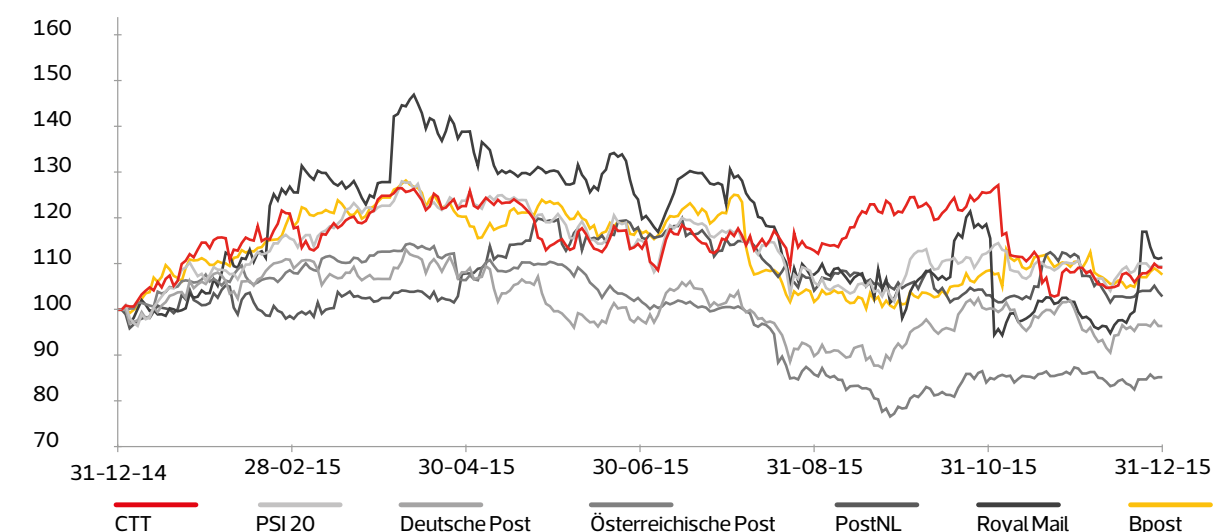
3.2. CTT share price performance

In 2015, the CTT share price appreciated by 10.4%. During the year the company paid a dividend of €0.465 per share. Hence, the total shareholder return or TSR (capital gain + dividend, calculated on the basis of the share price as at 31 December 2014) was 15.9%. The CTT shares were the best performing in terms of TSR among EU postal sector peers that were listed on 31 December 2014, followed by bpost with 14.7%. In this period, the PSI 20 appreciated by 14.9%.

In terms of share price appreciation only, the best performer of the EU postal sector in 2015 was PostNL. Its shares appreciated by 12.9%, followed by CTT shares, with a 10.4% price appreciation. On the same basis, the PSI 20 index appreciated by 10.7% in the year 2015.

CTT share pays a high dividend yield to its shareholders committing to medium and long-term growth without prejudicing the dividend. The launch of Banco CTT gives CTT a faster future growth potential with growing diversification of the portfolio of products and services based on the scalability of its unique assets, the Mail distribution network (basic network) and the Retail Network (post offices). This diversified growth is unique among the Company's peers.

CTT share price performance vs PSI 20 & sector (Year 2015 - rebased at 100 as at 31 Dec 2014)



Throughout the year 2015, 135 million CTT shares were traded at the Euronext Lisbon Stock Exchange, corresponding to a daily average of 526,000 shares, which translates into an annualised ratio of 90% of the share capital. As at 31 December 2015 market close, the CTT share price was €8.854.



We are more innovation

We are the force that carries the future.

We want to challenge, move forward, surprise and contribute to the progress of the Portuguese.

We are a positive lever that inspires and pulses.

We are the movement that takes us forward.

We believe that technology is a tool that expands and makes us better, and which we are keen to use to our customers' and our own advantage.

We explore, we discover, we clear paths ... We know that tomorrow will be brighter.

04

Human Resources

Culture and Values. Talent Management Plan. Recognition and Reward

Talent Management creates value for the organisation and for each person. CTT is integrating the values, giving them life, developing systems and policies to transform the organisation, developing skills and holding leadership responsible, as well as engaging the structure. It is also recognising and rewarding the contribution and performance of the individuals, the teams and the businesses.

During 2015, the experience of Culture and Values continued to deepen, with several initiatives for this purpose.

A **Talent Management Plan** was approved, which aims to:

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

The plan integrates the five axes of the **Talent Management Cycle**: **Attract** new employees; **Clarify** their responsibilities, expectations, opportunities and modus operandi in CTT; **Engage** employees with business, team and individual objectives and results; **Empower** employees for current challenges and prepare them for the future; Make employees **Grow** and thus make CTT Grow.

Actions were identified at various time horizons for each of these axes, with systematisation of priorities and the corresponding implementation plan. During 2014, the Organisational Framework and Functional Groups was completed, a salary

benchmarking was conducted and the salary policy was defined with the organisation's position at various levels, the Employer Brand and the Trainee Programme were designed, and the latter began in the first half of 2015. Also, Profiles for Leaders and Key Duties were defined, and the new Performance Management system was conceived, designed and was implemented in a first full cycle in 2015.

The Performance Management system is aimed at the whole CTT structure, and seeks to align the employees with the strategy and business, consolidating a culture of meritocracy, recognition and reward of differentiated performances. Hence, in 2014, variable remuneration based on individual performance and contribution towards the results was reintroduced, while also taking into account CTT's global performance. In the first half of 2015, this variable remuneration was allocated to employees via a **participation in the profits**, in line with the variable remuneration policy set out for executive directors, in the total amount of nearly nine million euros. The individual allocation of this profit share was based on merit and differentiated according to functional groups, performance levels and number of unjustified absences. It encompassed the entire organisation.

It is possible that variable remuneration will be allocated in future financial years under this policy, depending, obviously, on the organisation, the business units and individuals' performance, according to detailed criteria defined in the framework of the referenced Performance Management system and subject to shareholder approval of profit sharing payments.

Current activity

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

As a result of the necessary adjustment to business developments and volumes, as at 31 December 2015, CTT headcount (permanent staff and employees on fixed-term contracts) consisted of 12,057 employees, 63 (-0.5%) less than in 2014. This reduction, when measured as a full time equivalent, was -61 (-0.5%).

CTT Headcount

	31.12.2015	31.12.2014	Δ 2015/2014	
Mail	9,651	9,717	-66	-0.7%
Mail & Business Solutions	6,974	7,042	-68	-1.0%
Retail Network	2,677	2,675	2	0.1%
Express & Parcels	1,074	1,205	-131	-10.9%
Financial Services	102	101	1	1.0%
Banco CTT	65	0	65	-
Other	1,165	1,097	68	6.2%
Total, of which:	12,057	12,120	-63	-0.5%
Permanent	11,365	11,527	-162	-1.4%
Fixed-term contracts	692	593	99	16.7%
Total in Portugal	11,600	11,550	50	0.4%

The number of employees includes 6,603 employees in the areas of operations and mail delivery (including 4,944 postmen/postwomen) and 2,677 employees in the Retail Network.

In 2015, 168 employees were hired (100 in Portugal and 68 abroad), while 18 employees on loan to the joint venture companies TI-POST and Postal Network and 3 on a public interest secondment returned, while 351 left the company. Of these, 86 employees retired, 272 terminated their contracts or were on unpaid leave and 16 deceased.

In addition, employees limited in their ability to perform their duties were re-assessed in order to achieve better placement and to invest in mobility among the various CTT companies and businesses, thereby promoting, insofar as possible, the insourcing of operational activities. In this regard, the integration process of the distribution networks will reflect a better and more efficient use of resources.

