

# 9. Reports

## Audit Report



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### STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Opinion

We have audited the accompanying consolidated financial statements of **CTT – Correios de Portugal, S.A.** (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 (showing a total of 1,768,814,462 euros and shareholders' equity of 146,752,583 euros, including non-controlling interests of 165,494 euros and a profit attributable to the shareholders of CTT of 19,621,263 euros), and the consolidated income statement by nature, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of **CTT – Correios de Portugal, S.A.** as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section below. We are independent of the entities that comprise the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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### Revenue recognition

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#### Risk

CTT is active in several business areas (Post, Express & Parcels, Financial services and Banking) and the policies for the recognition of revenue are different for each of the area, as mentioned in notes 2.22 and 39.

We considered the presumption present in the International Standards on Auditing of increased risk of fraud associated with revenue arising from pressure on management to achieve the estimated results.

#### Our response to identified risk

Our audit procedures included, among others, the following:

- Test the design and implementation of key controls related to revenue recognition;
  - Test the operating effectiveness of controls related with the revenue recognition process;
  - Tests of details to the transactions (on a sample basis) namely in relation to the timing of revenue recognition;
  - Substantive analytical procedures and tests of the journal entries in order to identify and test the risk of fraud and possible override of the implemented controls;
  - Assessment of the impacts of the new standard IFRS 15 – Revenue from contracts with customers; and
  - Evaluation of the adequacy of disclosures made by the Entity in relation to revenue recognition, taking into account the applicable accounting framework.
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## Employee benefits

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### Risk

The responsibilities with post-employment health benefits and other long-term benefits of employees and board members amount to 261,681,183 euros and involve a significant degree of judgment in the definition of long term assumptions, which might result in significant variances of the amounts booked in the financial statements as referred to in notes 2.19, 2.28 and 31.

### Our response to identified risk

Our audit procedures included, among others, the following:

- Evaluation of the reasonableness of assumptions and estimates used in the actuarial computation and the methodology for the computation of the responsibility;
  - Comparison of the information provided by management to the independent actuary for the computation of the responsibility;
  - Evaluation of the competence, independence and integrity of the actuary hired by management; and
  - Evaluation of the adequacy of disclosures made by the Entity in relation to employee benefits, including the sensitivity analyses, taking into account the applicable accounting framework.
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## Investment in Banco CTT (Bank)

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### Risk

As referred in note 1.2 the Bank started its activity at the end of 2015, and in 2018 continued the strategy for investment, increase of the number of branches and launch of new products.

The monitoring of the budget and business plan approved by the shareholder is relevant to the audit strategy, particularly the impact of market conditions and the consequent adjustments to the plan in the shareholder capital requirements and in the dividend distribution capacity.

### Our response to identified risk

Our audit procedures included, among others, the following:

- Analysis of the evolution of the activity of the Bank during 2018 and discussion with management of the future expectations, namely in relation to credit concession, forms of financing and expected profitability;
  - Analysis of the main assumptions of the impairment model of the Bank's assets and performance of sensitivity analyses of the main assumptions, namely *Cost of Equity* and Core Tier 1 requirements; and
  - Evaluation of the adequacy of disclosures made by the Group regarding the impairment test of Bank's assets.
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## Operational transformation plan

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### Risk

As referred in notes 32 and 44, CTT communicated to the markets an operational transformation plan with the objective of optimizing the growth and operational efficiency. The main impacts of the plan in the financial statements were:

- Recognition of indemnities costs of 21,318,586 euros (2017: 16,506,980 euros);
- Recognition of a 1,842,159 euros (2017: 1,729,651 euros) provision related to costs to incur with the closure of branches to optimize the existing net of branches;
- Decrease of the variable remuneration liability estimate.

