



Annual Report

Consolidated Accounts

2013

CTT – Correios de Portugal, S.A.

Public Company

Avenida D. João II, Lote 01.12.03, 1999-001 Lisboa

Lisbon commercial registry and legal person number 500 077 568

Share capital EUR 75,000,000.00

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CHAIRMAN & CHIEF EXECUTIVE OFFICER'S STATEMENT

The Privatisation of 70% of the capital was successfully accomplished in December. We see a strong investor interest in CTT, a company reporting a strong set of results in 2013, the strategy delivering and its transformation well under way.

Strong set of results

CTT achieved a consolidated net profit of €61 million, a 70.7% (+€25.3 million) increase on 2012. Consolidated earnings per share were €0.41 and return on equity 22.2%.

These results reflect a slower decline in revenues of only -1.3%, much lower than the reduction achieved in operating costs (excluding impairments, provisions, depreciation/amortisation and non-recurring costs) of €21.3 million (-3.5%). That produced a recurring EBITDA of €122.9 million, an increase of 10.8% (€11.9m) over the 2012 figures, with an EBITDA margin of 17.4% compared to 15.5% in the previous year; and a recurring EBIT of €96.1 million, 16.2% higher than in 2012, and the EBIT margin increasing by 2.0 p.p. to 13.6%.

During the year ended on 31 December 2013, the free operating cash flow stood at €110.4 million, compared to €117.9 million in 2012. The net cash position was €236.8 million at the end of 2013, in line with €240.2 million one year before. Additionally, the cash from third parties from financial services increased to €308.1 million at the end of 2013, €58.9 million more than in 2012, reflecting the strong increase in activity in this business unit.

This strong financial performance comes as a result of delivering on the initiatives we clearly defined in the Transformation Program in order to compensate the decline of mail volumes through (i) an increase in mail prices and (ii) important gains in efficiency enabling a decrease in operating costs that exceeds the decline in revenues, both related to Mail business and, different from previous years, (iii) promoting the growth of revenues of Financial Services and Express & Parcels, drivers of the growth in revenues for the future.

A changing business on a still challenging economic environment

The activity of mail and parcels operators in developed economies is being affected by electronic substitution, which is in fact the increase of digital communication and e-commerce, resulting in the reduction of social, transactional and advertising physical mail but, with an opposite effect, the growth of parcel deliveries supporting e-commerce.

During 2013 the Portuguese economy continued the adjustment of the macroeconomic imbalances accumulated over the last decades, a process with strong negative impacts in terms of domestic economic activity and employment. But a change in the trend occurred in 2013: estimates point to a GDP contraction of only -1.4%, significantly lower than that observed in 2012 (-3.2%) and with three sequential quarters of positive evolution. Forecast for 2014 is of +1.2%, supporting this trend. This evolution is taking place in a context of low inflationary pressure (0.4%) and high unemployment levels (15.4%), which have contributed to wage moderation. In Spain, where CTT also operates in the express and parcels business, the economic situation is also characterised by economic contraction and adjustment, also with clear signs of a change in the trend.

This adverse economic environment has driven (i) the significant increase in the speed of electronic substitution, since in recessionary environments customers' tendency is to push harder cost reduction, and (ii) less transactional mail from lower domestic economic activity. The level of addressed mail volumes decline in 2013 (-7.3%), although lower than that of 2012 (-8.8%), is still above the normal trend. However, the positive quarter evolution of 2013, with -7.1% decline in the last quarter, gives some indications that the decrease in volumes due the economic situation component is starting to abate.

Strategy of CTT is delivering

CTT's vision and strategy are clear and have attracted the strong interest of investors. Our vision is to be a multi-services postal operator, recognised as a world reference in quality, efficiency and value creation.

We are totally focused and dedicated to deliver results, keeping clear the main goals of achieving sustainable growth and improving the profitability of each of our business units, minimising or even reverting the decline in mail revenues, increasing the revenue and profit contribution of Financial Services and Express & Parcels businesses and continuing cost efficiency management as a fundamental part of our DNA.

Levering on its competitive advantages, CTT is acting with the following strategic priorities:

- Maintain leadership in the core mail business market;
- Promote a regulatory framework that supports the sustainability of the Universal Postal Service;
- Maintain efficiency and promote revenue growth through continuous transformation programs, namely:
 - Develop the Express and Parcel business to take advantage of the expected market growth, especially in the B2C segment;
 - Strengthen the financial services platform and offer a wider range of services.

Our Mail business (74% of total revenues) has performed well during the year, with revenues coming down only -2.1%, as a result of a marginal decline in transactional mail and a more severe reduction in advertising mail. Recurring EBITDA grew to 13.6%, contributing to 71% of total recurring EBITDA. This performance was achieved using two strong levers: (i) price increases after almost three years without any change and (ii) a strong operating costs reduction, coming from a push to higher efficiency in sorting activities, namely through increased automation, and distribution and retail network optimisation.

During 2013 an important review of the regulatory environment has been developed, resulting basically in some clarifications of the framework already in place, enacted during the latter part of 2013 and early 2014. We have now a liberalised activity, with a regulatory framework aligned with other European Union countries, flexible and supportive of a sustainable universal service. Relevant to mention is the amendment in pricing rules introducing stronger flexibility in special prices applicable to bulk mailers, albeit still observing the principles defined in the Postal Law.

The providers of the universal service obligations are entitled to compensation of the net cost of the universal postal service when it constitutes an unfair financial burden, through a compensation fund,

in terms still to be defined. Both the methodology for the calculation of the net cost and the concept of unfair financial burden were already approved by Anacom.

The Express and Parcels business is a fundamental growth lever, having revenues in 2013, after a few years of decrease, turned the trend back to growth, contributing €129.5 million (+1.2% from 2012), 18% of the total. This is due to a growing market, especially in B2C on the back of e-commerce, to a more pro-active approach from sales activity well proven by the 4.4 p.p. growth in market share in Portugal (latest Anacom figures comparing 4Q12 & 4Q13) and to an upgrade of the product offer with an embedded Iberian view.

It is clear that the future growth of the parcels business unit is closely linked to the development of e-commerce. We have been introducing the features required by this market, setting up infrastructures that add convenience, a better customer experience and flexibility on the delivery. In Spain, a restructuring plan of the network of franchisees to increase capacities, achieve a better integration of the different parties, and upgrade our commercial focus is taking place. All these actions weighted on the costs, visible when we look to the profitability level; but we are confident that in the future we will see the benefits, developing a stronger and more profitable business.

In contrast to other postal operators, CTT also markets financial products and services with a very important contribution to the company's revenues and operating efficiency, not only producing strong margins but also absorbing part of the costs associated with the universal service obligations related to the density of the network (retail network). This is a fundamental business area for the company's profitability, in view of the high operating margin realised (EBITDA) delivered on a network already in place.

The financial crisis at a worldwide level and in Portugal has enabled CTT to acquire an increasingly stronger position in this market. Growth was delivered in this business unit, with the revenues reaching €60.9 million (a 5.5% growth) in 2013 and EBITDA €27.4 million (22% of the total). Savings products were mainly responsible for this important goal, due to the extraordinary growth observed in Savings Insurance (+52% in the amounts placed and +56% in revenue) and in Public Debt certificates (+340% in values placed and +199% in revenue), but tax payments also showed a revenue growth of +7.6%, which had not occurred since 2006.

In November 2013 the Bank of Portugal authorised the constitution of a postal bank, under some conditions whose compliance has to be confirmed before starting of operations. After this authorisation, CTT has the possibility to constitute the postal bank, but for that a decision by the Board of Directors of CTT already incorporating the non-executive directors as representatives of shareholders' interests has to be taken.

The Transformation Programme had a very important role in CTT's performance, with its major impacts already discussed. The programme, with its management focus and monitoring capacities, will continue through 2014, although including new initiatives.

Quality and environment are taken very seriously

CTT continued to present high quality levels in 2013, with the OSQI (Overall Service Quality Indicator) registering 227.7 points (target of a minimum of 100). The performance of international mail

compares well with that of other European partners, and the quality objectives defined by the Community Directive for the postal sector were largely exceeded. The strong operational performance has resulted in a positive perception of quality of service, with 80% of customers visiting CTT's branches rating postal services as good or very good.

And the public recognition of the Portuguese population is clear from the award of the Trusted Brand and the value attributed by local communities to the presence of CTT, not only related to the postal service but also due to the proximity services.

An eco-portfolio of products with growing popularity, the use of environmental scorecards at all business premises and the increased weight of CTT's eco-friendly fleet (already including 224 vehicles) were reinforced by the commissioning of more than 150 electric bicycles, with a positive impact on the ecological footprint.

Our people

People are fundamental for the delivery of the strong set of results and the overall performance, putting in place the strategy defined. The Transformation Programme and its results would also not have been possible without people making it happen and showing commitment. A single Company Agreement was concluded in April 2013, following a long negotiation period, and we were able to balance the employees' rights with the responsibilities of CTT towards the public without disturbing the service. Both facts guarantee the stability of labour relations and demonstrate the capacity to work together. During the Privatisation, when conditions for politically driven strikes are common, the maintenance of a sound social environment should be highlighted.

At the end of 2013 the number of CTT employees (permanent and fixed term employees) came to 12 383, less 784 (-6.0%) than at the end of 2012. The volume decline trend in mail requires CTT to adjust and adapt staff to business levels, but the company has adopted an approach of (i) insourcing activities previously outsourced to increase the staff workload, saving in external supplies, and (ii) using early retirement and non-renewal of fixed term contracts to reduce headcount.

On December 4th, the majority shareholding position of the State ended, and thus CTT was no longer subject to the rules applicable to those companies, being from then onwards in a position to develop its own HR policies like any private sector entity. The first impact was an immediate salary and other benefits increase for an important part of its employees, consequence of the end of the salary cuts, with 2014 estimated impact of up to €6 million.

The HR compensation policies will evolve to introduce variable pay components to reward performance, to benchmark and manage the competitive positioning, because being more open to competition must have impact in all dimensions. HR policies include continuing and reinforcing the investment in training and qualifications, valuing employees and giving them flexibility and knowledge to face the future needs of CTT and new challenges.

Very successful Privatisation through IPO and listing totally changed ownership structure

In December 2013, the Initial Public Offer of 70% of the capital (80% in institutional direct sales and 20% in a public offering, including 5% for the employees) attracted strong interest and demand, being priced at the top of the range of €4.10 to €5.52. The ownership structure has changed

significantly, with the State currently holding a minority stake of 31.5% and institutional and retail shareholders holding the remaining 68.5%, with no other shareholder having more than 5%.

CTT has now its shares trading in the stock market, with a strong free float and institutional investors as owners of a large part of its capital. The State holds a minority position of 31.5% through Parpublica. The stock market requirements for transparency and accuracy, together with institutional investors permanent monitoring of the performance of the company, both are key and powerful levers to enhance and promote the sustainable value creation for shareholders, through the achievement of further efficiency gains and growth and thus financial profitability which is already above the industry's average.

Since the IPO on 4 December 2013, CTT shares appreciated 42.39% in a period when the Portuguese PSI20 Index appreciated 16.55%, factoring the delivery of results, the post IPO evolution and the free float of the stock, above Portuguese market average.

This next Monday, 24th March, two important events will take place: (i) an Extraordinary General Meeting to elect the non-executive Directors and other governance items, thus putting in place the adequate governance for a listed company, fulfilling a commitment taken at the time of the IPO, and (ii) CTT shares will join the main index of Euronext Lisbon stock exchange, the PSI20.

I have strong confidence in the future of CTT. Our competitive advantages and positioning in the market offer us good prospects, and I have no doubt that we are prepared for all the challenges that lie ahead, which requires analysing constantly the changing markets, pursuing and implementing the defined strategy, focusing on the objectives outlined and keeping flexibility.

Finally, I would like to express my gratitude to all those that work at CTT and its subsidiaries and to my fellow members of the governing bodies, and also to our shareholders, customers and other stakeholders.

Lisbon, 21st March 2014

Francisco de Lacerda
Chairman &
Chief Executive Officer

GOVERNING AND MANAGING BODIES

Governing bodies as at 31/12/2013

Board of the General Meeting

Chairman: Júlio de Lemos de Castro Caldas

Vice-Chairman: Francisco Maria de Moraes Sarmiento Ramalho

Board of Directors

Chairman & CEO: Francisco José Queiroz de Barros de Lacerda

Vice-Chairman: 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

Board of Auditors

Chairman: António Sarmiento Gomes Mota

Members: Elsa Maria Roncon Santos
Diogo José Paredes Leite de Campos

Alternative Member: Sara Alexandra Ribeiro Pereira Simões Duarte Ambrósio

Statutory Auditor and External Auditor

Statutory Auditor: PriceWaterhouseCoopers & Associados, SROC, Lda., represented by José Pereira Alves or Ana Maria Ávila de Oliveira Lopes Bertão

Alternative Statutory Auditor: José Manuel Henriques Bernardo, ROC

Independent Auditor: KPMG & Associados, SROC, SA

Governing Bodies proposed to the General Meeting of 24/03/2014

Board of the General Meeting

Chairman: Júlio de Lemos de Castro Caldas

Vice-Chairman: Francisco Maria de Moraes Sarmento Ramalho

Board of Directors

Chairman & CEO: Francisco José Queiroz de Barros de Lacerda

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
Diogo José Paredes Leite de Campos (Member of the Audit Committee)
José Alfredo de Almeida Honório
Nuno de Carvalho Fernandes Thomaz
Parpública – Participações Públicas SGPS SA (Member of the Audit Committee)

Statutory Auditor and External Auditor

Statutory Auditor: PriceWaterhouseCoopers & Associados, SROC, Lda., represented by José Pereira Alves or Ana Maria Ávila de Oliveira Lopes Bertão

Alternative Statutory Auditor: José Manuel Henriques Bernardo, ROC

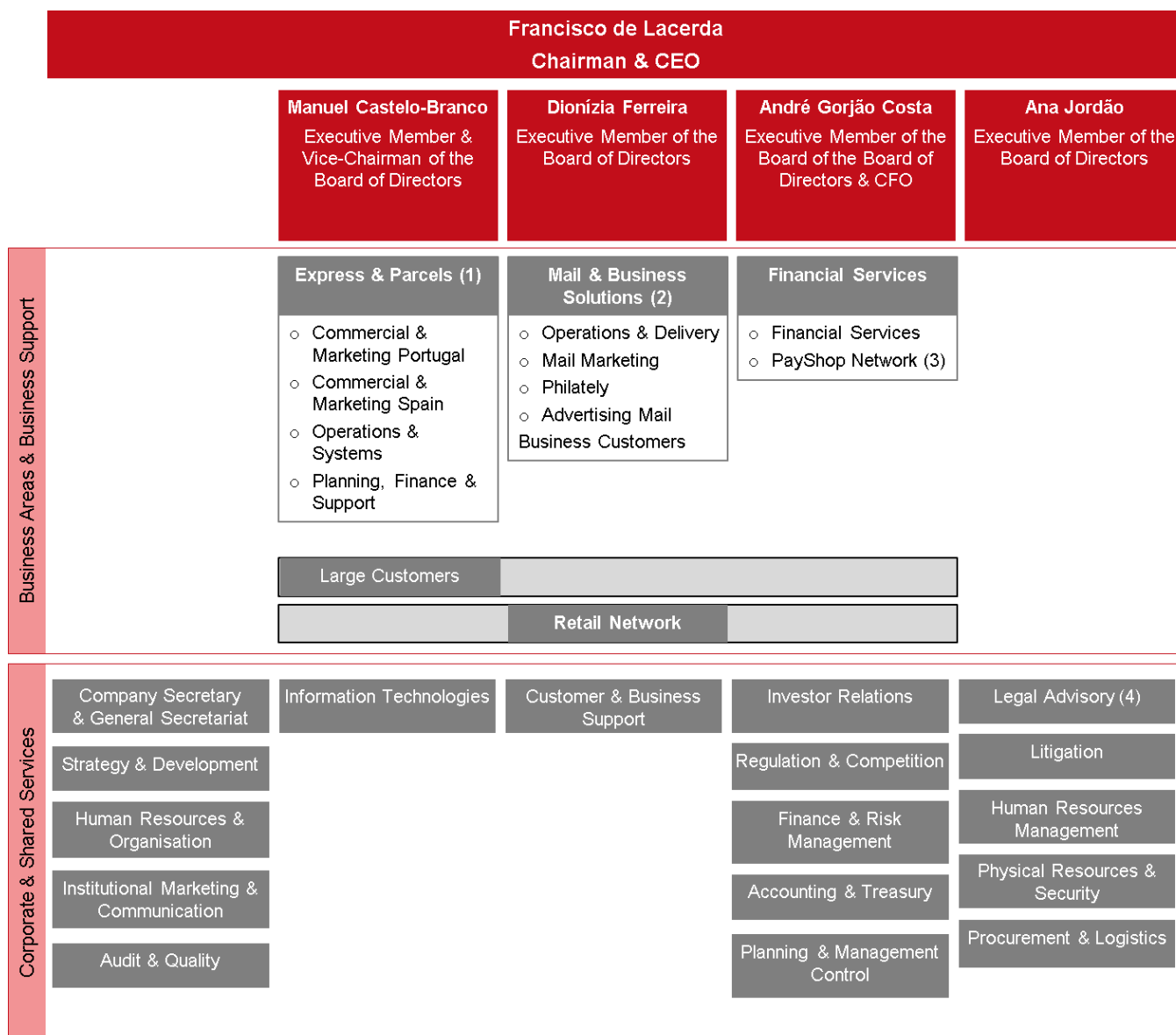
Independent Auditor: KPMG & Associados, SROC, SA

Remuneration Committee

Chairman: João Luís Ramalho de Carvalho Talone

Members: José Gonçalo Ferreira Maury
Rui Manuel Meireles dos Anjos Alpalhão

Management Organisation



(1) Includes CTT Expresso, Tourline and CORRE.

(2) Includes Mailtec SGPS, Mailtec Comunicação, Mailtec Consultoria, Mailtec Processos, CTT Gest and PostContacto.

(3) Includes PayShop.

(4) General, labour, and disciplinary.

Directors who report directly to the Board of Directors

Alberto Alves Maria Pimenta	Strategy & Development
Ana Rita Baião Matos	Accounting & Treasury
Antónia Ascensão Rato	Regulation & Competition
António Manuel Borges Vaz	Operations & Systems - Express & Parcels
António Augusto Labrincha Correia Marques	Human Resources & Organisation
António Pedro Ferreira Vaz da Silva	Retail Network
Carla Salomé Preto Martins Marques da Cruz	Advertising Mail
Fernando Manuel Costa Afonso	Procurement & Logistics
Filipe Jacinto Flores Ribeiro	Large Customers
Graça Maria Porto Temudo Pires de Oliveira	Mail Marketing
Helena Maria Gameiro Carreira Rodrigues	PayShop Network
Hernâni Joaquim Mateus dos Santos	Mail Operations & Delivery
Isabel Maria Lemos Lourenço	Advertising Mail Operations
João Manuel da Costa Araújo	Financial & Administrative - Business Solutions
João Domingues dos Santos da Cunha Leal	Financial - Express & Parcels
João Pedro Namora Gonçalves	Business Customers
José Eduardo Dias de Mendonça David	Information Technologies
Julietta Aurora Barracho Gomes Jorge Cainço	Audit & Quality
Laura Maria Falcão da Costa	Customer & Business Support
Luís Miguel Soares Rodrigues	Physical Resources & Security
Maria da Graça Farinha de Carvalho e Sousa Góis	Company Secretary & Legal Advisory
Maria Helena Henriques Camacho	Planning & Management Control
Maria Margarida Jarego Colaço da Silva	Litigation
Maria Teresa Geraldês Caetano	Finance & Risk Management
Miguel Alexandre Ferreira Amaral Salema Garção	Marketing & Institutional Communication
Pedro Miguel Lourenço Salvador	Commercial & Operations Spain - Express & Parcels
Peter Iordanov Tsvetkov	Investor Relations
Raúl Manuel Matias Moreira	Philately
Rui Pedro Silva	Transformation Programme
Sílvia Maria Correia	Financial Services

KEY FIGURES

Economic and financial indicators (consolidated IFRS data)

Financial and economic indicators (Consolidated IFRS numbers)

€ thousand or %, except where indicated	2013	2012	△% 13/12
Revenues	704,847	714,225	-1.3
Operating costs excluding impairments, provisions, depreciation and non recurring costs	581,919	603,234	-3.5
Recurring EBITDA ⁽¹⁾	122,928	110,992	10.8
Recurring EBIT ⁽¹⁾	96,113	82,701	16.2
Earnings before financial costs and taxes	87,236	56,971	53.1
EBT	83,253	52,832	57.6
Net profit for the period	61,105	35,967	69.9
Net profit attributable to equity holders	61,016	35,735	70.7
Earnings per share (euro) ⁽²⁾	0.41	0.24	70.8
EBITDA margin	17.4%	15.5%	1.9 p.p.
EBIT margin	13.6%	11.6%	2.0 p.p.
Net margin	8.7%	5.0%	3.7 p.p.
Return on Equity (ROE)	22.2%	13.0%	9.2 p.p.
Return on Invested Capital (ROIC)	15.7%	9.9%	5.8 p.p.
Return on Capital Employed (ROCE)	14.3%	9.3%	5.0 p.p.
Capex	12,994	14,047	-7.5
<i>Operating free cash flow</i>	110,439	117,858	-6.3
	31.12.2013	31.12.2012	△% 13/12
Assets	1,100,134	1,063,180	3.5
Liabilities	824,200	789,699	4.4
Equity	275,934	273,481	0.9
Capital stock ⁽²⁾	75,000	87,325	-14.1
Number of shares ⁽²⁾	150,000,000	17,500,000	757.1
Current ratio	144.7%	146.4%	-1.7 p.p.
Equity to Liability ratio	33.5%	34.6%	-1.1 p.p.
Adjusted Equity to Liability ratio ⁽³⁾	53.5%	50.6%	2.9 p.p.
Net debt (€m)	- 19 930	- 13 545	47.1
Net debt/EBITDA	-0,2x	-0,1x	-0,04x
Tangible fixed asset coverage	247.1%	235.7%	11.4 p.p.
Average payment period to suppliers (days)	36	38	-5.3

(1) - Before non recurring costs and income.

(2) - Prior to 30 October 2013 CTT capital stock was € 87,325,000 made up of 17,500,000 shares with €4.99 nominal value. The General shareholders meeting held on that date, approved the reduction of capital stock to €75,000,000 represented by 150,000,000 shares with €0.50 nominal value. Considering the same number of shares as in 2012, the earnings per share was €2.04.

(3) - Equity/(total liabilities - financial services payables).

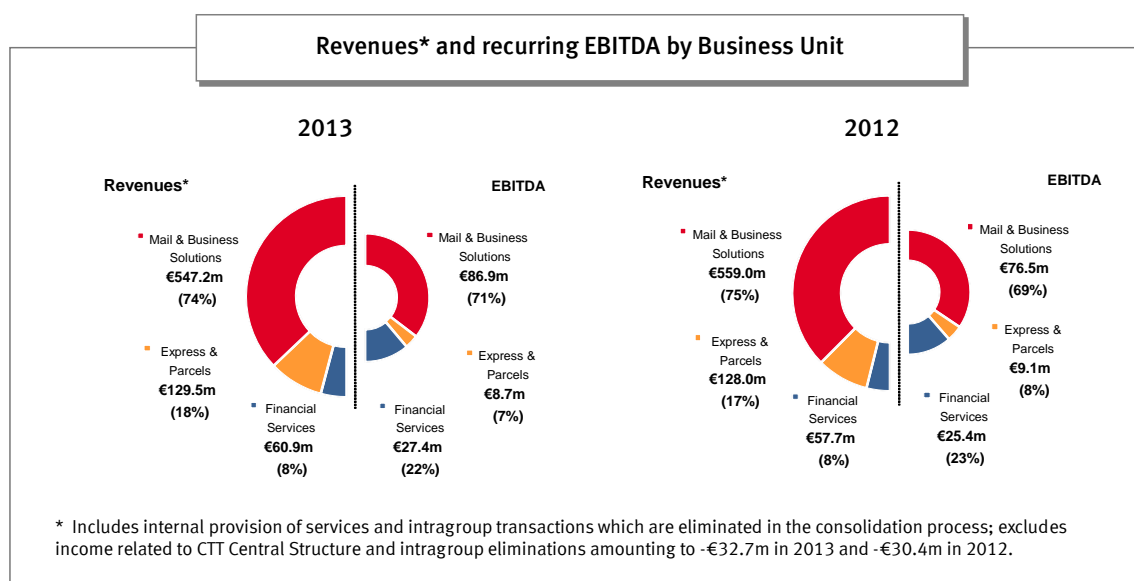


Figure 1

Operational indicators

	2013	2012	△% 13/12
Mail			
Addressed mail volume (million items)	892.3	962.4	-7.3
Transactional mail	756.5	809.6	-6.6
Editorial mail	49.3	51.0	-3.2
Advertising mail	86.5	101.8	-15.0
Unaddressed mail volume (million items)	528.7	519.7	1.7
Express & Parcels			
Portugal (million items)	12.1	11.6	4.4
Spain (million items)	13.1	11.1	18.5
Financial Services			
Payment (number of transactions; millions)	71.5	77.9	-8.1
Savings and insurance (amounts placed; € millions)	3,580.7	3,068.5	16.7
Staff (a)			
Staff at 31st December	12,383	13,167	-6.0
Average Staff	12,904	13,756	-6.2
Retail, transport and delivery networks			
Post offices (b)	623	748	-16.7
Postal agencies (partnership branches)	1,820	1,814	0.3
PayShop agents	3,886	3,966	-2.0
Postal delivery offices	285	326	-12.6
Postal delivery routes	4,713	5,215	-9.6
Fleet (number of vehicles) (c)	3,465	3,502	-1.1

(a) Includes permanent staff and fixed term contracts with CTT SA and subsidiaries; does not include temporary employees.

(b) Includes mobile post offices (5 in 2013 and 8 in 2012), external postal counters (13 in 2013 and 15 in 2012) and partnership post offices (5 in 2013 and 7 in 2012).

(c) Operational fleet.

CTT, S.A. sustainability indicators

	2013	2012	Δ% 13/12
Customers			
Customer satisfaction (%)	68.5	70.9	-2.4 p.p.
Total number of operating units certified (ISO standard and retail and delivery networks certification)	1,179	1,173	0.5
Retail and delivery networks certification (% coverage) (a)	100	92	8 p.p.
Global Quality of service index (points)	227.7	255.4	-27.7
Staff			
Number of accidents (b)	908 *	923	-1.6
Training (hours) (b)	224,411 *	304,477	-26.3
Women in management positions (1st level) (%)	45.5	41.7	3.8 p.p.
Community/Environment			
Value chain - contracts with environmental criteria (%) (b)	97	98	-1 p.p.
Total CO2 emissions, <i>scope</i> 1 e 2 (kton.) (c)(d)	21.9 *	22.5	-2.9
Energy consumption (TJ) (c)(d)	319.1 *	329.2	-3.1
Weight of Eco product range in <i>Direct Mail line</i> (%)	21.8	17.9	3.9 p.p.
Investment in the Community (thousand euros)	814	968	-15.9

(a) Within the retail network 600 postal outlets were considered in the certification process, which excludes external postal counters, mobile post offices and partnership post offices (b) Indicators relative to CTT (CTT SA and subsidiaries); (c) Does not consider standard low voltage consumption of CTT SA; (d) Update of 2012 data for PostContacto, CTT Espresso e Tourline.

* Provisional data.

HIGHLIGHTS OF THE YEAR

January

- Launch of the Transformation Programme.

February

- Signing of the Agreement of **Participation in the "Forum of Companies for Gender Equality - Our Commitment"** with CITE (Committee for Equality at Work and in the Workplace).

March

- Signing of a **new and unique Company Agreement (AE2013)** with 12 trade unions, which adapts the legal system to the specificities of CTT activity and opens the way for a positive evolution of the current collective labour regulations in force at the company. This event represents an important step for the healthy development of labour relations within CTT.

April

- **Updating of prices of the universal postal service**, following the decision of ICP-ANACOM not to oppose the tariff proposal for the universal postal service, submitted by CTT on 14 February 2013.
- Publication of **Judgement 187/2013 of the Constitutional Court** under which the suspension of holiday allowance provided for in article 29 and 77 of the State Budget Law for 2013 was declared unconstitutional. Consequently, CTT decided to recognise the corresponding liability in the accounts for 2012, estimated at around 18 million Euros.

May

- Holding of the **Annual General Meeting of CTT** which approved the Individual and Consolidated Management Report and Accounts of CTT for 2012, the application of results for the financial year and votes of confidence given to the Board of Directors and supervisory bodies - the Board of Auditors and Statutory Auditor.
- Signing of the new **Editorial Mail Agreement** with GMCS (Media Bureau) and API (Portuguese Press Association), to be enforced as of 1 June 2013.

June

- Payment of **dividends to the State (€50m)** following approval at the General Meeting held on 30 May 2013.
- Payment of **concession rent to the State** relative to reserved services provided in 2012 (€1.1m).
- Signing of a **new agreement with Western Union**.

July

- After the launch of the process in June, approval by the Council of Ministers on 25 July of the **Privatisation Decree-Law**, published on 6 September under number 129/2013, which provides for the disposal of the share capital of CTT through institutional direct sale as well as initial public offering.
- Signing of a **new exclusive agreement with Fidelidade**, for a period of five years, which enables improvements in the CTT fee structure and increases the competitiveness of the product range.

August

- **Submission of the license application to the Bank of Portugal** for creation of the Postal Bank.

September

- Participation in various **events and initiatives** related to **mobility and sustainability**, and presentation of a fleet of electric bicycles for the use of the postmen and women during their delivery rounds.

October

- Publication of Council of Ministers Resolution 62-A/2013, which approved the **conditions of the public invitation to bid and terms of reference of the institutional direct sale**, as well as the special acquisition conditions benefiting CTT workers and companies in a controlling or group relationship with CTT.
- **Agreement with Worten**, applicable throughout the entire Iberian territory, for the provision of transport services to support after-sales activities, extendible to various Sonae SR banners. Particular note should be made of the provision of the Pick-up/Drop-off (PuDo) service – an express and parcel service to be offered to customers at Worten shops, both for the collection and dispatch of items.
- Launch of the book "**Portugal Connosco – Receitas ao Balcão**", showing recipes prepared by the staff manning the CTT Retail Network. Of the one thousand recipes sent, 52 were selected with 4 winners, where the prepared meals and non-cooked food were donated to Night Shelters through Associação DariAcordar – Movimento Zero Desperdício.
- Commemorations of **World Post Day 2013**, at the Portuguese Communications Foundation with the award of the prizes of the competition "The Best Letter 2013", launch of the stamp issue "Where the Stamp Takes You - School Mail" and opening ceremony of the exhibition "CAUSARTE – Art with Causes".
- Launch of the **Treasury Certificates Poupança Mais** on World Savings Day.

November

- CTT announced the **intention of Parpública** – Participações Públicas (SGPS), S.A. to **proceed with the initial public offering of CTT and admission to trade of its ordinary shares** on Euronext Lisbon.
- Publication of Council of Ministers Resolution 72-B/2013, which determined the **quantity of shares to be allocated** to each type of the offering, and the **price range** of each share between 4.10 and 5.52 euros.
- **Start of the Public Offering process** on 19 November.

December

- **Special Stock Exchange Session to gather the results of the Public Offering** on 4 December, which successfully placed the shares at an opening price of €5.52, thus valuing the company at 828 million Euros.
- **Admission to trade at Euronext Lisbon of the ordinary shares** representing the share capital of CTT on 5 December.

AWARDS AND RECOGNITION

- Trusted Brand 2013, first place of consumer trust in the category "public service companies", a distinction attributed by Reader's Digest Selections;
- Excellent Brand 2013, attributed by Superbrands, among thousands of competitors, through a study conducted by Superbrands Portugal;
- "Unique Contribution to Eurogiro's Development" award, attributed by Eurogiro, in recognition of CTT's initiative in the creation of an innovative international money transfer service, the "International Eurogiro Cash";
- Bronze medal in the "APCC Portugal Best Awards" for the CTT (707 26 26 26) and ViaCTT (707 20 20 16) lines, in the Distribution and Logistics category, attributed by the Portuguese Association of Contact Centres;
- Call Centre trophy 2013 for the CTT Contact Centre in the category "Service Quality in Customer Service through other channels", attributed by IFE (International Executive Training Group);
- First place and five Diplomas of Merit, attributed by the Portuguese Association for Corporate Communication and selection panel of the APCE Grand Prize 2013;
- First place for "Best Photograph" and third place for "Best Cartoon" in the internal magazine "Aposta", attributed by the FEIEA Grand Prix 2013 (Federation of European business communicators associations);
- Portugal Human Resources 2013 award in the category "Company that most promotes and defends Gender Equality". The magazine Portugal Human Resources is a reference multi-publication in the areas of Human Resources, Marketing and Communication and distinguishes the best companies in Portugal in "People Management".
- Distinction of "Highly Recommended" by the World Mail Awards 2013, for the CTT Human Resources Development Programme, a training programme aimed at participants of various postal operators of the Portuguese-Speaking African Countries (PALOPs), Central and South America;
- Honourable Mention for "Solidarity Santa Claus" in the category "Social Responsibility Action", in the M&P Communication Awards, attributed by the newspaper Meios & Publicidade;
- Sixth postal operator with best carbon performance at a worldwide level (EMMS carbon proficiency ranking), of the IPC (International Post Corporation);
- Finalist of the Postal Technology International Awards 2013, in the category "Environmental Achievement of the Year", for the 3rd time in the last 4 years;
- First submission to the CDP (Carbon Disclosure Project) rating, achieving 5th place at a national level and 3rd at worldwide level in the postal and express sector, relative to management of the climate change dossier;

- Online Trustworthy Stamp for the CTT Express website, accredited by the ACEPI (Association of Electronic Commerce and Interactive Advertising);
- "Silver" award for CTT Express, given by the EMS Cooperative, the most distinguished transnational organisation in urgent deliveries. Twenty-third place among 205 countries, relative to service quality for 2012;
- EAD renewed the status of Leading SME 2013, attributed under the FINCRESCE Programme of IAPMEI (Institute for the Support of Small and Medium-sized Enterprises and Innovation), which distinguishes national companies with excellent performance profiles.