Development of human capital and resource optimisation

In the framework of the development of the business units and the enhancement of the human capital needed for the growth of CTT, the Company's staff was **rejuvenated** by recruiting new staff with added knowledge and skills.

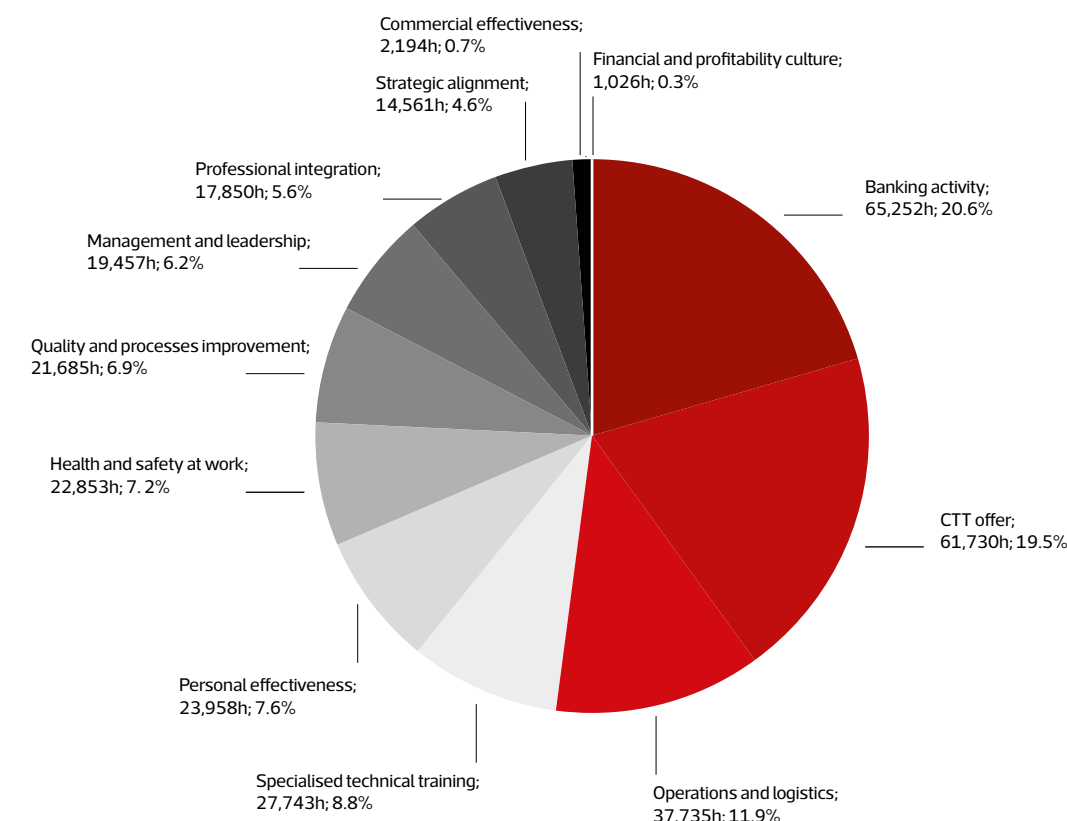
To strengthen the CTT value proposition as an employer, the **CTT Employer Brand** was designed and the **Trainee Programme** was launched with a view to attract and retain young people of high-potential, promote their development within a structured

overall programme, contribute to the rejuvenation of staff, foster a mobility culture, tailor a pipeline of leaders in the medium term and position CTT as an **"employer of first choice"**. During the 1st semester, the programme was structured and the 15 candidates were selected in several stages for the first programme that started in September of 2015 and will run for 18 months with rotation through three company departments.

The **annual performance assessment** process regarding the 2014 financial year was conducted during the 1st half of 2015. Simultaneously, a new performance management system was developed and implemented in all CTT companies, aiming at aligning the employees with the strategy and business development of the Company, as well as recognising the merit and the results achieved. It is based on the definition of targets and expected behaviours, which are a reference for the assessment at the end of the management cycle. In accordance with this new model, targets were defined and KPIs agreed for 2015 for the various functions and Company units, and all of those were communicated to the employees. Performance assessment for the 2015 financial year will take place in 2016 once the year's results have been assessed.

There was a strong investment in **training** in 2015, the goal of which was the acquisition and reinforcement of skills geared toward (i) the satisfaction of set targets and a response to rising challenges, (ii) professional and personal enrichment, (iii) employee motivation, involvement and deeper commitment to the company, its culture and its values.

Training Volume per Programme (316 thousand hours)



Among the strategically relevant programmes, those associated with the network optimisation, the Citizen's Bureau Areas and Banco CTT are to be highlighted.

On 9 February 2015 and with effect from December 2014, a **new Company Agreement (CA)**, valid for the next two years, and a revised **Regulation of the Social Works (RSW)**, the internal healthcare and social protection system of CTT, were signed with the workers' collective representation structures – Workers' Committee and Trade Unions.

This new CA strengthens a labour framework adapted to the specific nature of the Company's business, promoting greater flexibility and mobility, a good social climate and stable collective working relations, all of which are fundamental for CTT in order to face the current and future challenges. For that purpose, the new CA provides for greater alignment with general labour laws, the discontinuing of some specific allowances, the harmonisation of working hours across the Company and, for the first time in five years, a 2% increase in fixed salaries in CTT and 1.25% in the subsidiaries, with minimum and maximum limits.

The revised RSW of CTT maintains a high protection level, with better balance of the share of payments to be borne by the Company and the beneficiaries, while promoting the better use of benefits. Accordingly, the fees that the beneficiaries pay to the system were increased by raising the monthly contributions and co-payments in routine medical visits, while the all-encompassing feature of the system was maintained and some social support measures were strengthened.

As of 1 January 2015, besides the above-mentioned revision of the RSW, CTT's Healthcare Plan, which was until then managed by PT-ACS, was transferred to Médis following a tender process addressed to four relevant entities. The transition to Médis ensures continuity of the healthcare system for employees in a similar manner as that of the previous supplier and will allow for a reduction of current costs with the Healthcare Plan management and medical services.

In December 2015, a new benefit which supplements the RSW was introduced. This benefit stipulates a 50% contribution to user charges in the National Healthcare System for employees wishing to join. Thereby, the universe of providers covered is expanded and there is a wider offer throughout the country.

We are more trust

It takes courage to commit ourselves to trust.
We have printed this courage in our DNA.
We are proud to be a trusted brand and the Portuguese know it.
We have the strength and conviction to demand only the best of us.
Our legacy is our flag.
Today have firmly come our way at a gallop, while looking safely onto
the future horizon.