### Our response to identified risk

Our audit procedures included, among others, the following:

- Challenge the assumptions supporting Management's estimates;
  - Evaluation of the remaining impacts of the operational transformation plan and challenging the underlying assumptions;
  - Discuss with Management the impact of the plan's measures, namely in the future plans used in the impairment tests; and
  - Evaluation of the adequacy of disclosures related to provisions recognition, as well as subsequent events after 31 December 2018, taking into account the accounting framework.
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## Credit concession

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### Risk

The Group started, through Banco CTT ("Bank"), conceding housing loans in March 2017.

This process was newly created by the bank, based on an IT workflow developed with an external partner.

Due to the recent integration of this process in the bank, defined objectives to the management and the relevance to bank activity, we classify this area as a key audit matter.

### Our response to identified risk

Our audit procedures included, among others, the following:

- Understanding the credit concession process, since the proposals reception until the final booking and associated disclosure, identifying the risks and related controls;
  - Analysis of the minutes of the Credit Committee, where the proposals with higher risk are discussed and the key guidelines for the credit concession process are defined;
  - Analysis of the integration of processes between the bank and the other partners, as well as between the operational and accounting systems;
  - Evaluation of the design and implementation of controls and testing of controls operating effectiveness related to the credit concession process and to the impairment model implemented by the bank to comply with the framework of IFRS 9;
  - External confirmation of a sample of exposures included in the loan portfolio;
  - Testing of interest of the period and accrued interest;
  - Testing of impairment calculated according to IFRS 9; and
  - Evaluation of disclosures made by the Group in accordance with the applicable accounting framework.
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### **Responsibilities of Management and the Supervisory Body for the Consolidated Financial Statements**

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and the cash flows, in accordance with the International Financial Reporting Standards as adopted by the European Union;
- the preparation of the management report and the corporate governance report in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and,
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;



- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,
- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the financial statements, and the verification of the requirements as provided in numbers 4 and 5 of article 451 of the Portuguese Companies' Code.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **On the Management Report**

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment of the Group, we have not identified any material misstatements.



#### **On the Corporate Governance Report**

Pursuant to article 451, nr. 4, of the Portuguese Companies' Code, it is our opinion that the corporate governance report includes the information required to the Group to provide under article 245-A of the Securities Code, and we have not identified any material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of that article.

#### **On the non-financial information defined in the article 508-B of the Portuguese Companies' Code**

Pursuant to article 451, nr. 6, of the Portuguese Companies' Code, we inform that the Group has prepared a separate report where includes the non-financial information defined in article 508-B of the Portuguese Companies' Code, having that report being published with the management report.

#### **On the additional matters provided in article nr. 10 of the Regulation (EU) nr. 537/2014**

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were first appointed as auditors of CTT – Correios de Portugal, S.A. (parent Entity of the Group) in the shareholders general assembly held on 5 May 2014 to complete the last year of the term of the three year period from 2012 to 2014. We were appointed at the shareholders' meeting on 18 April 2018 for the current term from 2018 to 2020;
- Management as confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism, and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the consolidated financial statements due to fraud;
- We confirm that the audit opinion we issue is consistent with the additional report that we prepared and delivered to the supervisory body of the Group on 14 March 2018; and
- We declare that we have not provided any prohibited services as described in article 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of the Group in conducting the audit.

15 March 2019

SIGNED ON THE ORIGINAL

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**KPMG & Associados -**  
**Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)**  
 represented by  
 Paulo Alexandre Martins Quintas Paixão (ROC nr. 1427)



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## STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the accompanying financial statements of **CTT – Correios de Portugal, S.A.** (the Entity or CTT), which comprise the individual statement of financial position as at 31 December 2018 (showing a total of 827,952,787 euros and shareholders' equity of 146,587,089 euros, including a profit of 19,621,263 euros), the individual income statement, individual statement of comprehensive income, individual statement of changes in equity and individual cash flows statement for the year then ended, and the accompanying notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of **CTT – Correios de Portugal, S.A.** as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section below. We are independent of the Entity in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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### Revenue recognition

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#### Risk

CTT is active in several business areas (Post, Express & Parcels, Financial services and Banking) and the policies for the recognition of revenue are different for each of the area, as mentioned in notes 2.22 and 39.