PART I – MANAGEMENT REPORT

1. STRATEGIC LINES

1.1. Challenges and trends

CTT faced very significant changes of its external context which had to be taken into account when defining its strategy of future action. Particular note should be made of three structural trends, which were observed throughout Europe:

- The **development of e-commerce**, which has leveraged the growth of the parcel, express service and logistics business of the postal operators of the most advanced countries that have increasingly consolidated their position in this area.
- The movement towards the **electronic replacement of physical mail**, a voracious trend of structural and systematic nature which has been accelerated by the environment of economic and financial crisis experienced in the country;
- **The intensification of the process of full liberalisation of the postal service market**, following the European Directives and their complete introduction in Portugal through the approval of Law 17/2012, of 26 April, with consequent opening to the entry of alternative new operators to CTT.

As key factors in these trends, and which constrain the positioning of postal operators in the two most affected areas - Mail and Express & Parcels -, the following should be highlighted:

- The evolution of the individual habits and preferences of consumers, in particular their levels of participation in electronic commerce and electronic invoicing;
- The effectiveness and value of advertising mail in the advertising sector, its price and the evolution of practices and technology;
- The perceived quality of the services on offer, especially in the parcel business, in terms of reliability, accuracy and information upon delivery (including track & trace), easy and trustworthy means of payment, options of timing and place of delivery, and simple and transparent methods to return items;
- proximity and capillarity as an asset of connectivity between e-commerce platforms and customers.

Simultaneously with these structural trends, the recessive economic environment has worsened and deepened the pace of evolution, depressing the main markets of action of CTT. However, the most recent forecasts on the **recovery of the country's level of economic activity** appear to be showing positive impacts on CTT's different business areas, inverting or softening the recent trends of their evolution.

In contrast to other postal operators, CTT also markets financial products and services with a very important contribution to the company's operating efficiency, absorbing part of the costs associated to the universal service obligations related to the density of the network (retail network). This is a

fundamental business area in the company's profitability in view of the high operating margin released (EBITDA). The financial crisis at a worldwide level and experienced in Portugal has enabled CTT to acquire an increasingly stronger position in the market.

The key factors of the economic circumstances which most constrain the development of the markets in which CTT operates, are the economic activity in Portugal and Spain, reflected in the growth of GDP and especially domestic consumption, the level of the propensity to save and the evolution of disposable income.

The **privatisation of CTT**, concluded at the end of 2013 through a Public Offering process, substantially changed its shareholder context, with all the consequences derived thereof. Capital market requirements, in terms of rigour, transparency and performance of the company will intensify, with a view to the sustained creation of value for its shareholders, the achievement of further efficiency gains, stronger growth and financial profitability that is above the sector's average, which will also contribute, via higher market efficiency, to the transfer of value to consumers.

1.2. Competitive advantage

It is recognised that CTT has a distinctive series of assets and competence derived from its history and unique position in the postal service market and which are strategically placed as competitive advantages:

- **Unique retail and delivery networks, with high capillarity and a strong brand in Portugal**

CTT is a company with almost 500 years of history based on relations of proximity with the Portuguese population. The CTT retail outlets are dispersed throughout the entire country and offer a vast range of services, such as the delivery of mail and parcels, payment solutions (payment of pensions and collection of bills), transfer of funds, and savings and insurance products, including saving and treasury certificates (public debt). It is also endowed with a delivery network, showing high capillarity, covering all homes and individuals in Portugal. The high service quality of CTT and coverage of the entire country by the Postal Network (retail and delivery networks) has contributed to the strong identity of its brand in terms of recognised trustworthiness and credibility.

- **Highly profitable and leading mail business in Portugal**

CTT's mail business shows an attractive profitability when compared with other European operators (as reflected in its EBITDA margins), due to the efficiency of its operations and capacity to adjust its cost structure. During the last three years, CTT has improved its EBITDA margins as a result of price initiatives, the broadening of its product range, in particular the development of financial services, and ongoing operational optimisation.

- **Continuous management of operational efficiency**

CTT has developed a systematic approach to identify and carry out cost reductions in its operations, adjusting costs to market trends and innovations. CTT has a continuous transformation programme covering initiatives to sustain its operational efficiency, including the adjustment of its retail and delivery networks, the reorganisation of its delivery models, and the

fine-tuning and streamlining of its sorting centres, with a view to the stronger integration of all its networks (mail, express and parcels).

- **Improvement of the regulatory framework**

CTT benefits from a stable regulatory framework, which has recently been changed by the transposition of the Third European Postal Directive into Portuguese law. Pursuant to the current legal framework, CTT continues as the concessionaire of the universal postal service in Portugal until 2020 and is exclusively responsible for certain reserved services. The Government and ANACOM have endeavoured to ensure a clearer definition of various issues that are still open in the regulatory framework. This effort will continue throughout 2014.

- **Express & Parcel Iberian Platform**

CTT offers a wide range of express and parcel services and products at an Iberian scale, including collection, processing, transport and delivery (national and international), as well as complementing logistics and cargo solutions. CTT is a market leader in Portugal and has a significant presence in Spain.

- **Strong positioning for the expansion of Financial Services**

CTT offers a broad range of financial products and services to meet its customers' needs. These involve a variety from savings and insurance products to payment solutions and fund transfers. These products and services are offered through CTT's retail network, which shows high capillarity and national coverage, supported by a trusted and recognised brand. CTT's network of payment solutions is also complemented by a network of PayShop agents, thus reaching a total of 6,329 points of sale. CTT is positioned as the only entity with attributes in all types of payments.

- **Qualified management team and workers with vast experience in the postal service sector**

CTT's management team has long-standing experience, including in the postal and service sectors, having highly qualified employees with strong skills in the areas of technology, business management and innovation. CTT is involved in the main national and international initiatives of the sector which seek to create operational efficiency in the postal sector, namely in the context of the IPC (International Post Corporation) and UPU (Universal Postal Union).

- **Strong generation of cash flow, liquidity position and dividends**

During the last three years, CTT has shown a good financial performance illustrated by high and stable cash flow levels (defined as EBITDA minus capex), significant liquidity (current ratio above 100%) and a balance sheet with a high cash and equivalents. Due to its positive cash position and generated cash flows, over these last years CTT has distributed over 90% of its net profit (dividend payout).

1.3. Strategy: fulfilling the promise

The defined and announced strategy and the strong interest of investors in CTT have created

additional responsibility, hence it is fundamental that the company continue totally focused and dedicated to delivering the results implicit in these expectations. Based on the main objectives of achieving sustainable growth and improving the profitability of each of its business units, leveraged on the company's competitive advantages, CTT has defined the following strategic lines of action:

➤ **Maintained leadership in the core mail business market**

The maintenance of the market share of clear leadership in Portugal and improvement of the EBITDA margins of the mail business unit imply action at the following levels:

- Continued development of an integrated and customer-driven one-stop portfolio of products and services for the group of large mail mailers, promoting, through its dedicated sales team, the cross-selling of CTT products as well as the offer of solutions which combine its current physical mail platforms with new digital platforms.
- Promotion of advertising mail as an efficient means of communication, increasing demand inside Portugal to levels gradually reaching those observed in other European countries.
- Continuous review of the price structure based on market conditions, in order to assure that its prices are competitive and allow for sustainable EBITDA margins.
- Pursuit of the continuous improvement of operational efficiency, capitalising the economies of scale inherent to the mail business and operational synergies with all the other business units, in particular express and parcels, but also financial services in the broadening of the retail network offer.

➤ **Promotion of a regulatory framework that supports the sustainability of the Universal Postal Service**

The recent and sharp declines of mail volumes have led to lower profitability and require various cost-cutting measures along with the normal increase of prices in the postal sector. The assurance of a competitive positioning that simultaneously enables a sustainable universal postal service requires a balanced regulatory framework, fundamentally around the following issues:

- Clarification of the criteria for the allocation of costs and service quality levels, taking into account the need to maximise the value of the CTT networks (retail and delivery), reducing "unoccupied" time and increasing cross-selling opportunities through the provision of a larger range of services to customers;
- Establishment of rules for the determination of the net cost of universal postal service;
- Identification of contributors to the compensation fund through reference to the cost of universal postal service if the net costs represent an unfair financial burden, proportionally opening up to competitors the impacts to which the universal postal service provider is bound.

➤ **Maintaining efficiency through continuous transformation programmes**

The continuous improvement of operational efficiency is a critical condition to the competitiveness and profitability of the postal business. To this end, CTT permanently adjusts its networks to demand levels, maintaining national coverage, where the following actions are

particularly relevant:

- Reorganisation of its retail network through i) the reduction of geographic overlapping; ii) the restructuring of its points of sale, via the introduction of new functioning and ownership formats, with the objective of replacing fixed costs by variable costs; iii) the maximisation of branch productivity in terms of employees and use of area; and iv) enhanced branch efficiency so as to reduce its cost base.
- Reorganisation of its delivery network through i) the implementation of a new delivery model and reorganisation of its delivery offices; ii) the improvement of its mail sorting centres via increased automation; iii) the implementation of staff cost-cutting initiatives; iv) increased synergies in terms of transport and delivery with Express & Parcels; and v) the renegotiation of contracts with external suppliers.
- Maximisation of the efficiency of the retail and distribution networks through the development of new sources of revenue for the same cost base. It is with this objective that the growth of the express, parcel and financial service areas is being promoted, as well as the agreement for provision of SGEIs (Services of General Economic Interest), which shall allow CTT to use the capacity of its delivery and retail networks, maximising the occupation of its infrastructure.

➤ **Development of the express and parcel business to take advantage of the expected market growth, especially in the B2C segment**

Driven by the objective of being one of the reference operators in the Iberian Peninsula and benefiting from its growing presence in the Portuguese and Spanish markets, CTT have the following main axes of strategic action:

- Development of its operations, adding to the focus on each country the development of synergies between both countries, thus seeking to increase the capture of Iberian parcel flows;
- Leverage of its cargo and logistics services in order to maintain current customers and attract new customers for the express and parcel business;
- Promotion of its parcel services, in particular in Portugal and Spain but also in other European countries and Portuguese-speaking African countries, based on the growing flows of goods and business between these countries.

For this purpose, and in a perspective of improving its position in the **Iberian market**, CTT aims to embark on a broad series of actions, including the development of a new portfolio of products and services dedicated to the B2C segment, the implementation of a new parcel delivery and collection network (Pick-up/Drop-off), thus adding convenience to the existing points of sale, increased commercial synergies between the two markets, and the cross-selling of complementing cargo and logistics services.

In Portugal, this action will consist of the continued improvement of commercial action (by intensification of the culture of commercial aggressiveness, greater use of supporting systems and better alignment of objectives and incentives), the upgrading of its operational IT systems and connection with information management, and the optimisation of operating costs through

initiatives of process re-engineering, renegotiation of outsourcing contracts and maximisation of synergies with the CTT Postal Network.

In Spain, the focus is also placed on business growth and the improvement of profitability through stronger control and centralisation of operations, the reinforcement of CTT's position in the B2C segment, where it already has a larger presence in the market, and the optimisation of operating costs through initiatives of process re-engineering and renegotiation of contracts with its franchised establishments and outsourcers, also promoting the commercial proactiveness of its own and franchised network.

In Mozambique, where CTT also has express and parcel operations, the objective is to continue to develop the strong position in this market of high growth but challenging realities.

➤ **Strengthening of the financial service platform and offer of a wider range of services**

The financial services business area should constitute one of the main sources of growth for CTT. It should leverage on the Group's principal areas of competence, such as a trustworthy brand and a wide retail network. Three axes of strategic action are thus foreseen for the financial services business area::

- Maximisation of the contribution of the current portfolio of financial services, through i) improvement of its technological and innovation competence; ii) reinforcement of relations with the main partners and suppliers; iii) improved diversity of its products and services; and iv) introduction of new products and solutions as an alternative to traditional products (e.g. prepaid cards versus postal orders).
- Expansion of the offer through the development of new financial products and services, in partnership with local and international counterparts and financial institutions i) in credit products (e.g. credit cards, consumer credit, etc.); ii) other new products (e.g. structured products, risk insurance, etc.); as well as the development of iii) an integrated solution to manage payments, including payments made in person (CTT retail network and PayShop network) together with electronic payment channels.
- Possibility of the additional expansion of its service offer, through exploration of the option of the constitution of a postal bank (following authorisation issued by the Bank of Portugal on 27 November 2013 conditional to compliance with a specific series of requisites and conditions).

Based on this strategic formulation, and incorporating the objectives and axes of action of the different business units (mail, express & parcels and financial services), the implementation of the **Transformation Programme** started in January 2013 will be continued and intensified during 2014.

This Transformation Programme (Phase II) includes 5 strategic action initiatives:

Strategic action initiatives

1. Optimisation and rationalisation of Operations and Delivery
2. Optimisation of the Retail Network
3. Development of the Financial Services
4. Transformation of the Information Technology Systems
5. Transformation of Express & Parcels

2. BUSINESS

2.1. Economic and Regulatory Environment

2.1.1. Economic environment

International

The external context remained adverse during 2013, having been dominated by depressed (or stagnant) demand in the developed economies, falling commodity prices and a growing concern with financial stability. The most recent OECD forecasts point to world economic growth of 2.7% in 2013, lower than that recorded in 2012 (3.1%) and significantly below that recorded in the period before the international financial crisis.

The economies of the emerging markets achieved higher growth rates than those of the advanced economies. The available forecasts indicate that, considered as a whole, the GDP of the advanced economies should have grown by 1.2% in 2013, maintaining a clear contrast between the United States (1.9%) and Japan (1.6%) and the euro zone where a contraction of GDP of 0.4% is foreseen. The emerging and developing economies will continue to play a determinant role in world economic growth, where it is estimated that it should have shown GDP growth of 4.5% as a whole in 2013.

In 2013, the activity in the euro zone contracted in the context of the budget consolidation effort, the maintenance of restrictive credit conditions in countries under pressure and the persistence of high uncertainty. Domestic demand continued to have a negative contribution to GDP growth, reflecting the increased unemployment, weak growth of disposable income, high levels of public debt and declining real estate prices. The euro zone also experienced a reduction of gross fixed capital formation, which European Commission forecasts estimate at -3.4% in 2013 (-4.1% in 2012). In contrast, net exports contributed to growth.

Monetary policy at a global level has remained accommodative, principally in the developed economies, with the main central banks resorting to unconventional policy measures, in an environment of stagnant demand which has contributed to low inflationary pressure leading to fears of deflation in the euro zone. Financing conditions recorded some improvement at the end of 2013, as a result of policy measures aimed at restoring confidence in financial markets.

National

During 2013, the Portuguese economy continued the adjustment of the macroeconomic imbalances accumulated over the last decades. This process implied the adoption of a series of budget consolidation measures and a deleveraging of the private sector, maintaining a contraction of internal demand, albeit at a more moderate rate than that observed in 2012. The pursuit of the Economic and Financial Assistance Programme (PAEF) has taken place in an adverse international context, marked by sluggish growth or contraction of economic activity in the main trading partners. Notwithstanding the above, exports of goods and services have shown remarkable robustness, reflected in very significant gains of market share, showing good capacity of adaptation and competitiveness of the Portuguese productive sector. Thus, there has been a notable correction of internal and external economic imbalances, in particular: i) the transition to a net funding capacity of

the Portuguese economy, illustrated by the positive balance of the current and capital account; ii) a structural consolidation of public accounts; and iii) sectoral reallocation of resources towards tradable product and service sectors, boosting exports.

The adjustment process has involved costs in terms of activity and employment. Current estimates point to a GDP contraction of 1.4% in 2013, lower than that observed in 2012 (-3.2%) and with three sequential quarters of positive evolution. This evolution is taking place in a context of low inflationary pressure, both internally (where the average variation rate of the harmonised index of consumer prices stood at 0.4%) and externally, and high unemployment levels (16.8%), which have contributed to wage moderation.

The direction of budget policy in 2013 remained restrictive as a whole and the budget deficit objective of 5.5 percent of GDP was achieved. This consolidation reflects a contribution of the reduction of primary expenditure similar to the contribution of increased revenue, derived from the higher tax load introduced in the State Budget for 2013, with particular incidence on individuals.

2.1.2. Regulatory environment

At the level of the European Union

The approval of the third Postal Directive (Directive 2008/6/EC) of the European Parliament and Council, of 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 postal 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 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, thus promoting a sustainable universal service.

At a national level

The new regulatory framework established in Directive 2008/6/EC of the European Parliament and Council, of 20 February was transposed to the Portuguese legal system through the Postal Law, approved in 2012 (Law 17/2012, of 26 April, as amended by Decree-Law 160/2013, of 19 November), stipulating the legal system applicable to the provision of postal services under full competition in national territory and international services with origin or destination in national territory. Therefore, as of 27 April 2012, the postal market in Portugal was fully opened to competition, eliminating the universal service areas that had been reserved to their provider, CTT - Correios de Portugal, S.A. (CTT).

However, for reasons of public order and security or general interest, some activities and services may remain reserved to certain postal service providers. In this context, and until 2020, CTT will continue as the exclusive provider i) in the placement of letter boxes on public routes for collection of mail items; ii) in the issue and sale of postal stamps with the mention of Portugal; and iii) in the registered mail service used in judicial or administrative proceedings.

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

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

In terms of the funding of the universal service obligations, their providers are entitled to compensation of the net cost of the universal postal service when it constitutes an unfair financial burden. This compensation is made through a fund supported by the postal service providers, whose operation will be defined by decree-law.

On 18 February 2014, ANACOM approved the methodology for the calculation of the net cost of the universal postal service, provided by CTT as the sole provider of the universal service, and under the concept of unfair financial burden for effects of compensation of the net cost of the universal postal service, as well as the underlying terms of its determination.

Regarding the State contribution to the compensation fund for the financing of the universal service, the Government approved a legislative proposal on 3 October 2013, whose approval is expected to occur by mid-2014, which specifies that contributions should come from 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 postal service provision framework establishes a system of licenses and permits, where the services covered by the scope of the universal service are subject to the individual license system and all other services, which include services for courier/express mail and the sending of addressed advertising, are subject to the general authorisation system.

On matters of access to postal networks and elements of the postal infrastructure, universal service operators are obliged to ensure access to their networks through agreement to be concluded with the providers requesting this, with the regulatory entity being attributed various duties of intervention in this regard, namely if the parties are unable to reach an agreement or upon the request of any party.

As the concessionaire company of the universal postal service, CTT remains the universal service provider until 2020, with the Government having reviewed the basis of the concession pursuant to the system established in the Postal Law, through the publication of Decree-Law 160/2013, of 19 November.

This amendment of the basis of the concession has modernised their content, thus enabling its adaptation to the current regulatory environment of the postal sector, observing the interests of the State, the rights and duties of the concessionaire and the interests of consumers.

This basis establishes the areas of action under concession to CTT, in terms of the postal infrastructures and services that the company is entrusted to provide, under which the concession contract for the universal postal service was concluded between the State and CTT on 1 September 2000. Following subsequent legislative modifications, this contract was amended on 1 October 2001, 9 September 2003, 26 July 2006 and 31 December 2013. The amendment to the concession contract signed in 2013 is the contractual reproduction of the legislative content present in the basis approved by the aforesaid Decree-Law 160/2013.

Pursuant to the new legal framework, the quality of service parameters and performance objectives associated to the provision of the universal service and the criteria to which price formation should obey are now established by the regulatory authority. Until the establishment of these criteria, the quality and price arrangements concluded between CTT and the regulatory authority (ANACOM) on 10 July 2008, enforced during the three-year period of 2008-2010 will remain in force transitionally with respect to the universal service system, being renewed for successive periods of one year, unless given notice of termination by either party.

The prices of the universal postal service which entered into force in June 2010 were updated on 1 April 2013, following ANACOM's decision not to oppose the price proposal of the universal postal service, submitted by CTT on 14 February 2013. As foreseen, the second part of the pricing update took place as of 1 November 2013, which only included the price review of the first weight bracket of ordinary domestic mail for the occasional segment.

The price adjustment carried out sought to mitigate the contraction of revenue that has been observed over these last years, due to the decline of postal volumes, associated to the growing electronic replacement and intensified by the economic crisis in Portugal. The new pricing list for the universal postal service introduced geographic differentiation by destination location, only for bulk mail (special prices), aimed at better adjustment of the prices to the cost structure for providing the service.

Also concerning prices, through the draft decision issued on 29 July 2013, ANACOM defined the price establishment criteria for the universal service, with the objective of repealing the price-fixing rules contained in the price arrangement concluded between CTT and ANACOM on 10 July 2008 (as amended on 9 July 2010), currently enforced transitionally, as laid down in the Postal Law.

This process has not yet been concluded, however, the review carried out to the Postal Law through Decree-Law 160/2013 of 19 November included an amendment in the price-fixing system which incorporated the introduction of the special price system, specifying the conditions associated to postal services included in the universal service offer applicable to bulk mailers, that differ from the conditions applicable to all the other services. CTT now has greater flexibility to update these special prices, albeit still observing the principles defined in the Postal Law.

In terms of the quality of the postal service, whose quantification of objectives and minimum service quality levels are presented in point 5.3. on service quality, the arrangement in force for the year of 2013 maintains the high quality standards required for postal services in Portugal, and which CTT has continued to surpass.

2.2. Mail and Business Solutions

2.2.1. Activity

The revenues¹ of the Mail and Business Solutions business area reached 547.2million Euros (74.2% of the consolidated total²) in 2013.

This business area includes the activity of CTT, SA (parent company) excluding financial services, business solutions and the activities of the subsidiary companies PostContacto, CTT Gest, Mailtec and EAD.

In 2013, mail customers maintained the same consumption patterns shown in 2012, with a decline of 33 million mail items (-6%) sent by the major customers (which represent 43.4% of total income from this business area) relative to 2012. This fact, combined with a strong contraction in the advertising market and distance selling companies which affected advertising mail, led to lower postal activity.

Addressed mail

Addressed mail volume (includes letter mail and direct mail) decreased by 7.3% to 892 million items. Letter mail fell relative to the previous year (-6.7%), to which the overall negative evolution of the following products contributed: ordinary mail (-7.8%), editorial mail (-3.2%), priority mail (-4.1%) and international mail (-6.0%), both outbound (-8.7%) and inbound (-2.7 %). The exceptions were registered mail (4.5%) and green mail (4.0%).

The growing development of new information technologies and their high levels of take-up have resulted in electronic substitution, with the consequent increasingly lesser use of physical mail as a means of communication. This structural trend has been exacerbated by the strong contraction of the economy, evident in the fact that the reductions occurred in 2012 (-8.8%) and 2013 (-7.3%) were above the average for the period 2007-2011 (-5.2%). However, it is important to note that by 2013 there is an apparent slowing down of this trend.

In order to counter the trend and develop demand conditions for the business segment, CTT launched a thorough restructuring of its pricing, in particular, having introduced the concept of "zone pricing". The price review in 2013 affected the three major blocks of mail products and services:

¹ Include internal services rendered and intra-group transactions which are eliminated for purposes of consolidation.

² Excluding revenues relative to CTT's Central Structure and intra-group elimination amounting to -32.7 million Euros in 2013.

- Updating of pricing relative to the universal postal service on 1 April and later on 1 November. Prices had remained unchanged for three years, and on 1 April they were updated incorporating a larger differentiation between the pricing for individual customers and all other customers, introducing special pricing for contractual customers covering most products and including the new concept of zone pricing in the contractual segment, covering major domestic mail dispatchers, other companies and State bodies. The price of the first weight step of ordinary domestic mail was updated again on 1 November, where the overall increases implied an average price growth of 4.2%.
- Updating of the pricing of editorial mail as of 1 June, linked to the reformulation of services and reflected in an average price increase of 4%.
- Updating of the pricing relative to direct mail (in force since 2009) starting on 1 July, with an overall price change of 2.1%.

These pricing and product changes led to the implementation of new rules to characterise mail through the updating of the concept of letter mail standardisation, transferring to the customer benefits arising from the technological evolution of postal activity and operational efficiency.

Unaddressed mail

PostContacto is the subsidiary responsible for the management of unaddressed mail at CTT, a leader of the market in which it operates with shares of 45% in terms of volume and 51% in value in 2013 (40% and 45%, respectively, in 2012), according to the study conducted by IMR - Instituto de Marketing Research. It has a clear competitive edge in terms of trust in the brand, capacity to deliver large volumes of advertising, in the intended zones and with the desired timing, as well as the ownership of reliable databases.

In 2011 and 2012, the market of unaddressed advertising underwent a significant retraction, both in terms of value (-19%) and volume (-15%), having accentuated this trend in 2013 (-16% in value and -8% in volume). The main customers of this activity, estimated at close to 1,200 million leaflets per year, come from the generalist and specialised retail sector, accounting for around 80% of the total volume of leaflets, followed by the service sector and institutions.

The economic situation of the country, combined with the commercial aggressiveness of the competition and the concentration of demand in the retail sector, have been reflected not only in the streamlining of advertising volumes per campaign and in the applied price policy forcing lower margins, but also in more demanding standards required by customers in terms of quality of service, reduction of implementation time and the provision of detailed and online information about campaigns.

PostContacto is the only unaddressed advertising operator of a national scale and uses an extremely flexible operative model. PostContacto has its own delivery network in the coastal regions of greater population density, where the competition is located and there is strongest business growth; in the interior, it uses the regular mail delivery network. The delivery of unaddressed publicity to residential and commercial establishment mail boxes is the company's core business, although it has also diversified its offer with the development of value added services (delivery of addressed advertising

mail, mail delivery based on address lists, delivery at a convenient time, geocontact, hand-delivery in pre-selected areas, logistics and crossborder delivery).

PostContacto delivered 532 million items of unaddressed mail in 2013.

Business Solutions

CTT continued to focus on hybrid communication solutions, developing offers that combine physical and digital communication. Formerly dispersed areas of competence in geographic solutions are currently combined, such as ViaCTT, documental production (through Mailtec Comunicação, a market leader), digitisation and information technologies for the postal sector (through Mailtec Consultoria), which ensures greater coordination and the development of solutions that add value to CTT's offer, mainly in the postal area and open the door to new opportunities with companies.

During 2013 significant steps were taken towards identifying and developing Business Solution opportunities in the **international market**. The offer of greatest potential was defined in each market and promotional material prepared in various languages, as well as an internationalisation plan for the next two years. CTT was awarded an important project for the implementation of an electronic and e-commerce postal service platform in Poland, proposals were submitted in Mozambique, Angola and Ecuador which are pending analysis and decision, and potential customers and partners have been identified in Morocco.

Philately

Philately continued to be driven by the search for high quality levels, reconciling tradition with innovation.

During 2013, 21 issues of commemorative stamps were launched, definitive stamps were issued, 4 prestigious thematic books were published, as well as the 1st and 2nd series of labels sold in automatic stamp vending machines, dedicated to evoking "European Year of Citizens 2013" and "150 Years of Humanitarian Action - the Red Cross".

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

Commemorative Issues

900 Years of the Institution of the Order of Malta 500 Years Portugal-China Catholic Missions in Africa Centenary of Secular Missions in Africa 1000 Years of the Avicena Code	History
Bicentenary of Verdi and Wagner Aga Khan Architecture Award Art by Joana Vasconcelos Famous Figures: Ilse Lose, Raul Rego, João Villaret, Edgar Cardoso and João dos Santos	Music, art and culture
Cathedral Route (2 nd series) Flavours of Air and Fire (2 nd series) Archaic Goldsmithery in Portugal Christmas	Portuguese and religious topics
Falconry Beekeeping in Portugal	Sports and environment
International Statistics Year Postal Vehicles (Europa Issue: 40 countries)	International Events

The postal stationery issued this year showed a great variety of topics, as listed below:

Postal Stationery

Initial listing of CTT on the Stock Exchange, dedicated to the Privatisation of CTT	500 Years of Foral da Ericeira
Presidential Visit to Selvagens Islands	500 Years of Santa Casa da Misericórdia de Braga
40 Years of the Newspaper EXPRESSO	250 Years of Torre dos Clérigos
Luís António Verney	130 Years of the Scientific and Tropical Research Institute
120 Years of the Submarine Cable in Faial	120 Years of the National Archaeology Museum
150 Years of the Association of Portuguese Archaeologists	100 Years of Scouting in Portugal
90 Years of Liga dos Combatentes	EBORA 2013
Mathematics of Planet Earth	Conference on the Future of the Portuguese Language
25 Years of the Open University	

As noted above, the following thematic books were launched with the usual major success:

Thematic Books

"Animals of Lisbon Zoo" by Orlando Raimundo, Pedro Salvador and Jorge Macedo
"Flavours of Air and Fire" by Fátima Moura with photography by Mário Cerdeira and coordination by José Quitério
"Archaic Goldsmithery in Portugal" by Virgílio Correia, Rui Parreira and Armando Silva
"Falconry - Royal Art" by Carlos Crespo.

For the first time, a catalogue was issued of all the books published since 1983 "30 Years of CTT Publications" and the usual annual books "Portugal in Stamps 2013" and "My Stamp Album 2013" were produced, as well as the annual stamp sets of the Azores and Madeira, and two thematic stamp sets called "Visit Portugal", one dedicated to heritage and the other to gastronomy.

The high quality and number of stamp issues and books launched throughout 2013 led to a notable performance of the Philately revenue, reversing the trend with a decline of merely 2% relative to the previous year to 6.9 million Euros, after 3 years of decreases which had been significant, growing and widespread to all business segments (-7% in 2010, -12% in 2011 and -15% in 2012).

Since Philately is a business of the "entertainment/leisure rank", the adverse economic environment and consequent reduction of family purchasing power has decisively affected the evolution observed in this business over these last years.

However, a reversal of the downward trend is becoming evident, especially concerning occasional collectors and in certain market niches (website specialised in philately). Recovery has proved to be more arduous in traditional collectors and "classic retail", not only due to the "economic and age erosion" but also confirming the difficulty of recovering customers who have, in the meantime, completed or interrupted (in many cases forcibly) their collection.

2.2.2. Retail Network

The retail network manages the counter service and direct sales, and is the largest diversified and proximity commercial network at a national level. The Company has improved this important asset, transforming it into a platform of convenience and multi services and boosting its turnover, in full observance of the obligations of the universal service.

The business strategy 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, investment and payment solutions among others), becoming a strong alternative in the offer of innovative and competitive financial products for 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;
- Creation and development of business and services of convenience to the population, assuming the vocation of local counter service as an "engine" driving retail business, in addition to postal services also operating as a preferred location for multi-services.

By the end of 2013, the retail network had 5,108 contact points with customers and the population, being composed of 623 post offices (605 own post offices, 13 external postal counters and 5 mobile post offices), 1,820 postal agencies and 2,665 stamp sales points.

The postal agencies and the stamp sales points, the partnership post offices operate under the responsibility of local partners through service and/or resale contracts, being supervised and monitored by CTT.

The offer of services, under free service and in some cases available 24 hours per day, is complemented by 364 automatic stamp vending machines and 21 automatic mail product vending machines.

During 2013, the main priorities of the management of the retail network included the development of the initiatives foreseen in the Transformation Plan to resize the network and transfer access points of its own post office to postal agencies, aimed at adjusting the postal offer to the evolution of demand.

In this context, in coordination with local government, namely the parish councils, solutions of proximity and convenience were found for the access of all citizens to postal services, assuring the provision of mail services, namely the universal service, within the quality standards required from CTT by the Regulator. The services of 125 specific post offices (includes external postal counters and mobile post offices) were transferred to 89 new postal agencies and other CTT post offices close by.

Under the process of certification of customer counter services and in order to measure quality of service as perceived by the customer, two "Mystery Client" studies were conducted, involving 601 post offices where different variables were assessed, namely how the customer is served, the presentation of the employees, their knowledge on products, the available information and presentation of the location. The obtained result was very positive, with 99.2% of favourable opinions in the first study and 99.3% in the second.

Apart from assuring uniformity of internal processes, the main objective of the certification of services is to increase customer satisfaction levels.