05

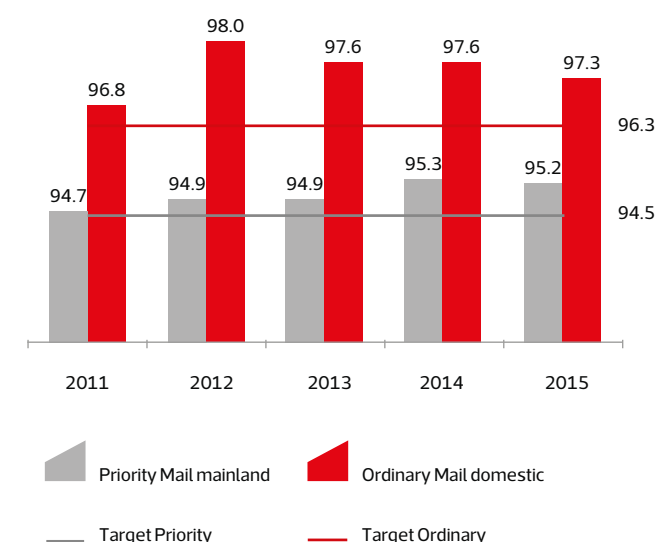
Quality, Innovation and Sustainability in CTT

5.1. Quality of Service

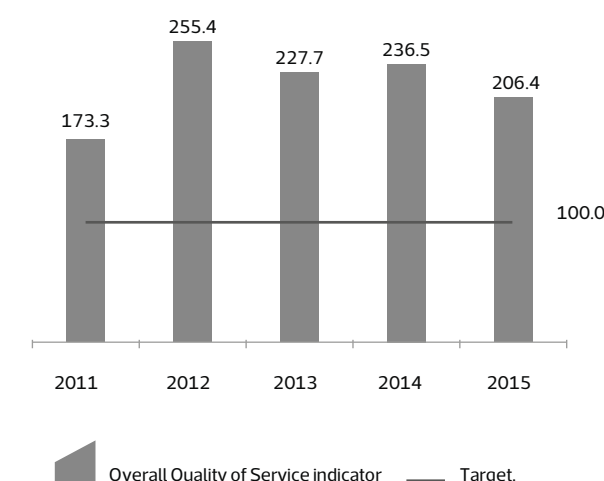
In 2015, CTT continued to achieve high quality of service levels, with the OQSI – Overall Quality of Service Indicator – registering 206.4 points, compared to a target of 100.

In international mail, the quality of service targets set out by the EU Postal Directive for the postal sector were exceeded in the Portuguese case.

Quality Indicators Domestic Mail



Overall Quality of Service Indicator



In 2015, all agreed variables performed above the set targets:

Quality levels	Minimum	Target	Score
Priority Mail			
% Delivered on the following day (Mainland)	93.50	94.50	95.20
% Delivered within two days (Azores and Madeira)	84.00	87.00	90.50
% Delivered within ten days	99.75	99.85	99.91
Ordinary Mail			
% Delivered within three days	95.50	96.30	97.30
% Delivered within fifteen days	99.77	99.86	99.90
Newspapers and Periodicals			
% Delivered within three days	95.50	96.30	97.90
International Mail			
% Delivered within three days	85.00	88.00	89.50 ⁽¹⁾
% Delivered within five days	95.00	97.00	97.40 ⁽¹⁾
Parcels			
% Delivered within three days	90.50	92.00	92.80
Waiting time at post offices			
% Customers assisted within 10 minutes	75.00	85.00	92.60

⁽¹⁾ Weighted average of 4Q14 and 9M15.

Customer perception regarding CTT Quality of Service reflects the good performance achieved: 85.7% of the customers state that CTT overall quality of service is good or very good (source: customer satisfaction surveys).

In the context of the process of certification of customer counter service, two “Mystery Client” studies were conducted, where the main objective was to measure the quality of service perceived by the customers. In the first study, carried out from March to April, 622 post offices were assessed with the global outcome of 99.6% favourable feedback; in the second study, carried out from July to August, 621 post offices were assessed and the outcome was 99.7% favourable feedback.

In 2015, efforts continued in order to maintain management systems certified.

In the first half of 2015, a new Committed to Excellence recognition was attained under the European Excellence Model of EFQM (European Foundation for Quality Management), now covering the whole CTT operational network: Retail Network, postal delivery offices and production and logistics centres. This methodology has undoubtedly contributed to acknowledged operational improvements since the first application (1st project in 2006) and its increasingly comprehensive operational coverage. CTT was the first European postal operator to have achieved this recognition in this context.

The service certification process was maintained in all post offices and postal delivery offices and in 100 postal agencies, the latter under a project that will be extended in the year of 2016.

With regard to quality, CTT is developing various initiatives in order to be able to implement, in 2016, the new quality measurement criteria set out in the Postal Law and by the regulator. These initiatives will entail new measurement criteria and a quality measurement system by a qualified external entity. As previously mentioned, an external entity will be selected to measure the quality of service levels that, given the specificities of the business and of the quality measurement criteria, required a pre-qualified international tender.

Contact Centre

Telephone calls (62%) and electronic mail/emails (38%) to the Contact Centre were the communication methods most used by clients when contacting the Company, with a rise in the latter relative to the former.

In 2015, there were 1,160,143 answered telephone calls, which represents a decrease of 7% relative to 2014. This decrease reflects client preference for free communication methods (email and self-service tools).

As regards email, 721,012 contacts were received by the contact centre, which represents a year-on-year increase of 20% in this communication channel. Growth is associated with the client’s need to obtain various forms of proof or various digitalised documents, namely for customs clearance of items, toll collection and ViaCTT activation.

CTT App

The CTT application (CTT App) for smartphones facilitates customer contact with CTT’s offer of postal and other services. It allows users to locate the closest point of access, search and pay tolls through the vehicle’s license plate and monitor the delivery of parcels, all in a simple and intuitive format. In 2015 accesses to the CTT App totalled 20.1 million, a monthly average of 1.7 million.

5.2. Innovation and development

CTT’s mission and values set innovation as, respectively, a guarantee for the accomplishment of that mission – today and in the future – and as a focus on continuously exploring new ideas, processes and solutions that contribute to that same future.

Thus, in the context of I&D, the highlights of 2015 are:

Development of solutions, products and services

- Growth of the parcel business, by introducing innovative technological upgrades for parcel sorting and the creation of a knowledge management system to be used in breakdowns (which will mitigate external intervention). Worthy of note as regards e-commerce (referenced in section 2.3 Express & Parcels) and as a lever for this business is the conclusion of an Iberian market survey, the design and implementation of the Pick-Up & Drop-Off solution, the definition of a new CTT Espresso modular offer geared towards e-commerce, the availability of the “Click & Ship” service, the availability of the “Easy Send” solution for delivering customers of the website olx.pt and the forging of (national and international) partnerships, specifically the partnership with SingPost in December.
- Reinforcement of the Mail business, by designing solutions and/or pursuing developments that, in particular, seek to reinforce the offer and features of several products, such as the offer of ViaCTT services (by self-adherence and the ability to digitally upload documents for later physical delivery), of geographic solutions (web services to access various types of information, auto-completion of addresses and the Agency for Administrative Modernisation (AMA – Agência para a Modernização Administrativa) geoportal to assist in determining the postcode regarding the national identification card) and of advertising mail (a web solution for self-service campaigns). The company Escrita Inteligente was acquired

and, with that, its online invoice business, which enables the electronic delivery of invoices in retail stores, became part of CTT’s portfolio.

- Optimisation of the operational part of the Mail business, through the acquisition of automated postal equipment for sorting non-standard items (Restmail), the carrying out of various initiatives (studies/acquisition of specific equipment) to make the separation of volumes more efficient and uniform in all production and logistic centres (PLC) and to better equip postal delivery offices through the acquisition of Personal Data Terminals to support the delivery of Express & Parcels items and the introduction of mail locating features, if the customer so chooses. The acquisition of new electrical vehicles for urban delivery, thereby allowing the more efficient and socially responsible use of vehicles, thereby substantially reducing pollution levels.
- Expansion of the convenience of the CTT app and making a new option available on the CTT website to research postal agencies and their respective services.
- Availability through PayShop of: (i) a new contactless electronic ticket office for the Urban Transport of Braga [Transportes Urbanos de Braga (TUB)], which joins Lisbon, Porto and Funchal in offering this service; and (ii) a tax payment solution available in the entire network of agents.