We considered the presumption present in the International Standards on Auditing of increased risk of fraud associated with revenue arising from pressure on management to achieve the estimated results.

#### Our response to identified risk

Our audit procedures included, among others, the following:

- Test the design and implementation of key controls related to revenue recognition;
  - Test the operating effectiveness of controls related with the revenue recognition process;
  - Tests of details to the transactions (on a sample basis) namely in relation to the timing of revenue recognition;
  - Substantive analytical procedures and tests of the journal entries in order to identify and test the risk of fraud and possible override of the implemented controls;
  - Assessment of the impacts of the new standard IFRS 15 – Revenue from contracts with customers; and
  - Evaluation of the adequacy of disclosures made by the Entity in relation to revenue recognition, taking into account the applicable accounting framework.
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## Employee benefits

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### Risk

The responsibilities with post-employment health benefits and other long-term benefits of employees and board members amount to 261,336,832 euros and involve a significant degree of judgment in the definition of long term assumptions, which might result in significant variances of the amounts booked in the financial statements as referred to in notes 2.19, 2.28 and 31.

### Our response to identified risk

Our audit procedures included, among others, the following:

- Evaluation of the reasonableness of assumptions and estimates used in the actuarial computation and the methodology for the computation of the responsibility;
  - Comparison of the information provided by management to the independent actuary for the computation of the responsibility;
  - Evaluation of the competence, independence and integrity of the actuary hired by management; and
  - Evaluation of the adequacy of disclosures made by the Entity in relation to employee benefits, including the sensitivity analyses, taking into account the applicable accounting framework.
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**Investment in Banco CTT (Bank)**


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**Risk**

As referred in note 1.2 the Banco CTT ("Bank") started its activity at the end of 2015, and in 2018 continued the strategy for investment, increase of the number of branches and launch of new products.

The monitoring of the budget and business plan approved by the shareholder is relevant to the audit strategy, particularly the impact of market conditions and the consequent adjustments to the plan in the shareholder capital requirements and in the dividend distribution capacity.

**Our response to identified risk**

Our audit procedures included, among others, the following:

- Analysis of the valuation methodology used, *Dividend Discount Model (DDM)*, with the involvement of our valuation specialists;
  - Analysis of the computation of the recoverable amount of Banco CTT and of the main assumptions of the impairment model, namely the discount rate (cost of equity), the perpetuity growth rate, the Core Tier 1 requirements considered for the computation of profits available for distribution, dividends distributed and capital increases;
  - Test the mathematical accuracy of the impairment model;
  - Comparison of the financial projections with the budget and plan approved and presented to the Banco de Portugal;
  - Discuss with management the future expectations, namely in relation to credit concession, forms of financing and expected profitability;
  - Performance of sensitivity analyses to the main assumptions; and
  - Evaluation of the adequacy of disclosures made by the Entity in the financial statements.
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## Operational transformation plan

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### Risk

As referred in notes 32 and 44, CTT communicated to the markets an operational transformation plan with the objective of optimizing the growth and operational efficiency. The main impacts of the plan in the financial statements were:

- Recognition of indemnities costs of 20,644,374 euros (2017: 14,824,913 euros);
- Recognition of a 1,479,139 euros (2017: 1,729,651 euros) provision related to costs to incur with the closure of branches to optimize the existing net of branches;
- Decrease of the variable remuneration liability estimate.

### Our response to identified risk

Our audit procedures included, among others, the following:

- Challenge the assumptions supporting Management's estimates;
  - Evaluation of the remaining impacts of the operational transformation plan and challenging the underlying assumptions;
  - Discuss with Management the impact of the plan's measures, namely in the future plans used in the impairment tests; and
  - Evaluation of the adequacy of disclosures related to provisions recognition, as well as subsequent events after 31 December 2017, taking into account the accounting framework.
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## Responsibilities of Management and the Supervisory Body for the Financial Statements

Management is responsible for:

- the preparation of financial statements that give a true and fair view of the Entity's financial position, financial performance and the cash flows, in accordance with the International Financial Reporting Standards as adopted by the European Union;
- the preparation of the management report and the corporate governance report in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and,
- assessing the Entity's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Entity's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Entity's financial reporting process.



### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,



- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the financial statements, and the verification of the requirements as provided in numbers 4 and 5 of article 451 of the Portuguese Companies' Code.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **On the Management Report**

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment of the Entity, we have not identified any material misstatements.

### **On the Corporate Governance Report**

Pursuant to article 451, nr. 4, of the Portuguese Companies' Code, it is our opinion that the corporate governance report includes the information required to the Entity to provide under article 245-A of the Securities Code, and we have not identified any material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of that article.

### **On the non-financial information defined in the article 66-B of the Portuguese Companies' Code**

Pursuant to article 451, nr. 6, of the Portuguese Companies' Code, we inform that the Entity has prepared a separate report where includes the non-financial information defined in article 66-B of the Portuguese Companies' Code, having that report being published with the management report

### **On the additional matters provided in article 10 of the Regulation (EU) nr. 537/2014**

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were first appointed as auditors of the Entity in the shareholders general assembly held on 5 May 2014 to complete the last year of the term of the three year period from 2012 to 2014. We were appointed at the shareholders' meeting on 18 April 2018 for the current term from 2018 to 2020;



- Management as confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism, and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the financial statements due to fraud;
- We confirm that the audit opinion we issue is consistent with the additional report that we prepared and delivered to the supervisory body of the Entity on 14 March 2019; and
- We declare that we have not provided any prohibited services as described in article 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of the Entity in conducting the audit.

15 March 2019

SIGNED ON THE ORIGINAL

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**KPMG & Associados -**  
**Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)**  
represented by  
Paulo Alexandre Martins Quintas Paixão (ROC nr. 1427)

## Report and Opinion of the Audit Committee



Integrated Report 2018

### AUDIT COMMITTEE

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#### Report and Opinion of the Audit Committee - 2018 Financial Year -

##### 1. Introduction

In compliance with the provisions of Article 423-F(1)(g) of the Portuguese Companies Code ("PCC") and article 7(5) of the Internal Regulation of the Audit Committee ("AUC" or "Committee") of CTT-Correios de Portugal, S.A. ("CTT" or "Company"), this body is hereby submitting its report of the supervisory and oversight activities carried out during the 2018 financial year and giving its opinion on the CTT Integrated Report, which includes the management report, the corporate governance report, information on the non-financial statements, the individual and consolidated accounts for the financial year ended on 31 December 2018, and the proposal for the appropriation of results submitted by the Board of Directors ("BoD").

##### 2. Activities Carried Out

During the 2018 financial year, the AUC held seventeen meetings at which all its members were present.

In order to ensure the full accomplishment of its mission throughout the year, the Committee carried out various activities within the scope of its competences and in the fulfilment of its duties and responsibilities, with emphasis on the following in each of its main areas of intervention:

- **Monitor the functioning of the Company and ensure compliance with the law, the regulations and the articles of association**

The regular monitoring of the evolution of the activity of the Company and its main subsidiaries, particularly of the decisions of fundamental importance for the Company, was carried out specifically through:

(i) the participation of its members in the Board of Directors' meetings; (ii) the contacts with the Executive Committee ("EC"), especially the participation in the meetings of approval of accounts; (iii) other contacts with Company Directors as deemed necessary and timely by the AUC, particularly with the Chief Financial Officer of CTT and Banco CTT and other senior officers of the Company such as the Heads of Accounting & Treasury, Planning & Control, Finance & Risk, Investor Relations, Regulation & Competition, Legal Services, Labour Legal Services, and Audit & Quality, including the Head of Compliance; and (iv) meetings with the Statutory Auditor.