In addition to becoming an important channel for the sale of the products and services of all CTT business areas, in particular mail and financial services, the retail network has promoted various initiatives to stimulate its retail business, where we highlight the following:

- Partnership with the PT Group for the marketing of UZO cards and mobile telephones, as well as the attraction of portability.
- Partnership with SONAE for the sale, in 31 CTT post offices, of the Note.it stationery range, which is foreseen to expand to a further 96 post offices in 2014.
- Boosting of the sale of mail and third party products, incorporated in various thematic campaigns, aimed at the marketing of books, toys and Portuguese products.
- Strengthening of the CTT ticket office, through partnerships with new promoters, enabling national and regional offers, with events intended for different target groups and exclusive discounts for CTT customers and employees. In 2013, and for the first time, the CTT ticket office joined and attended the main summer festivals.
- Reinforcement of the classic lottery sale, with the expansion of its marketing to all the 51 extractions of this lottery.

Citizen's Bureaux Locations

Solutions of proximity for public administration may play a very important role in the development of services of the general economic interest (SGEI) within the CTT retail network.

In this context, special note should be made of a protocol with the Government for the installation of Citizen's Bureaux locations in the CTT retail network, with a pilot project in 22 own post offices that will be expanded progressively to all CTT post offices. The State intends to install around 1,000 Citizen's Bureaux locations spread throughout the entire country, with CTT being the principal partner with its 623 post offices. Driving license renewal, request of Social Security statements, land registry certificates or exemption from municipal property tax, submission of income tax returns or enrolment of students at school, are some of the tasks that can be done at these locations.

The joint work continues, with the pilot project having started up in the first quarter of 2014. However, it should be noted that the economic model of operation, operational issues and the necessary investment still need to be agreed upon between the parties.

2.2.3. Operations

The new structure of CTT created the Operations and Delivery Department on 1 January 2013, whose mission is the integrated management of collection, transport, processing and delivery operations in an efficient manner, assuring excellent quality of service and compliance with the universal service obligation, promoting synergies with all the company's business areas, in particular the express & parcels area, aimed at increasing efficiency and the creation of value.

The Transformation Programme defines a series of actions and initiatives to be developed in Operations and Delivery during 2013-2016, with particular focus on 2013 and 2014. The development and implementation of the initiatives in 2013 greatly surpassed the objectives that had initially been established, thus enabling not only a reduction in operating costs, higher productivity levels and improved operating efficiency, but also stronger synergy with the networks allocated to other CTT business. The identified actions involve the streamlining and reorganisation of the operational cycle and are grouped into 3 major lines of action: sorting, transport and delivery.

Sorting

During 2013, 2.8 million mail items per day were automatically sorted and divided directly to the delivery routes. Close to 1.7 million (+59.9%) were sequenced (door-to-door) automatically into 3,954 delivery routes of 185 postal delivery offices, representing 91% of the mail delivered daily through these delivery routes.

The sorting network is composed of 3 production and logistics centres, 6 logistics support centres and 1 business mail centre. The pursuit of the activities of the production and logistics centres is developed by 43 automated machines (of which 14 are mail sequencing machines) and 70 video encoding posts.

The organisation of the production and logistics centres was changed significantly, with these productive structures now operating with production lines - manual, automated, logistics and differentiated - which, being modular, are adaptable to the size of the different production and logistics centres. The activities for the sorting of ordinary mail have been centralised in the two main production and logistics centres (Lisbon and Maia), the shift work has been reorganised and higher efficiency has been promoted in processes. Particular note should also be made of the expansion of the activities to be developed in Taveiro production and logistics centre, namely concerning the mail manager and video encoding sorting that has been partially internalised and transferred to this centre.

The new parallel labelling system of the medium-sized mail sorting machine was also completed which will enable increasing the productivity of the equipment by around 6% to 8%, reducing the need for manual intervention in the correction of problems. And a prototype of the system for viewing the sorting machines operating at the production and logistics system of the south has been developed and implemented, in order to improve the discharge process, making it more flexible, safer and minimising handling errors.

The first phase of the postal address georeferencing project "GEO10" has also been completed, implying that by the end of the year over 3 million addresses will be georeferenced and characterised relative to 267 four-digit postal codes (112 municipalities), covering 74% of the Portuguese population and 26% of the area of its territory.

Postal automation continues to show excellent recognition results, with flats achieving decision rates for seven to ten-digit postal codes of 91% and 60%, respectively. Notwithstanding the above, in December 2013 the first phase of the project to improve the recognition and decision algorithms was implemented, which enabled gains above 4% in sorting to delivery routes and sequencing for flats and medium-sized mail items.

Transport

The transport network operates with 234 heavy vehicles (including CTT's own fleet and a contracted fleet, as well as trailers), which travelled approximately 41 thousand km/day.

Among the series of initiatives carried out, we highlight the reorganisation of the national transport network (named "primary" and "secondary" networks) and the renegotiation of transport service contracts (road, air and sea). The implementation of the measures regarding energy rationalisation of the transport and delivery fleet continued, and the preparation of the networks for the new system of goods in circulation has started.

Particular note should also be made of the following initiatives of an international scope:

- Start of the FR-EVUE project which involves the acquisition of electric vehicles for the city of Lisbon, co-financed by the European Commission, in which 32 partners of 8 European cities participated.
- Continuation of the implementation of the measures of the plan to rationalise the energy use of the transport and delivery fleet.

- Tightening of relations with the AT (Tax Authority) with a view to finding a solution, to be implemented in 2014, for the exchange of customs information in the fields of prior notice, electronic messages and interfaces with international bodies.
- Development, together with the IPC (International Post Corporation) of work in the area of international mail flow control. The *iPep* system was implemented during 2013, which enables the documental sending of traffic accounts and values between postal operators which are members of IPC. The Streamlining Process system was also implemented, thus allowing efficiency gains in the way that international mail is aggregated and dispatched.
- Concerning Lisbon Air Postal Centre, we highlight the introduction of the Nesting system, enabling prior notice of international mail sent from Lisbon exchange office.
- Involvement in projects of international scope in the areas of mail transport security and regulation of the air transport sector.

Delivery

The delivery network is composed of 285 postal delivery offices (CDP), including 102 delivery support centres, a service supporting delivery in Lisbon and another in Coimbra, and it manages 4,713 external delivery routes which travel around 222,000 km/day.

The fleet provided for the delivery duties is primarily composed of light vehicles, motorcycles and bicycles, approximately 30% being electric.

In 2013, the main objective of delivery activity was increased operational efficiency, based on four action lines:

- Promotion of new delivery models that are more efficient and aimed at meeting product service standards, through the implementation of delivery segmented by priorities at all postal delivery offices of mainland Portugal;
- Start-up of mail delivery with automatic sequencing, without any prior handling at postal delivery offices. Enabling increased efficiency in internal operations and creating conditions for the simultaneous delivery of manually and automatically sequenced mail. This new delivery methodology was implemented in 17 postal delivery offices of highly dense urban areas.
- Internalisation in the base delivery network of all business mail and part of EMS 48 (delivery service as of 2 business days in any point of mainland Portugal), formerly delivered by dedicated networks.
- Rationalisation of the physical structures, through the centralisation and aggregation of postal delivery offices.

During 2013, along with the higher efficiency of the operation, reliability of processes and commitment to excellent service quality, the focus continue to be placed on stimulation of the network of postmen and women, as the preferred proximity channel and network for the sale of products and services.

Special note should also be made of the effort developed for the use of environment friendly vehicles, with 124 electric bicycles having been provided at 80 postal delivery offices.

The new organisational structure integrated the operational management of the Mailmanager service and business mail centre of Pinheiro de Fora in the mail business area. This joint management enabled establishing a greater integration of all the mail operations with efficiency gains and the internalisation of some business mail delivery and Mailmanager activities, making the most of the available internal resources as a result of the different efficiency initiatives described above.

2.3. Express & Parcels

The revenues¹ of this business area reached 129.5 million Euros (17.6% of the consolidated total²) in 2013. This business area includes the activities of CTT Expresso (in Portugal), Tourline Express (in Spain) and CORRE (in Mozambique).

CTT's strategy involves the consolidation of the Iberian integrated service offer, cross-selling between different business areas and internationalisation to markets with important trade flows with Portugal.

Following the restructuring of CTT in March 2013, the same team was entrusted with leading Express & Parcel activity in Portugal and Spain. The objective of the integration of the two Iberian activities is to assure greater competitiveness, improve efficiency and integration in business management, creating a common offer in a market that will be managed in an aggregate manner, positioning CTT as one of the largest logistics and parcel operators in the Iberian Peninsula.

In **Portugal**, CTT offers its Express & Parcel customers (companies and individuals) national and international express services for collection, sorting, transport and delivery of documents and goods, as well as complementing solutions of integrated logistics and courier services. CTT maintains its leadership position in the domestic market with a market share of 28.6% in the fourth quarter of 2013 (source: ANACOM).

In terms of the offer of products and services, we highlight the improvement of the geographic coverage in terms of the Spain-Portugal flow for deliveries on the next business day and the project under development, the Easy Return Solution, enabling the receiver to return a parcel to the sender within the 21 member countries of the E-Parcel Group.

In the area of operations, it is important to refer to the Iberian integration of the communication systems, the provision of Track & Trace to search Iberian items on the CTT Expresso and Tourline Express websites, the provision of a volumetric weight simulator on the CTT Express website, and the existence of multibanco (electronic payment system) points along its entire network of national deliveries for the payment of collection charges by parcel receivers. All these initiatives seek to

¹ Include internal services rendered and intra-group transactions which are eliminated for purposes of consolidation.

² Excluding revenues relative to CTT's Central Structure and intra-group elimination amounting to -32.7 million Euros in 2013.

improve the offer for the B2C (Business to Consumer) segment responsible for the growth of this market.

In **Spain**, CTT has operated through Tourline Express since 2005. The mission of this company is to assure the transport, collection and delivery of urgent items, in a secure manner and within the time contracted by the customer. For such, it has a logistics structure and network of its own and franchised shops, covering the entire Spanish territory.

CTT is positioned in the TOP 10 of the Express & Parcel market in Spain, with a share of approximately 4%, according to the CEP Ibérico study conducted by IMR – Instituto de Marketing Research. A new commercial model has been implemented in order to meet the needs of business attraction, simplify commercial activity and maximise efficiency in collection and back-office processes.

In the activity developed in 2013, we highlight the intensification of the Iberian integrated consolidation of services, in terms of broadness of offer and geographic coverage. Reference should also be made to the mobility plan which, through the use of next generation PDA devices in the delivery area, enables digitising information on an item in real time, thus reducing administrative times and processes, increasing the reliability of information.

Based on more in-depth knowledge of the market and its recent evolution, a strategic plan is being defined for Tourline's network whose first impacts were already visible in 2013. This plan will identify the zones to be operated directly by the master and by franchised agents, and foresees the opening of new franchised or own points of sale with impact on sales and in cost reduction, embodying the objective of increased capillarity and assuring the renewal of franchising contracts whose profile is consistent with the network's commercial and financial sustainability requirements. This restructuring also includes the Pick-up/Drop-off (PuDo) coverage plan.

By the end of 2013, the Tourline network was composed of 230 points of sale, of which 184 were franchised, 30 its own branches and 16 distributors. Furthermore, and in order to maintain a physical presence as a factor of proximity, it has 46 delivery and collection points, mostly in traditional trade shops.

Also in **Mozambique**, CTT has been present in the Express & Parcel business since October 2010 with 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 object of CORRE is the provision of services relative to collection, sorting, transport and delivery of documents and goods that are urgent and express on the Mozambican and international market. It also offers courier, transport and logistics services.

The company aims to achieve leadership of the domestic express mail market in the short term, and in the medium term, also become one of the most important players in the Express & Parcel international market with Mozambique.

The company has expanded geographically, and now covers most provinces. It has an operational centre in Maputo, two owned branches and a postal centre at the airport. In each of the cities of

Beira, Nampula, Tete, Pemba, Lichinga, Xai-Xai and Quelimane it has an operational centre and its own branch. In Maxixe, in the province of Inhambane, operations for the collection, sorting and delivery of postal items have started at its own location. CORRE products and services are also available at all post offices of Correios de Moçambique, with national coverage, which has contributed to the rapid expansion of the business.

In 2013, as was the case in 2012, CORRE continued to prove itself as an excellent operator in the banking network, strengthening its offer with Millennium bim.

Close relations were maintained with SAPO-South African Post Office, to use the Johannesburg transit hub, thus enabling coverage of international routes with the different countries that are involved with this hub, as well as with CTT-Correios de Portugal which implements transit operations to European destinations.

2.4. Financial Services

The revenues¹ of this business area reached 60.9 million Euros (8.3% of the consolidated total²) in 2013. This business area includes the financial services of CTT, SA and PayShop activity.

In 2013, the execution of the strategy to revitalise CTT's financial business and to strengthen its positioning as a reference financial operator in the Portuguese market continued, , as well as the consolidation of the position of the Financial Services as the second largest business area of CTT in terms of EBITDA.

The product areas included in the Financial Services contributed in a distinctive manner to the final result that was achieved. Indeed, the Savings and Insurance area was largely responsible for the positive overall result achieved, due to the extraordinary growth observed in Capitalisation Insurance (52% in the amounts placed and 56% in revenue) and in Public Debt Securities (340% in values placed and 199% in revenue), as well as in tax payments with growth of 7.6% in the transactions, which had not occurred since 2006.

As noted above, the performance of the Financial Services in 2013 is inextricably linked to the market through the exceptionally strong drive in the Savings and Insurance area, meriting special reference:

- Heavy growth in the attraction of savings, reaching an accumulated value in the year of 2,200 million Euros, where the launch on 31 October of the new Treasury Certificates Poupança Mais are especially noteworthy, since they recorded subscriptions of around 600 million Euros in merely two months;
- Strong growth in the attraction of capitalisation insurance (52.1%), hurling CTT into a new historical peak in this product category;

¹ Include internal services rendered and intra-group transactions which are eliminated for purposes of consolidation.

² Excluding revenues relative to CTT's Central Structure and intra-group elimination amounting to -32.7 million Euros in 2013.

- Launch of a new PPR (retirement savings plan), with the respective subscriptions having exceeded the level of 2012 by 20.7%;
- Launch of two new property & casualty insurance products, Postal Proteção Miúdos (personal accidents for children) and Postal Patinhas (animal healthcare provider network).

2013 was also marked by the review of the agreements relative to strategic partners, reinforcing the existing base with a view to even greater joint success in a context of compatibility with the CTT privatisation process. The review of the agreements with partners in the savings area enables an important increase of sales commissions, which are now charged according to the volume placed rather than the service provided. This aims to ensure better alignment of objectives and incentives which enabled the achievement of the aforesaid growth, primarily in the second half of the year with respect to Savings and Treasury Certificates.

In payment solutions, PayShop, which in Portugal manages the largest network of cash payment in person with high capillarity and, above all, convenience, maintained high profitability and income growth levels. The strategy followed, in line with previous years, focuses on the extension of services and products to payments in the network when new customers join. In 2013, its more encompassing expansion to public transport passes and tickets was its main line of action.

Postal Bank

After an in-depth study in collaboration with strategic consultants on the opportunity and feasibility of creating a postal bank, CTT formally applied for a license from the Bank of Portugal on 5 August 2013. This project, which follows similar examples shown by most European postal operators and is a long-awaited ambition of the company, identifies and quantifies a market opportunity and represents an option for CTT.

The Board of Directors of the Bank of Portugal deliberated, on 27 November, to authorise the constitution of "Banco Postal S.A." under the terms of the project submitted on 5 August and based on certain assumptions to be verified. This authorisation is thus subject to a series of conditions, including: (i) the reaffirmation, by the new shareholders of CTT that the postal bank project will be implemented pursuant to the terms under which it was submitted and appraised by the Bank of Portugal, including with regard to the geographic coverage of the branch network; (ii) demonstration that the indirect qualifying shareholders in Banco Postal, S.A., arising from the CTT privatisation process, meet the conditions that assure healthy and prudent management of the institution, under the terms and for the purposes stipulated in article 103 of the RGICSF (Legal Framework of Credit Institutions and Financial Companies); and (iii) updating of the economic and financial forecasts, namely based on the conditions offered in the partnerships to be developed. The partnership for the marketing of consumer credit products, expected to be carried out in the first half of 2014, will be one of the issues that must be incorporated in this analysis.

The aforesaid authorisation also states that this is all conditional, prior to special registration at the Bank of Portugal and consequently to the start-up of the postal bank activity, pursuant to article 65 of the RGICSF, to the Bank of Portugal verifying that the aforesaid conditions have been met.

As noted, with this authorisation, CTT is not obligated to constitute the postal bank, but rather has the choice, which may be developed or not and must always be approved by the competent governing bodies of CTT, in order to comply with the conditions imposed by the Bank of Portugal. The appraisal of this option will take place in 2014, when the decision must be made on the use of the license obtained on 24 November 2013.

3. FINANCIAL REVIEW AND CTT SHARE PERFORMANCE

3.1. Financial review

This section summarises the consolidated results achieved by CTT and the consolidated assets, liabilities and financial position as at 31 December 2013. This section should be read in conjunction with the consolidated financial statements and accompanying notes.

The Group has fully consolidated the financial statements of all controlled companies. Significant intra-group transactions and balances are eliminated in the consolidation process. This analysis includes the consolidation of the activities of the parent company and of the following subsidiaries:

CTT – Correios de Portugal, SA (parent company)	
PostContacto – Correio Publicitário, Lda	100%
CTT Expresso – Serviços Postais e Logística, SA	100%
Tourline Express Mensajería, SU	100%
PayShop (Portugal), SA	100%
CORRE – Correio Expresso de Moçambique, SA	50%
CTT GEST – Gestão de Serviços e Equipamentos Postais, SA	100%
Mailtec Group	100%
EAD – Empresa de Arquivo de Documentação, SA	51%

Consolidated income statement

€ thousands	31.12.2013	31.12.2012	Δ% 13/12
Revenues	704,847	714,225	-1.3
Sales and services rendered	690,069	699,332	-1.3
Sales	22,342	24,300	-8.1
Services rendered	667,726	675,033	-1.1
Other operating income	14,778	14,893	-0.8
Own works	333	572	-41.8
Other revenues	14,445	14,322	0.9
Operating costs excluding impairments, provisions, depreciation and non-recurring costs	581,919	603,234	-3.5
Cost of sales	16,906	18,543	-8.8
External supplies and services	237,292	246,416	-3.7
Staff costs	317,480	326,666	-2.8
<i>Current costs</i>	314,732	323,340	-2.7
<i>Employee benefits</i>	2,748	3,326	-17.4
Other operating costs	10,241	11,608	-11.8
Earnings before depreciation, impairments, non recurring results, interest and taxes (recurring EBITDA)	122,928	110,992	10.8
Impairment of inventories and accounts receivable, net	2,321	798	190.8
Provisions, net	(118)	2,857	-104.1
Impairment of non-depreciable assets			-
Depreciation/amortisation and impairment of investments, net	24,611	24,636	-0.1
Earnings before non-recurring results, financial income and taxes (recurring EBIT)	96,113	82,701	16.2
Company restructuring (costs)	(3,623)	6,653	-154.5
Privatisation costs	4,422	0	-
Other non-recurring income and costs	8,079	19,077	-57.7
Earnings before interest and taxes	87,236	56,971	53.1
Financial results, net	(4,003)	(4,379)	8.6
Gains/losses in associated companies	21	240	-91.5
Earnings before taxes (EBT)	83,253	52,832	57.6
Income tax for the period	(22,148)	(16,865)	31.3
Net profit before non-controlling interests	61,105	35,967	69.9
Net profit attributable to non-controlling interests	89	232	-61.5
Net profit for the period attributable to Equity holders	61,016	35,735	70.7

In the financial year of 2013, CTT achieved a consolidated net profit of 61.0 million Euros, 70.7% (+€25.3m) above that of the same period of the previous year. This result corresponds to consolidated earnings per share of 0.41 Euros and a return on equity of 22.2%.

Earnings before non-recurring items, interest and taxes (recurring EBIT) came to 96.1 million Euros, 16.2% higher than that of the same period of the previous year, with the EBIT margin increasing by 2.0 p.p. to 13.6%.

Operating activity generated earnings before non-recurring items, interest, taxes, impairments, depreciation and amortisation (recurring EBITDA) of 122.9 million Euros, 10.8% (€11.9m) above that obtained in the same period of the previous year, with an EBITDA margin of 17.4% compared to 15.5% on 31 December 2012.

These results reflect a reduction in operating costs (excluding impairments, provisions, depreciation/amortisation and non-recurring costs) of 21.3 million Euros (-3.5%), which exceeded by far the decrease of 9.4 million Euros (-1.3%) in revenues. As previously communicated, the strategy of the Group is based on compensating the decline of mail volumes through the use of three levers: i) increasing prices; ii) increasing the weight of the other businesses and, if this is not sufficient, iii) with an increase in efficiency enabling a decrease in operating costs that exceeds the decline in revenues.

On 31 December 2013, CTT recorded a non-recurring loss of 8.9 million Euros, resulting fundamentally from the costs associated to the process of conclusion of agreements involving the suspension of employment contracts, indemnities paid under mutually agreed terminations, costs associated to the company's privatisation process and strategic studies, impairments of investment properties and of the restructuring for optimisation of the franchised network of Tourline, adjustment for the provisions of onerous contracts, net increase of provision for labour contingencies, being offset against the gain obtained with the reformulation of the employee benefits of the telephone subscription charge.

As a result, earnings before interest and taxes came to 87.2 million Euros, 30.3 million Euros (+53.1%) above those recorded on 31 December 2012, a year in which the provision for labour contingencies in the amount of 11.3 million Euros was recognised and 12.6 million Euros of costs associated to the process of conclusion of agreements involving the suspension of employment contracts, which were partially offset against the gain obtained with the decrease of the retirement benefit (6.6 million Euros), were recorded.

Financial results (revenues of 7.9 million Euros and costs of 11.9 million Euros, the latter resulting from financial costs with the maintenance of the present value of employee benefits, which represent 97.8% of total financial costs) was negative by 4.0 million Euros, reflecting a decline of 3.8% relative to 31 December 2012. Financial costs declined 4.9 million Euros (-29.2%), with emphasis on the reduction of financial costs with employee benefits of 4.5 million Euros, arising from the cuts in benefits occurred in 2012 and 2013. Interest income fell 4.5 million Euros (-36.4%) due to the decline in the interest rates of cash investments, although partially offset by the increase in the volume of financial investments, as a result of both the activity of the company and

cash management efficiency. On the other hand, the gains in associated companies fell 91.5% (-€0.2m).

Consequently, earnings before taxes and non-controlling interests (EBT) came to 83.3 million Euros, 57.6% more than that recorded in 2012.

3.1.1. Revenues

Consolidated revenues came to 704.8 million Euros, decreasing 1.3% (-€9.4mm) in comparison to 2012. Although the operating activity of CTT is still under the effects of the adverse economic environment, its impact on turnover has been softened, also due to the various measures implemented by the company.

Revenues			
€ thousands	31.12.2013	31.12.2012	Δ% 13/12
Sales and services rendered	690,069	699,332	-1.3
Sales	22,342	24,300	-8.1
Services rendered	667,726	675,033	-1.1
Other operating income	14,778	14,893	-0.8
Own works	333	572	-41.8
Other revenues	14,445	14,322	0.9
Revenues	704,847	714,225	-1.3

Sales and services rendered came to 690.1 million Euros, 1.3% (-€9.3m) less than in 2012.

This caption includes:

i) postal activity and unaddressed mail, which comprise the Mail segment; ii) express and parcel services rendered, corresponding to the Express & Parcels segment; iii) postal financial services rendered and payment solutions via PayShop, which represent the Financial Services segment; iv) mail production activities for large customers, representing the printing & finishing areas and the archiving of documentation activity, comprising the Business Solutions segment.

Sales came to 22.3 million Euros, 8.1% (€2.0m) below the value recorded in the corresponding period in 2012, mainly in CTT SA due to the reduction in the sales of products which by their nature had a reduced trading period, namely electronic vehicle identification devices and digital terrestrial television.

Services rendered, which came to 667.7 million Euros, declined 7.3 million Euros (-1.1%), which impacted almost all the consolidated companies. In Mail, addressed mail declined 7.3%, significantly offset by the increase in prices and the demand for higher value added products. The increase in revenues from Financial Services, namely in savings products and insurance, where public debt securities and capitalisation funds/ retirement savings increased 126.5% and 54.0%, respectively, is also noteworthy. In this area, growth in the fourth quarter of 2013 was particularly relevant, incorporating the renegotiation of partnerships and the new Poupança Mais Treasury Bills. In services rendered of the Business Solutions segment, the 13.4% decline in the printing & finishing

services is noteworthy. The Express & Parcels segment grew 1.2%, reflecting the growth in volumes of 4.4% in Portugal and 11.4% in Spain, mainly in the last quarter of the year.

Other operating income decreased 0.8% (-€0.1m), with CTT SA accounting for 0.09 million Euros of that reduction. This caption includes own work capitalised, with a decrease of 41.8% (-€0.2m) and also other operating income with an increase of 0.9% (€0.1m). The increase in operating financial income from 2.5 million Euros in 2012 to 3.3 million Euros in 2013 is worthy of note, reflecting a growth of 29.7% (€0.8m), driven by the higher volume of funds in circulation of customers and partners, resulting from the increase in the placement of savings products and also of payment of taxes in CTT stores. On the other hand, there was a decrease of 0.7 million Euros in non-financial investments in CTT, namely due to the reduction of deferred gains.

The business of CTT is divided into segments as follows:

- Mail – CTT SA excluding Financial Services, Business Solutions area and Corporate and Support areas, and including PostContacto, Mailtec Processos and CTT Gest;
- Business Solutions - includes Mailtec Consultoria, Mailtec Comunicação, EAD and the Business Solutions area of CTT SA.
- Express & Parcels – includes CTT Expresso, Tourline and Corre;
- Financial Services - Payshop and Financial Services of CTT SA;

The segments cover the three markets where CTT operates:

- Postal Market, covered by the Mail and Business Solutions area;
- Express and Parcels Market, covered by the Express & Parcels area;
- Financial Market, covered by the Financial Services area.

In addition to the four segments mentioned above, there are two sales channels, cutting across all businesses and products, the Retail Network and Large Customers. The Retail Network, being associated to the obligations within the scope of the concession of the universal postal service, is for the purposes of this analysis incorporated in the Mail segment and includes the revenues related to its internal services rendered to other segments, as well as the sale of products and services of third parties undertaken in its network.

For the purposes of EBITDA, the information concerning the corporate and support areas is allocated to the different departments of CTT SA according to the revenues related to its internal services rendered to other segments, with the remainder allocated according to the number of employees in each segment.

31.12.2013 Revenues by segment

€ thousand	Mail	Express & Parcels	Financial Services	Business Solutions	CTT Central structure	Intragroup eliminations	Revenue
Sales and services rendered	490,342	127,964	57,304	20,256	0	-5,798	690,069
Sales	21,094	1,269	0	0	0	-20	22,342
Services rendered	469,248	126,695	57,304	20,256	0	-5,778	667,726
Other operating income	35,216	1,557	3,556	1,372	89,244	-116,166	14,778
Intragroup revenues	0	0	0	0	17,172	-17,172	0
Revenues	525,558	129,521	60,860	21,628	106,416	-139,136	704,847

31.12.2012 Revenues by segment

€ thousand	Mail	Express & Parcels	Financial Services	Business Solutions	CTT Central structure	Intragroup eliminations	Revenue
Sales and services rendered	499,695	126,655	54,320	21,666	1,121	-4,124	699,332
Sales	23,008	1,305	0	0	0	-14	24,300
Services rendered	476,687	125,350	54,320	21,666	1,121	-4,111	675,033
Other operating income	36,262	1,343	3,353	1,333	60,921	-88,320	14,893
Intragroup revenues	0	0	0	0	54,589	-54,589	0
Revenues	535,957	127,998	57,673	22,999	116,631	-147,033	714,225

The Mail segment, which includes the core revenues of CTT and represents the greatest weight in the volume of revenues, with a total of 525.6 million Euros in 2013, only decreased 1.9% in comparison to the same period of the previous year, driven by the decrease in addressed mail volumes (-7.3%), largely offset by the increase in prices undertaken in 2013 (4.2% on average).

The Express & Parcels segment, with 129.5 million Euros, increased 1.2%, with the growth in Tourline and CTT Espresso, in the last quarter of 2013.

Financial Services with revenues of 60.9 million Euros, stemming primarily from services rendered paid through commissions, increased 5.5% relative to the same period of 2012. The growth of 81.2% in revenues from savings products and insurance, due to the increase in rates in the insurance component, and the increase in volume of the value of subscriptions, is noteworthy. Furthermore, public debt securities grew 126.5%, due to the increase in rates (resulting from the renegotiation of the agreement with IGCP) and the substantial increase in placements, particularly in the second half of 2013. It is also important to mention the growth of revenues via the payment of taxes of 10.6%, as a result of the sales effort undertaken by the retail network.

Business Solutions recorded revenues of 21.6 million Euros, down 6.0% relative to the previous year, namely in the printing/finishing area, as a result of intense competition in this market, with pressure on prices felt when renegotiating some medium to long term contracts.

As a result of the new macrostructure and the change in the methodology of information reporting, the Central Structure began to directly invoice the segments, by internal prices and by services rendered to the subsidiaries, a much higher share of the services rendered, with the value subsequently imputed being less than 16% (based on the number of employees).

In this regard, other operating income of the Central Structure increased 46.5%, substantially reducing (-68.5%) the share that is subsequently allocated to the business areas by number of employees and not by services effectively rendered.

The consolidated revenues of the Central Structure stem from the business support central services and from costs incurred in these areas, having declined 8.8% due mainly to the decrease in external supplies and services and staff costs occurred in CTT SA and which are reflected in the Central Structure.

3.1.2. Operating costs¹

Operating costs in 2013 came to 581.9 million Euros, reflecting a decrease of 21.3 million Euros (-3.5%) relative to the value registered in 2012. Staff costs and external supplies and services represent 54.6% and 40.8%, respectively, in the operating cost structure excluding impairments, provisions, depreciation/amortisation and non-recurring costs. Collectively, both represent 95.3% of this caption.

Operating costs			
€ thousands	31.12.2013	31.12.2012	Δ% 13/12
Cost of sales	16,906	18,543	-8.8
External supplies and services	237,292	246,416	-3.7
Staff costs, of which	317,480	326,666	-2.8
<i>Current costs</i>	314,732	323,340	-2.7
<i>Employee benefits</i>	2,748	3,326	-17.4
Other operating costs	10,241	11,608	-11.8
Operating costs	581,919	603,234	-3.5

The cost of sales came to 16.9 million Euros, 8.8% (-€1.6m) less than at 31 December 2012. This decline is directly related to the decrease in the sale of products, particularly products sold directly by the retail network, as a result of the greater focus on the sale of higher value added products (savings, for example).

Recurrent external supplies and services decreased 3.7% (-€9.1m) in relation to 2012, with CTT SA and the Mailtec Group standing out with the largest favourable variations, in a total decrease of 11.0 million Euros, of which 9.3 million Euros stem from greater efficiency in the management of outsourcing (the partial renegotiation of the outsourcing agreement with IBM is noteworthy), the optimisation of mail transportation, the reduction in maintenance and repair costs and, conversely, the increase of 2.2 million Euros for the expansion of the transport network in Tourline, namely with the addition of own areas.

¹ COGS + ESS + Staff costs + other operating costs

Recurrent **staff costs** came to 317.5 million Euros, 9.2 million Euros less in relation to the previous year. The reduction of staff, both permanent and with fixed term contracts, which came to 6.2%, and a better management of the working hours and of the operating cycle led to a decrease in staff costs of 2.8% relative to the same period of the previous year. It is important to mention that 14 months of salary were paid in 2013, whereas only 13 months were accounted for in 2012, as a result of the measures of the Economic and Financial Adjustment Programme. The associated savings in 2012 came to 17.3 million Euros.

Current costs associated to **employee benefits**, which essentially includes captions associated to health care and other post-retirement benefits from CTT SA, came to 2.7 million Euros on 31 December 2013, representing a decrease of 17.4% (-€0.6m).

The estimated actuarial liabilities on 31 December 2013 came to less than 4.8 million Euros (-1.6%) than that registered at the end of the same period of the previous year. The increase in the health care plan (€10.6m) arising from the variation of the population, and conversely, the reduction of all the other benefits, namely, 4.3 million Euros less in liabilities associated with agreements involving the suspension of employment contracts (-18.0%) and 9.4 million Euros (-66.3%) less for the change to the "telephone subscription charge" benefit in 2013, are noteworthy.

Other operating costs of 10.2 million Euros fell by 11.8% (-€1.4m) with emphasis on the decrease of the caption with reference to the concession rent, which fell 0.9 million Euros due to the reduction of the reserved service.

In terms of operating costs by segment, Mail registered a decrease in operating costs of 4.4% and Business Solutions registered a decrease of 9.6%, and conversely, Express & Parcels and Financial Services registered an increase in costs relative to the same period of the previous year of 1.7% and 3.5%, respectively.

The Mail segment concentrates a significant volume of operating costs (€441.1m), since it includes the functions of sorting, delivery, mail transport and the retail network, which are areas of major significance, particularly in terms of number of workers.

The operating costs of Express & Parcels increased, as a result of the ongoing transformation plan in this segment, which involves expanding the number of own areas in Spain, to boost the growth of sales, with a focus on B2C.