Corporate initiatives

- Definition, approval and implementation of a new CTT I&DMS – Innovation & Development Management System – in relation to which various activities have already started, namely:
 - Implementation of a web platform for Idea Management of CTT employees, which will become operational at the beginning of 2016.
 - Creation and operation of an Observatory that accompanies activities of various start-up incubators in order to identify opportunities aligned with CTT’s goals and strategies and that has already enabled the selection of some initiatives currently under analysis.
 - Monitoring, together with various Company departments, the respective climate of innovation, in order to explore areas in which it may be advisable to complement CTT’s existing offer and/or design innovative solutions.

- Holding CTT’s Innovation Day (22 June), an event where essential I&DMS characteristics were shared and other postal innovation experiences reflected upon. This event is intended to take place regularly in order to enrich the climate of innovation in the Company.
- Signing of a protocol with INDEG/ISCETE in order to foster collaboration with this Institute under the Executive Masters in Management with the Specialisation in Innovation Management, whose first edition will take place from September 2015 to June 2016.
- Organisation of the PostEurop AESForum 2015, chaired by CTT and that took place in November, in the innovation centre of Deutsche Post DHL (Bonn, Germany), this year under the theme of innovation.
- Production of the new Postal 360 (monthly) newsletter for internal circulation with information on:
 - the latest technological advances in strictly postal technologies or other ICT which, by influencing the postal activity, may constitute opportunities for new solutions and business for CTT.
 - the main merger & acquisition events for postal/logistic/delivery companies, in the entire world, the monitoring of which is of interest to CTT.

5.3. Sustainability

Near to its close, this year was marked by the opening of Banco CTT. It was CTT’s first year as a completely private company and it continued to provide an excellent public service and create value for the shareholders.

Company and Employees

At the beginning of the year, a new Company Agreement, valid for the next two years, and a revised Regulation of the Social Works, CTT’s internal healthcare plan, were signed. The Regulation maintained a high level of protection in illness, mainly serious illness, and maintained benefits, despite increasing employee contributions for services used (via fees and higher co-payments). In this regard, it is important to note that both were achieved through negotiation between the company and the Employee Unions and Workers’ Committee, which was conducted responsibly by both parties.

Also internally, the Code of Ethics was amended and a Code of Conduct for CTT and its Subsidiaries was created. CTT continued implementing its sustainability policy and the revision of the strategy of involvement with Interested Parties has started.

Training provided was 20% higher than the past year, with more than 316 thousand hours. A pioneer system for the assessment and recognition of eco-efficiency performance of drivers was put in place, including road safety, fuel consumption and relationships with clients. In this regard, there were 905 work related accidents (none mortal), 5% less than in 2014. The level of absenteeism was at 6.04% (-0.6 p.p. relative to 2014).

As regards gender equality, CTT accepted the goal of the Portuguese Government to have at least having 30% of women on the Board of Directors by 2018. In this same area, CTT signed the protocol to join the Break Even project, in order to draft CTT's Equality Plan.

Society and the environment

Several social and environmental interventions were supported in the amount of 908 thousand euros (CAIS, *Associação Salvador*, Lisbon and Portugal Half Marathons, Sporting Event for the Disabled in Wheelchairs, the Portuguese Association against Leukaemia (*Associação Portuguesa contra a Leucemia*), the Women's Race, *Pirilampo Mágico*, *Pé N'A Terra*, *Comunidade Vida e Paz*, *Refúgio Aboim Ascensão*, Zoo and Green Day, among others). Eleven programmes to collect goods were promoted (Fight Against Poverty Project, *Banco do Bebê*, Food Bank, *Movimento Reutilizar* and *Helpo*), and over 15,000 solidarity packages were freely distributed to 92 private social solidarity institutions.

More than 140 CTT volunteers and their relatives contributed a total of 1,000 hours to 15 activities with reference partners: Portuguese Foundation for Cardiology (*Fundação Portuguesa de Cardiologia*), the Food Bank (*Banco Alimentar Contra a Fome*), Corporates for Social Inclusion (*EPIS - Empresários pela Inclusão Social*), the Nature and Forest Conservation Institute (*Instituto Conservação da Natureza e das Florestas*), Quercus and Bio-diversity4All. Guest children and children of employees were accompanied to the Porto and Lisbon Christmas Parties. Under the partnership with EPIS, career-oriented sessions over three days were organised at CTT's premises for 9 EPIS youths and 10 CTT mentors continued to give regular support for the second year running to ten students facing academic challenges, with the back-up tutoring of 8 more trainee volunteers.

As regards climate change, CTT was the first company in the global postal sector to adhere to the Road to Paris 2015 programme, in preparation of the COP 21 (Conference of Parties – Conference on climate change), promoted by the United Nations. 45% of the light commercial fleet of CTT S.A. was renewed through the acquisition of 604 new vehicles. This was nonetheless insufficient to avoid a 6.0% increase in fuel consumption, mainly due to the insourcing of outsourced routes. Therefore, despite the slight decline in electricity consumption of 0.4%, CO2 emissions grew 4.3%. In terms of carbon management, CTT was considered a sector benchmark

in three of the criteria assessed under the EMMS programme, of the IPC and attained 2nd place in performance in its sector, on a global level, with its carbon rating in the Carbon Disclosure Project.

For the second year running, CTT got behind the “A tree for the forest” campaign in partnership with Quercus. This campaign aims to forest critical areas in the country with more fire-resistant trees. This project has enabled 6 thousand trees to be planted to date and was awarded the most important national environmental accolade in 2015 (Green Project Awards).

New proximity channels with citizens have been inaugurated, namely, the “CTT Sphere” page on Facebook, with one million followers. Through this page, the Portuguese were able to participate in the selection of the carbon compensation scheme for the transport and delivery of Green Mail, an example of participatory citizenship, which was the first ever in Portugal.

Given its focus on sustainable mobility, CTT was again part of European Mobility Week and “Bike to Work Day”, with the participation of more than 200 CTT employees. In December, an internal car-pooling programme was carried out with over 400 shows of interest in car sharing. CTT's mobility programme was “Highly Commended” by the most prestigious international award in the sector, the World Mail Awards.

The Ecological portfolio showed its best performance ever, supported by the “Environmentally Trusted Brand” award, from SDR, with year-on-year volume growth of 8.0% in “Green Mail” and 51.3% in DM Eco. Nearly one third of 80.2 million addressed advertising mail delivered by CTT in 2015 was from the Eco line.

Customers and consumers

Quality attained 206.4 points, relative to the 100-point goal set with the Regulator and 85.7% of customers claimed to be satisfied or very satisfied with the services rendered by CTT. The weight of ecological purchases was the highest ever, 99.2% of the total.

In 2015, 115,944 customer inquiries and claims regarding marketed services and products were received, a 25% reduction compared to the previous year. During 2015 117.461 replies were processed for inquiries and claims. The domestic service represented 38% of the total while the international service accounted for 54% and financial services for 8%.

As mentioned above, two “Mystery Client” surveys were held in 2015 with the main goal of measuring the quality of service perceived by the customer. In the first survey, held in March and April, 622 post offices were assessed with an overall result of 99.6% favourable opinions; the second survey, held in July and August, covered 621 post offices and an overall result of 99.7% favourable opinions were obtained. Several variables were

assessed, including the way the customer is served, the aspect of our employees, their knowledge on the products, the information available and the aspect of the area.

Additionally, in order to obtain in-depth knowledge and improve satisfaction with the services provided, CTT carries out on a regular basis several surveys and questionnaires to its customers of both the Individual Segment (customers going to CTT post offices) and the Business Segment (Contractual Customers).

Individual Customers

The survey conducted by IMR – Institute of Marketing Research in March 2015 on the individual customers' expectations, those who go to the CTT post offices concludes that the most important factors for those customers are the proximity of the post offices, the swiftness of the service and the post office opening hours.