In the performance of its duties the Committee also examined the documents distributed to support its work and obtained the information and clarifications to the questions raised in the analysis of such documents, especially those considered timely and adequate, regarding the compliance with the Articles of Association and the applicable legal and regulatory provisions. The Committee did not come across any constraints or limitations to its action.

- **Supervising the quality and integrity of the financial information in the statements of accounts**

Within the competences laid down in Article 423-F(1)(c) to (f) of the PCC and in Article 3(3)(a) and (b) of Law no. 148/2015, particularly for the purpose of supervising the compliance with accounting policies, criteria and practices, and reliability of the financial information, the following main actions were carried out:

*(i)* Regular monitoring of the preparation and disclosure of the financial information, as well as assessment of the accounting principles and standards and respective amendments, including the supervision of their compliance, of the estimates and judgements, the proceedings and the valuation criteria used, aiming to ensure their consistent enforcement throughout each financial year; *(ii)* Monitoring of the new IFRS and their impacts on CTT; *(iii)* Analysis of the impact of the subsidiaries accounts on CTT accounts; *(iv)* Monitoring of the relevant financial and operating indicators, as well as of the non-recurring transactions; *(v)* Analysis of the 2017 Annual Reports of CTT subsidiary companies, and Representation Letters for the respective Statutory Auditors; *(vi)* Assessment of the 2017 Annual Report of CTT and of the Corporate Governance Report, including opinion on same and on the Proposal for the Appropriation of Results submitted to the Annual General Meeting of Shareholders held on 18 April 2018; and *(vii)* Analysis of the consolidated and individual quarterly and half-yearly accounts of the 2018 financial year.

- **Overseeing the internal audit, internal control and risk management systems**

In the scope of the oversight of the effectiveness of the risk management, internal control and internal audit systems, as well as the assessment of their functioning and their procedures, the following aspects should be noted:

*(i)* Follow-up of the work of the Audit & Quality Department on internal audit and compliance issues and of the implementation of the recommendations issued, and conveying to the Statutory Auditor the relevant information; *(ii)* Approval of the Audit & Quality Department



Activity Plan for 2019 and allocated resources; *(iii)* Appraisal of the draft proposal of the CTT Policy for the Prevention of Money Laundering and Terrorism Financing; *(iv)* Assessment of the risk management model of CTT and Banco CTT and analysis of the main associated risks and mitigation plans; *(v)* Appraisal of the Risk Management Internal Regulations of the CTT Group (excluding Banco CTT); *(vi)* Follow-up of the litigation underway and other closed relevant contingencies; *(vii)* Assessment of the Reports on the Violation of the Code of Conduct; *(viii)* Assessment of the Activity Report of the Ethics Committee and of the Whistleblowing Reports; and *(ix)* Preliminary assessment of the transactions with related parties, whenever required under the Regulation on Related Parties' Transactions, and subsequent assessment in the case of the other transactions with related parties through half-yearly reports of the EC, as provided for in same Regulation; *(x)* Appraisal of the 2019 budget and the strategic lines within the 2019/2021 Plan of CTT; *(xi)* Promotion of the debate on issues such as Cybersecurity of the CTT Group, Personal Data Protection, Laws on the Fight of Money Laundering and Terrorism Financing, the Legal Framework of the Central Register of the Beneficial Owner, and the Role of the BoD in Digital Transformation, with the participation of external entities (whenever needed) and of the remaining members of the BoD of CTT and of the Board of Directors of Banco CTT; and *(xii)* Follow-up of the legal and regulatory changes the Company is subject to.