In Financial Services, the higher operating costs were due to the increase in the number of incentive campaigns in 2013, to boost the growth of savings products and the payment of taxes.

31.12.2013 Operating costs by segment

€ thousand	Mail	Express & Parcels	Financial Services	Business Solutions	CTT Central structure	Intragroup eliminations	Operating costs
External supplies and services	99,926	96,125	10,705	9,320	51,269	-30,054	237,292
Staff costs	232,473	22,935	3,177	7,161	51,734	0	317,480
Other operating costs	91,663	1,806	19,442	2,734	3,413	-91,911	27,147
CTT Central structure allocation	17,029	0	129	14	0	-17,172	0
Operating costs	441,092	120,866	33,452	19,229	106,416	-139,136	581,919

31.12.2012 Operating costs by segment

€ thousand	Mail	Express & Parcels	Financial Services	Business Solutions	CTT Central structure	Intragroup eliminations	Operating costs
External supplies and services	106,278	92,716	9,188	9,913	55,329	-27,008	246,416
Staff costs	236,241	23,927	3,190	7,970	55,338	0	326,666
Other operating costs	64,629	2,212	19,539	3,244	5,964	-65,436	30,151
CTT Central structure allocation	54,036	0	405	147	0	-54,589	0
Operating costs	461,184	118,855	32,322	21,274	116,631	-147,033	603,234

In the total of other costs and the allocation of the CTT central structure, Mail stands out for the largest portion of the Central Structure invoiced to segments for services rendered internally to the CTT universe (portion included in the other costs caption). This impact is offset by a lower allocation of costs of the Central Structure, undertaken subsequently and taking into consideration the number of workers per segment.

The difference between other costs and the allocation of the Central Structure is due to the implementation of a policy of direct allocation of central costs based on their effective use. In comparative terms, 31 December 2013 vs 31 December 2012, operating costs with the Central Structure declined 10.2 million Euros (-8.8%), within the scope of various efficiency measures within the transformation programme underway.

3.1.3. RECURRING EBITDA

Recurring EBITDA¹ achieved a total of 122.9 million Euros, corresponding to a margin of 17.4%, increasing 1.9 p.p. relative to the value achieved in 2012.

Recurring EBITDA

€ thousands	31.12.2013	31.12.2012	Δ% 13/12
Revenues	704,847	714,225	-1.3
Operating costs excluding impairments, provisions, depreciation and non-recurring costs	581,919	603,234	-3.5
Recurring EBITDA	122,928	110,992	10.8

¹ Recurring EBITDA = Operating results + amortisation and depreciation + net change of provisions and impairment losses (does not include non-recurring expenses – company restructuring, impairment of investment properties, provisions for onerous contracts and labour contingencies).

The performance of the EBITDA of CTT was underpinned by the Mail and Financial Services segments, which collectively represented, on 31 December 2013, 91.0% of the consolidated EBITDA, with Mail on its own representing 68.7%.

The EBITDA margin of the Mail segment grew from 14.0% to 16.1%, as a result of the lower decline in revenues relative to the decline in activity (volumes) and of the operating efficiency measures with a strong impact on external supplies and services and staff costs. The Financial Services segment, which is remunerated based on sales commissions, presents high EBITDA margins (45.0%) when compared to the other segments, also registering an increase of 1.0 p.p. from 2012 to 2013. The Business Solutions and Express & Parcels segments were more affected by the economic climate, which led to increased competition in these markets and a lower level of activity, reaching EBITDA margins of 11.1% and 6.7%, respectively. The EBITDA of Business Solutions also grew 3.6 p.p., with cost reductions having exceeded the decline in revenues.

31.12.2013 Recurring EBITDA by segment

€ thousand	Mail	Express & Parcels	Financial Services	Business Solutions
Revenues	525 558	129 521	60 860	21 628
Operating costs	441 092	120 866	33 452	19 229
Recurring EBITDA	84 466	8 655	27 408	2 399
Recurring EBITDA margin	16.1%	6.7%	45.0%	11.1%

31.12.2012 Recurring EBITDA by segment

€ thousand	Mail	Express & Parcels	Financial Services	Business Solutions
Revenues	535 957	127 998	57 673	22 999
Operating costs	461 184	118 855	32 322	21 274
Recurring EBITDA	74 773	9 143	25 351	1 725
Recurring EBITDA margin	14.0%	7.1%	44.0%	7.5%

3.1.4. Amortisation, Impairments and Provisions

Recurring depreciation, amortisation and investment impairments came to 24.6 million Euros, down 0.03 million Euros (-0.1%) relative to 2012.

Recurring **provisions** reflected a net reversal of 0.1 million Euros, and the values relative to the variation of **impairment losses** (net increase of 2.3 million Euros) correspond to the net amounts of the changes in impairments in inventories, accounts receivable and other accounts receivable, of which 2.0 million Euros correspond to a net increase of customer impairments and other debtors in Tourline and 0.7 million Euros in CTT Expresso. Conversely, CTT SA, PayShop and the Mailtec Group presented a total net reversal of 0.4 million Euros. In 2012 there was also a reversal of 2.2 million Euros in impairments of inventories in CTT SA.

3.1.5. Non-recurring results

On 31 December 2013, CTT recorded a non-recurring loss of 8.9 million Euros, which includes i) an increase of 1.8 million Euros related with the provision to meet contractual liabilities relating to onerous contracts of vacant buildings; ii) an increase in impairment losses with investment properties

(€1.1m), resulting from the reorganisation process of the retail network through the transformation programme; iii) a net increase of the provision for labour contingencies (€3.9m); iv) the recognition of costs of 1.9 million Euros related to liabilities arising from the agreements for suspension of employment contracts; v) 0.6 million Euros for changes in actuarial assumptions in agreements to suspend employment contracts (increase of the retirement age to 66 for Social Security staff); vi) 1.2 million Euros of costs for termination of employment contracts by mutual agreement, within the scope of the transformation programme; vii) the reformulation of the employee benefits of the telephone subscription charge (-€8.2m) viii) costs with the privatisation process of the company and strategic studies (€4.8m); ix) Impairments of 1.2 million Euros resulting from the restructuring to optimise the Tourline network; and x) 0.4 million Euros of costs with the acquisition of Tourline customer portfolios, within the scope of the ongoing plan in the Express & Parcels segment.

3.1.6. Recurring EBIT

Earnings before non-recurring items, interest and taxes (recurring EBIT) came to 96.1 million Euros, an increase of 13.4 million Euros in relation to 2012, since the decline registered in revenues (-€9.4m) was less than the decrease in total recurring operating costs including impairments, provisions and depreciation and amortisation (-€22.8m).

3.1.7. Financial results

CTT has implemented a Cash Management process for the management of financial flows, which represent a global movement of more than 10 billion Euros annually. This process aims at an increasingly centralised treasury management by the Treasury Committee. There have been significant improvements in terms of the processing and integration of daily treasury information of the CTT universe, coinciding with an increase in the average cash funds available for financial investments, which results in an improved financial management of the company's liquidity.

The Treasury Committee meets on a quarterly basis and is a forum for the regular analysis of financial performance and the sharing of best practices between different areas. The year of 2013 was a year for the deepening of the Committee, which had an important impact on improving the company's cash forecast capability and on the analysis and determination of the best investment opportunities for the available balances. These competencies were important in mitigating financial risk and maximising financial resources.

In 2013, the returns on financial investments were negatively affected by the remuneration limits imposed by the Bank of Portugal in November 2011. Additionally, in the second half of the year, the banking sector reduced the remuneration of deposits below the limits of the Bank of Portugal, given

the more comfortable liquidity situation of the Portuguese banking industry. The fall in returns was partially offset by the increase in the volume of financial investments, as a result of both the activity of the company and cash management efficiency.

In 2013 net consolidated financial results came to -4.0 million Euros, improving 0.2 million Euros relative to 2012. The volume of interest income was directly influenced in 2013 by the decrease in interest rates registered during the year, falling 36.4% in relation to 2012.

Financial results			
€ thousands	31.12.2013	31.12.2012	Δ% 13/12
Interest income	7,872	12,382	-36.4
Interest expenses	11,874	16,761	-29.2
<i>Interest expenses (financial)</i>	255	669	-61.9
<i>Interest costs with employee benefits (Accounting)</i>	11,619	16,091	-27.8
Gains/losses in associated companies	21	240	-91.5
Financial results	(3,982)	(4,139)	-3.8

A prudent investment policy was maintained, with a view to monitoring the flow of the CTT cash generating units. Short term cash investments follow financial risk diversification criteria, both in terms of maturities and institutions, which are reviewed and updated on a regular basis.

Interest expenses incurred in 2013 reached 11.9 million Euros, which includes the costs with employee benefits of 11.6 million Euros (compared to 16.1 million Euros on 31 December 2012, a 27.8% decrease due to the reduction of health benefits in 2012), and interest associated to financial leasings and bank loans (€0.3m).

3.1.8. Income tax

Income tax amounted to 22.1 million Euros as at 31 December 2013, 31.3% more than in the same period of the previous year, resulting from an EBT 57.6% higher than that achieved in 2012, with over 30.4 million Euros. The effective income tax rate was 26.6%, mainly due to the effect of deferred taxes.

3.1.9. Net Profit, Profitability and GVA (Gross Value Added)

CTT achieved a consolidated net profit of 61.0 million Euros for the financial year ended on 31 December 2013, 70.7% more than in 2012, corresponding to consolidated earnings per share of 0.41 Euros, a net margin of 8.7% and a return on equity of 22.2%.

Net profit was negatively impacted by non-recurring costs related to the privatisation of 4.4 million Euros, which was concentrated in the fourth quarter of 2013, affecting the growth of results obtained in this quarter.

Net Profit

€ thousands	Net profit reported		Net profit recurring *		
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	Δ% 13/12
Revenues	704,847	714,225	704,847	714,225	-1.3
Operating costs	582,718	609,887	581,919	603,234	-3.5
EBITDA	122,129	104,339	122,928	110,992	10.8
<i>EBITDA margin</i>	17.3%	14.6%	17.4%	15.5%	1.9 p.p.
EBIT	87,236	56,971	96,113	82,701	16.2
<i>EBIT margin</i>	12.4%	8.0%	13.6%	11.6%	2.0 p.p.
Earnings Before taxes	83,253	52,832	92,131	78,562	17.3
Income tax for the period	22,148	16,865	24,510	25,078	-2.3
Losses (gains) attributable to non-controlling interest	89	232	89	232	-61.5
Net profit for the period	61,016	35,735	67,532	53,252	26.8

* Recurring net profit is not audited, nor subject to limited revision. Excludes non-recurring costs from net profit and includes income tax at the average tax rate of reported net profit.

Return on equity increased 9.2 p.p., from 13.0% on 31 December 2012 to 22.2% on 31 December 2013, as a result of the 70.7% increase in net profit.

The Return on Invested Capital (ROIC) of 15.7% and the Return on Capital Employed (ROCE) of 14.3% increased 5.8 p.p. and 5.0 p.p., respectively, in relation to 2012, primarily due to the 53.1% increase in earnings before interest and taxes.

Returns on Capital

	31.12.2013	31.12.2012	Δ% 13/12
Return on Equity (ROE) ⁽¹⁾	22.2%	13.0%	9.2 p.p.
Return on Invested Capital (ROIC) ⁽²⁾	15.7%	9.9%	5.8 p.p.
Return on Capital Employed (ROCE) ⁽³⁾	14.3%	9.3%	5.0 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 generated gross value added reached 404.6 million Euros corresponding to a GVA/average no. of employees of about 31.4 thousand Euros, 12.4% more than that registered in the previous year, and is essentially due to the reduction in the average no. of employees and the growth of net profit. This indicator shows the effort to optimise operations and maximise productivity of resources, with a GVA increase per worker.

Gross Added Value (GAV)

	31.12.2013	31.12.2012	Δ% 13/12
GAV (Delivery)- € thousand	404,647	383,646	5.5
Average Staff	12,904	13,756	-6.2
GAV (Delivery)/Staff (€)	31,358	27,889	12.4

3.1.10. Capex

The capex of the Group reached approximately 13.0 million Euros, 7.5% down from the previous year, and was specifically directed towards the reinforcement of productive infrastructures and the development of projects concerning information systems and technologies. There are ongoing investments in 2013, which will increase the capex for 2014.

3.1.11. Financial position and cash flow

The comparison of the consolidated statements of financial position on 31 December 2013 and the end of the financial year 2012, regarding the balance sheet components, reveals i) an increase in the net assets of 37.0 million Euros (3.5%), standing at the end of 2013 at 1,100 million Euros, a variation which occurred mainly through an increase in cash and cash equivalents (€55.6m; 11.4%); and ii) a decrease of tangible assets, intangible assets and investment properties of approximately 14.6 million Euros, since the investment was not enough to offset the depreciation and amortisation of the year.

Consolidated Balance Sheet

€ thousands	31.12.2013	31.12.2012	Δ % 13/12
Non-current assets	391,697	405,398	-3.4
Current assets	708,437	657,783	7.7
Total assets	1,100,134	1,063,180	3.5
Equity	275,934	273,481	0.9
Total liabilities	824,200	789,699	4.4
<i>Non-current liabilities</i>	334,742	340,285	-1.6
<i>Current liabilities</i>	489,458	449,414	8.9
Total equity and liabilities	1,100,134	1,063,180	3.5

In relation to **liabilities** of 824.2 million Euros, 34.5 million Euros more than in December 2012, it is important to highlight the increase in accounts payable (€42.7m; 12.2%), primarily resulting from the increase in creditors of the postal financial services of the parent company of approximately 51.4 million Euros, due to the strong increase in activity, particularly in the placement of savings products and the payment of taxes.

Liabilities with employee benefits on 31 December 2013 came to 298.5 million Euros, 1.6% less in relation to December 2012, and include the global liabilities of CTT with future expenses associated to post-retirement health benefits (€263.4m) and the long term liabilities associated to agreements involving the suspension of employment contracts (€19.7m) and other benefits (€15.4m).

Emphasis is also given to the reformulation of the telephone subscription charge, in 2013, which allowed a reduction in the liabilities of this benefit of approximately 8.2 million Euros. Conversely, there was an increase in the liabilities with health care of 4.2 % (€10.6m) due to the inclusion, in 2013, of the liabilities with workers in suspension agreements (and their spouses and children) and also the spouses and children of workers who died during the active period, in addition to the normal population variations.

Liabilities with long term employee benefits

€ thousands	31.12.2013	31.12.2012	Δ% 13/12
Liabilities	298,543	303,316	-1.6
Healthcare	263,371	252,803	4.2
Staff (suspension agreements)	19,744	24,084	-18.0
Other long term benefits	15,428	26,429	-41.6

As at 31 December 2013, equity amounted to 275.9 million Euros, up 0.9% (€2.5m), with net profit of 2013 offsetting the actuarial losses of 8.5 million Euros, as well as the distribution of dividends of 2012, which included an extraordinary dividend of 11.4 million Euros.

The number of shares increased from 17,500,000 to 150,000,000.

During the year ended on 31 December 2013, the **free operating cash flow** stood at 110.4 million Euros, compared to 117.9 million Euros as at 31 December 2012, and the **free cash flow** stood at 55.6 million Euros, 7.5 million Euros (-11.9%) below the same period of the previous year.

Cash flow

€ thousands	31.12.2013	31.12.2012	Δ% 13/12
Cash flow from operating activities	109,430	130,604	-16.2
Cash flow from investment activities	1,009	(12,746)	107.9
Operating free cash flow	110,439	117,858	-6.3
Cash flow from financing activities	(54,866)	(54,814)	-0.1
Net change in cash and cash equivalents (free cash flow)	55,572	63,044	-11.9

Operating activities generated cash flows of 109.4 million Euros, 16.2% less than in 2012. This decrease of 21.2 million Euros resulted primarily from i) the reduction in the collections from customers of 43.0 million Euros (-6.0%), reflecting the decline of 10.4 million Euros in revenues in the Mail segment, resulting from the decline in addressed mail, and the increase of the average collection period ii) the increase in payments to staff of 14.5 million Euros (4.9%) via the resumption of the payment of holiday and Christmas bonuses in 2013 of all workers, an effect mitigated by the reduction in average headcount of 6.2%) iii) the 3.6 million Euros reduction in the payment with reference to income tax and iv) the increase in other collections/payments of 38.2 million Euros related to financial services due to the strong increase of subscriptions/placements, especially for public debt securities, insurance and taxes.

Investment activities generated cash flows of 1 million Euros in 2013 and consumed a net flow of 12.7 million Euros in 2012. The increase of 13.8 million Euros (107.9%) was mainly due to a decrease in the payments of tangible and intangible fixed assets of approximately 12.7 million Euros, resulting in a more rational management of resources, which resulted in a lower level of investment. Financing activities remained virtually unchanged, consuming a net flow of 54.9 million Euros in 2013.

3.1.12. Non-current assets

Non-current assets amounted to 391.7 million Euros as at 31 December 2013, 3.4% below the value recorded in December 2012. This decrease in non-current assets, particularly in tangible assets, reflects that the investment made was not enough to offset the depreciation and amortisation of the year, the latter at a high level as a result of investments made in recent years, particularly in mail sorting centres. Depreciation and amortisation are greater than the need for replacement investment.

Non-current assets			
€ thousands	31.12.2013	31.12.2012	Δ% 13/12
Tangible fixed assets, investment properties and intangible assets	260,176	274,801	-5.3
Goodwill	25,084	25,529	-1.7
Investments in associated companies	711	690	3.0
Deferred tax assets	103,645	102,229	1.4
Other non-current assets	2,082	2,149	-3.1
Total non-current assets	391,697	405,398	-3.4

3.1.13. Financing

The funding is focused on financial leasing operations related to the construction of operating facilities and the acquisition of basic equipment (particularly in companies held in partnership) and on bank loans in Tourline and CORRE to finance operating activities, emphasizing the cash pooling system used by CTT.

The calculated net debt is negative, effectively constituting liquidity after financial debt and liabilities with employee benefits. Liquidity stood at 19.9 million Euros, increasing 47.1% (€6.4m), by reducing the interest-bearing financial debt by 38.7% and by reducing liabilities with post-employment benefits by 1.6%.

Net debt			
€ thousands	31.12.2013	31.12.2012	Δ% 13/12
Financial debt	6,999	11,418	-38.7
Bank loans and other loans	2,481	5,593	-55.6
Financial leasings	4,518	5,825	-22.4
Net cash	236,818	240,177	-1.4
Net financial debt	(229,819)	(228,759)	0.5
Liabilities with employee benefits	298,543	303,316	-1.6
Deferred tax assets related to employee benefits	(88,655)	(88,102)	0.6
Net debt (incl. Liabilities with employee benefits)	(19,930)	(13,545)	47.1

The interest-bearing financial debt of CTT SA came to approximately 7.0 million Euros (4.5 million Euros of financial leases and 2.5 million Euros of short term bank loans) on 31 December 2013, compared to 11.4 million Euros on 31 December 2012.

Financial debt			
€ thousands	31.12.2013	31.12.2012	Δ% 13/12
Bank loans and other loans	2,481	5,593	-55.6
Short term	2,481	5,547	-55.3
Medium and long term	0	46	-100.0
Financial leasings	4,518	5,825	-22.4
Short term	1,236	1,310	-5.7
Medium and long term	3,282	4,515	-27.3
Total financial debt	6,999	11,418	-38.7

Through the Financial Services business area, CTT has a large cash position and significant short term liquid assets, arising from the financial partners of the various activities offered i) payment of social benefits, through money orders; ii) insurance marketing, with a special focus on capitalisation insurance products; iii) postal savings certificates, on behalf of IGCP; and iv) collection of tolls and other payments carried out in the retail network.

On 31 December 2013, these values amounted to 308.1 million Euros (creditors and debtors of financial services), 58.9 million Euros more than in December 2012, and despite the cash balance increase of 55.6 million Euros, liquidity eventually retreated 3.4 million Euros. This decrease is directly related to the already mentioned distribution of a dividend greater than the net profit obtained in 2012, paid in June 2013, and to the decrease in working capital by increasing the average collection period.

Net cash			
€ thousands	31.12.2013	31.12.2012	Δ% 13/12
Net cash			
(+) Cash and cash equivalents	544,876	489,303	11.4
(-) Net Financial Services payables	(308,058)	(249,126)	23.7
Net cash	236,818	240,177	-1.4

3.1.14. Financial ratios

As at 31 December 2013, the position of the balance sheet remains solid, according to indicators highlighted below that confirm the strengthening of the financial soundness of CTT, with very high levels of liquidity and a high cash position.

Financial indicators

	31.12.2013	31.12.2012	Δ% 13/12
Current ratio (1)	144.7%	146.4%	-1.6 p.p.
Equity to Liabilities (2)	33.5%	34.6%	-1.2 p.p.
Adjusted Equity to Liabilities (3)	53.5%	50.6%	2.9 p.p.
Net debt (€m)	(19,930)	(13,545)	47.1
Net debt/EBITDA (4)	-0.2 x	-0.1 x	-0.04 x
Tangible fixed asset coverage (5)	247.1%	235.7%	11.5 p.p.
Dividend/Net profit (6)	98.3%	139.9%	-29.7
Dividend/ Operating free cash flows (6)	54.3%	42.4%	28.1

⁽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⁾ €60m dividends in 2013 and €50m dividends in 2012

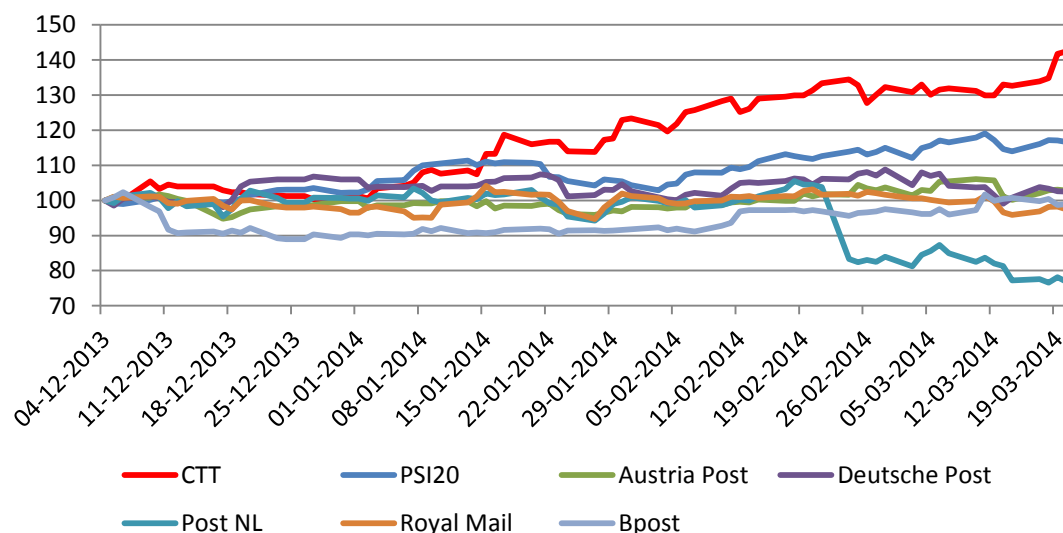
3.2. Performance of CTT share

Since the Initial Public Offer (IPO) on 4 December 2013, CTT shares appreciated 42.39% in a period when the Portuguese PSI20 Index appreciated 16.55% and European sector companies fluctuated between a decrease of 23.23% (Post NL) and an increase of 2.80% (Austria Post).

Since the beginning of 2014, CTT shares appreciated 40.61% in a period when the Portuguese PSI20 Index increased 14.05% in value and European sector companies fluctuated between a decrease of 23.64% (Post NL) and an increase of 9.57% (Bpost).

CTT share price performance vs PSI20 & sector since IPO

(base 100 as at 4-Dec-13)



On 21 February 2014, EURONEXT announced that, on 24 March 2014, CTT shares will join the PSI 20 index, the main index of the Portuguese Stock Market.

Changes in this index are made under the annual review. PSI 20 consists of shares issued by the 20 top listed companies in terms of free float market capitalisation. Eligible companies must meet the minimum criterion of share speed (liquidity) and have a minimum free float. In addition, PSI 20 companies should, in principle, have a minimum free float market capitalisation of 100 million Euros.

4. COMMITMENT TO SOCIAL ISSUES

4.1. Human Resources

Human Resources management focuses on four fundamental principles: training, recruitment, development and retention, while maintaining a sound social climate.

During most of the year 2013, the human resources management policy, particularly the remunerations policy, continued to be restricted by the requirement to comply with the legal measures and strategic guidelines adopted by the State Sector (SE) with a view to salary policy and operating costs, namely those included in the 2013 State Budget (SB).

For this reason, the salary reduction policy adopted since 2011 continued to be followed, applying to salaries exceeding 1,500 euros. This measure was implemented through the application of progressive rates, ranging between 3.5% and 10%. Concerning the members of governing bodies, this measure was implemented in addition to the 5% reduction in fixed monthly salaries already effective since 1 June 2010, in compliance with Law 12-A/2010, of 30 June. For the same reason, no bonuses were given to managers and directors.

All regulations applicable to state-owned companies concerning the prohibition to increase salaries and pay bonuses or benefits, including lunch, travel and other allowances, were also observed, as were all restrictions concerning overtime, night work, recruitment and service provision agreements.

Following successive requests for clarification concerning whether seniority payments fall under the scope of the prohibition to increase salaries determined by the 2011, 2012 and 2013 State Budgets, CTT was informed in June 2013 that such payments ceased to be allowed as of 7 May 2012. Following this notification, CTT ceased to make the payments in question, as well as having ensured that the amounts corresponding to seniority payments made after 7 May 2012 were returned by 30 June 2013, in monthly instalments.

CTT's privatisation process and its subsequent status of public company, mainly owned by private shareholders, no longer demands that the legal requirements regarding remuneration reductions and other measures for State-owned companies apply to it. Hence, as of 5 December 2013 all State-imposed reductions to the employee remunerations ceased, and promotions and career progressions and seniority payments were resumed, as laid down in the Company Agreement.

According to the 2013 SB, holiday bonuses were paid in full to employees earning basic monthly salaries up to €600. The reductions determined by law were applied to salaries between €600 and €1,100. In June, the company resumed the payment of holiday bonuses to all employees, in compliance with Law 39/2013, of 21 June. Also under the terms of the same State Budget law, the company resumed the payment of Christmas bonuses to all employees, in monthly instalments.

The measures aimed at reducing staff costs were maintained in 2013, namely through the signature of 201 suspension agreements with employees who had already applied for retirement and 38 termination agreements. As a result of the necessary policy to match human resources to business requirements and a strong orientation towards cost reductions, CTT staff by the end of 2013

(permanent staff and employees on fixed-term contracts) totalled 12,383 employees, which represents a 6.0% decrease relative to the end of 2012.

Number of employees

	31.12.2013	31.12.2012	△ 2013/2012	
Mail & Business solutions	10,013	10,668	-655	-6.1%
Mail & Business solutions	7,315	7,744	-429	-5.5%
Retail network	2,698	2,924	-226	-7.7%
Express & Parcels	1,170	1,201	-31	-2.6%
Financial Services	103	114	-11	-9.6%
Other	1,097	1,184	-87	-7.3%
Total, of which:	12,383	13,167	-784	-6.0%
Permanent	11,730	12,308	-578	-4.7%
Fixed term contracts	653	859	-206	-24.0%
Total in Portugal	11,830	12,624	-794	-6.3%

As a result of cost reduction measures, only 96 employees were recruited (84 by Tourline, in Spain; 8 by CORRE, in Mozambique; 2 by EAD; and 2 by CTT, SA, through court orders), whereas 687 employees left the company, of which 522 retired, 154 left following termination of their employment contracts, of which 38 signed termination agreements, and 11 passed away.

Regarding recruitment and mobility, 239 positions were advertised internally, including 11 positions within the scope of the UPU – Universal Postal Union. It should also be stressed that CTT, SA organised two initiatives whereby transfers were advertised, as a result of the agreement reached between the Company and ERCT – *Estruturas de Representação Coletiva dos Trabalhadores* (Employee Unions) within the scope of the negotiation process that led to the 2013 Company Agreement. These initiatives involved the advertising of 121 positions in sales points, aimed at employees from CARC – *Centros de Agrupamento and Reserva Contínua* (Grouping and Permanent Reserve Centres) and 110 in mail delivery offices.

A total 16 traineeships were offered, including 5 professional and 5 academic apprenticeships, in addition to 6 summer traineeships offered in partnership with the Catholic University and ISCTE-IUL. A traineeship was also offered to a student with special needs, within the scope of the social responsibility policy adopted by CTT.

On the other hand, CTT offered 6 summer traineeships to final-year Economics, Finance and Management students, with a view to providing these youngsters with their first work experience. These students worked for two months at the Accounting and Treasury Department.

Following the signature in May 2013 of a protocol between CTT and the COTEC Portugal – *Associação Empresarial para a Inovação* (Business Association for Innovation), the Calouste Gulbenkian Foundation and the IEFP – *Instituto do Emprego and Formação Profissional* (Employment and Training Institute), within the scope of the *Programa Movimento para o Emprego* (Employment Promotion Programme) – “Traineeships and Employment” measure –, 15 trainees were selected to

undergo a one-year professional traineeship. These traineeships, which are co-funded by the IEF – *Instituto do Emprego and Formação Profissional* (Employment and Training Institute), are aimed at young BSc and Master degree holders, who are expected to develop projects of interest to the company in 2014.

To meet company needs 1,550 fixed-term employment contracts were signed or renewed and 1,397 temporary employment contracts were signed,. Priority was given to youngsters looking for their first job and individuals affected by long-term unemployment.

Approximately 19,200 applications were received; the majority of applications continued to be sent to the CTT website.

In order to modernise CTT and adjust employment policies to current social, economic and market conditions, as well as meet the challenges faced by the postal sector, CTT completed the review and unification of the two existing Company Agreements. The new, sole Company Agreement, which was undersigned by the twelve trade unions that represent company employees, was officially signed on 22 March and came into effect on 27 April 2013.

The validity period of the Company Agreement was reduced from 24 to 18 months (accordingly, the notice period for termination was reduced from 3 months to 60 days). Mechanisms aimed at facilitating mobility were introduced and the current work planning process improved in order to allow better management of work schedules in all areas and operations, namely through the possibility of implementing schedules including rest periods longer than 2 hours.

In order to increase the academic qualification level, with a view to increasing service quality, the 12th grade continued to be established as a minimum requirement, leading to a progressive increase in staff qualifications.

Compared to the previous year, the number of employees failing to complete the 9th grade decreased from 15.8% to 15.0%, whereas the number of employees educated to secondary and university levels increased from 43.0% to 43.6%, and from 12.3% to 12.6%, respectively.

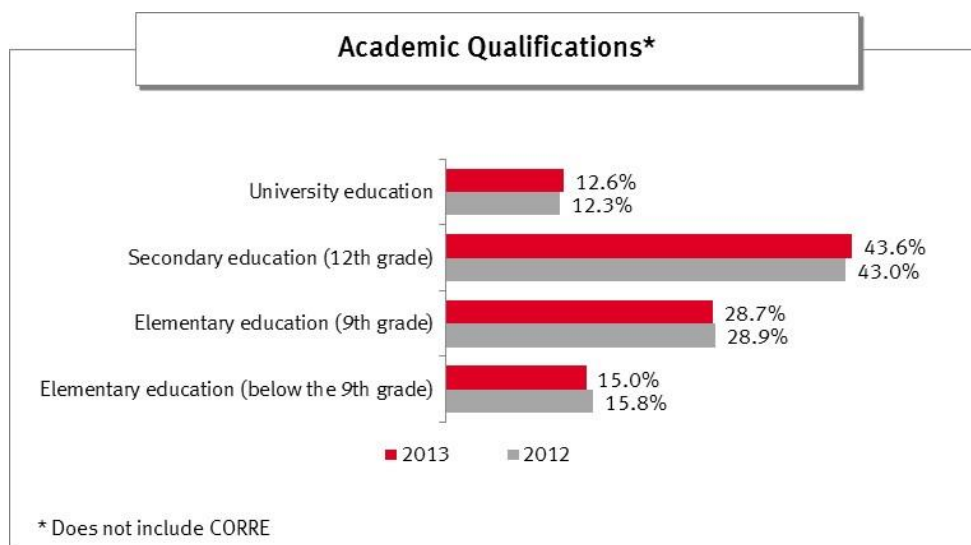


Figure 2

Annual performance assessments were carried out for all company employees in 2012, with a view to promoting management by objectives, improving employee-supervisor relationships, identifying training needs and ensuring that supervisors and employees are jointly responsible for professional development, talent management, and the merit and performance recognition policy.

The “Assessment Centre – Skills Development and Talent Management in the CTT Group” project continued to be developed. Within this scope, assessment programmes involving individual interviews, feedback analysis and leadership and development workshops were completed for 275 staff members and supervisors in the customer service and mail delivery departments.

A questionnaire prepared within the scope of the Risk Mitigation Plan was answered by 270 professional staff members recruited in recent years. The goal of this questionnaire was to assess their perception of the company as an employer, as well as their vision concerning business and the company’s future. Data analysis led to several conclusions regarding key factors for increasing employee attraction and retention.