Business Customers

The analysis of this market segment reflects the results of the Customer Satisfaction Surveys addressed to our customers, broken down as Large Customers, Business Customers and CTT Expresso Customers.

- Large Customers (conducted by Pitagórica, in January 2015) obtained an Overall Satisfaction Average of 7.60 (scale of 1 to 10, where 1 – Not Satisfied at All and 10 – Very Satisfied).

The attributes with the highest Satisfaction levels were:

	Average
Expertise/professionalism of the Customer Manager	8.72
Availability of/ease of access to the Customer Manager	8.56
Commitment and problem solving/feedback	8.48

Base: 62 companies.

- Business Customers (conducted by Spirituc, in December 2015) obtained an Overall Satisfaction Average of 7.62 (scale of 1 to 10, where 1 – Not Satisfied at All and 10 – Very Satisfied).

The attributes with the highest Satisfaction levels were:

	Average
Availability of/ease of access to the Customer Manager	9.17
Expertise/professionalism of the Customer Manager	9.04
Commitment and problem solving/feedback	9.01

Base: 160 companies.

- CTT Expresso Customers (conducted by IMR, in December 2015) obtained an Overall Satisfaction Average of 4.04 (scale of 1 to 5, where 1 – Not Satisfied at All and 5 – Very Satisfied).

The attributes with the highest Satisfaction levels were:

	Average
Trust in and Credibility of the company	4.51
Geographical Coverage	4.51
Compliance with deadlines	4.25

Base: 402 companies.

Shareholders and investors

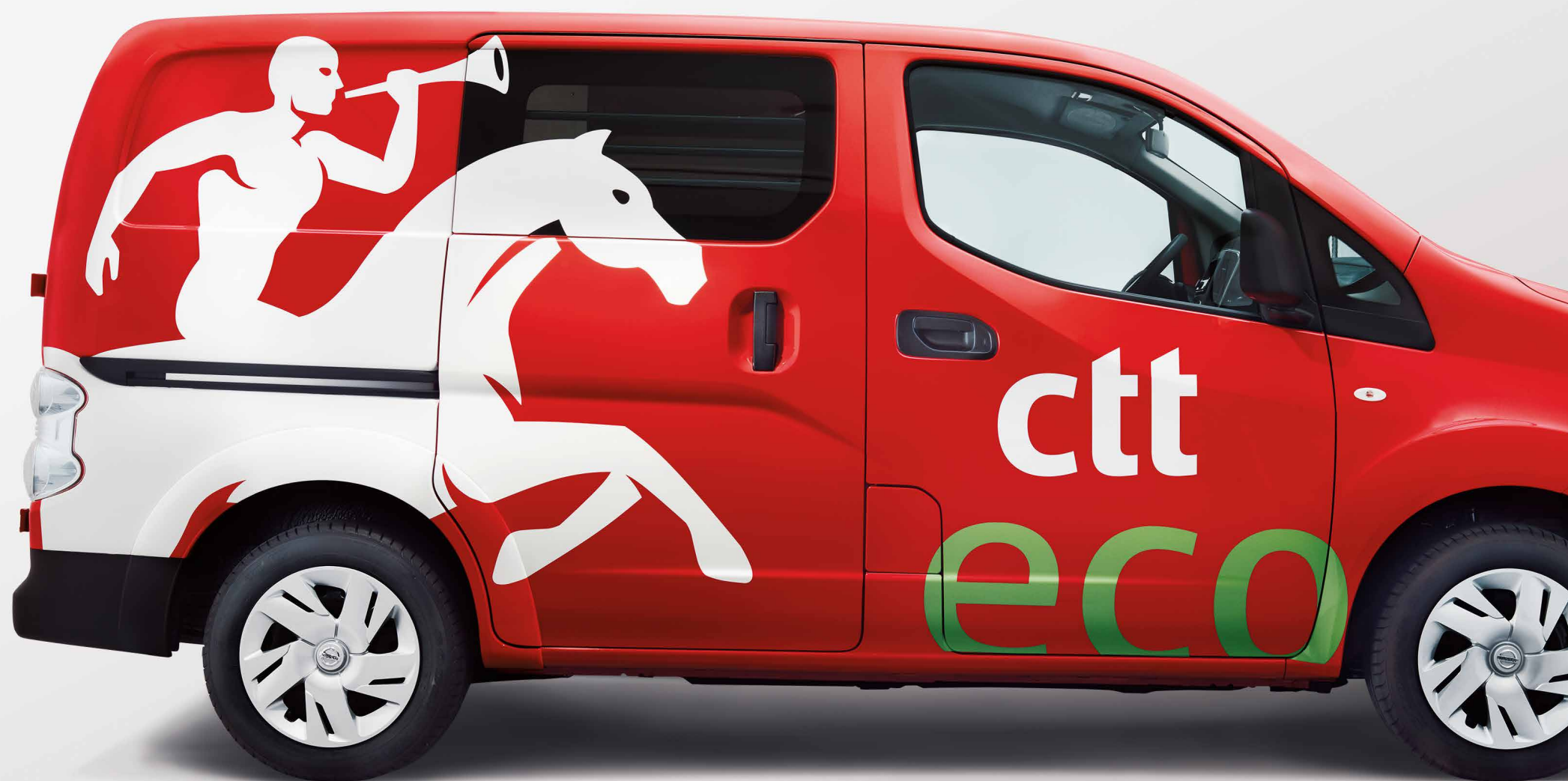
During the year, CTT spent 21.5 days in external meetings with investors, 11.5 of which in 11 conferences (organised by 9 different brokers in 6 different cities) and 10 days in 11 roadshows (organised by 8 different brokers in 12 different cities). The Chairman and CEO of the Company spent 6.5 days abroad on activities involving Investor Relations and the CFO spent 15.5 days on similar activities. Over the course of the year, the Company met with 370 investors.

On 19 November 2015, CTT held its inaugural Capital Markets Day with the aim of presenting its 3rd quarter results and an update on its strategy, focused mainly on Banco CTT. Close to 80 participants from 16 investors, 17 brokers and other entities within the capital markets took part in the event, which also included site visits to a CTT post office and the Lisbon sorting centre.

As at 31 December 2015, coverage of CTT's shares was provided by 15 research analysts (12 at the end of 2014) from 5 Portuguese brokers (Caixa BI, BPI, Haitong, Intermoney and Banco BIG), 5 from North America (JP Morgan, Morgan Stanley, Goldman Sachs, Jefferies and Royal Bank of Canada), 2 from Spain (BBVA and Fidentis), 1 from Germany (MainFirst), 1 from the United Kingdom (Barclays) and 1 from South Africa (Investec). The coverage of Berenberg is currently suspended due to changes in their research team.

We are more sustainable

The world belongs to all of us, now and forever.
This is an inexhaustible and eternally renewable idea.
We know that what we do today has a reflection tomorrow,
that's why we ponder, evaluate and act sustainably.
We do not want to leave to future generations a planet
with no future.
It no longer makes sense otherwise.
We are a responsible brand at the service of noble causes.



06

Subsequent Events and Future Perspectives

Subsequent events

Opening of Banco CTT

The opening of Banco CTT to the general public will take place on 18 March 2016 in 52 CTT post offices, thereby ensuring the Bank's presence in every district in the country, including the islands. The Bank's activities in these post offices will be carried out under two distinct models: specified areas, in almost all of these first post offices and specified counters. This enables the clear identification/communication of the Bank's presence and fosters the launch of its banking activity. As a natural evolution of the Financial Services segment, the bank will become operative in the CTT post offices that show greatest potential for this business unit.