- **Supervising the performance of the duties of the Statutory Auditor**

Regarding the relationship with the Statutory Auditor of the companies within the CTT Group, KPMG & Associados, SROC, S.A. ("KPMG"), and the supervision of its compliance with the rules of independence, as required by the applicable laws and regulations, as well as of its audit work, the following activities carried out by this Committee stand out:

*(i)* Approval of the proposal to be submitted to the Annual General Meeting of CTT to appoint KPMG as Statutory Auditor for the 2018/2020 period; *(ii)* Analysis of the proposal for the contracting of statutory audit services and prior authorisation for the provision of non-audit services by the Statutory Auditor to companies of the CTT Group in 2018 and appraisal of the EC reports on the work awarded to the Statutory Auditor and corresponding fees; *(iii)* Assessment of the Statutory Auditor's Report and Audit Reports on the consolidated and individual financial statements of the financial year ended on 31 December 2017; *(iv)* Appraisal of the Statutory Auditor's Additional Report for the 2017 financial year; *(v)* Assessment of the Limited Review Report regarding the consolidated financial statements as at 30 June 2018; *(vi)* Monitoring and assessment of the preparatory work and matters considered relevant in the Statutory Auditor's



Report of the consolidated and individual accounts of the 2018 financial year; *(vii)* Analysis and discussion with the Statutory Auditor on accounting policies and relevant aspects of the new standards, main auditing issues and results of its audit work, as well as of the overall environment of internal control; *(viii)* Assessment of the Statutory Auditor's recommendations, following the audit of the 2017 financial statements, on accounting and internal control aspects and of the information of the Company on the implementation of those recommendations; *(ix)* Follow-up of the audit work of Statutory Auditor and the Audit Committee of Banco CTT; *(x)* Appraisal of the Statutory Auditor's 2016 and 2017 Transparency Reports; *(xi)* Assessment of KPMG's activity and independence, appreciation of its letter of independence, and issuance of the Activity and Independence Assessment Report for the 2017 financial year; *(xii)* Analysis of the Portuguese Securities Market Commission's ("CMVM") Public Consultation no. 8/2018 that intends to amend the legal framework of the audit oversight set forth in Law no. 148/2015 and submission of the opinion of this Committee to CMVM regarding the limited review of interim accounts; and *(xiii)* Discussion on the new structure of the management report of CTT.

### 3. Declaration of Conformity

Under the provisions of article 245(1)(c) of the Portuguese Securities Code ("PSC"), the members of the Audit Committee of CTT identified hereafter, in the framework of the duties they are assigned with, hereby state that, to the best of their knowledge, the information in the Integrated Report regarding the management report, the annual consolidated and individual financial statements, the Statutory Auditor's Report and Auditor's Report of consolidated accounts, and the Statutory Auditor's Report and Auditor's Report of individual accounts, and other consolidated and individual Financial Statements related documents required by law or regulation, regarding the financial year ended on 31 December 2018:

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



#### 4. Opinion on the Integrated Report for the 2018 financial year

The AUC has reviewed, as parts of the Integrated Report, the management report and the consolidated and individual financial statements for the financial year ended on 31 December 2018, including the statement of financial position, the income statements by nature, the statement of comprehensive income, the statement of changes in equity and the cash flow statement, as well as the notes attached thereto, all of which deserve its approval.

The consolidated and individual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union on 31 December 2018.

The AUC also analysed, as components of the Integrated Report, the corporate governance report, taking into account the provisions of article 420(5) of the PCC and article 245-A of the PSC, and information on the non-financial statements, pursuant to articles 66-B and 508-G of the PCC.

The AUC appraised with special attention the terms of the Statutory Auditor's Report and of the Audit Reports on (i) the auditing of the consolidated and individual financial statements approved by the Board of Directors and issued on 15 March 2019 by KPMG & Associados-Sociedade de Revisores Oficiais de Contas, S.A., which express a favourable opinion on said financial statements, with no limitations or qualifications and (ii) the compliance with other legal and regulatory requirements applicable to the management report, the corporate governance report and to the non-financial information as set forth in article 508-B of the PCC, which express compliance with said requirements in force. The AUC also noted that the Statutory Auditor's Report and the Audit Reports include the additional information required in Article 10 of Regulation (EU) No 537/2014, particularly the so-called "Audit-Relevant Matters" which, in the case of the Company, KPMG defined as being:

- i. Recognition of revenue;
- ii. Employee benefits;
- iii. Investment in Banco CTT;
- iv. Operational Transformation Plan; and
- v. Provision of credit (in the consolidated accounts).