Regarding labour issues, the number of strikes in 2013 increased relative to 2012, both in what concerns normal working hours (3 to 11, +266.7%) and part of the working period (13 to 16, +23.1%), which led to an increase in the number of days lost for this reason (5,615 to 11,370, +102.5%). This was due to the general strikes that took place on 7 and 27 June, 25 October, 29 November and 27 December 2013. A significant increase in the number of workers’ meetings, of which 85 (26.7%) were organised by the SNTCT – *Sindicato Nacional dos Trabalhadores dos Correios e Telecomunicações* (Portuguese Postal and Telecommunication Workers Union) and 229 (71.2%) by the Workers’ Committee, was also observed during the year (236 to 319, +35.2%).

Hygiene, Safety and Ergonomics

A total of 398 preventive actions were undertaken in 2013, in order to assess working conditions and risks at CTT’s premises.

Regarding work-related accidents, 830 accidents were reported (+4.8% relative to 2012) and 25,777 days were lost to temporary sickness or injury (+24.2% relative to 2012); no fatalities occurred.

Six newsletters concerning occupational safety were prepared and circulated in 2013. The *Centro Nacional de Prevenção Contra os Riscos Profissionais* (Portuguese Centre for Occupational Risk Prevention) recognised 4 occupational musculoskeletal disorders, which account for 6.5% of the occupational disorders recognised up to the present date. Awareness raising actions on occupational safety and ergonomics were organised at mail delivery offices, sales points, production and logistics centres and central services, in cooperation with PT-PRO.

In 2013, CTT chose to insource Occupational Safety services and terminated the existing agreement with the external supplier, having also changed the supplier of Occupational Health services. These changes, which came into effect on 1 January 2014, are expected to lead to cost reductions.

The company also intensified its investigation into absenteeism by monitoring employees whose attendance rates are low due to health reasons. Concerning employees with disabilities, increased efforts were undertaken to provide working conditions better suited to their particular conditions, always according to medical opinion.

Social support

The social support provided to CTT Social Work beneficiaries entailed a survey of the socio-economic status and specific problems faced by the individuals involved and their families, with a view to finding the most suitable solutions. Within this scope, approximately 1,084 cases were monitored, including 378 new cases, involving situations related to drug abuse, mental health problems, social integration, poverty and age-related issues. Social support initiatives included 63 home visits, 655 face-to-face interviews and approximately five thousand telephone calls.

Training

Training initiatives were organised in accordance with business goals throughout 2013. Accordingly, training focused on the implementation of the CTT transformation programme, as well as skills acquisition and development, business development and organisational efficiency. The CTT Training Forum, whose mission is to continuously improve training quality, continued to be organised on a monthly basis.

A total of 8,033 training actions were organised in 2013 (-23% vs. 2012), involving 52,525 participants (-29% vs. 2012) and totalling 224,411 training hours (-26% vs. 2012). The training ratio (training hours/working hours) remained stable compared to 2012. The observed decrease in training indicators was due to a series of exceptional circumstances, by no means reflecting an intention to place less focus on training. As such, training indicators are expected to improve in 2014.

Training courses focused on several topics, particularly products and services (20%), company framework (16%), quality (15%), occupational health and safety (9%), personal skills development (8%), IT and management/economics (7% each). Language courses stood out amongst the

remaining topics, owing to a significant increase compared to the previous year, having accounted for 3% of training courses.

Given the geographical dispersion of company employees and the efforts undertaken towards achieving cost reductions, the company continued to focus on on-site (36% of training) and remote training (14% of training). On-site training focused primarily on quality and certification issues, company framework, and products and services. Remote training focused on products, quality, safety and Customer Service training.

The relevance of the Management Training Programme should be stressed, given its impact on company business and competitiveness. This initiative includes three separate development programmes, specifically tailored to the needs and responsibilities associated with different management levels: inter-company post-graduate training for senior managers; intra-company post-graduate training for middle managers; management courses provided by an external entity for supervisors. The company maintained its sponsorship of post-graduate and master degree courses, having sponsored 4 management students.

CTT renewed its partnership with the AESE Business School, which allowed several managers and staff members to attend training sessions. The company also renewed its partnership with SDG – *Simuladores e Modelos de Gestão* (Management Simulators and Models), which organises the Global Management Challenge. A total of 47 employees, grouped into 10 teams, participated in this initiative.

Concerning the skills recognition, validation and certification initiatives undertaken since the creation of the CTT Centre for New Opportunities (CNO), in 2004, a total of approximately 2,750 enrolment applications were received and 1,151 academic certificates were granted, of which 486 concerned elementary education (9th grade), whereas 665 concerned secondary education (12th grade). Secondary education certificates were granted to 25 employees in the first quarter of 2013, the last year of this initiative. This cycle, which was initiated in 2004 with the creation of the CTT Centre for Skills Recognition, Validation and Certification, was completed on 31 March 2013, with the extinction of the Centres for New Opportunities (CNO) (Ministerial Order 135-A/2013, of 28 March). The CNO proved to yield positive results and was recognised by all for allowing 10% of employees to achieve better academic qualifications.

The training initiatives organised in 2013 led to the achievement of several professional qualifications and certifications, namely the certification of 158 Insurance Brokers, within sales teams, the qualification of 56 trainers and the certification of 6 Internal Auditors, according to the standards established by the Institute of Internal Auditors. In order to ensure compliance with occupational health and safety requirements, training towards the achievement of certifications was provided to 12 heavy goods vehicle drivers (CAM/CQM) and 5 senior occupational safety and technicians of hygiene and safety at work (CAP). Software testing certifications were also achieved by 7 staff members and Dangerous Goods Regulation certifications were achieved by 27 staff members. The required training was also provided to 6 Employer's Representatives.

Still in 2013, the Board of Directors approved a series of general principles applicable to the Training Plan for 2014, as well as suitable methods for identifying training needs, with a view to ensuring better alignment with the company transformation programme.

4.2. Quality of Service

In 2013, CTT's operational performance levels continued to be high, with an Overall Quality of Service Index (OQSI) of 227.7 points, which considerably exceeded the 100-point target, despite representing a 27.7-point decrease relative to 2012. These levels were achieved despite the negative impact of strikes, namely the general strike of 27 June.

Regarding international mail, the quality targets set by the EU Directive for the postal sector were largely exceeded.

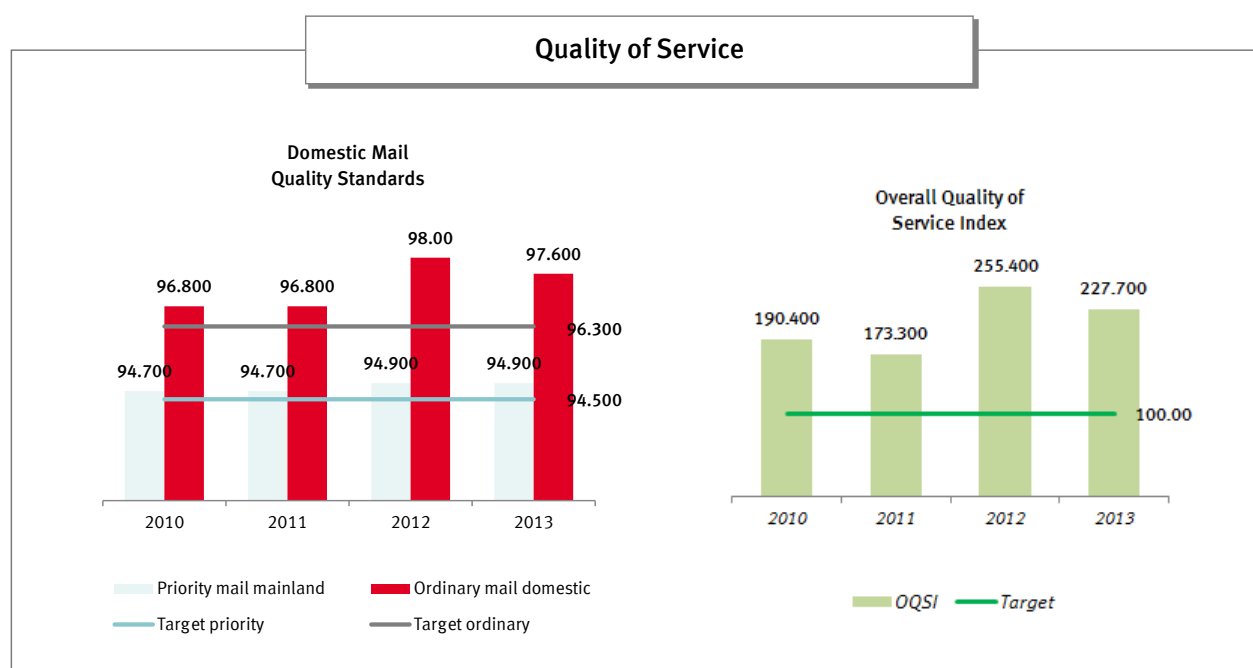


Figure 3

The results achieved for all performance indicators exceeded the minimum levels required. All targets were met, with the exception of the target set for ordinary mail delivered within 15 days.

Results are shown in the following table:

Quality Level	Minimum	Target	Score
Priority Mail			
% Delivered on the following day (Mainland)	93.50	94.50	94.90
% Delivered within two days (Azores and Madeira)	84.00	87.00	93.30
% Delivered within ten days	99.75	99.85	99.87
Ordinary Mail			
% Delivered within three days	95.50	96.30	97.60
% Delivered within fifteen days	99.77	99.86	99.85
Newspapers and Periodical Publications			
% Delivered within three days	95.50	96.30	97.50
International Mail			
% Delivered within three days	85.00	88.00	93.10 *
% Delivered within five days	95.00	97.00	98.90 *
Parcels			
% Delivered within three days	90.50	92.00	95.50
Waiting time at post offices			
% Customers assisted within 10 minutes	75.00	85.00	90.40

* Weighted average of the value of the 4th quarter of 2012 and the value of the first three quarters of 2013.

Efforts continued to be undertaken in order to maintain integrated management systems, which include environment and safety, in addition to quality, in the most relevant cases. All Production and Logistics Centres (PLCs) were able to maintain existing ISO certifications (quality and environment at all 3 PLC, and safety at PLC-Central Region and PLC-North), CTT Espresso and EAD (quality, environment and safety), Tourline (quality and environment), PostContacto (quality) and Mailtec Comunicação (quality, environment and FSC chain of custody). Certifications were achieved in 2013 by PLC-South (safety) and PostContacto (environment).

The Committed to Excellence level, set within the scope of the Excellence Model of the European Foundation for Quality Management (EFQM), was maintained by the entire mail delivery and retail network, both in Mainland Portugal and the Autonomous Regions (Azores and Madeira).

Service certifications were achieved in 2013 by all mail delivery offices. As of 31 December, a total of 600 post offices and 285 mail delivery offices were certified.

The good operational performance levels achieved by CTT have resulted in a positive perception of service quality by customers, with 80% of customers visiting CTT post offices rating postal services as good or very good.

Contact Centre

Telephone (75%) and email (25%) were the communication channels predominantly used by customers to contact CTT via the Contact Centre; however, the trend is for email to progressively take over from telephone calls.

A total of 579,103 telephone calls were received in 2013, which represents a 3.5% increase relative to 2012. This increase was essentially due to an increase in the number of telephone calls received through the CTT line (+24%), since the use of the ViaCTT (-55%) and telecommunications (-16%) lines has been progressively decreasing.

Regarding the CTT line, demand for various services has increased steeply, namely item tracking & tracing, which includes questions related to customs clearance (+35%), complaints (+37%), general information (+15%) and the toll payment service (+24%). A decrease in use was observed for the postcode enquiry service (-14%). The target set for the telephone channel was achieved, since 95% of all calls were answered.

A total of 222,969 e-mails were received, which represents an 18% increase relative to 2012, predominantly related to telecommunications (+6%), complaints (+36%) and international services (+153%, owing to customs clearance issues).

Of all e-mails received, 98% were answered, in compliance with the service level defined (within 24 hours).

4.3. Innovation and development

CTT has been preparing to meet the challenges entailed by substitution, globalisation, liberalisation and, more recently, privatisation, with a view to achieving excellence in all business areas. Innovation, whether concerning products or processes, is an important competitiveness factor, in addition to driving business growth and contributing to increasing operational and organisational efficiency. Innovation will ensure that CTT will be capable of achieving its mission and fulfilling its desire of connecting people and companies, through a combined offer of physical and electronic communication channels.

Several projects were developed in 2013, namely the following:

- Launching of App CTT, an application for all mobile platforms that allows users to access several CTT services in a convenient, easy and fast manner, namely postcode and address enquiries, mail items and parcels tracking & tracing, geographical location of post offices, submission of requests to the SIGA service and viewing of due amounts and toll invoices.
- Continued cooperation with university research centres, with a view to investigating the possibility of using new technologies to create innovative philatelic products.
- Preparation of an application relative to 2013, to be submitted to the SIFIDE – *Sistema de Incentivos Fiscais em Investigação e Desenvolvimento Empresarial* (Corporate Research & Development Tax Incentive System), which allows companies to deduct R&D expenses on Corporate Income Tax returns.
- Monitoring of the activities undertaken by the Universal Postal Union working groups involved in the design and development of advanced electronic solutions, as well as coordination of the

PostEurop AESForum – Advanced Electronic Solutions Forum 2013, whose presidency is ensured by CTT.

- Joining of the PostEurop Electronic Identity working group, which has been monitoring and participating in the preparation of European Union legislation concerning these issues.
- Creation of a “trends observatory” and launching of an innovation project mapping initiative, with a view to improving innovation planning and management at CTT.

Innovation in processes and support systems contributed to business growth by allowing the implementation of the solutions described in previous chapters.

4.4. Sustainability

The strategic relevance given to sustainability issues since 2005 and their integration in CTT management systems, from top to bottom, have come to fruition. CTT are currently a leading company concerning various sustainability issues, particularly carbon efficiency, both in Portugal and abroad. At the beginning of a new stage, where reaffirming the importance of sustainability continues to be the main challenge faced by the company, we remain determined to create value for our stakeholders, having confirmed our involvement through the list of commitments included in the 2013 Sustainability Report. Once again, the corresponding contents shall be reviewed by an independent entity, pursuant to the GRI Guidelines, version 3.1. Accordingly, the company is expected to maintain its A+ rate.

A total of 224,000 training hours were provided to employees in 2013. Secondary education certificates (12th grade) were granted to over 25 employees (10% of CTT employees have benefitted from this certification programme, since its beginning). Satisfaction with working conditions remained above 80%, six newsletters on occupational safety were published and several initiatives aimed at promoting internal cohesiveness and the sharing of experiences were organised, namely the publishing of “*Livro de Receitas ao Balcão*” (“Recipes at the Counter”), a cookbook including recipes contributed by CTT post office employees, as well as staff working at the School Library, which enabled the lending of books to 120 families.

With nearly 50,000 beneficiaries, the CTT healthcare and social work system remains a quality benchmark in the Portuguese business sector. No fatal accidents occurred, despite a 4% increase in work-related accidents and a 20% increase in the number of days lost as a result of temporary disability. Global absence rates decreased by 0.4%, to 6.3%. Regarding gender equality, CTT reported one of the highest percentages of female managers in Portugal, of 46%.

In what concerns the environment, the increased popularity of sustainable products, which translated into an 8% increase in the combined revenues of “green” mail and eco-direct mail, opposing general trends for postal products, validates CTT’s investment in this area. The eco-portfolio is currently worth 11 million euros per year, representing about 25% of all addressed advertising mail. The use of environmental scorecards at all business premises and the rationalisation measures implemented led to a sustained decrease in energy consumption: -1.5% in

fuel, -3.7% in electricity and -2.1% in total CO₂ emissions. However, these achievements were not sufficient to offset a slight increase in energy intensity, mainly as a result of economies of scale.

The commissioning of more than 150 electric bicycles had a positive impact on the ecological footprint. This initiative, together with the renewal of the traditional fleet, is expected to lead to a decrease in CO₂ emissions of 50 tonnes per year. Currently, CTT's eco-friendly fleet includes 224 vehicles. Regarding value chain management and responsible procurement, agreements where environmental criteria were considered account for 97% of the overall value of signed agreements.

The quality targets agreed with the Regulatory Authority were exceeded: nearly 95% of priority mail was delivered within 24 hours and 98% of ordinary mail was delivered within 3 days. A total 68.5% of customers affirmed to be satisfied or very satisfied with CTT services, whereas only 6% of customers expressed dissatisfaction.

Access to postal services, a crucial issue to the community, has been ensured through an extensive retail network, whose density exceeds the European average, despite a network rationalisation process that entailed the closing or conversion of 125 post offices. A further 9 access ramps were built for disabled persons, allowing the company to achieve an accessibility rate of 92%. Positive perception concerning waiting times increased to 67% (+5% relative to 2012).

Concerning CTT's involvement in community and social issues, the company continued to sponsor social and environmental initiatives, to which it allocated approximately 400,000 euros. A total of 1,600 presents were collected for disadvantaged children, through the "*Pai Natal Solidário*" ("Solidarity Santa Claus") initiative. Additionally, CTT received nearly 2,000 visitors at its premises and organised 10 voluntary work initiatives, which involved more than 100 employees. A total 4.4 tonnes of goods were collected and donated to 16 Charitable Organisations. CTT continued to be involved in the "*Projeto de Luta Contra a Pobreza e Exclusão Social*" ("Fight Against Poverty and Social Exclusion") project, having collected and transported 7,500 parcels and organised 17 initiatives, in partnership with other Organisations.

5. SUBSEQUENT EVENTS AND FUTURE PERSPECTIVES

On 1 January 2014, the prices of special postal services (bulk mail, domestic and international) included within the scope of the universal service were reviewed (increased), as well as the corresponding discount rates. However, the price review process will only be completed once the prices of the remaining postal services included within the scope of the universal service have been reviewed.

On 18 February 2014, the regulatory authority (ANACOM) approved the methodology for the calculation of the net cost of the universal service, rendered by CTT as universal service provider, and for the unfair financial burden concept to compensate the net cost of universal postal service purposes, as well as the underlying terms to its determination.

On 21 February 2014, EURONEXT announced that CTT shares will be integrated into the PSI 20 index, the main Portuguese Stock Market index, on 24 March 2014.

On 11 March 2014, an agreement for the sale and purchase of shares in EAD – Empresa de Arquivo de Documentação, S.A. (“EAD”) was entered into by CTT and the other two EAD shareholders. The purpose of this Agreement was to set the terms and conditions for the sale by CTT of its 51% shareholding for approximately 2.75 million Euros, which includes dividends relative to 2013.

Concerning implementation of *SGEIs* – (Services of General Economic Interest), joint efforts continue to be undertaken. The pilot-project was initiated at the end of the first quarter of 2014. The economic operating model, as well as operational issues and the investment required, have not yet been negotiated and should be agreed by the parties, based on the results of the pilot project.

Owing to the more favourable macroeconomic environment, as well as the Transformation Programme initiatives implemented in 2013 and the new measures defined for 2014, CTT expects to achieve success in implementing the defined strategy in 2014.

Nevertheless, it is important to consider that GDP growth in Portugal will continue to be strongly influenced by increasing exports and not by an increase in internal consumption, the main driver of CTT product and service consumption, particularly in the Mail business. Within this context, mail demand is expected to continue declining, not only in line with structural trends, but also owing to macroeconomic factors, albeit remaining above the natural long-term trend.

Online sales will continue to be the main driver of the Express & Parcels business. Growth in the B2B market will not be driven by internal business, in Portugal or Spain, but by the expected migration of Iberian retailers to online platforms. For this purpose, CTT is speeding up the implementation of Transformation Programme initiatives aimed at the Express & Parcels business in 2014, not only to improve its offer of logistics solutions in this market, but essentially to reformulate and optimise delivery networks in Portugal and Spain.

Regarding Financial Services, CTT will be able to consolidate its relevant positioning in this market segment in 2014, not only through the savings products already available on the market, but also by launching new products and services, with a view to driving business growth, increasing revenues and, first and foremost, contributing to increasing CTT's profitability.

6. PROPOSAL FOR THE APPLICATION OF RESULTS

Under the terms of article 23 of the company's articles of association, annual net profit, duly approved, will be appropriated as follows:

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

Under the terms of article 295, point 1, of the Commercial Companies Code, the 5% minimum intended for the constitution of the legal reserve cannot be distributed until this reserve reaches 20% of the share capital.

Considering a share capital of 75,000,000.00 euros, 20% corresponds to 15,000,000.00 euros; hence, the legal reserve as at 31 December 2013 exceeds the minimum amount required according to the Articles of Association and the Commercial Companies Code.

Under the terms of article 294, point 1, of the Commercial Companies Code, half of the distributable profit must be distributed to the shareholders, unless otherwise established by means of any agreement clause or deliberation by a General Meeting called for this purpose, in which case 75% 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 reinforcement of the legal reserve and coverage of retained losses, if applicable. As at 31 December 2013, the legal reserve is fully constituted and retained earnings are positive.

Accordingly and under the terms of legal and statutory provisions, the Board of Directors proposes the following application of results for 2013, totalling 61,016,067.00 euros:

To Dividends *.....	€ 60,000,000.00
To Retained Earnings	€ 1,016,067.00

* distribution of €60,000,000 of dividends corresponds to € 0.40 per share.

7. DECLARATION OF CONFORMITY

In compliance with paragraph c) of point 1 of article 245 of the Securities Code, the members of the Board of Directors declare that, as to their knowledge, the following statements concerning the management report, individual and consolidated accounts and any other documents included in the annual accounts are truthful: i) all documents were prepared in compliance with the applicable accounting standards and all information contained therein give a true and fair view of the assets, liabilities, financial position, and profit and loss of CTT – Correios de Portugal, S.A. – Sociedade Aberta (CTT) and the remaining CTT Group companies included in the consolidation taken as whole; ii) all information concerning the business development, the performance and position of CTT and CTT Group companies is accurate; and iii) a description of the main risks currently faced by CTT – Correios de Portugal, S.A. is included.

Lisbon, 21 March 2014

The Board of Directors

Chairman

Francisco José Queiroz de Barros de Lacerda

Vice-Chairman

Manuel Cabral de Abreu Castelo-Branco

Members

André Manuel Pereira Gorjão de Andrade Costa

Dionízia Maria Ribeiro Farinha Ferreira

Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

PART II – FINANCIAL STATEMENTS

Consolidated accounts

CTT-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013 AND 31 DECEMBER 2012

Euro

	NOTES	31.12.2013	31.12.2012 Restated	01.01.2012 Restated
ASSETS				
Non-current assets				
Tangible fixed assets	5	225,364,429	259,076,712	269,246,885
Investments properties	7	21,761,886	1,368,943	2,728,373
Intangible assets	6	13,049,308	14,355,060	15,080,232
Goodwill	9	25,083,869	25,528,608	25,528,608
Investments in associated companies	10	710,723	690,215	552,824
Other investments	11	130,829	130,829	130,829
Other non-current assets	18	1,951,139	2,018,619	6,004,988
Deferred tax assets	41	103,645,256	102,228,537	102,467,758
Total non-current assets		391,697,439	405,397,523	421,740,497
Current assets				
Inventories	13	5,993,971	6,710,739	6,305,998
Accounts receivable	14	135,589,645	135,317,556	164,395,448
Income taxes receivable	29	0	-	3
Deferrals	15	4,875,139	5,594,836	5,494,827
Other current assets	18	17,102,436	20,856,132	27,214,044
Cash and cash equivalents	17	544,875,803	489,303,463	426,259,362
Total current assets		708,436,994	657,782,726	629,669,682
Total assets		1,100,134,433	1,063,180,249	1,051,410,179
EQUITY AND LIABILITIES				
Equity				
Share capital	20	75,000,000	87,325,000	87,325,000
Reserves	21	30,397,559	28,628,508	25,792,898
Retained earnings	21	83,367,465	87,105,292	88,568,765
Other changes in equity	21	24,548,756	33,079,577	15,850,935
Net profit attributable to equity holders of parent company		61,016,067	35,735,268	55,260,391
Non-controlling interests	24	1,604,372	1,607,508	1,627,958
Total equity		275,934,219	273,481,153	274,425,947
Liabilities				
Non-current liabilities				
Medium and long term debt	25	3,282,126	4,560,702	5,943,942
Employee benefits	26	278,638,868	282,065,364	300,975,316
Provisions	27	38,501,835	36,596,189	16,475,743
Deferrals	15	8,837,037	11,322,625	13,704,951
Deferred tax liabilities	41	5,481,878	5,740,233	6,165,433
Total non-current liabilities		334,741,744	340,285,113	343,265,385
Current liabilities				
Accounts payable	28	391,958,039	349,215,159	346,905,448
Employee benefits	26	19,904,186	21,250,996	20,455,430
Income taxes payable	29	93,968	862,444	7,381,234
Short term debt	25	3,716,557	6,857,361	5,165,248
Deferrals	15	4,103,751	4,368,966	4,675,943
Other current liabilities	30	69,681,969	66,859,057	49,135,544
Total current liabilities		489,458,470	449,413,983	433,718,847
Total liabilities		824,200,214	789,699,096	776,984,232
Total equity and liabilities		1,100,134,433	1,063,180,249	1,051,410,179

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

CTT-CORREIOS DE PORTUGAL, S.A.CONSOLIDATED INCOME STATEMENT FOR THE PERIODS ENDED 31 DECEMBER 2013 AND 31 DECEMBER 2012

Euro

	NOTES	2013	2012 Restated
Revenues		704,847,008	714,225,417
Sales and services rendered	4	690,068,682	699,332,226
Other operating income	33	14,778,326	14,893,191
Operating costs		(617,611,428)	(657,254,208)
Cost of sales	13	(16,906,127)	(18,543,380)
External supplies and services	34	(242,058,580)	(246,416,228)
Staff costs	36	(313,072,477)	(333,319,251)
Impairment of inventories and accounts receivable, net	37	(3,530,198)	(798,308)
Provisions, net	27	(5,647,982)	(21,933,533)
Depreciation/amortisation and impairment of investments, net	38	(25,715,129)	(24,635,814)
Other operating costs	39	(10,680,935)	(11,607,693)
Earnings before financial income and taxes		87,235,580	56,971,209
Financial results		(3,982,396)	(4,139,036)
Interest expenses	40	(11,874,463)	(16,760,834)
Interest income	40	7,871,559	12,381,658
Gains/losses in associated companies	10	20,508	240,140
Earnings before taxes		83,253,184	52,832,173
Income tax for the period	41	(22,147,899)	(16,864,903)
Net profit for the period		61,105,285	35,967,270
Net profit for the period attributable to:			
Equity holders of parent company		61,016,067	35,735,268
Non-controlling interests	24	89,218	232,002
Earnings per share of the parent company	23	0.41	0.24

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

CTT-CORREIOS DE PORTUGAL, S.A.CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIODS ENDED 31 DECEMBER 2013 AND 31 DECEMBER 2012

Euro

	NOTES	2013	2012 Restated
Net profit for the period		61,105,285	35,967,270
Adjustments from application of the equity method (not re-classifiable adjustment to profit and loss)	21	(29,043)	(11,669)
Employee benefits (not re-classifiable adjustment to profit and loss)	26	(11,680,870)	24,265,693
Deferred tax/Employee benefits (not re-classifiable adjustment to profit and loss)	41	3,150,049	(7,037,051)
Other changes in equity	21 / 24	(28,181)	0
Other comprehensive income for the period after taxes		(8,588,045)	17,216,973
Comprehensive income for the period		52,517,240	53,184,243
Attributable to non-controlling interests	24	61,038	232,002
Attributable to shareholder of CTT		52,456,203	52,952,241

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

CITI-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2013 AND 31 DECEMBER 2012

Euro

NOTES	Share capital	Reserves	Other changes in equity	Retained earnings	Net profit for the year	Non-controlling interests	Total
	87,325,000	25,792,898	15,850,935	88,568,765	55,260,391	1,627,958	274,425,947
22/24	-	2,835,610	-	52,424,781	(55,260,391)	-	-
	-	-	-	(53,876,585)	-	(252,452)	(54,129,037)
	-	2,835,610	-	(1,451,804)	(55,260,391)	(252,452)	(54,129,037)
21	-	-	17,228,642	-	-	-	17,228,642
21	-	-	-	(11,669)	-	-	(11,669)
	-	-	-	-	35,735,268	232,002	35,967,270
	-	-	17,228,642	(11,669)	35,735,268	232,002	53,184,243
	87,325,000	28,628,508	33,079,577	87,105,292	35,735,268	1,607,508	273,481,153
	87,325,000	28,628,508	33,079,577	87,105,292	35,735,268	1,607,508	273,481,153
	(12,325,000)	12,325,000	-	-	-	-	-
	-	-	-	35,735,268	(35,735,268)	-	-
22/24	-	(10,555,949)	-	(39,444,053)	-	(64,174)	(50,064,175)
	(12,325,000)	1,769,051	-	(3,708,784)	(35,735,268)	(64,174)	(50,064,175)
21/24	-	-	-	-	-	(28,181)	(28,181)
21	-	-	(8,530,821)	-	-	-	(8,530,821)
	-	-	-	(29,043)	-	-	(29,043)
	-	-	-	-	61,016,067	89,218	61,105,285
	-	-	(8,530,821)	(29,043)	61,016,067	61,038	52,517,240
	75,000,000	30,397,559	24,548,756	83,367,465	61,016,067	1,604,372	275,934,219

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

CTT-CORREIOS DE PORTUGAL, S.A.CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIODS ENDED 31 DECEMBER 2013 AND 31 DECEMBER 2012

Euro

	NOTES	2013	2012
<u>Operating activities</u>			
Collections from customers		670,109,743	713,094,163
Payments to suppliers		(265,494,002)	(259,915,782)
Payments to employees		(309,118,788)	(294,639,233)
		<u>95,496,953</u>	<u>158,539,148</u>
Cash flow generated by operations			
Payments/receivables of income taxes		(23,244,745)	(26,889,403)
Other receivables/payments		37,177,844	(1,045,872)
		<u>109,430,053</u>	<u>130,603,873</u>
Cash flow from operating activities (1)			
<u>Investment activities</u>			
Receivables resulting from:			
Tangible fixed assets		821,346	790,275
Financial investments		58,030	41,450
Interest income		11,336,129	10,233,059
Dividends		-	117,200
Payments resulting from:			
Intangible assets		(571,700)	(3,822,505)
Tangible fixed assets		(10,635,123)	(20,105,520)
Loans granted		-	-
		<u>1,008,682</u>	<u>(12,746,040)</u>
Cash flow from investment activities (2)			
<u>Financing activities</u>			
Receivables resulting from:			
Loans obtained		4,783,472	6,344,810
Payments resulting from:			
Loans repaid		(7,350,872)	(4,747,278)
Interest expenses		(746,333)	(1,051,759)
Finance leases		(1,552,661)	(1,482,919)
Dividends	22	(50,000,000)	(53,876,585)
		<u>(54,866,394)</u>	<u>(54,813,731)</u>
Cash flow from financing activities (3)			
Net change in cash and cash equivalents (1+2+3)		<u>55,572,341</u>	<u>63,044,101</u>
Changes in the consolidation perimeter		-	-
Cash and equivalents at the beginning of the period		<u>489,303,463</u>	<u>426,259,362</u>
Cash and cash equivalents at the end of the period	17	<u>544,875,803</u>	<u>489,303,463</u>

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

CTT – CORREIOS DE PORTUGAL, S.A.

Notes to the consolidated financial statements

(Amounts expressed in Euro)

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1. INTRODUCTION

1.1- CTT – Correios de Portugal, S.A. (parent company)

CTT – Correios de Portugal, S. A. – Sociedade Aberta (“CTT, SA”, “Parent Company” or “Company”), with head Office at Avenida D. João II, Lote 01.12.03, 1999-001 in Lisbon, had its origin in the “Administração Geral dos Correios Telégrafos e Telefones” government department designated and its legal form is the result of successive re-organizations carried out by the Portuguese state business sector in the Communications area.

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

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

At the General Meeting held on 30 October 2013, the registered capital of CTT was reduced from 87,325,000 Euros to 75.000.000 Euros, being from that date forward represented by 150.000.000 shares, as a result of a stock split which was accomplished through the reduction of the nominal value from 4.99 Euros to 0.50 Euros.

For the year ended 31 December, 2013 CTT’s capital was opened to the private sector. Thus, and supported by Decree-Law No. 129/2013 of 6 September and the Resolution of the Council of Ministers (“RCM”) No. 62-A/2013, 10 October, RCM No. 62-B/2013 of 10 October and RCM No. 72-B/2013, 14 November, on 5 December, 2013 the first phase of the privatization of CTT’s capital took place. On this date, 63.64% of the shares of CTT (95.5 million shares) were transferred to the private sector, of which 14% (21 million shares) were sold in Public Offering and 49.64% (74.5 million shares) by an Institutional Direct Sale. On 31 December, 2013 the Portuguese State, through Párpública-Public Holdings, SGPS, S.A. held 30.00% by direct ownership and 6.36% by attribution, of the shares of CTT.

The shares of CTT are listed on Euronext Lisbon.

The consolidated financial statements attached herewith are expressed in Euro, as this is the functional currency of the Group.

These consolidated financial statements were approved by the Board of Directors on 21 March, 2014.