Postal service price update

CTT – Correios de Portugal, S.A. ("CTT") updated its prices effective 1 February 2016. This update will correspond to an annual average price variation of the basket of letter mail services, editorial mail and parcels of 1.3% (excluding the universal service offer to senders of bulk mail, which benefits from special prices). The new prices were set in compliance with the Price Setting Criteria for the Universal Postal Service established by the National Communications Authority (ANACOM), under article 14(3) of Law no. 17/2012, of 26 April, as per Decree-Law no. 160/2013, of 19 November.

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

Under the 2016 price policy, CTT, as a universal service provider, will give access to the universal service network to other operators, as set out in article 38 of the Postal Law (Law no. 17/2012, of 26 April).

Adequacy of the Express & Parcels' corporate structure

As a result of the outcome analysis of the Tourline restructuring currently underway and the decision to integrate the Express & Parcels network in the mail distribution network, an analysis was undertaken to arrive at the best corporate structure to achieve the proposed strategic goals.

The strategy of operations integration at an Iberian level proved to be difficult to apply due to the different operational models and was replaced by the network integration in Portugal due to the clear synergies and economies of scale. In this context, the Board of Directors approved, on 15 March 2016, the acquisition of Tourline by CTT from CTT Expresso. This transaction will not have any impact in CTT's consolidated financial statements.

Future perspectives

The more favourable macroeconomic environment, as well as the Transformation Programme initiatives implemented between 2013 and 2015, allow CTT to face 2016 with strong expectations of implementing the defined strategy.

Expected GDP growth in Portugal will continue to be strongly influenced by increasing exports and by investment, along with an acceleration in private consumption, the main consumption driver for CTT's products and services, particularly in the Mail business. Within this context, the decline in the demand for mail will continue to be affected not only by the structural trend for electronic replacement, but also by macroeconomic factors. Notwithstanding, this decline will remain in line with the natural long-term trend and may vary depending on internal consumption and investment behaviour.

Growth in e-commerce will continue to be the main driver in growth of the parcels business for the B2C segment (business-to-consumer), while domestic economic activity fosters growth of the parcels market for the B2B (business-to-business), both in Portugal and Spain. Growing migration of Iberian retailers to online sales platforms and a change in consumer habits is expected and e-commerce arising from local retailers is expected to gain importance, as is the case in Northern Europe. In this regard, CTT is carrying out several initiatives in order to preserve the lead in the offer of logistics solutions in this market, including (i) a modular offer in the parcels business tailored to this segment with various levels of service, features and flexibility, (ii) the integration and current optimisation of delivery networks in Portugal and also Spain, thereby increasing competitiveness in the offer targeting this market, where capillarity and convenience are key factors and (iii) the development of a new technological platform that supports this type of flexible modular offer.

Regarding Financial Services, 2016 will be a year of consolidation of CTT's relevant positioning as a significant player in the placement of savings products, in addition to launching new products and services, specifically focused on Banco CTT's offer of banking services. CTT's Financial Services business will focus on corporate customers while Banco CTT will focus on retail customers, thereby covering the entire market with financial solutions leveraged on CTT's skills and unique assets. As regards the PayShop, initiatives will be carried out to maximise its competitive advantages in this market: (i) the vast portfolio of clients that encompasses almost all service providers, with a wider offer that also covers digital channels and (ii) the network of nearly 4,000 agents located throughout the country that introduce new services to its users.

Banco CTT expects to open to the general public on 18 March 2016, with the opening of 52 CTT post offices offering a simple portfolio leveraged on CTT's robust solidity and the trust it has earned from the public. The simple offer will be limited at first and will evolve as the Bank's activities progress, thereby enabling its prudent development, which will be heavily leveraged on CTT's experience in financial services and on partnerships with market operators. This will allow an important flux of fee income (with minimal capital requirements). Given that the offer will only be complete at the end of the year with the offer of mortgage loans, the main goal in this first year will be to rapidly gain clients with the opening of deposit accounts (current or savings), which will be an important source of income.

The Company aims to grow its revenues moderately and sustainably. This objective is based on the expectation that the growing businesses (Financial Services and Express & Parcels) will offset the expected decline in Mail revenues, as a result of a volume decline not fully mitigated by price increases.

Balance sheet optimisation measures will continue, such as the working capital optimisation and the optimisation/use of vacant buildings. CTT will continue to manage employee benefits, so as to monetise the associated tax assets.

We are more future

We have the best in the world within us: Our people.
Dedicated professionals who are proud to wear the
company's shirt and are the pride of the company's brand
they have on their chest.
We have everything to shine brighter and brighter.
We have the future in our hands.
Together we are more CTT.
Together we are the future.



07

Proposal for the Appropriation of Results

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

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

Under the terms of article 295(1), of the Commercial Companies Code, a minimum of 5% is intended for the constitution of the legal reserve and, if necessary, its reintegration until this reserve reaches 20% of the share capital.

As the share capital is 75,000,000.00 Euros, 20% corresponds to 15,000,000.00 Euros; hence, the legal reserve as at 31 December 2015 exceeds the minimum amount required according to the Articles of Association and the Commercial Companies Code.

Under the terms of article 294(1), of the Commercial Companies Code, half of the distributable profit must be distributed to the shareholders, unless otherwise established in the Articles of Association or by a deliberation of a General Meeting called for this purpose, in which case 3/4 of shareholder votes are required.

No clause in the Articles of Association establishes any terms that might oppose the provisions included in the aforementioned code.

Distributable profit corresponds to the net profit for the year after constitution or reinforcement of the legal reserve and coverage of retained losses, if applicable. As at 31 December 2015, the legal reserve is fully constituted and retained earnings are positive.

For the financial year ended 31 December 2015, the net profit in the corporate accounts amounted to 72,065,283.00 Euros.

Given the accounting rules in force, the aforementioned net profit already includes an amount of 9,148,500.00 Euros regarding profit sharing with CTT employees and Executive Directors.

Under the terms of said article 23 of the Articles of Association of the Company, a variable remuneration may be added to the Executive Directors’ fixed remuneration, which may consist of a percentage of the Company’s consolidated profit. In such case, the overall percentage of that profit allocated to the variable remuneration may not exceed, every year, an amount corresponding to 5% of the consolidated profit for the financial year.

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

- the net profit for the 2015 financial year, totalling 72,065,283.00 Euros as per the corporate financial statements, is appropriated as follows:

Dividends* € 70,500,000.00

To Retained Earnings € 1,565,283.00

* distribution of € 70,500,000.00 of dividends corresponds to € 0.47 per share.

- the attribution of a maximum amount of 9,148,500.00 Euros (already considered in the corporate financial statements) to CTT employees and Executive Directors as profit sharing, under the terms laid down by the competent bodies.

We are more strength

Our foundations are strong and deep.

Our structure is based on unshakable values – these are the pillars that support the CTT brand: Proximity, reliability, trust, modernity, convenience, simplicity.

This is our valued heritage that we preserve above all.

These are the ideals that make us stronger and stronger.

It is where our essence is, under this common roof that defines us.

Tomorrow we will strengthen the will we are building today.



08

Declaration of Conformity

DECLARATION OF CONFORMITY

For the purposes of article 245(1)(c) of the Portuguese Securities Code, the members of the Board of Directors and the members of the Audit Committee of CTT - Correios de Portugal, S.A. ("CTT") hereby declare that, to their best knowledge, the 2015 consolidated and corporate accounts, the legal certification of accounts and other financial statements i) were prepared in compliance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial position and the results of CTT and of the companies included in the consolidation perimeter; ii) faithfully describe the business evolution, the performance and position of CTT and of the companies included in the consolidation perimeter; and iii) contain a description of the major risks faced by CTT in its activity.