Given the above-mentioned data and the action carried out, as well as in compliance with the provisions of article 423-F(1)(g), article 420(5) and (6), applicable by reference to the provisions of article 423-F(2), and article 452, all of the PCC, the Audit Committee hereby states that, to the best of its knowledge, the information within the Integrated Report of CTT – Correios de Portugal, S.A. of the Integrated Report as at 31 December 2018 regarding:



- the management report, the corporate governance report, and the information on non-financial statements,
- the consolidated and individual financial statements,
- the Statutory Auditor's Report on the consolidated and individual accounts and the Audit Reports dated 15 March 2019, and
- the Proposal for the Appropriation of Results.

comply with the applicable legal and accounting rules and the Articles of Association. Accordingly, the Committee agrees with same and recommends that the General Meeting of CTT approves them.

Lisbon, 15 March 2019

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

Maria Luísa Coutinho Ferreira Leite de Castro Anacoreta Correia (Chairwoman)

Nuno de Carvalho Fernandes Thomaz (Member)

Maria Belén Amatriain Corbi (Member)

## Independent Limited Assurance Report



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### Independent Limited Assurance Report

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

**To the Board of Directors of**  
 CTT - Correios de Portugal, S.A.

### Introduction

We were engaged by the Board of Directors of CTT - Correios de Portugal, S.A. (“CTT”) to provide limited assurance on the sustainability information included in the Integrated Report (“the Report”) of CTT for the year ended 31 December 2018, identified in the Annex IV “GRI index and indicators”.

### Board of Directors’ Responsibilities

The Board of Directors of CTT is responsible for:

- The preparation and presentation of the sustainability information included in the Report in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative (GRI), for the level Core, and the information and assertions contained therein; and,
- Establishing and maintaining appropriate performance management and internal control systems from which the information is derived.

### Our Responsibilities

Our responsibility is to carry out a limited assurance engagement described in “Scope” section and to express a conclusion based on the work performed.

### Scope

We conducted our assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. That Standard requires that we plan and perform the engagement to obtain limited assurance about whether anything came to our attention that causes us to believe that the sustainability information included in the Integrated Report (“the Report”) of CTT for the year ended 31 December 2018, identified in the Annex IV “GRI index and indicators” is not prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative (GRI) for the level Core, as described in the “Methodology notes” of the Report.



The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the applicable requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

A limited assurance engagement on sustainability information consists of making inquiries, primarily of persons responsible for the preparation of the sustainability information presented in the Report, applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Interviews with the responsible persons to understand the processes implemented in CTT to identify material issues for the relevant stakeholders of CTT;
- Interviews with relevant staff, at corporate and business units, responsible for providing the sustainability information in the Report;
- Comparing the transactions identified to corresponding information in the relevant underlying sources to assess the accuracy of the information and determine whether all the relevant information contained in such underlying sources has been included in the Report; and
- Reading the information presented in the Report to conclude if it is in line with our overall knowledge of, and experience with, the sustainability performance of CTT.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

### Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

- 1 Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the sustainability information included in the Integrated Report (“the Report”) of CTT for the year ended 31 December 2018, identified in the Annex IV “GRI index and indicators” is not prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative (GRI) for the level Core, as described in the “Methodology notes” of the Report.

**Restriction of use and distribution of our report**

Our report is not intended to be used for any other purpose. Any party other than the intended addressees who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. We accept or assume no responsibility and deny any liability to any party other than CTT for our work, for this independent limited assurance report, or for the conclusions we have reached.

15 March 2019

SIGNED ON THE ORIGINAL

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**KPMG & Associados -**  
**Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)**  
represented by  
Paulo Alexandre Martins Quintas Paixão