1.2- Activity

CTT and its subsidiaries (“CTT Group” or “Group”): CTT - Expresso – Serviços Postais e Logística, S.A., Postcontacto – Correio Publicitário, Lda., Payshop (Portugal), S.A., CTT Gest - Gestão de Serviços e Equipamentos Postais, S.A., Mailtec Holding, SGPS, S.A. and their subsidiaries, Tourline Express Mensajería, SLU and its subsidiaries, and EAD – Empresa de Arquivo de Documentação, S.A., establish, manage and operate the Universal Postal Service infrastructure and render financial services, which include the transfer of funds through current accounts, which could also be operated by a financial operator or a para-banking entity. In addition, CTT provides services that are complementary, as well as the marketing of goods or provision of services on its own account or on behalf of third parties, provided that they are related with the normal operations of the public postal network, namely, the provision of information society services, networks and electronic communication services, including related resources and services and a mobile virtual network operator (MVNO), with the trade mark “Phone-ix” operated by TMN - Telecomunicações Móveis Nacionais, S. A..

The postal service is provided by CTT under the Concession contract of the Universal Postal Service signed on 1 September, 2000 between the Portuguese State and CTT. In addition to the concessioned services, CTT can provide other postal services as well as develop other activities, particularly those which enable the use of the universal service network in a profitable manner, either directly or through incorporation or interests in companies or other forms of cooperation between companies. Among these activities the provision of services of public interest or general interest subject to conditions to be agreed with the State should be highlighted.

Following the amendments introduced by Directive 2008/6/EC of 20 February 2008 of the European Parliament and of the Council to the regulatory framework that governs the provision of postal services, it was transposed into national law in 2012 through the adoption of Law No. 17/2012, of 26 April (“new Postal Law”), with the amendments introduced in 2013 by Decree-Law No. 160/2013, of 19 November, revoking Law No. 102/99, of 26 July.

The new Postal Law establishes the legal regime for the provision of postal services in full competition in the national territory, as well as international services originating or terminating in the country.

Thus, as from the entry into force of the new Postal Law, the postal market in Portugal has been fully open to competition, eliminating areas within the universal service that were still reserved for the provider of the universal postal service CTT – Correios de Portugal, SA (“CTT”). However, on the grounds of the general interest, the following activities and services remained reserved: placement of 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.

According to the new Postal Law the universal postal service includes the following services, of national and international scope:

- A postal service for letter mail (excluding direct mail), books, catalogues, newspapers and other periodicals up to 2 kg;

- A postal service for postal parcels up to 10 kg, as well as delivery in the country of parcels received from other Member States of the European Union weighing up to 20kg;
- A delivery service for registered items and for insured items.

As a result of the new Postal Law, the Portuguese Government revised the basis of the concession, through the publication of Decree-Law No. 160/2013 of 19 November, after which the fourth amendment to the concession contract of the universal postal service was made on 31 December, 2013.

Thus, the concession contract signed between the Portuguese State and CTT on 1 September, 2000, subsequently amended on 1 October, 2001, 9 September, 2003, 26 July, 2006 and 31 December, 2013, covers:

- The universal postal service as defined above;
- The reserved services: (i) the right to place mailboxes on public roads for the acceptance of mail, (ii) the issuance and sale of postage stamps with the word "Portugal" and (iii) the service of registered mail used in legal or administrative proceedings;
- The provision of special payment orders which allows the transfer of funds electronically and physically, at national and international level, designated by postal money order service, on an exclusive basis;
- Electronic Mailbox Service, on a non-exclusive basis.

As the Universal Postal Service incumbent operator, CTT remains the provider of universal postal services until 2020, ensuring the exclusivity of the reserved activities and services mentioned above.

Once the concession ends, in the event that it is not renewed, CTT may provide, together with any other operators, all the postal services they choose, in a system of free competition, in accordance with a strategic and commercial policy, excluding the services granted by concession on an exclusive basis.

In summary, in view of the legal and regulatory framework in force, CTT considers that there are no grounds for the introduction of any relevant change to the accounting policies of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group in the preparation of the consolidated financial statements are those mentioned hereinafter.

2.1- Basis of presentation

The consolidated financial statements were prepared under the assumption of going concern basis and are prepared under the historical cost basis, in accordance with the International Financial Reporting Standards, as adopted by the European Union as at 31 December 2013.

These standards include the IFRS issued by the International Accounting Standards Board ("IASB"), or the IAS issued by the International Accounting Standards Committee ("IASC"), as well as the respective interpretations – IFRIC and SIC, issued, respectively, by the International Financial

Reporting Interpretation Committee (“IFRIC”) and by the Standing Interpretation Committee (“SIC”). Hereinafter, these standards and interpretations are generally referred to as “IFRS”.

In addition to the standards that became effective as of 1 January 2013 and which are set out in the accounting policies adopted in the preparation of the consolidated financial statements as at 31 December 2013 and described in Note 2.2 through Note 2.28, there are additional issued standards and interpretations, described in Note 2.1.2, which did not become mandatory in the year starting on 1 January 2013.

2.1.1 New standards or amendments adopted by the Group

The standards and amendments recently issued, already effective and adopted by the Group in the preparation of these consolidated financial statements, are as follows:

- The CTT Group adopted, in the year ended on 31 December 2012, IAS 19 - Employee benefits (revised) issued by the International Accounting Standards Board (IASB) in June 2011, and adopted by the European Union through Regulation no. 475/2012 of the European Commission, such that the impact of the adoption was recorded in those financial statements.
- The CTT Group early adopted, on 1 January 2013, IFRS 11 - ‘Joint arrangements’ issued by IASB in May 2011 and adopted by the European Union through Regulation No. 1254/2012 of the European Commission. IFRS 11 focuses on the rights and obligations of the joint arrangements rather than their legal form. Joint arrangements can be joint operations (rights to the assets and obligations) or joint ventures (rights to net assets, through the equity method). Proportional consolidation of joint venture is no longer allowed. The impact of this adoption is detailed in Note 3.
- IAS 1 (amendment), ‘Presentation of financial statements’. This amendment changes the disclosure of items presented in other comprehensive income (OCI), requiring entities to separate items in OCI based on whether or not they may be reclassified to profit and loss in the future and the related tax amount if OCI items presented before tax. This amendment was taken into account when the consolidated statement of comprehensive income was prepared.
- IAS 12 (amendment), ‘Income taxes’. This amendment requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale, except for the investment properties measured at fair value model. The amendments also incorporate into IAS 12 the guidance previously contained in SIC 21, which is accordingly withdrawn. The adoption of this amendment had no impact on the consolidated financial statements.
- IFRS 1 (amendment), ‘First time adoption of IFRS’. The adoption of this amendment had no impact on the consolidated financial statements, since the Entity already applies IFRS.
- IFRS 7 (amendment) ‘Disclosures - Offsetting Financial Assets and Financial Liabilities’. This amendment is part of the IASB offsetting project which introduces new disclosure requirements about an entity’s right to offset (assets and liabilities), the amounts offset, and the effects of these on credit exposure. The adoption of this amendment had no impact on the consolidated financial statements.

- IFRS 13 (new), 'Fair value measurement and disclosure'. IFRS 13 aims to improve consistency by providing a precise definition of fair value and a single source of fair value measurement, as well as disclosure requirements for use across IFRSs. The adoption of this standard had no impact on the consolidated financial statements.
- IFRIC 20 (new), 'Stripping costs in the production phase of a surface mine'. This interpretation refers to the accounting of overburden waste removal costs in the production phase of a surface mine, such as an asset, considering that the waste removal generates two potential benefits: immediate extraction of mineral resources and improved access to further quantities of mineral resources to be extracted in the future. The adoption of this interpretation had no impact on the consolidated financial statements.
- Annual improvements to IFRSs 2009 – 2011, The 2009-2011 annual improvements affects: IFRS 1 (second adoption of IFRS 1 and exemptions), IAS 1 (presentation of additional financial statements when a change of accounting policy is mandatory or voluntary), IAS16 (classification of spare parts and servicing equipment when the definition of PP&E is met), IAS 32 (tax impact classification when related to transactions involving equity or dividends) and IAS 34 (exemption of total assets and liabilities disclosure by segment). The adoption of these amendments had no impact on the consolidated financial statements.

2.1.2 New standards, amendments and interpretations issued, but without effective application to years starting on 1 January 2013 and not early adopted

In 2013, the European Union endorsed the following standards and amendments to the International Accounting Standards issued by the IASB and the interpretations issued by the IFRIC:

<u>Description</u>	<u>Effective date*</u>
<u>New effective standards</u>	
IFRS 9 - Financial instruments: Phase 1 - classification and measurement	indeterminate
IFRS 10 - Consolidated financial statements	1 January 2014
IFRS 12 - Disclosure of interests in other entities	1 January 2014
<u>Amendments to the standards</u>	
Financial holding entities - amendments to IFRS 10, IFRS 12 and IAS27: holdings exemption	1 January 2014
IAS 27 - Separate financial statements	1 January 2014
IAS 28 - Investments in associates companies and joint ventures	1 January 2014
IAS 32 (amendment) - Financial instruments: Offsetting of financial assets and financial liabilities	1 January 2014
IAS 36 (amendment) - Disclosures in the recoverable amount of non-financial assets	1 January 2014
IAS 39 (amendment) - Novation of derivatives and Continuation of Hedge Accounting	1 January 2014
Annual improvements 2010-2012	1 July 2014
Annual improvements 2011-2013	1 July 2014
<u>Effective interpretations</u>	
IFRIC 21 "Levies "	1 January 2014

* Effective date: date of mandatory application to the financial years beginning after the date mentioned by IASB.

These new standards and amendments to the standards and interpretations are effective for years starting on or after the referred date, and were not applied during the preparation of these consolidated financial statements. With the exception of IFRS 9, IFRIC 21 and Improvements 2010-2012/2011-2013, all the amendments and interpretations were adopted by the European Union.

The main changes arising from the adoption of the standards, amendments and interpretations described above will be:

IFRS 9 (new), Financial instruments - classification and measurement (effective date not determined). This standard is still awaiting adoption by the European Union. This is the first phase of IFRS 9, which foresees two categories of measurement: Amortised cost and fair value. All equity instruments are measured at fair value. A financial instrument is measured at amortised cost only when the entity holds it to receive contractual cash-flows and these cash-flows represent the nominal value and interest. Otherwise, financial instruments are valued at fair value through results. CTT Group will apply IFRS 9 in the financial year in which it becomes effective.

IFRS 10 (new), 'Consolidated Financial Statements' (to be applied in the EU to financial years that begin on or after 1 January 2014, at the latest). IFRS 10 substitutes all the principles associated with the control and consolidation included in IAS 27 and SIC 12, altering the definition of control and the criteria applied in determining control. The basic principle that the consolidated accounts present the parent company and its subsidiaries as a single entity remains unchanged. CTT Group will apply this standard in the financial year in which it becomes effective. This adoption will not impact the consolidated financial statements of the CTT Group.

IFRS 12 (new) - 'Disclosure of interests in other entities' (to be applied in the EU to financial years that begin on or after 1 January 2014). This standard sets the requirements for disclosure for all the types of interests in other entities, including joint ventures, associated companies and unconsolidated structured entities in order to assess the risk and the financial impacts associated with the interest of the entity. CTT Group will apply this standard in the financial year it becomes effective. This adoption will not impact the consolidated financial statements of CTT Group.

Amendment to IFRS 10, IFRS 12 and IAS 27 - 'Investment entities' (to be applied to financial years that begin on or after 1 January 2014, at the latest). This amendment is still subject to the adoption process of the European Union. This amendment includes the definition of Investment Entity and introduces the exception regime with regards to the obligation to consolidate, for Investment Entities that qualify, since all investments will be measured at fair value. Specific disclosures are required by IFRS 12. This standard will not impact the CTT Group as it does fulfil the definition of investment entity.

IAS 27 (revision 2011) 'Separate Financial Statements' (to be applied in the EU to financial years that begin on or after 1 January 2014, at the latest). IAS 27 was revised after the publication of IFRS 10 and contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. CTT Group will apply this standard in the financial year in which it becomes effective. This adoption will not impact the consolidated financial statements of the CTT Group.

IAS 28 (revised 2011), 'Investments in associates and joint ventures' (to be applied in EU at the latest in the annual periods beginning on or after 1 January 2014). IAS 28 was revised after the issuance of IFRS 11 and prescribes the accounting for investments in associates and joint ventures, and sets out the requirements for the application of equity method. The Group will apply the revised standard in the period it becomes effective, however no significant impact is expected in the consolidated financial statements.

IAS 32 (amendment) 'Offsetting of financial assets and financial liabilities (to be applied to financial years that begin on or after 01 January 2014). This amendment is part of the "offsetting of assets and liabilities" project of IASB, which clarifies the expression "has a legally enforceable right to set off amounts" and clarifies that some systems for settlement in the gross amounts (clearing houses) may be equivalent to offsetting for net amount. CTT Group will apply this standard in the financial year it becomes effective. This adoption will not impact the consolidated financial statements of the CTT Group.

IAS 36 (amendment) 'Recoverable Amount Disclosures for Non-Financial Assets' (to be applied in financial years beginning on or after 1 Jan 2014). This amendment aims to change the requirements of IFRS 13 according to which the recoverable amount of each Cash-Generating Unit (CGU) to which goodwill or intangible assets with an undetermined useful life had been allocated had to be disclosed. With these amendments, the recoverable amount must be disclosed only when an impairment loss has been recorded or reversed. This adoption will not impact the consolidated financial statements of the CTT Group.

IAS 39 (amendment) Novation of derivatives and Continuation of Hedge Accounting (to be applied in financial years beginning on or after 1 January 2014). This alteration introduces an exception to the obligation for derecognition of hedge accounting, according to IAS 39 and IFRS 9, under the circumstances in which hedge accounting is required to be continued with a central counterpart, as a result of laws and regulations. This adoption will not impact the consolidated financial statements of the CTT Group.

Annual Improvements 2010-2012, (generally effective for annual periods beginning on or after 1 July 2014). These improvements are still subject to endorsement by European Union. The 2010-2012 annual improvements affects: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. The Entity will apply 2010-2012 annual improvements in the period in which it becomes effective, however no significant impact is expected in the consolidated financial statements.

Annual Improvement 2011 - 2013, (generally effective for annual periods beginning on or after 1 July 2014). These improvements are still subject to endorsement by the European Union. The 2011-2013 annual improvements affects: IFRS 1, IFRS 3, IFRS 13 and IAS 40. The Entity will apply 2011-2013 annual improvements in the period in which it becomes effective, except for IFRS 1 because the Entity already reports under IFRS. No significant impact is expected in the consolidated financial statements.

IFRIC 21 (new interpretation), 'Levies' (to be applied in financial years beginning on or after 1 January 2014). This interpretation is still awaiting adoption by the European Union. This interpretation aims to clarify the treatment given to certain "taxes" defined by governmental entities, namely regarding

the moment at which the liability must be recognised. This adoption will not impact the consolidated financial statements of the CTT Group.

2.2- Consolidation principles

Investments in companies in which the Group holds, directly or indirectly, more than 50% of their voting rights in shareholders' general meetings and/or has the power to control their financial and operating policies were consolidated in these financial statements. The companies consolidated are shown in Note 8.

Equity and net profit for the year corresponding to third party participation in subsidiaries are reflected separately in the consolidated balance sheet and income statement in the caption "Non-controlling interests". The gain and loss attributable to non-controlling interests are allocated to them.

The assets and liabilities of each Group company are recorded at fair value as of the date of acquisition or, as established in IFRS 3. Any excess of cost over the fair value of the net assets and liabilities acquired is recognised as goodwill. If the difference between the cost and the fair value of the assets and liabilities acquired is negative, it is recorded directly in profit and loss.

Transaction costs directly attributable to business combinations are immediately recognised in profit and loss.

Non-controlling interests include the third parties portion of the fair value of the identifiable assets and liabilities as of the date of acquisition of the subsidiaries.

The results of subsidiaries acquired or sold during the year are included in the income statement from the date of acquisition up to the date of disposal.

Whenever necessary, adjustments are made to the financial statements of subsidiaries to be in accordance with the Group's accounting policies. Transactions (including unrealized gains and losses on sales between Group companies), balances and dividends distributed between Group companies are eliminated in the consolidation process.

Associated companies

Investments in associated companies are recorded in the consolidated balance sheet by the equity method (Note 10). An associate company is an entity over which the Group has significant influence, through participation in decisions concerning its financial and operating policies, but where the Group does not have control or joint control, which in general, happens whenever the investment is between 20% and 50%.

In accordance with the equity method, the investments are initially recorded at their cost and, subsequently, adjusted by the value corresponding to the investment in the net profit or loss of the associated companies, against "gain/losses in associated companies", and by other changes in equity in "Other comprehensive income". Additionally, investments in associated companies may

also be adjusted through the recognition of impairment losses. Whenever there are indications that the assets may be impaired, an assessment is carried out and the existing impaired losses are recorded as cost in the consolidated income statements.

The excess of cost in relation to the fair value of the identifiable assets and liabilities of each associated company at the date of acquisition is recognised as goodwill related to the associated and presented as part of the financial investment in the caption “Investments in associates”. If the difference between cost and fair value of the assets and liabilities acquired is negative, it is recognised in the income statement caption “Gains/ losses in associated companies”, after confirmation of the fair value.

Whenever the losses in associated companies exceed the investment made in these entities, the investment carrying value will be reduced to zero and the recognition of future losses will be discontinued, except in what concerns the part in which the Group incurs in any legal or constructive obligation, assuming all these losses on behalf of the associated company, in which case a provision is recorded.

The dividends received from associated companies are recorded as a decrease in the carrying value of the “Investments in associated companies”.

With the exception of goodwill, if the impairment losses recorded in previous years are no longer applicable, these are reversed.

Unrealised gains and losses on transactions with associated companies are eliminated in proportion to the Group’s interest in the associated companies, recorded against the investment in the same entity. Unrealised losses are also eliminated but only up to the point that the losses do not mean that the transferred asset is impaired.

Joint Ventures

Investments in joint ventures are recorded in the consolidated balance sheet by the equity method. The classification of the investments in joint ventures is determined based on the existence of a contractual agreement, which demonstrates and rules the joint control.

In accordance with the equity method, the investments are initially recorded at their cost and, subsequently, adjusted by the value corresponding to the investment in the net profit or loss of the joint ventures, against profit and losses, and by other changes in equity in “Other comprehensive income”. Additionally, investments in joint ventures may also be adjusted through the recognition of impairment losses. Whenever there are indications that the assets may be impaired, an assessment is carried out and the existing impaired losses are recorded as costs in the consolidated income statements.

Unrealised gains and losses on transactions with joint ventures are eliminated in proportion to the Group’s interest in the entities, recorded against the investment in the same entity. Unrealised losses are also eliminated but only up to the point that the losses do not mean that the transferred asset is impaired.

2.3- Segment reporting

The Group presents the operational segments based on internal management information.

In accordance with IFRS 8, an operating segment is a Group component:

- (i) that engages in business activities from which it may earn revenues and incur expenses;
- (ii) whose operating results are reviewed regularly by the entity's chief operating decision maker in order to make decisions about resources to be allocated to the segment and assess its performance; and,
- (iii) for which discrete financial information is available.

2.4- Transactions and balances in foreign currency

Transactions in foreign currency (a currency different from the Group's functional currency) are recorded at the exchange rates in force on the transaction date. On each reporting date, the carrying values of the monetary items in foreign currency are updated at the exchange rates on that date. The carrying values of non-monetary items recorded at historical cost in foreign currency are not revaluated.

The exchange rates used in the translation of the financial statements expressed in foreign currency are for the consolidated balance sheet, the closing exchange rates and, in the case of the consolidated income statement, the average exchange rate of the period.

The following exchange rates were used in the translation of the balances and financial statements in foreign currency:

	2013		2012	
	Close	Average	Close	Average
Mozambican Metical (MZM)	41.24000	39.66750	39.24000	36.56000
United States Dollar (USD)	1.37910	1.32815	1.31940	1.31990
Special Drawing Right (SDR)	1.11732	1.14440	1.16583	1.17373

Source: Bank of Portugal

Favourable and unfavourable currency translation differences arising from the use of different exchange rates in force on the transaction dates and those in force on the recovery, payment or reporting date are recognised in the profit or loss for that period.

2.5- Tangible fixed assets

Tangible fixed assets are recorded at their acquisition or production cost, less accumulated depreciation and impairment losses, where applicable. The acquisition cost includes: (i) the purchase price of the asset, (ii) the expenses directly attributable to the purchase, and (iii) the estimated costs of dismantlement or removal of the assets and restoration of the location (Notes 2.19 and 27). Under the exception of IFRS1 – First-time Adoption of the International Financial Reporting Standards, the revaluation of tangible assets made in accordance with the Portuguese

legislation applying monetary indices, for the years up to 1 January 2009, was maintained, and the revaluated amounts were referred to as “deemed cost” for IFRS purposes and were included in Retained earnings.

The depreciation of tangible assets, less their residual estimated value, is calculated in accordance with the straight line method, as of the month when the assets are available for use, during their useful lives, which is determined according to their expected economic utility. The depreciation rates that are applied correspond, on average, to the following estimated useful lives for the different categories of assets:

	Years of useful life
Buildings and other constructions	10 – 50
Basic equipment	4 – 10
Transport equipment	4 – 7
Tools and utensils	4
Office equipment	3 – 10
Other property, plant and equipment	5 – 10

Land is not depreciated.

Depreciation terminates when the assets are re-classified as held for sale.

On each reporting date, the Group assesses whether there is any indication that an asset might be impaired. Whenever such indications exist, the tangible fixed assets are subjected to impairment tests, where any surplus of the carrying value relative to the recoverable amount, should this exist, is recognised in the consolidated income statement. The recoverable amount corresponds to the highest amount between the fair value of an asset minus the costs of selling it and its value in use.

Tangible fixed assets in progress correspond to tangible assets that are still under construction/production, and are recorded at acquisition or production cost. These assets are depreciated as of the month when they are in condition to be used for their intended purpose.

Costs related to maintenance and repair of current nature are recorded as costs in the period they are incurred. Major repairs which lead to increased benefits or expected useful lives are recorded as tangible assets and depreciated at the rates corresponding to their expected useful life. Any replaced component is identified and written off.

The gain or loss arising from the disposal of fixed tangible assets are defined by the difference between the sale proceeds and the carrying amount of the assets and are recorded the consolidated income statement under the heading “Other revenues and operating gains” or “Other operating costs and losses”.

2.6- Intangible assets

Intangible assets are registered by the acquisition cost, minus amortisation and impairment losses, when applicable. Intangible assets are only recognised when it is probable that they will result in future economic benefits for the Group, and they can be measured reliably.

Intangible assets are essentially composed of expenses related to patents, software (whenever this is separable from the hardware and associated to projects where the generation of future economic benefits is quantifiable), licenses and other user rights. Also included are expenses related to the development of R&D projects whenever the intention and technical capacity to complete this development is demonstrated, for the purpose of the projects being available for marketing or use. Research costs incurred in the search of new technical or scientific knowledge or aimed at the search of alternative solutions, are recognised through profit or loss when incurred.

Intangible assets are amortised through the straight line method, as of the month when they are available for use, during their expected useful life, which varies between 3 and 20 years:

	<u>Years of useful life</u>
Development projects	3
Industrial property	3 – 20
Computer programmes	3 – 10

The exceptions to the above are assets related to industrial property, which are amortised over the period of time during which their exclusive use takes place and intangible assets with undefined useful life, which are not amortised, but, rather, are subject to impairment tests on an annual basis and whenever there is indication that they might be impaired.

The Group performs impairment reviews whenever events or circumstances may indicate that the book value of the asset exceeds its recoverable amount, any impairment being recognised in the income statement. The recoverable amount is the higher of net selling price and value in use, the latter being calculated by the present value of the estimated future cash flows obtained from continued use of the asset and its sale at the end of its useful life.

Gains or losses arising from the divestment of tangible fixed assets, determined by the difference between the sales proceeds and the respective carrying value on the date of the divestment, are stated in the income statement under the heading "Other operating revenues" or "Other operating costs".

2.7- Investment Properties

Investment property is property (land or buildings) held by the Group to earn rentals or for capital appreciation or both, rather than for:

- a) use in the production or supply of goods or services or for administrative purposes, or

b) sale in the ordinary course of business.

Investment property comprises mainly buildings that the Group did not allocate to the rendering of services by the Group and holds to earn rentals or for capital appreciation.

An investment property is initially measured at its acquisition or production cost, including any transaction costs which are directly attributable to it. After their initial recognition, investment property is measured at cost less any accumulated depreciation and accumulated impairment losses, when applicable.

The depreciation rates are between 10 and 50 years.

The Group ensures the annual assessment of assets qualified as investment property, in order to determine any impairment and disclose their fair value.

Costs incurred in relation to investment property, namely with maintenance, repairs, insurance and property taxes are recognised as costs for the period to which they incurred. Improvements which are expected to generate additional future economic benefits are capitalised.

2.8- Impairment of tangible fixed assets and intangible assets, except goodwill

The Group carries out impairment assessments of its tangible and intangible assets, whenever any event or situation occurs, which may indicate that the amount by which the asset is recorded might not be recovered. In case there is any indication of the existence of such evidence, the Group estimates the recoverable amount of the asset in order to measure the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, then the recoverable amount of the cash generating unit to which this asset belongs is estimated.

The recoverable amount of the asset or cash generating unit is the higher of (i) its fair value less costs to sell and (ii) its value in use. The fair value is the price that would be received, for the sale of an asset, in a transaction between market participants at the measurement date. The value in use arises from the future and estimated cash flows discounted from the assets during the estimated useful life. The discount rate used in the discounted cash flows reflects the current market assessments of time value of money and the specific risk of the asset.

Whenever the carrying amount of the asset or cash generating unit is higher than its recoverable amount, an impairment loss is recognised. The impairment loss is recorded in the Consolidated income statement.

The reversal of impairment losses recognised in prior years is recorded whenever there is evidence that the recognised impairment losses no longer exist or have decreased, being recognised in the Consolidated income statement. However, the reversal of the impairment loss is made up to the amount that would have been recognised (net of amortisation or depreciation) if the impairment loss had not been recorded in the previous years.

2.9- Goodwill

Goodwill represents the excess of the acquisition cost compared with the fair value of the identifiable assets, liabilities and contingent liabilities of each entity that is acquired and included by the full consolidation method, or subsidiary, on the respective acquisition date, in accordance with IFRS 3 Revised – Business Combinations. Under the exception provided by IFRS 1 – First-time Adoption of the International Financial Reporting Standards, the Group has applied the provisions of IFRS 3 only for the acquisitions made after 1 January 2009. The amounts of the goodwill corresponding to acquisitions before 1 January 2009 were kept at the net amounts presented on that date and, since this date, have been subject to impairment tests on an annual basis.

Goodwill is not amortised. In the assessment of the goodwill impairment, this value is allocated to the cash generating unit or units it refers to. The value in use is determined by discounting the estimated future cash flows of the cash generating unit. The recoverable amount of the cash generating units to which the goodwill refers is determined based on the assets' value in use and is calculated using valuation methodologies which are supported by discounted cash flow techniques, considering the market conditions, the time value and business risks. The discount rate used for discounting cash flows reflects the WACC before taxes (“Weighted Average Cost of Capital”) of the CTT Group for the business segment to which the cash flow generating unit belongs. The impairment tests are carried out on each reporting date, or earlier if impairment risk indicators were identified.

Impairment losses are not reversible.

In the sale of a cash generating unit, the corresponding goodwill is included in the determination of the capital gain or loss.

2.10- Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'Accounts receivable', 'Cash and cash equivalents', 'Other non-current assets' and 'Other current assets' in the consolidated balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in Loans and receivables. They are included in non-current assets unless the

investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.10.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2.11- Equity

Costs related to the issuance of new shares are recognised directly in the share capital as a deduction from the value of the cash inflow.

Costs related to an issue of equity which has not been completed are recognised as expenditure.

2.12- Financial liabilities

Debt

Loans are recorded as liabilities at the carrying value received, net of issuance expenses, corresponding to the respective fair value on that date. They are subsequently measured at amortised cost, with the corresponding financial costs calculated based on the effective interest rate and stated through the consolidated income statement according to the accrual basis principle, with the due and unpaid amounts as at the reporting date being classified under the item of "Accounts payable" (Note 28).

Accounts payable

Accounts payable classified as current liabilities are registered at their nominal value, which is substantially equivalent to their fair value.

Accounts payable classified as non-current liabilities, for which there is no contractual obligation to pay interest, are initially measured at their net present value and subsequently measured at their respective amortised cost, determined in accordance with the effective interest rate method.

Accounts payable (balances of suppliers and other creditors) are liabilities related to the acquisition of goods or services, by the Group, in the normal course of its business. If their payment falls due

within one year or less, then they are classified as current liabilities. Otherwise, they are classified as non-current liabilities.

2.13- Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.14- Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.15- Inventories

Goods and raw materials, subsidiary materials and consumables, are valued at the lowest cost between the acquisition cost and net realizable value, using the weighted average cost, as the method of valuing warehouse outputs.

Net realizable value corresponds to the normal selling price less costs to complete production and costs to sell.

The acquisition cost includes the invoice price, transport and insurance costs.

Whenever cost exceeds net realizable value, the difference is recorded in the operating cost caption "Impairment of inventories and accounts receivable, net".

2.16- Non-current assets held for sale and discontinued operations

Non-currents assets are classified as held for sale, if the respective carrying value is expected to be realized through their sale rather than through continued use. It is considered that this situation occurs only when: (i) the sale is highly probable and the asset is available for immediate sale in its present condition, (ii) the Group is committed to sell, and (iii) the sale is expected to be completed within a 12-month period.

Non-current assets, which are classified as held for sale, are measured at the lowest between the carrying value before this classification and fair value minus the sale costs. Whenever the fair value is less than the carrying value, the difference is recognised in item "Depreciation / amortisation and impairment of investments, net" in the Consolidated income statement.

Non-current assets held for sale are presented on a separated caption in the Consolidated Balance Sheet.

Non-current assets held for sale are not depreciated or amortised.

Earnings from discontinued operations are presented on a specific line, in the Consolidated income statement, after Income tax and before net profit for the year.

Whenever the Group is committed to a plan to sell a subsidiary, which involves the loss of control over it, all the assets and liabilities of that subsidiary are classified as held for sale, provided they meet the above requirements, even if, after the sale, the Group still keeps a residual interest in the subsidiary.

2.17- Distribution of dividends

The distribution of dividends, when approved by the shareholders at the General Annual Meeting of the Company, is recognised as a liability.

2.18- Employee benefits

The Group adopts the accounting policy for the recognition of its responsibility for the payment of post-retirement health care and other benefits, whose criteria are set out in IAS 19, namely using the Projected unit credit method.

In order to obtain an estimate of the value of the liabilities (Present value of the defined benefit obligation) and the cost to be recognised in each period, an annual actuarial study is prepared by an independent entity under the assumptions considered appropriate and reasonable. The "Present value of defined benefit obligation" is recorded as a liability in the item "Employee benefits".

As at 31 December 2012, CTT, SA early adopted the amendments set out in IAS 19, and, as a result, with respect to post-employment benefits, actuarial gains and losses are fully recognised, in Equity, contrary to the procedure that occurred in previous years, when these were deferred and amortised for the estimated average period of future services provided by the employees until their retirement age. In the case of actuarial gains and losses relative to other long-term benefits, not post-employment, these are recognized in the income statement as they occur.

IAS 19 does not specify whether interest expense in respect of defined benefit obligations should be presented as staff costs or financial costs. Most European postal operators present interest expense as financial costs, and accordingly CTT, as at 31 December 2012, reclassified interest expense in respect of defined benefit obligations, to financial costs in order to ensure comparability with the majority of its peers.

Retirement pensions of the staff integrated in State Pension Scheme ("CGA")

Decree-Law no. 246/2003 of 8 October transferred to CGA, as of 1 January 2003, the liability for retirement pensions due to retired and current personnel covered by that entity, and so, this Decree-Law extinguished the CTT, S.A. Personnel Pension Fund. Upon extinction of the fund, as determined by the same law, the Company transferred to CGA and to the General Directorate of the Treasury, the value of the respective assets, reported to 1 January 2003, plus the respective incomes until the date of its effective delivery, in December 2003.

Post-employment benefits - health care

Workers who are integrated in CGA and workers who are beneficiaries of the Portuguese state pension scheme, (recruited as permanent staff of the Company after 19 May 1992 and up to 31 December 2009) are entitled to the health care benefits established in the CTT Social Work Regulation. These benefits are extended to all permanent workers of the company, whether they are still working, or if they are pensioners, or in a situation of pre-retirement or retirement.

Workers hired by the company after 31 December 2009, are only entitled to the benefits provided for in the state pension scheme while they remain bound to the Company by an individual employment contract, having no right to a pension, pre-retirement or retirement.

Health care benefits include contributions to the cost of medication, medical and surgical and nursing services, as well as auxiliary diagnostic means and hospital services, as defined in the CTT Social Work Regulation.

The funding of the post-retirement health care plan is ensured mostly by the Company, and the remaining costs are covered by the fees paid by the beneficiaries.

The right to the post-retirement health plan requires that the beneficiaries (retirees and pensioners) pay a fee corresponding to 1.5% of the respective pension. For each family member enrolled a fee is also paid, corresponding to 1.5% or 2% of the pension, depending on the percentage of the amount of the pension. In certain special situations, an exemption from the payment of the fee may be granted to the beneficiaries or their family members.