Lisbon, 15 March 2016

The Board of Directors

Francisco José Queiroz de Barros de Lacerda

Chairman & CEO

António Sarmiento Gomes Mota

Vice-Chairman of the Board of Directors and Chairman of the Audit Committee

Manuel Cabral de Abreu Castelo-Branco

Vice-Chairman of the Board of Directors and Member of the Executive Committee

André Manuel Pereira Gorjão de Andrade Costa

Member of the Board of Directors and of the Executive Committee

Dionízia Maria Ribeiro Farinha Ferreira

Member of the Board of Directors and of the Executive Committee

Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

Member of the Board of Directors and of the Executive Committee

António Manuel de Carvalho Ferreira Vitorino

Member of the Board of Directors

Nuno de Carvalho Fernandes Thomaz

Member of the Board of Directors and of the Audit Committee

Diogo José Paredes Leite de Campos

Member of the Board of Directors and of the Audit Committee

Rui Miguel de Oliveira Horta e Costa

Member of the Board of Directors

José Manuel Baptista Fino

Member of the Board of Directors

Part III

Audit Report and Report of the Supervisory Body

AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTERED AUDITOR)

(This report is a free translation to English from the original Portuguese version
In case of doubt or misinterpretation the Portuguese version will prevail)

INTRODUCTION

- 1 In accordance with the applicable legislation, we present our Auditors' Report on the consolidated financial information included in the Management report and in the accompanying consolidated financial statements of **CTT – Correios de Portugal, S.A.**, which comprise the consolidated statement of financial position as at 31 December 2015 (showing total assets of 1,119,472,208 Euros and shareholders' equity of CTT of 251,834,754 Euros, including non-controlling interests of 175,322 Euros and a net profit for the year attributable to equity holders of CTT of 72,065,283 Euros), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the corresponding notes.

RESPONSIBILITIES

- 2 The Board of Directors is responsible for:
 - a) the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") that present fairly the consolidated financial position of the group of companies included in the consolidation, the consolidated results of its operations, the consolidated comprehensive income, the consolidated changes in equity and the consolidated cash flows;
 - b) the historical financial information that is prepared in accordance with IFRS is complete, true, current, clear, objective and lawful as required by the Portuguese Securities Market Code ('CVM');
 - c) the adoption of adequate accounting policies and criteria;
 - d) the maintenance of an appropriate internal control system; and
 - e) the communication of any relevant fact that may have influenced the activity of the companies included in the consolidation, their financial position or results.
- 3 Our responsibility is to verify the consolidated financial information included in the documents referred to above, namely as to whether it is complete, true, current, clear, objective and lawful as required by the CVM in order to issue a professional and independent report based on our audit.

SCOPE

- 4 We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors (‘Ordem dos Revisores Oficiais de Contas’), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Accordingly our audit included:
- verification that the financial statements of the companies included in the consolidation have been properly audited and in those significant cases in which they were not, verification, on a sample basis, of the documents underlying the figures and disclosures contained therein, and an assessment of the estimates, based on judgments and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
 - verification of the consolidation procedures and of the application of the equity method;
 - evaluation of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
 - assessment of the applicability of the going concern principle;
 - assessment of the appropriateness of the overall presentation of the consolidated financial statements; and
 - assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.
- 5 Our audit also included the verification that the consolidated financial information included in the Management report is consistent with the financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of article 451, of the Portuguese Companies Code (‘‘Código das Sociedades Comerciais’’).
- 6 We believe that our audit provides a reasonable basis for our opinion.

OPINION

- 7 In our opinion, the referred consolidated financial statements present fairly, in all material respects, the consolidated financial position of **CTT – Correios de Portugal, S.A.**, as at 31 December 2015, the consolidated results of its operations, the consolidated comprehensive income, the consolidated changes in equity and the consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and the information contained therein is complete, true, current, clear, objective and lawful.

REPORT ON OTHER LEGAL REQUIREMENTS

- 8 It is also our opinion that the consolidated financial information included in the Management report is consistent with the consolidated financial statements and that the Corporate Governance Report includes the information required by article 245.º-A of the Portuguese Securities Market Code (‘CVM’).

Lisbon, 15 March 2016

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

AUDITORS' REPORT

(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTERED AUDITOR)

(This report is a free translation to English from the original Portuguese version
In case of doubt or misinterpretation the Portuguese version will prevail)

INTRODUCTION

- 1 In accordance with the applicable legislation, we present our Auditors' Report on the financial information included in the Management report and in the accompanying financial statements of **CTT – Correios de Portugal, S.A.**, which comprise the balance sheet as at 31 December 2015 (showing total assets of 1,080,837,822 Euros and shareholders' equity of 251,911,067 Euros, including a net profit of 72,065,283 Euros), the income statement, the statement of changes in equity and the statement of cash flows for the year then ended and the corresponding notes.

RESPONSIBILITIES

- 2 The Board of Directors is responsible for:
 - a) the preparation of the financial statements in accordance with generally accepted accounting principles in Portugal, that present fairly the financial position of the entity, the results of its operations, the changes in equity and the cash flows;
 - b) the historical financial information that is prepared in accordance with generally accepted accounting principles in Portugal is complete, true, current, clear, objective and lawful as required by the Portuguese Securities Market Code ('CVM');
 - c) the adoption of adequate accounting policies and criteria;
 - d) the maintenance of an appropriate internal control system; and
 - e) the communication of any relevant fact that may have influenced the activity of the company, its financial position or results.
- 3 Our responsibility is to verify the financial information included in the documents referred to above, namely as to whether it is complete, true, current, clear, objective and lawful as required by the CVM in order to issue a professional and independent report based on our audit.

SCOPE

- 4 We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ('Ordem dos Revisores Oficiais de Contas'), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. Accordingly, our audit included:
 - verification, on a sample basis, of the information underlying the figures and disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
 - evaluation of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
 - assessment of the applicability of the going concern principle;
 - assessment of the appropriateness of the overall presentation of the financial statements; and
 - assessment of whether the financial information is complete, true, current, clear, objective and lawful.
- 5 Our audit also included the verification that the financial information included in the Management report is consistent with the financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of article 451, of the Portuguese Companies Code ("Código das Sociedades Comerciais").
- 6 We believe that our audit provides a reasonable basis for our opinion.

OPINION

- 7 In our opinion, the referred financial statements present fairly, in all material respects, the financial position of **CTT – Correios de Portugal, S.A.**, as at 31 December 2015, the results of its operations, the changes in equity and the cash flows for the year then ended, in accordance with generally accepted accounting principles in Portugal, and the information contained therein is complete, true, current, clear, objective and lawful.

REPORT ON OTHER LEGAL REQUIREMENTS

- 8 It is also our opinion that the financial information included in the Management report is consistent with the financial statements and that the Corporate Governance Report includes the information required by article 245.º-A of the Portuguese Securities Market Code ('CVM').

Lisbon, 15 March 2016

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

AUDIT COMMITTEE

Report and Opinion on the 2015 Annual Report of Corporate and Consolidated Accounts

1. Introduction

In compliance with the provisions of Article 423-F, paragraph g) of the Commercial Companies Code, the Audit Committee (“AUC” or “Committee”) of CTT–Correios de Portugal, S.A. (“CTT” or “Company”) is hereby submitting its report on the supervisory activities and giving its opinion on the CTT 2015 Annual Report of Corporate and Consolidated Accounts as well as on the Proposal for the Application of Results for the financial year ended on 31 December 2015, both submitted by the Board of Directors.