The management of the health care plan is ensured by the IOS – Instituto das Obras Sociais, which in turn, hired Portugal Telecom – Associação de Cuidados de Saúde ("PT-ACS") to manage health care services.

Other long term benefits

The Group also assumed, relative to certain groups of workers, a series of constructive and contractual obligations, namely:

- Suspension of contracts, redeployment and release of employment

The liability for the payment of salaries to employees released from their positions, with suspended labour contracts, pre-retirement or equivalent is fully recognised in the consolidated income statement at the time they accept those conditions.

- Telephone subscription charge

CTT has assumed the obligation of the life-long payment, to a closed group of retired workers and surviving spouses (7,680 beneficiaries as at 31 December 2013, 8,117 beneficiaries as at 31 December 2012), of the telephone subscription charge, amounting to 15.30 Euros per month.

During the year ended on 31 December 2013, the Board of Directors of CTT, decided to modify the economic benefit. Thus, from 1 January, 2014, the cash payment will be replaced by a benefit in kind.

- Pensions for accidents at work

This essentially corresponds to the liability for the payment of pensions for accidents at work, relative to workers who are integrated in state pension scheme (CGA).

CTT Group also supports other liabilities arising from accidents at work suffered by these workers.

According to the legislation in force concerning employees integrated in CGA, the Group is liable for the costs incurred with pensions that have been attributed for damages resulting from accidents at work, and which have resulted in permanent handicap or death of the worker. The value of these pensions is updated pursuant to a legal diploma. Currently, because it is not considered as economically justifiable, no insurance policy has been taken out to meet these liabilities.

As at 31 December 2013, there were 67 beneficiaries receiving this type of pension (66 as at 31 December 2012).

- Monthly life annuity

This is an annuity provided for in the family benefits legal system set out in Decree-Law no. 133-B/97 of 30 May, as amended by Decree-Law no. 341/99 of 25 August and Decree-Law no. 250/2001 of 21 September.

Beneficiaries are workers, still working or retired, who have descendants over 24 years old, with physical, organic, sensorial, motor or mental disabilities, who are in a situation that prevents them from normally providing for their subsistence through the exercise of professional activity. In the case of beneficiaries integrated in the CGA, the cost of the monthly life annuity is the responsibility of CTT SA. As at 31 December 2013 there were 48 beneficiaries under these conditions, (51 beneficiaries as at 31 December 2012), receiving a monthly amount of 176.76 Euros, 12 months a year. This value is updated by Order of the Ministry of Finance and the Ministry of Solidarity and Social Security.

- Support for cessation of professional activity

This benefit is granted to employees who retire with at least 5 years of seniority in the company. Its amount depends on the seniority on the retirement date. As at 31 December 2012, the benefit in force provided for a maximum of 1,847.16 Euros for 36 or more years of seniority. In 2012, the Board of Directors decided to discontinue the compensation awarded to the workers who have reached the end of their working life at the service of CTT, SA. It has also ruled that, in situations of disconnection and retirement that may occur as a result of the requests for retirement already submitted or that will be submitted until 31 March 2013, the benefit referred to above will be maintained.

Liabilities concerning "Other long-term benefits" towards employees are determined annually based on actuarial valuations prepared by an independent entity, in accordance with the actuarial methods and assumptions deemed appropriate and reasonable, and their stipulated values are recorded under the heading liabilities "Employee benefits". The main financial and demographic assumptions used in calculating these liabilities, namely the discount rate, mortality and disability tables, are the same as those used in the actuarial assessment of the CTT health care plan.

2.19- Provisions and contingent liabilities

Provisions are recognised whenever: (i) the Group has a present obligation (legal or implicit) arising from a past event, (ii) it is probable that its payment will be demanded, and (iii) there is a reliable estimate of the value of this obligation. Whenever any of these conditions is not met, the Group discloses the events as contingent liability, unless the probability of a cash outflow is remote.

The amount of the provisions corresponds to the present value of the obligation, with the financial unwinding being recorded as a financial cost under the heading "Interest and similar costs paid" (Note 40).

The provisions are reviewed on every reporting date and are adjusted in order to reflect the best estimate at that date.

When losses in associated companies exceed the investment made in these entities, the investment carrying value is reduced to zero and the recognition of further losses is discontinued, except to the extent that the Group has incurred in a legal or constructive obligation to assume these losses on behalf of an associate, in which case a provision is recorded for the investments in associated companies.

Restructuring provisions are made whenever a detailed formal restructuring plan has been approved by the Board of Directors and it has been launched or publicly disclosed.

Provisions are made for dismantling costs, costs of removal of the asset and costs of restoration of the site of certain assets, when these assets are in use or when there is a contractual commitment to restore the locations rented by third parties. A provision is recorded for on-going legal costs, whenever there is a reliable estimation of the costs to be incurred with the actions brought by third parties, based on the evaluation of the effectiveness of the probability of payment based on the opinion of the Group's lawyers.

2.20- Revenues

Revenues are measured at the fair value of the consideration that has been or will be received.

The revenue relative to sales, services rendered, royalties, interests and dividends (from investments not stated by the equity method), arising from the Company's normal business activity is measured at the fair value of the consideration that has been or will be received, which is defined as the sums established freely between the contractual parties on an independent basis, where, in relation to sales and services rendered, their fair value reflects any discounts granted and does not include Value Added Tax.

The recognition of revenue requires that (i) it is probable that the economic benefits associated to the transaction will flow into the Company, (ii) the amount of the revenue may be measured reliably, (iii) the costs that have been or will be incurred with the transaction may also be measured reliably, and (iv) the stage of completion of the services rendered/transaction can be measured reliably, in the case of the services rendered being recognised based on percentage completion.

Revenue from the sale of merchandising products and from postal business is recognised when the risks and benefits of ownership of the products are transferred to the buyer, which usually occurs at the time of the transaction.

Revenue from postal services is recognised at the moment the customer requests the service, since CTT has no information that would allow a reliable estimate of the amount concerning deliveries not made by the financial reporting date, although it is understood that this issue is not materially relevant, as the date of the service request does not significantly differ from the date of delivery.

The prices of the services rendered in the scope of the concession of the Universal Postal Service have been subject to regulation under the Price Agreement signed between CTT and ICP-ANACOM.

Fees from collections made and from the selling of financial products are recognised on the date that the client is charged. Only the fee from collections charged by CTT is recognised as revenue, as CTT acts as an agent.

Revenue from PO Boxes and the custody of archives is recognised over the term of the contracts.

Revenue from the recharging of prepaid mobile phone services is deferred and recognised in earnings, according to the traffic of the specific client, during the period when the service is rendered.

Revenue and costs relative to international mail services, estimated based on surveys and indices agreed with the corresponding postal administrations, are recognised in provisional accounts in the month that the traffic occurs. Differences between the estimated and final amounts determined in agreement with these services, which are not usually significant, are recognised in the income statement when the accounts become final.

Revenue from interest is recognised using the effective interest rate method, provided that it is probable that economic benefits will flow into the Group and their amount can be measured reliably.

CTT registers a portion of the interest received from deposits in other operating income, specifically interest from short-term deposits in the Financial Services segment. CTT considers the temporary investment of funds received and to be paid to third parties as one of the main operational objectives of its Financial Services segment. In the cash flow statement, this portion of interest is recognised as operational cash flows.

2.21- Subsidies obtained

Subsidies are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions required for their assignment.

Capex subsidies associated to the acquisition or production of tangible fixed assets are initially recognised in non-current liabilities and are subsequently allocated, on a systematic basis, as revenue for the period, consistent and proportional to the depreciation of the assets acquired through these grants.

Operating subsidies, namely those for employee training, are recognised in the consolidated income statement, within the periods necessary to match them with the expenses incurred, to the extent that these subsidies are not refundable.

2.22- Leases

The classification of leases is done according to the substance of the transaction and not the form of the contract. Leases are classified as financial whenever their terms imply the substantial transfer, to

the lessee, of all the risks and advantages associated to the ownership of the asset. All other leases are classified as operating.

Tangible assets acquired through financial leasing contracts, as well as the corresponding liabilities payable to the lessor, are recorded in the balance sheet at the beginning of the lease at the lowest value between the fair value of the assets and the present value of the minimum lease payments. The discount rate used is the rate implicit in the lease. If this rate is not known, then the Group's funding rate for this type of investment is used. The policy for depreciation of these assets follows the rules applicable to tangible fixed assets owned by the Group. The interest included in the rents and in amortisation of fixed tangible assets are recognised in the Consolidated Income Statement in the period to which they refer to.

For operating leases, the instalments that are owed are recognised as a cost in the Consolidated Income Statement over the lease period (Note 35).

2.23- Borrowing costs

Financial charges related to loans are recognised in net profit, when incurred. However, interest expenses are capitalised when loans are directly attributable to the acquisition or construction of an asset that requires a substantial period of time (over one year) to reach its intended use.

2.24- Taxes

Corporate income tax ("IRC")

Corporate income tax corresponds to the sum of current taxes and deferred taxes. Current taxes and deferred taxes are recorded through net income, unless they refer to items recorded directly in equity. In these cases, deferred taxes are also recorded under equity.

Current tax payable is based on the taxable income for the period of the Group companies included in the consolidation, calculated in accordance with the tax criteria prevailing at the financial reporting date. Taxable income differs from carrying value, since it excludes various costs and revenues which will only be deductible or taxable in other financial years. Taxable income also excludes costs and revenues which will never be deductible or taxable.

Deferred taxes refer to temporary differences between the amounts of assets and liabilities for the purposes of accounts reporting and the corresponding amounts for tax purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for deductible temporary differences. However, this recognition only takes place when there are reasonable expectations of sufficient future taxable profits to use these deferred tax assets, or when there are deferred tax liabilities whose reversal is expected in the same period that the deferred tax assets may be used. On each reporting date, a review is made of these deferred tax assets, which are adjusted according to expectations on their future use.

Deferred tax assets and liabilities are measured using the tax rates which are in force on the date of the reversal of the corresponding temporary differences, based on the taxation rates (and tax legislation) which are enacted, formally or substantially, on the reporting date.

CTT is covered by the special regime applicable the taxation of groups of companies, which includes all companies in which CTT holds, directly or indirectly, at least in 90% of the share capital and which are, simultaneously, resident in Portugal and taxed under IRC. The remaining companies are taxed individually according to their respective taxable income at the applicable tax rates.

Value Added Tax ("VAT")

For purposes of VAT, the Parent Company follows the normal monthly regime, in accordance with the provisions of paragraph a) of no. 1 of article 41 of the Portugal VAT Code, with the exemption to various operations in its activity that fall under the provisions of article 9 of the Portugal VAT Code, as well as non-exemption to other operations which are subject to VAT, and for this reason, using the effective allocating method and the *pro rata* method.

2.25- Accruals basis

Revenues and costs are recorded according to the accruals basis, and therefore, are recognised as they are generated, regardless of the time they are received or paid. Differences between the revenues and costs generated and the corresponding amounts invoiced are recorded in "Other current assets" or in "Other current liabilities". Deferred revenues and costs paid in advance are recorded under the heading "Deferrals", under liabilities and assets, respectively.

2.26- Judgements and estimates

In the preparation of the consolidated financial statements, judgements and estimates were used which affect the reported amounts of assets and liabilities, as well as the reported amounts of revenues and costs during the reporting period. The estimates and assumptions are determined based on the best existing knowledge and on the experience of past and/or current events considering certain assumptions relative to future events. However, situations might occur in subsequent periods which, due to not having been predictable on the date of approval of the financial statements, were not considered in these estimates. Alterations to estimates which occur after the date of the financial statements will be corrected in a prospective manner. For this reason and in view of the associated degree of uncertainty, the real outcome of the situations in question might differ from their corresponding estimates.

The main judgements and estimates made in the preparation of the consolidated financial statements arise in the following:

(i) Tangible fixed and intangible assets / estimated useful lives

Depreciation/amortisation is calculated on the acquisition cost using the straight line method, as of the month when the asset is available for use. The depreciation/amortisation rates that are applied reflect the best knowledge on the estimated useful life of the assets. The residual values of the assets and their respective useful lives are reviewed and adjusted, when deemed necessary.

(ii) Impairment of Goodwill

The Group tests the goodwill, at least once a year, with the purpose of verifying if it is impaired, in accordance with the policy referred in Note 2.9. The calculation of the recoverable amounts of the cash generating units involves a judgment and substantially relies on the analysis of the Management related to the future developments of the respective subsidiary. The assessment underlying the calculations that have been made uses assumptions based on the available information, both concerning the business and macro-economic environment. Changes in assumptions can have impacts on results and on the consequent recording of impairments.

(iii) Impairment of accounts receivable

Impairment losses relative to bad debt are based on the Group's assessment of the probability of recovery of balances of accounts receivable. This assessment is made according to the period of time of default, the credit history of the customer and other debtors, and the deterioration of the credit situation of the main customers and other debtors. Should the customers' financial conditions deteriorate, the impairment losses might be higher than that expected.

(iv) Deferred taxes

The recognition of deferred taxes assumes the existence of future net profit and taxable amount. The deferred tax assets and liabilities were determined based on the tax legislation currently in force for the Group's companies, or on legislation that has already been published for future application. Amendments to tax legislation may influence the value of the deferred taxes.

(v) Employee benefits

The determination of the liabilities related to the payment of post-employment benefits, namely with health care plans, requires the use of assumptions and estimates, including the use of actuarial projections, discount rates and other factors that could have an impact on the costs and liabilities associated to these benefits. Any changes in the assumptions used, which are described in Note 26, will have impact on the carrying amount of the employees' benefits. CTT has a policy of periodically reviewing the major actuarial assumptions.

(vi) Provisions

The Group exercises considerable judgement in the measurement and recognition of provisions. Judgement is required in order to appraise the probability of litigation having a successful outcome. Provisions are recorded when the Group expects that the lawsuits will lead to the outflow of funds, the loss is probable and may be estimated reasonably. Due to the uncertainties inherent to the process of assessment, real losses might be different from those originally estimated in the provision. These estimates are subject to changes as new information becomes available. Reviews to the estimates of these losses might affect future results.

2.27- Consolidated Cash Flow Statement

The Cash Flow Statement is prepared according to the direct method, through which cash receipts and payments relative to operating, investment and financing activities are disclosed.

2.28- Subsequent events

Events occurring after the closing date until the date of approval of the financial statements by the Board of Directors, and which provide additional information about conditions existing at the date of the financial reporting, are reflected in the financial statements. Events occurring after the closing date, which indicate conditions arising after the date of the financial reporting, are disclosed in the notes to the financial statements, if considered relevant.

3. CHANGES TO ACCOUNTING POLICIES, ERRORS AND ESTIMATES

In the year ended on 31 December 2012 the Group adopted IAS 19 - Employee benefits (amended). According to which the actuarial gains and losses, related to post-employment benefits, previously deferred and amortised for the estimated average period of the future services provided by the employees until the retirement age, are henceforth immediately and only recognised in equity, in "Other comprehensive income".

As mentioned in Note 2.1.1, CTT proceeded to the early adoption of IFRS 11 - Joint Arrangements, following which the joint ventures in which CTT participate are now recognized by the equity method, previously accounted by the proportional consolidation method.

IAS 19 does not specify whether interest expense in respect of defined benefit obligations should be presented as staff costs or financial costs. Most European postal operators present interest expense as financial costs, and accordingly CTT reclassified the interest expense in respect of defined benefit obligations, in the amount of 16,091,375 Euros, to financial costs in order to ensure comparability with the majority of its peers. These reclassifications do not affect the Group's net profit for the year ended 31 December 2012 as reported in the Statutory Consolidated Financial Statements.

The Group's Statutory Consolidated Financial Statements for the year ended 31 December 2010 included a qualified audit opinion relating to a provision for restructuring costs which did not fully comply with the requirements of accounting standards.

For Privatization purposes the Audited Consolidated Financial Statements were adjusted towards meeting the standards referred to, however they did not affect the net equity as of 31 December 2012 as reported in the Statutory Consolidated Financial Statements. As at 31 December 2012, these adjustments corresponded to an increase in staff costs and provisions, respectively, in the amount of 659,500 Euros and 3,305,700 Euros and a reduction on income tax for the year amounting to 1,146,339 Euros, resulting in an increase in retained earnings in the amount of 2,818,861 Euros.

The interests related to the "Financial Services" segment began to be recognised in the caption "Other operating income" when previously were included in "Interest income".

Additionally, the total balance of the "Revaluation reserve" in the amount of 56,088,705 Euros was, as at 31 December 2012 reclassified to the caption "Retained earnings" and the value of 706,635 Euros was reclassified from this last item to "Other changes in equity", as well as the reclassification of Adjustments in investments from "Reserves" to "Retained Earnings" in the amount of 25,317,658 Euros.

The impact per heading, of the above mentioned adjustments, in the financial statements was as follows:

Consolidated Balance Sheet

ASSETS	1-Jan-12				
	Reported	IAS 19R	Reestruturing Provision	Reserves and Revaluation reserve	Restated
NON-CURRENT ASSETS:					
Tangible fixed assets	269,246,885	-	-	-	269,246,885
Investment properties	2,728,373	-	-	-	2,728,373
Intangible assets	15,080,232	-	-	-	15,080,232
Goodwill	25,528,608	-	-	-	25,528,608
Investment in associated companies	552,824	-	-	-	552,824
Other companies	130,829	-	-	-	130,829
Other non-current assets	6,004,988	-	-	-	6,004,988
Deferred tax assets	109,434,687	(5,820,590)	(1,146,339)	-	102,467,758
Total non-current assets	428,707,426	(5,820,590)	(1,146,339)	-	421,740,497
CURRENT ASSETS:					
Inventories	6,305,998	-	-	-	6,305,998
Accounts receivable	164,395,448	-	-	-	164,395,448
Income taxes receivable	3	-	-	-	3
Deferrals	5,494,827	-	-	-	5,494,827
Other current assets	27,214,044	-	-	-	27,214,044
Cash and cash equivalents	426,259,362	-	-	-	426,259,362
Total current assets	629,669,682	-	-	-	629,669,682
Total assets	1,058,377,108	(5,820,590)	(1,146,339)	-	1,051,410,179
EQUITY AND LIABILITIES	1-Jan-12				
	Reported	IAS 19R	Reestruturing Provision	Reserves and Revaluation reserve	Restated
EQUITY:					
Share capital	87,325,000	-	-	-	87,325,000
Legal	50,657,421	-	-	(24,864,523)	25,792,898
Retained earnings	2,408,870	(706,635)	3,376,775	83,489,755	88,568,765
Other changes in equity	-	15,850,935	-	-	15,850,935
Revaluation reserve	58,625,232	-	-	(58,625,232)	-
Net profit attributable to equity holders of parent company	56,712,195	(893,890)	(557,914)	-	55,260,391
Non-controlling interests	1,627,958	-	-	-	1,627,958
Total equity	257,356,676	14,250,410	2,818,861	-	274,425,947
LIABILITIES:					
NON-CURRENT LIABILITIES:					
Medium and long term debt	5,943,942	-	-	-	5,943,942
Employee benefits	300,975,316	-	-	-	300,975,316
Provisions	20,440,943	-	(3,965,200)	-	16,475,743
Deferrals	32,516,951	(18,812,000)	-	-	13,704,951
Deferred tax liabilities	6,165,433	-	-	-	6,165,433
Total non-current liabilities	366,042,585	(18,812,000)	(3,965,200)	-	343,265,385
CURRENT LIABILITIES:					
Accounts payable	346,905,448	-	-	-	346,905,448
Employee benefits	20,455,430	-	-	-	20,455,430
Income taxes payable	7,381,234	-	-	-	7,381,234
Short term debt	5,165,248	-	-	-	5,165,248
Deferrals	5,934,943	(1,259,000)	-	-	4,675,943
Other current liabilities	49,135,544	-	-	-	49,135,544
Total current liabilities	434,977,847	(1,259,000)	-	-	433,718,847
Total liabilities	801,020,432	(20,071,000)	(3,965,200)	-	776,984,232
Total equity and liabilities	1,058,377,108	(5,820,590)	(1,146,339)	-	1,051,410,179

Consolidated Income Statement

	2012				Restated
	Reported	Restructuring Provision	Interest expenses employee benefits	Operating interest income	
Revenues	711,690,865				714,225,417
Sales and services rendered	699,332,226	-	-	-	699,332,226
Other operating revenues	12,358,639	-	-	2,534,552	14,893,191
Operating costs	(669,380,383)				(657,254,208)
Cost of sales	(18,543,380)	-	-	-	(18,543,380)
External supplies and services	(246,416,229)	-	-	-	(246,416,229)
Staff costs	(348,751,126)	(659,500)	16,091,375	-	(333,319,251)
Impairment of inventories and accounts receivable, net	(798,308)	-	-	-	(798,308)
Impairment of non-depreciable assets	-	-	-	-	-
Provisions, net	(18,627,833)	(3,305,700)	-	-	(21,933,533)
Depreciation/amortisation and impairment of investments, net	(24,635,814)	-	-	-	(24,635,814)
Other operating costs	(11,607,693)	-	-	-	(11,607,693)
Earnings before financial income and taxes	42,310,482	(3,965,200)	16,091,375	2,534,552	56,971,209
Financial results	14,486,891				(4,139,036)
Interest expenses	(669,459)	-	(16,091,375)	(2,534,552)	(16,760,834)
Interest income	14,916,210	-	-	(2,534,552)	12,381,658
Gains/losses in associated companies	240,140	-	-	-	240,140
Earnings before taxes	56,797,373	(3,965,200)	(16,091,375)	(2,534,552)	52,832,173
Income tax for the year	(18,011,242)	1,146,339	-	-	(16,864,903)
Net profit for the year	38,786,131	(2,818,861)	(16,091,375)	(2,534,552)	35,967,270
Net profit for the year attributable to:					
Equity holders of parent company	38,554,129	(2,818,861)	-	-	35,735,268
Non-controlling interests	232,002	-	-	-	232,002
Earnings per share of the parent company	2.20	-	-	-	0.24

Consolidated Statement of Comprehensive Income

	2012		
	Reported	Restructuring Provision	Restated
Net profit for the period	38,786,131	(2,818,861)	35,967,270
Adjustments from application of the equity method (not re-classifiable adjustment to profit and loss)	(11,669)	-	(11,669)
Employee benefits (not re-classifiable adjustment to profit and loss)	24,265,693	-	24,265,693
Deferred tax/Employee benefits (not re-classifiable adjustment to profit and loss)	(7,037,051)	-	(7,037,051)
Other changes in equity	-	-	-
Other comprehensive income for the period after taxes	17,216,973	-	17,216,973
Comprehensive income for the period	56,003,104	(2,818,861)	53,184,243
Attributable to non-controlling interests	232,002	-	232,002
Attributable to shareholder of CTT	55,771,102	(2,818,861)	52,952,241

Furthermore, no material errors were recognised relative to estimates made in the preparation of the financial statements of previous periods.

The underlying estimates and assumptions were determined based on the best knowledge at the time the financial statements were approved of the on-going events and transactions, as well as on the experience of past and/or current events. However, situations might occur in subsequent periods which, due to not having been predictable on the date of approval of the financial statements, were not considered in these estimates. Alterations to estimates which occur after the date of the financial statements will be corrected in a prospective manner. For this reason and in view of the associated degree of uncertainty, the real outcome of the transactions in question might differ from their corresponding estimates.

4. SEGMENT REPORTING

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

The Board of Directors regularly reviews segmental reports, using them to assess and release each business performance, as well as to allocate resources.

The business of CTT is organized in the following segments:

- Mail - CTT SA (without financial services), retail network, and corporate and support areas, including PostContacto, Mailtec Processos and CTT Gest;
- Expresso –includes CTT Expresso, Tourline and CORRE;
- Financial services – PayShop and CTT SA financial services;
- Business Solutions - includes Mailtec Consultoria, Mailtec Comunicação, EAD and also the CTT SA business solutions area.

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

- Postal Market, covered by the Mail and Business Solutions segments;
- Express and Parcels Markets, covered by the Express segment;
- Financial Market, covered by the Financial Services segment.

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

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

The consolidated balance sheet captions of each subsidiary and business unit are determined based on the amounts booked directly in the companies that compose the segment, including the elimination of balances between companies of the same segment, and excluding the allocation in the segments of the adjustments between segments.

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

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

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

With the allocation of all costs, earnings before depreciation, provisions, impairments, financial results and taxes by segment are defined as follows:

	2013							Total
	Mail	Express & Parcels	Financial Services	Business Solutions	Central CTT Structure	Intragroup eliminations	Others non allocated	
Revenues	525,557,810	129,521,210	60,860,268	21,628,098	105,100,326	(137,820,704)	-	704,847,008
Sales and services rendered	490,341,832	127,964,254	57,304,274	20,256,443	-	(5,798,122)	-	690,068,682
Sales	21,093,522	1,269,256	-	-	-	(20,359)	-	22,342,418
Services rendered	469,248,310	126,694,999	57,304,274	20,256,443	-	(5,777,762)	-	667,726,264
Operating revenues external customers	17,046,149	1,556,956	3,473,295	1,328,017	15,780,809	(24,406,899)	-	14,778,326
Internal services rendered	18,169,829	-	82,699	43,638	73,463,081	(91,759,247)	-	-
Allocation central CTT structure	-	-	-	-	15,856,436	(15,856,436)	-	-
Operating costs	440,546,600	122,155,255	33,463,465	19,273,178	105,100,326	(137,820,704)	-	582,718,119
External supplies and services	99,926,192	96,471,870	10,704,771	9,320,344	55,689,027	(30,053,624)	-	242,058,580
Staff Costs	233,232,258	23,439,807	3,197,664	7,206,433	45,996,315	-	-	313,072,477
Other costs	20,624,905	2,243,578	403,907	1,885,941	2,580,128	(151,397)	-	27,587,062
Internal services rendered	71,038,583	-	19,037,986	847,823	834,856	(91,759,247)	-	0
Allocation to central CTT structure	15,724,662	-	119,136	12,638	-	(15,856,436)	-	-
EBITDA(1)	85,011,210	7,365,955	27,396,804	2,354,920	-	-	-	122,128,889
Depreciation/amortisation and impairment of investments, net	(15,108,745)	(3,053,199)	(710,857)	(1,493,133)	(3,462,266)	-	(1,886,929)	(25,715,129)
Impairment of inventories and accounts receivable, net	-	-	-	-	-	-	-	(3,530,198)
Impairment of non-depreciable assets	-	-	-	-	-	-	-	-
Provisions net	-	-	-	-	-	-	-	(5,647,982)
Interest expenses	-	-	-	-	-	-	-	(11,874,463)
Interest income	-	-	-	-	-	-	-	7,871,559
Gains/losses in associated companies	-	-	-	-	-	-	-	20,508
Earnings before taxes								83,253,184
Income tax for the year	-	-	-	-	-	-	-	(22,147,899)
Net profit for the year								61,105,285
Non-controlling interests	-	-	-	-	-	-	-	89,218
Equity holders of parent company								61,016,067

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

	2012							Total
	Mail	Express & Parcels	Financial Services	Business Solutions	Central CTT Structure	Intragroup eliminations	Others non allocated	
Revenues	535,956,792	127,998,059	57,673,089	22,999,124	122,805,783	(153,207,430)	-	714,225,417
Sales and services rendered	499,694,713	126,654,593	54,320,190	21,666,177	1,120,958	(4,124,404)	-	699,332,226
Sales	23,008,136	1,304,978	-	-	-	(13,524)	-	24,299,590
Services rendered	476,686,577	125,349,615	54,320,190	21,666,177	1,120,958	(4,110,880)	-	675,032,637
Operating revenues external customers	16,642,491	1,343,466	2,741,984	1,150,650	15,920,151	(22,905,551)	-	14,893,191
Internal services rendered	19,619,588	-	610,915	182,298	45,001,284	(65,414,084)	-	-
Allocation central CTT structure	-	-	-	-	60,763,390	(60,763,390)	-	-
Operating costs	467,774,580	118,854,690	32,367,986	21,290,945	122,805,783	(153,207,430)	-	609,886,553
External supplies and services	106,278,359	92,716,016	9,187,639	9,913,377	55,328,821	(27,007,983)	-	246,416,228
Staff Costs	236,719,295	23,926,575	3,190,371	7,970,025	61,512,985	-	-	333,319,251
Other costs	20,651,339	2,212,099	413,663	1,875,137	5,020,808	(21,973)	-	30,151,073
Internal services rendered	43,977,313	-	19,125,007	1,368,595	943,169	(65,414,084)	-	-
Allocation to central CTT structure	60,148,274	-	451,306	163,811	-	(60,763,390)	-	-
EBITDA(1)	68,182,213	9,143,368	25,305,103	1,708,180	-	-	-	104,338,864
Depreciation/amortisation and impairment of investments, net	(14,725,888)	(3,439,336)	(563,751)	(1,742,885)	(3,661,841)	-	(502,113)	(24,635,814)
Impairment of inventories and accounts receivable, net	-	-	-	-	-	-	-	(798,308)
Impairment of non-depreciable assets	-	-	-	-	-	-	-	-
Provisions net	-	-	-	-	-	-	-	(21,933,533)
Interest expenses	-	-	-	-	-	-	-	(16,760,834)
Interest income	-	-	-	-	-	-	-	12,381,658
Gains/losses in associated companies	-	-	-	-	-	-	-	240,140
Earnings before taxes								52,832,173
Income tax for the year	-	-	-	-	-	-	-	(16,864,903)
Net profit for the year								35,967,270
Non-controlling interests	-	-	-	-	-	-	-	232,002
Equity holders of parent company								35,735,268

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

The revenues are detailed as follows:

Thousand of Euro	2013	2012
Mail	525,558	535,957
Transactional mail	405,628	407,829
Press mail	15,049	15,051
Parcels (USO)	7,426	7,386
Advertising mail	33,738	37,672
Retail	18,453	21,602
Philately	6,885	7,021
Other	38,379	39,396
Express	129,521	127,998
Financial Services	60,860	57,673
Business Solutions	21,628	22,999
Central CTT Structure	105,100	122,806
Intragroup eliminations	(137,821)	(153,207)
	704,847	714,226

The assets by segment are detailed as follows:

Assets	2013						Total
	Mail	Express & Parcels	Financial Services	Business Solutions	Central CTT Structure	Non allocated assets	
Intangible assets	2,822,246	3,347,318	255,217	232,483	3,983,456	2,408,587	13,049,308
Tangible fixed assets	187,292,839	12,076,231	847,969	6,832,113	16,621,726	1,693,549	225,364,429
Investments properties	0	0	0	0	0	21,761,886	21,761,886
Goodwill	0	16,592,248	406,101	8,085,520	-	-	25,083,869
Deferred tax assets	0	0	-	0	-	103,645,256	103,645,256
Account receivable	-	-	-	-	-	135,589,645	135,589,645
Other assets	-	-	-	-	-	30,764,237	30,764,237
Cash and cash equivalents	-	-	-	-	-	544,875,803	544,875,803
	190,115,085	32,015,798	1,509,287	15,150,116	20,605,183	840,738,964	1,100,134,433

Assets	2012						Total
	Mail	Express & Parcels	Financial Services	Business Solutions	Central CTT Structure	Non allocated assets	
Intangible assets	2,595,221	3,776,569	423,185	944,317	3,835,993	2,779,775	14,355,060
Tangible fixed assets	205,928,961	12,854,831	999,538	7,034,089	31,960,346	298,946	259,076,712
Investments properties	-	-	-	-	-	1,368,943	1,368,943
Goodwill	-	17,036,987	406,101	8,085,520	-	-	25,528,608
Deferred tax assets	-	-	-	-	-	102,228,537	102,228,537
Account receivable	-	-	-	-	-	135,317,556	135,317,556
Other assets	-	-	-	-	-	36,001,370	36,001,370
Cash and cash equivalents	-	-	-	-	-	489,303,463	489,303,463
	208,524,182	33,668,387	1,828,824	16,063,926	35,796,339	767,298,590	1,063,180,249

Debt by segment is detailed as follows:

Other information	2013					Total
	Mail	Express & Parcels	Financial Services	Business Solutions	Central CTT Struture	
Medium and long term debt	1,647,925	1,235,049	-	399,152	-	3,282,126
Bank loans	-	-	-	-	-	0
Leasings	1,647,925	1,235,049	-	399,152	-	3,282,126
Short term debt	456,263	2,986,881	-	273,413	-	3,716,557
Bank loans	-	2,478,647	-	1,990	-	2,480,637
Leasings	456,263	508,233	-	271,423	-	1,235,919
	2,104,188	4,221,930	-	672,565	-	6,998,683

Other information	2012					Total
	Mail	Express & Parcels	Financial Services	Business Solutions	Central CTT Struture	
Medium and long term debt	2,104,100	1,784,902	-	671,700	-	4,560,702
Bank loans	-	45,785	-	-	-	45,785
Leasings	2,104,100	1,739,117	-	671,700	-	4,514,917
Short term debt	453,145	2,989,354	-	418,990	2,995,872	6,857,361
Bank loans	-	2,467,562	-	83,476	2,995,872	5,546,910
Leasings	453,145	521,792	-	335,514	-	1,310,451
	2,557,245	4,774,256	-	1,090,690	2,995,872	11,418,063