2. Company Supervision

Within the framework of its duties as supervisory body of the business activity of CTT, the AUC has monitored CTT and its subsidiaries’ main business management and evolution aspects during the 2015 financial year, particularly by:

- Monitoring compliance with the law, the regulations and the articles of association;
- Verifying that the accounting policies and the valuation criteria adopted lead to a correct assessment of the assets and results of CTT;
- Supervising the quality and integrity of the information in the Financial Statements.
- Supervising the efficiency of the management systems and risk management, internal and audit control

The AUC’s supervisory activity was carried out namely through i) the participation of its members in the Board of Directors meetings, ii) the contacts with the Executive Committee, especially by attending the meetings of approval of accounts and reading the corresponding minutes, iii) the analysis of the operating and financial information provided, and also iv) other contacts deemed necessary and timely with Directors, especially the Chief Financial Officer, and other senior officers of the Company, particularly the Directors of Accounting & Treasury, Management Planning & Control and Audit & Quality.

The AUC met with the Statutory Auditor, who also acts as an External Auditor, to discuss the terms of their relationship and to monitor the issues raised during the work carried out throughout the 2015 financial year, as well as to analyse and assess their results.

With regard to the Statutory Auditor / External Auditor, the AUC: i) proposed to the CTT General Meeting of Shareholders held on 5 May 2015 the designation of KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A as Statutory Auditor of CTT for the three-year term of office of 2015/2017; ii) also carried out its duties, namely by analysing its activity, namely by reviewing its reports and monitoring its work of auditing and review of accounts and assessing its recommendations, and iii) appraised its independence and exemption.

Within this framework and with regard to the provision of additional services, the AUC analysed, appraised and gave its prior approval to the provision of services other than audit services or audit-related services rendered by the Statutory Auditor / External Auditor, which had a weight of 39% in the total amount of services contracted from it in this financial year. The 30% threshold was exceeded mainly due to: i) the quality and efficiency of the specific services provided by the Statutory Auditor / External Auditor, largely maximised by its knowledge of the subjects and to its experience and know-how of the history and the activity of the Company; ii) these advantages were particularly relevant as far as the accounting and tax procedures review for the creation of Banco CTT, given the tight timeline for the creation of this institution, fully held by CTT. On the other hand, the provision of such services was accompanied by adequately safeguarding the independence of the Statutory Auditor / External Auditor.

During the 2015 financial year, AUC paid particular attention the review of its Regulation as well as the regulation on the Provision of Services by the Statutory Auditor / External Auditor, which had amendments approved at the end of 2015, effective as of 1 January 2016 to make sure that these regulations were in accordance with the provisions of Law n.º 140/2015 of 7 September and Law n.º 148/2015 of 9 September regarding the new statutes of the Order of Statutory Auditors and the Legal Regime for Audit Supervision, respectively. At the end of the financial year of 2015, a proposal was also submitted to the Board of Directors to amend the Regulation for Appraisal and Control of Transactions with Related Parties and Prevention of Situations of Conflict of Interest, so that it might reflect a set of adjustments made to strengthen the respective implementation procedures in this field and clarify some of the respective concepts given the shareholder and company structure in force.

This Committee monitored the compliance with the Risk Management Policy and obtained from the respective department all the information needed, having checked the adequacy of the action taken to comply with the policies set by the Board of Directors.

The AUC also closely followed up the work of the Audit & Quality Department on internal audit and compliance issues by monitoring its annual activity plan for 2015, the conclusions of the reports on the work carried out, as well as the actions implemented by the Company as a result of the recommendations issued. The Committee monitored with special attention the preparation of the report on the prevention of money laundering and terrorism financing for the Bank of Portugal. The Committee gave a favourable opinion on the annual activity plan for 2016 and tried to ensure that the necessary resources for its continuation were available.

With reference to the period ended on 31 December 2015, AUC met with the Audit Committee of Banco CTT to analyse the topics with greater impact on the financial statements of CTT. It received and appraised the report and opinion on the Management Report and the Financial Statements of Banco CTT

With regard to accounting policies, the Audit Committee monitored the preparation of quarterly, half-yearly and annual financial information disclosed in accordance with legal provisions, focusing on the implementation of the accounting principles and standards in force, the definition of accounting policies, the elaboration of estimates, assessments and relevant disclosures.

The AUC gave its opinion on transactions between CTT and related parties that required the prior opinion of the Committee due to their relevance, and that were submitted to it by the Executive Committee.

The Audit Committee was not notified of any irregularities, communicated in any manner by shareholders, employees or other, as per CTT's internal whistleblowing regulations.

The AUC also ensured that the report on the 2015 Corporate Governance Report includes the data mentioned in article 245-A of the Portuguese Securities Code and in CMVM Regulation no. 4/2013, applicable to CTT.

In the course of its action, the AUC did not face any constraint or limitation worth noting.

3. Declaration of Conformity

Under the provisions of article 245, paragraph 1 of the Portuguese Securities Code, the members of the Audit Committee of CTT identified hereafter, in the framework of the duties they were assigned with, state that, to the best of their knowledge and based on the information they were provided with within the Audit Committee's scope, the information in the Management Report, the annual corporate and consolidated Statements of Accounts, the legal certification of corporate and consolidated accounts, and other Financial Statements required by law or regulation regarding the financial year ended on 31 December 2015:

- i. were prepared in accordance with the applicable accounting standards, giving a true and fair view of assets and liabilities, the financial situation and the results of CTT and the companies included in its consolidation perimeter; and
- ii. faithfully describes the business evolution, the performance and position of CTT and of the companies included in the consolidation perimeter and contains a description of the major risks and uncertainties they are faced with.

4. Opinion on the 2015 Annual Report of Corporate and Consolidated Accounts

The AUC has reviewed the Management Report and the Corporate and Consolidated Financial Statements for the financial year ended on 31 December 2015, including the Balance Sheet, the Income Statements by nature, the Statement of Comprehensive Income (within the Consolidated Financial Statements), the Statement of Changes in Equity and the Cash Flow Statement, as well as its annex, all of which deserve its approval.

The Corporate Financial Statements were made in accordance with the accounting principles generally accepted in Portugal (specifically SNC) and the Consolidated Financial Statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

The AUC appraised the terms of the Legal Certification of Accounts and of the Audit Reports on the Corporate and Consolidated Financial Statements approved by the Board of Directors and issued on 15 March 2016 by KPMG & Associados–Sociedade de Revisores Oficiais de Contas, S.A., which express their favourable opinion on said Financial Statements, with no limitations or qualifications.

Given this mentioned data and the action carried out, as well as in compliance with the provisions of article 420, paragraphs 5 and 6 of the Commercial Companies Code, applicable

by reference to the provisions of article 423-F, paragraph 2 of same Code, the Audit Committee's opinion is that:

- The CTT Management Report and the Corporate and Consolidated Financial Statements regarding the financial year ended on 31 December 2015, as well as the Proposal for the Appropriation of Results in the Management Report are in accordance with the applicable accounting and legal rules and the Articles of Association;
- The Corporate Governance Report of the financial year ended on 31 December 2015 includes the data mentioned in article 245-A of the Portuguese Securities Code.

Accordingly, the Audit Committee recommends that the General Meeting of CTT approves the CTT Annual Report with the corporate and consolidated accounts, as well as the Proposal for the Appropriation of Results for the financial year ended on 31 December 2015.

Lisbon, 15 March 2016

The Audit Committee of CTT – Correios de Portugal, S.A.

António Sarmiento Gomes Mota (Chairman)

Diogo José Paredes Leite de Campos (Member)

Nuno de Carvalho Fernandes Thomaz (Member)

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Market Relations Representative of CTT

André Gorjão Costa

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CTT – Correios de Portugal, S.A. – Public Company
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Lisbon commercial registry and legal person number 500 077 568
Share capital EUR 75,000,000.00