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

Thousand of Euro	2013	2012
Revenue - Portugal	611,837	623,351
Revenue - other countries	78,232	75,981
	<u>690,069</u>	<u>699,332</u>

5. TANGIBLE FIXED ASSETS

During the years ended on 31 December 2013 and 31 December 2012, the movement which occurred in the carrying value of the "Tangible fixed assets", as well as the respective accumulated depreciation, was as follows:

	2013								
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advance payments to suppliers	Total
Tangible fixed assets									
Opening balance	44,445,963	379,539,356	148,886,925	3,603,033	80,895,249	23,433,801	230,108	150,174	681,184,609
Acquisitions	393,899	3,865,339	2,771,881	5,037	861,425	1,169,866	166,995	712,500	9,946,942
Disposals	(376,886)	(3,443,845)	(1,256,101)	-	(50,122)	(1,030)	-	-	(5,127,984)
Transfers and write-offs	(19,706)	(34,538)	(1,741,726)	(8,823)	50,094	(189,454)	(222,820)	(111,684)	(2,278,657)
Adjustments	-	(80)	-	-	(8,913)	(33,919)	-	3,051	(39,861)
Other changes	(5,902,715)	(42,485,510)	-	8,086	(811)	(16,642)	-	-	(48,397,592)
Closing balance	<u>38,540,555</u>	<u>337,440,722</u>	<u>148,660,979</u>	<u>3,607,333</u>	<u>81,746,922</u>	<u>24,362,622</u>	<u>174,283</u>	<u>754,041</u>	<u>635,287,457</u>
Accumulated depreciation									
Opening balance	4,200,150	194,808,481	128,603,899	3,243,403	73,670,810	17,581,154	-	-	422,107,897
Depreciation for the period	-	9,199,355	5,569,980	167,315	3,176,149	1,168,689	-	-	19,281,488
Disposals	(26,370)	(2,019,718)	(1,256,101)	-	(49,689)	(203)	-	-	(3,352,081)
Transfers and write-offs	-	(2,226)	(1,860,092)	(8,823)	(107,664)	(6,869)	-	-	(1,985,674)
Adjustments	-	-	-	-	(5,862)	-	-	-	(5,862)
Other changes	(273,950)	(25,834,403)	-	(14,624)	190	47	-	-	(26,122,740)
Closing balance	<u>3,899,830</u>	<u>176,151,489</u>	<u>131,057,686</u>	<u>3,387,271</u>	<u>76,683,934</u>	<u>18,742,818</u>	<u>-</u>	<u>-</u>	<u>409,923,028</u>
Net Tangible fixed assets	<u>34,640,725</u>	<u>161,289,233</u>	<u>17,603,293</u>	<u>220,062</u>	<u>5,062,988</u>	<u>5,619,804</u>	<u>174,283</u>	<u>754,041</u>	<u>225,364,429</u>
	2012								
	Restated								
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advance payments to suppliers	Total
Tangible fixed assets									
Opening balance	44,611,520	375,183,725	147,698,948	3,558,117	116,129,241	30,216,949	2,089,368	1,885,722	721,373,590
Acquisitions	-	3,810,255	4,163,091	53,967	914,871	1,522,788	328,466	542,194	11,335,632
Disposals	(162,109)	(498,500)	(4,473,864)	-	(321,114)	(4,213)	-	-	(5,459,800)
Transfers and write-offs	-	1,047,890	1,499,396	(228)	(35,406,106)	(8,085,039)	(1,952,374)	(2,277,742)	(45,174,203)
Adjustments	(3,448)	(4,014)	-	(11,222)	(1,509)	(209,831)	-	-	(230,024)
Other changes	-	-	(646)	2,399	(420,134)	(6,853)	(235,352)	-	(660,586)
Closing balance	<u>44,445,963</u>	<u>379,539,356</u>	<u>148,886,925</u>	<u>3,603,033</u>	<u>80,895,249</u>	<u>23,433,801</u>	<u>230,108</u>	<u>150,174</u>	<u>681,184,609</u>
Accumulated depreciation									
impairment losses									
Opening balance	4,200,150	184,602,605	128,326,275	3,028,654	108,528,398	23,440,623	-	-	452,126,705
Depreciation for the period	-	9,853,138	5,345,507	224,617	3,259,221	1,253,583	-	-	19,936,066
Disposals	-	(149,375)	(4,473,864)	-	(321,114)	(4,213)	-	-	(4,948,566)
Transfers and write-offs	-	-	(425,138)	(228)	(37,557,142)	(7,115,902)	-	-	(45,098,410)
Impairment losses	-	502,113	-	-	-	-	-	-	502,113
Adjustments	-	-	-	-	-	-	-	-	-
Other changes	-	-	(168,881)	(9,640)	(238,553)	7,063	-	-	(410,011)
Closing balance	<u>4,200,150</u>	<u>194,808,481</u>	<u>128,603,899</u>	<u>3,243,403</u>	<u>73,670,810</u>	<u>17,581,154</u>	<u>-</u>	<u>-</u>	<u>422,107,897</u>
Net Tangible fixed assets	<u>40,245,813</u>	<u>184,730,875</u>	<u>20,283,026</u>	<u>359,630</u>	<u>7,224,439</u>	<u>5,852,647</u>	<u>230,108</u>	<u>150,174</u>	<u>259,076,712</u>

As at 31 December 2013 and 31 December 2012, Land and natural resources and Buildings and other constructions include 5,205,814 Euros and 6,668,577 Euros, respectively, related to land and property in co-ownership with PT Communications, S.A...

During the year ended 31 December 2013, the other changes in tangible fixed assets include the amount of 48,388,225 Euros transferred to investment properties, as well as the respective accumulated depreciation in the amount of 25,606,240 Euros and the accumulated impairment in the amount of 502,113 Euros. These assets are not allocated to the Group's operating activities, nor have a specific future use, being held to obtain rents or capital valorisation.

As a result of the change in the Concession contract in 26 July 2006, at the end of the concession the assets included in the public and private domain of the State revert at no cost to the conceding entity, while before the previous change, all the assets allocated to the concession reverted to the Portuguese State. Since the postal network belongs exclusively to CTT, not being a public domain asset, only the assets that belong to the State revert to it, and as such, at the end of the concession CTT Group will continue to own its assets. The Board of Directors, supported by its legal advisors, believes that CTT's assets do not include any public or private domain assets of the Portuguese State.

During the year ended on 31 December 2013, the most significant movements in Tangible Fixed Assets were the following:

Land and natural resources:

Most of the movements associated to additions and disposals relate mostly to exchange in co-ownership with PT.

The disposals include the sale of the land on Pinhão.

Buildings and other constructions:

Most of the movements associated to additions and disposals relate mostly to exchange in co-ownership with PT and capitalization and works in own and others' buildings completed this date, of the companies CTT and Tourline.

The disposals include the sale of the land on Pinhão, which generated a capital gain of 7,733 Euros.

Basic equipment:

The amount concerning acquisitions 2,771,881 Euros relates to direct purchases or warehouse outputs of the following types of assets:

- Acquisition of containers and tray holders: 181,390 Euro;
- Upgrades to machines divisive correspondence: 149,332 Euro; and
- Acquisition of bikes, electric cars, trucks and trailers worth approximately around 759 thousand Euros.
- Acquisition of printers (4): 1,120,344 Euros (Mailtec Comunicação).

The recorded disposals, amounting to 1,256,101 Euros, relate to the sale of several assets of CTT, which were fully depreciated and generated a gain of 45,081 Euros.

Some write-offs were recorded due to the disabling/destruction of several categories of goods, such as postal receptacles and other fixtures, equipment for the internal handling of loads and weighing scales and safety deposit boxes, amounting to 1,853 thousand Euros.

Office equipment:

The amount of acquisitions and transfers / write-offs 911,519 Euros is related with direct purchases or warehouse outputs (about 229,000 Euro), postal furniture (about 206,000 Euro), about 8,000 Euros in vaults and 385 PDT's by CTT Expresso worth 381,000 Euros.

Some write-offs were recorded due to the disabling/destruction of several categories of goods, such as tables, cabinets, furniture, etc., amounting to 94,063 Euro

Other tangible fixed assets:

The acquisitions in the amount of 1,169,866 Euros, consider 558 thousand Euros of prevention and safety equipment, 60 thousand Euros of communication equipment, as well as a variety of warehouse equipment amounting to around 393 thousand Euros.

Tangible fixed assets in progress:

The amounts under this heading are related to maintenance and preservation works on own property and the transfers made are due to the conclusion of these works, capitalised in assets related to the Group's properties (buildings and other constructions).

The depreciation recorded amounting to 19,281,488 Euros (19,936,066 Euros on 31 December 2012), were stated in the heading "Depreciation/amortisation and impairment of investments, net" (Note 38).

Contractual commitments relative to Tangible Fixed Assets are as follows:

(i) Basic equipment

These commitments relate to the acquisition of improvements in OCR System in the amount of 210,000 euros, of trailers (182,400 Euros), light vans of goods worth 64,900 Euros, Electric Scooters Govecs (49,700 Euros), for a parallel system for labelling machines TOP in the amount of 47,900 Euros, of sequencing by CP7 in MARS (44,300 Euros) and internal containers for tray holders in the amount of 41,800 Euros.

6. INTANGIBLE ASSETS

During the year ended on 31 December 2013 and 31 December 2012, the movements which occurred in the main categories of intangible assets, as well as the respective accumulated amortisation, were as follows:

	2013						Total
	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Advance payments to suppliers	
Intangible assets							
Opening balance	4,325,692	33,546,260	11,687,619	-	2,925,511	22,366	52,507,448
Acquisitions	47,230	961,720	10,554	-	2,027,086	-	3,046,590
Transfers and write-offs	-	2,032,613	(28,086)	-	(2,356,239)	(22,366)	(374,078)
Adjustments	-	-	-	444,739	75,706	-	520,445
Other changes	-	-	48,833	-	-	-	48,833
Closing balance	<u>4,372,922</u>	<u>36,540,593</u>	<u>11,718,920</u>	<u>444,739</u>	<u>2,672,064</u>	<u>-</u>	<u>55,749,238</u>
Accumulated amortisation							
Opening balance	4,325,692	26,795,624	7,031,072	-	-	-	38,152,388
Amortisation for the period	25,107	3,684,037	440,712	396,856	-	-	4,546,712
Other variations	-	-	830	-	-	-	830
Closing balance	<u>4,350,799</u>	<u>30,479,661</u>	<u>7,472,614</u>	<u>396,856</u>	<u>-</u>	<u>-</u>	<u>42,699,930</u>
Net intangible assets	<u>22,123</u>	<u>6,060,932</u>	<u>4,246,306</u>	<u>47,883</u>	<u>2,672,064</u>	<u>-</u>	<u>13,049,308</u>

	2012						Total
	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Advance	
Intangible assets							
Opening balance	4,325,692	29,520,405	10,906,059	-	4,171,683	17,986	48,941,825
Acquisitions	-	567,922	24,971	-	2,114,193	4,380	2,711,466
Alienations	-	-	-	-	-	-	-
Transfers and write-offs	-	3,513,452	-	-	(3,517,602)	-	(4,150)
Adjustments	-	-	799,449	-	-	-	799,449
Other changes	-	(55,519)	(42,860)	-	157,237	-	58,858
Closing balance	4,325,692	33,546,260	11,687,619	-	2,925,511	22,366	52,507,448
Accumulated amortisation							
Opening balance	4,325,692	23,294,861	6,241,040	-	-	-	33,861,593
Amortisation for the period	-	3,530,961	665,361	-	-	-	4,196,322
Transfers and write-offs	-	(4,150)	-	-	-	-	(4,150)
Other variations	-	(26,048)	124,671	-	-	-	98,623
Closing balance	4,325,692	26,795,624	7,031,072	-	-	-	38,152,388
Net intangible assets	-	6,750,636	4,656,547	-	2,925,511	22,366	14,355,060

The license of the trademark “Payshop International” is booked under the caption Industrial Property of CTT Gest, in the amount of 1,200,000 Euros. This license has an indefinite useful life, therefore it is not amortised.

The transfers occurred in 2013 in Intangible Assets in progress refer to IT projects, which were completed during the period.

The amounts of 295,915 Euros and 339,584 Euros, capitalized in IT software on intangible assets in progress in as at 31 December 2013 and 31 December 2012, respectively, relates to the staff costs incurred in the development of these projects.

As at 31 December 2013 intangible assets in progress relate to IT projects which are under development, of which the most relevant are:

	2013
New GRH application	742,903
Information management software	273,314
Certification of invoices	375,676
Approval of invoices	110,604
SAP Archives	115,982
Automatic address processing software	69,006
	<u>1,687,485</u>

The amortisation, amounting to 4,546,712 Euros (4,196,322 Euros at 31 December 2012) was recorded in the heading "Depreciation / amortisation and impairment of investments, net" (Note 38).

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

Contractual commitments relative to Intangible Assets are as follows:

(i) Computer Programmes

The purchase commitments relate to developments in the "Sales Force Automation" solution in the amount of 120,300 Euros, the Project Business Intelligence (83,700 Euros) and developments in a software to the Litigation and Legal Advisory in the amount of 44,100 Euros.

7. INVESTMENT PROPERTIES

As at 31 December 2013 and 31 December 2012, the Group has the following assets classified as investment properties:

	2013		
	Land and natural resources	Buildings and other constructions	Total
Investment properties			
Opening balance	1,334,499	65,653	1,400,152
Transfers/Adjustments	5,902,715	42,485,510	48,388,225
Closing balance	7,237,214	42,551,163	49,788,377
Accumulated depreciation			
Opening balance	-	31,209	31,209
Depreciation for the period	-	782,537	782,537
Transfers/Adjustments	273,950	25,332,290	25,606,240
Closing balance	273,950	26,146,036	26,419,986
Accumulated impairment			
Opening balance	-	-	-
Impairment losses	-	1,104,392	1,104,392
Transfers/Adjustments	-	502,113	502,113
	-	1,606,505	1,606,505
Net Investment properties	6,963,264	14,798,622	21,761,886

	2012		
	Land and natural resources	Buildings and other constructions	Total
Investment properties			
Opening balance	2,692,616	97,602	2,790,218
Write-offs	(1,361,565)	-	(1,361,565)
Transfers/Adjustments	3,448	(31,949)	(28,501)
Closing balance	1,334,499	65,653	1,400,152
Accumulated depreciation			
Opening balance	-	61,845	61,845
Depreciation for the period	-	1,313	1,313
Transfers/Adjustments	-	(31,949)	(31,949)
Closing balance	-	31,209	31,209
Net Investment properties	1,334,499	34,444	1,368,943

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

The market value of these fixed assets, which are classified as investment property, in accordance with the valuations recorded as at the end of fiscal year 2013 which were conducted by independent entities, amounts to 29,374,185 Euros.

During the year ended at 31 December 2013, the Transfers / Adjustments in Investment properties include the amount of 48,388,225 Euros transferred from Tangible fixed assets (Note 5), the respective accumulated depreciation in the amount of 25,606,240 Euros as well as an accumulated impairment loss of 502,113 Euros.

The Group owns a number of properties, classified as Investment Properties, regarding which there is indication that they might be impaired due to the economic crisis in the real estate market. Therefore it was necessary to determine the recoverable amount of the assets (fair value less costs to sell). The Group conducted a review of the properties' value, performed by an external entity, and concluded there was an impairment loss amounting to 1,104,392 Euros (Note 38) which resulted from the unfavourable market conditions in the geographical areas of the assets.

Depreciation for the year, amounting to 782,537 Euros (1,313 Euros on 31 December 2012) were recorded in the caption "Depreciation / amortisation and impairment of investments (losses / reversals)" (Note 38).

8. COMPANIES INCLUDED IN THE CONSOLIDATION

Subsidiary companies

As at 31 December 2013 and 31 December 2012, the parent company, CTT - Postal de Portugal, SA and the following subsidiaries in which it holds control were included in the consolidation:

Company name	Head office	2013			2012		
		Percentage of ownership			Percentage of ownership		
		Direct	Indirect	Total	Direct	Indirect	Total
Parent company:							
CTT - Correios de Portugal, S.A.	Rua de S. José, 20 1166-001 Lisboa	-	-	-	-	-	-
Subsidiaries:							
PostContacto - Correio Publicitário, Lda. ("PostContacto")	Rua de S. José, 20 1166-001 Lisboa	95	5	100	95	5	100
CTT Expresso - Serviços Postais e Logística, S.A. ("CTT Expresso")	Lugar do Quintanilho 2664-500 São Julião do Tojal	100	-	100	100	-	100
Payshop Portugal, S.A. ("Payshop")	Av. D. João II lote 01.12.03 1999-001 Lisboa	100	-	100	100	-	100
CTT GEST - Gestão de Serviços e Equipamentos Postais, S.A. ("CTT Gest")	Rua de S. José, 20 1166-001 Lisboa	100	-	100	100	-	100
Mailtec Holding, SGPS, S.A. ("Mailtec SGPS")	Estrada Casal do Canas, Edifício Mailtec, 2720-092 Amadora	100	-	100	100	-	100
Mailtec Comunicação, S.A. ("Mailtec TI")	Estrada Casal do Canas, Edifício Mailtec, 2720-092 Amadora	17.7	82.3	100	17.7	82.3	100
Mailtec Consultoria, S.A. ("Mailtec CON")	Estrada Casal do Canas, Edifício Mailtec, 2720-092 Amadora	10	90	100	10	90	100
Mailtec Processos, Lda. ("EQUIP")	Estrada Casal do Canas, Edifício Mailtec, 2720-092 Amadora	-	100	100	-	100	100
Tourline Express Mensajería, SLU. ("TourLine")	Calle Pedrosa C, 38-40 Hospitalet de Llobregat (08908) - Barcelona	100	-	100	100	-	100
EAD - Empresa de Arquivo de Documentação, S.A. ("EAD")	Parque Industrial Mata Lobos, Lote 2 Apartado 151 2950- 901 Palmela	51	-	51	51	-	51
Correio Expresso de Moçambique, S.A. ("CORRE")	Av. Zedequias Manganhela, 309 Maputo - Moçambique	50	-	50	50	-	50

The associated company "CORRE" is included in the consolidation due to the fact that the Group controls its operating and financial business.

Joint ventures

As at 31 December 2013 and 31 December 2012, the Group held the following interests in joint ventures, registered through the equity method:

Company name	Head office	2013			2012		
		Percentage of ownership			Percentage of ownership		
		Direct	Indirect	Total	Direct	Indirect	Total
Ti-Post Prestação de Serviços informáticos, ACE ("Ti-Post")	R. do Mar da China, Lote 1.07.2.3 Lisbon	49	-	49	49	-	49
Postal Network - Prestação de Serviços de Gestão de Infra-Estruturas de Comunicações, ACE	Av. Fontes Pereira de Melo, 40 Lisbon	49	-	49	49	-	49
PTP & F, ACE	Estrada Casal do Canas Amadora	-	51	51	-	51	51

Associated companies

As at 31 December 2013 and 31 December 2012, the Group held the following interests in associated companies registered through the equity method:

Company name	Head office	2013			2012		
		Percentage of ownership			Percentage of ownership		
		Direct	Indirect	Total	Direct	Indirect	Total
Multicert - Serviços de Certificação Electrónica, S.A. ("Multicert")	R. do Centro Cultural, 2 Lisboa	20	-	20	20	-	20
Payshop Moçambique, S.A. (a)	R. da Sé, 114-4º. Maputo - Moçambique	-	35	35	-	35	35
Mafelosa, SL (b)	Castellon Espanha	-	25	25	-	25	25
Urpacsur, SL (b)	Málaga Espanha	-	30	30	-	30	30

(a) Empresa participada pela Payshop Portugal, S.A.

(b) Empresa participada pela Tourline Mensajería S.A.

Changes in the consolidation perimeter

In the year ended 31 December, 2013 due to the early adoption of IFRS 11 the proportional consolidation is no longer allowed in the measurement of jointly controlled entities, thus being applied the equity method.

9. GOODWILL

As at 31 December 2013 and 31 December 2012, the Goodwill was made up as follows:

	Year of acquisition	2013	2012
Mailtec Holding SGPS, S.A. (51%)	2004	582,970	582,970
Mailtec Consultoria, S.A.	2004	4,718	4,718
Mailtec Comunicação, S.A. (51%)	2004	69,767	69,767
Payshop Portugal, S.A.	2004	406,101	406,101
Mailtec Holding SGPS, S.A. (49%)	2005	6,641,901	6,641,901
Tourline Express Mensajería, SLU	2005	16,592,248	16,592,248
Tourline Express Mensajería, SLU (other)	2005	-	444,739
EAD - Empresa de Arquivo de Documentação, S.A.	2006	786,164	786,164
		<u>25,083,869</u>	<u>25,528,608</u>

During the years ended on 31 December 2013 and 31 December 2012, the movements in Goodwill were as follows:

	2013	2012
Opening balance	25,528,608	25,528,608
Transfer / adjustments	(444,739)	-
Impairment	-	-
Closing balance	<u>25,083,869</u>	<u>25,528,608</u>

In 2013 the amount of 444,739 Euros regarding Tourline's "Fondos de Comercio" was reclassified to "Other intangible assets" (Note 6).

Goodwill impairment assessment

The recoverable amount of goodwill is assessed annually or whenever there is indication of an eventual loss of value. The recoverable amount is determined based on the value through a discounted cash flow methodology, considering the market conditions, the time value and business risks.

As at 31 December 2013 and 31 December 2012, CTT Group performed an impairment test, based in the following set of assumptions to determine the recoverable amount of the investments made:

		2013			
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Perpetuity rate growth
Tourline Express Mensajería, SLU	CEP and Logistics	Equity Value/DCF	5 years	10.20%	2.00%
EAD - Empresa de Arquivo de Documentação, S.A.	Custody and archive management	Equity Value/DCF	5 years	11.72%	2.00%
Mailtec Group	Documental services	Equity Value/DCF	5 years	11.98%	2.00%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	12.73%	2.00%

		2012			
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Perpetuity rate growth
Tourline Express Mensajería, SLU	CEP e Logística	Equity Value/DCF	5 anos	12.14%	2.0%
EAD - Empresa de Arquivo de Documentação, S.A.	Custódia e gestão de arquivos	Equity Value/DCF	5 anos	13.18%	2.0%
Mailtec Grupo	Serviço documental	Equity Value/DCF	5 anos	13.48%	2.0%
Payshop Portugal, SA	Gestão rede pontos pagamento	Equity Value/DCF	5 anos	14.32%	2.0%

The decrease in the discount rate (WACC) for the year ended 31 December, 2013 was a result of the decrease in the risk premium of the international market combined with the decrease in yields of Portuguese and Spanish government bonds.

The cash flow projections were based on the historical performance and the medium and long term business plans, approved by the Board of Directors. As a consequence of this impairment analysis, the Group concluded that as at 31 December 2013 there were no impairment losses.

		2013			
Company	Year of acquisition	Initial value	Impairment losses for the period	Accumulated impairment losses	Carrying value
Tourline Express Mensajería, SLU	2005	20,671,985	-	4,079,737	16,592,248
EAD - Empresa de Arquivo de Documentação, S.A.	2006	1,082,015	-	295,851	786,164
Payshop Moçambique, S.A. (a)	2008	235,946	-	235,946	-
		<u>21,989,946</u>	<u>-</u>	<u>4,611,534</u>	<u>17,378,412</u>

Company	Year of acquisition	2012			Carrying value
		Initial value	Impairment losses for the period	Accumulated impairment losses	
Tourline Express Mensajería, SLU	2005	20,671,985	-	4,079,737	16,592,248
EAD - Empresa de Arquivo de Documentação, S.A.	2006	1,082,015	-	295,851	786,164
Payshop Moçambique, S.A. (a)	2008	235,946	-	235,946	-
		<u>21,989,946</u>	<u>-</u>	<u>4,611,534</u>	<u>17,378,412</u>

(a) Held by Payshop Portugal, S.A., a subsidiary of CTT Group

Sensitivity analyses were performed on the results of these impairment tests, namely regarding the following key assumptions: (i) perpetuity growth rate and (ii) discount rates.

The results of the sensitivity analyses for PayShop, EAD and Mailtec Group do not indicate impairment. Regarding Tourline, the results of the sensitivity analyses conclude that a 1% increase in the sovereign risk, which impacts the discount rate, would lead to an impairment loss in 2013 amounting to 726,048 Euros, according to the following tables:

	Variation of perpetuity growth		
	-0.5%	0.0%	0.5%
Tourline			
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	19,851,365	21,306,513	22,950,737
Test: impairment (if negative)	1,702,779	3,157,926	4,802,150
Mailtec			
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	21,750,862	22,391,930	23,100,607
Test: impairment (if negative)	8,277,363	8,918,432	9,627,109
EAD			
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	8,498,968	8,913,393	9,372,791
Test: impairment (if negative)	1,842,857	2,054,214	2,288,507
Payshop			
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	56,842,272	58,359,658	60,025,418
Test: impairment (if negative)	49,277,949	50,795,334	52,461,094

Variation of sovereign risk			
Tourline	-1%	0%	1%
WACC	9.29%	10.20%	11.11%
Equity Assessment	26,156,402	21,306,513	17,422,538
Test: impairment (if negative)	8,007,815	3,157,926	-726,048
Mailtec			
	-1%	0%	1%
WACC	10.98%	11.98%	12.98%
Equity Assessment	24,694,401	22,391,930	20,511,681
Test: impairment (if negative)	11,220,902	8,918,432	7,038,182
EAD			
	-1%	0%	1%
WACC	10.79%	11.72%	12.64%
Equity Assessment	10,216,957	8,913,393	7,837,799
Test: impairment (if negative)	2,719,032	2,054,214	1,505,661
Payshop			
	-1%	0%	1%
WACC	11.73%	12.73%	13.73%
Equity Assessment	63,383,221	58,359,658	54,191,160
Test: impairment (if negative)	55,818,897	50,795,334	46,626,836

10. INVESTMENTS IN ASSOCIATED COMPANIES

As at 31 December 2013 and 31 December 2012, the investments in associated companies were as follows:

	2013	2012
Multicert, S.A.	710,242	689,734
Urpacsur, SL	481	481
	<u>710,723</u>	<u>690,215</u>

Investments in associated companies

For the years ended on 31 December 2013 and 31 December 2012, the investments in associated companies had the following movement:

Associated companies:	Head office	2013						Provisions	Proportion of net profit
		Assets	Liabilities	Equity	Net profit	% held	Investments		
Multicert - Serviços de Certificação Eletrónica, S.A. (a)	Lisbon	4,832,986	1,281,774	3,551,213	758,251	20%	710,242	-	20,508
Payshop Moçambique, S.A. (b)	Maputo - Mozambique	n.d.	n.d.	n.d.	n.d.	35%	-	213,840	n.d.
Mafelosa, SL (c) (d)	Castellon - Spain	n.d.	n.d.	n.d.	n.d.	25%	-	-	n.d.
Urpacsur (c) (d)	Spain	n.d.	n.d.	n.d.	n.d.	30%	481	-	n.d.
							<u>710,723</u>	<u>213,840</u>	<u>20,508</u>

	Head office	2012							Proportion of net profit
		Assets	Liabilities	Equity	Net profit	% held	Investments	Provisions	
Associated companies:									
Multicert - Serviços de Certificação Electrónica, S.A.(e)	Lisbon	5,003,269	1,284,270	4,732,941	655,710	20%	689,734	-	254,591
Payshop Moçambique, S.A. (b)	Maputo - Mozambique	271,930	953,017	(681,086)	(41,288)	35%	-	220,816	(14,451)
Mafelosa, SL (c) (d)	Castellon - Spain	n.d.	n.d.	(340,333)	(93,161)	25%	-	-	n.d.
Urpacsur (c) (d)	Spain	n.d.	n.d.	2	n.d.	30%	481	-	n.d.
							<u>690,215</u>	<u>220,816</u>	<u>240,140</u>

(a) Data reported on December 2012

(b) Participation by Payshop Portugal

(c) Participation by Tourline Express Mensajeria

(d) Companies without activity

(e) Provisional data

The amount of 20,508 Euros concerns the proportion of 2012 income that had not been recognized in that year. During the year ended 31 December, 2013 no additional records in participation of Multicert, SA took place since the Company does not have up-to-date financial information.

11. OTHER INVESTMENTS

The other investments assets include non-listed capital instruments whose fair value cannot be reliably measured. The amounts of these instruments recognised at cost at 31 December 2013 and 31 December 2012 were as follows:

Company	Head office	2013	2012
IPC - International Post Corporation	Brussels - Belgium	6,157	6,157
Eurogiro Network	Copenhagen - Denmark	124,435	124,435
CEPT	Copenhagen - Denmark	237	237
		<u>130,829</u>	<u>130,829</u>

During the period, no impairment loss was recognised in these investments.

There are no market prices available for the mentioned investments and it is not possible to determine fair value in the period using comparable transactions. The Group did not measure the instruments through discounted cash flows since these could not be reliably determined.

At the reporting date, the Group does not intend to sell any of these investments.

12. FINANCIAL RISK MANAGEMENT

The Group's activities imply exposure to financial risks, namely: (i) credit risks - risk that debtors do not comply with their financial obligations, (ii) market risks - fundamentally interest rate risk and exchange rate risk, which are associated, respectively, to the risk of the impact of variation of market interest rates on financial assets and liabilities and on net profit, and to the risk of fluctuation in the fair value of financial assets and liabilities as a result of changes in exchange rates, and (iii) liquidity risks - difficulties in complying with obligations related to financial liabilities.

Financial risk is defined as the probability of obtaining results that are different from those expected, whether positive or negative, thus altering the net worth of the Group in a material and unexpected form.

Risk management focuses on the unpredictability of financial markets and seeks to mitigate the adverse effects arising from this unpredictability on the Group's financial performance.

CTT's departments of Finance and Risk Management, and Accounting and Treasury assure the centralised management of financing operations, investment of surplus liquidity, exchange transactions and the counterparty risk management of the Group, according to the policies approved by the Board of Directors. Additionally, they are responsible for the identification, assessment, proposal and implementation of mitigation measures of financial risks that the Group is exposed to. The Group is developing an integrated risk management system.

The financial risks of particular importance include credit risk, market risk, interest rate and exchange rate risk as well as liquidity risk.

Credit risk

Credit risk essentially refers the risk that a third party fails on its contractual obligations, resulting in financial losses to the Group. At the Group, credit risk basically resides in the accounts receivable from customers and other debtors, related to its operating and treasury activities.

Credit risk in accounts receivable is monitored on a regular basis by each business unit of the Group with the objective of limiting the credit granted to customers, considering the respective profile and the aging of receivables from each customer, ensuring the follow-up of the evolution of credit that has been granted, and analysing the recoverability of the values receivable. The deterioration of economic conditions or adversities which affect economies may lead to the incapacity of customers to pay their liabilities, with consequent negative effects on the Group's net profit. For this purpose, an effort has been made to reduce the term and amount of loans to clients.

The Group is not exposed to significant credit risk relative to any single customer, since its accounts receivable relate to a large number of customers.

The impairment losses for accounts receivable are calculated considering essentially: (i) the age of the accounts receivable; (ii) the risk profile of each client; and (iii) the financial condition of the client.

The movement of impairment losses of accounts receivable is disclosed in Notes 19 and 37. As at 31 December 2013, the Group believes that impairment losses in accounts receivable are adequately estimated and recorded in the consolidated financial statements.

The risk arising from treasury activities essentially results from the cash deposits investments made by the Group. For the purpose of reducing that risk, the Group's policy is to invest in short/medium term periods at various financial institutions, all with a relatively high credit rating (considering the rating of the Portuguese Republic).

As at 31 December 2013 and 31 December 2012, the heading "Cash and cash equivalents" included cash term deposits investments amounted to 483,229,000 Euros and 444,947,000 Euros, respectively (Note 17).

The following table includes the maximum exposure to credit risk associated with financial assets held by the Group. These amounts includes only financial assets subject to credit risk and do not reconcile with consolidated balance sheet:

	2013	2012
Other non-current assets	1,951,139	2,018,619
Accounts receivable	135,589,645	135,317,556
Other current assets	10,676,882	16,222,215
Cash and cash equivalents	535,514,521	477,164,527
	<u>683,732,187</u>	<u>630,722,917</u>

Interest rate risk

Interest rate risk is essentially related to the interest obtained from the application of surplus liquidity. Gains arising from financial operations are important, therefore changes in interest rates have a direct impact on the Group's Interest income.

In order to reduce the impact of interest rate risk, the Group monitors market trends on a regular and systematic basis, with a view to leveraging the period/rate relationship and the risk/yield relationship.

The investment of surplus liquidity, on 31 December 2013 and 31 December 2012, generated interest income of 7,763,801 Euros and 11,806,240 Euros, respectively (Note 40). Additionally, interest income are recorded for financial services in the caption "Other operating income" in the years 2013 and 2012, amounting to 3,287,305 Euros and 2,534,552 Euros, respectively (Note 33).

The Group generally negotiates its deposits at fixed rates, while borrowings are contracted at variable rates. Due to the reduced amount of its borrowings, the Group believes that the difference between the financial assets fixed rate and the floating rate of the financial liabilities does not represent a significant potential impact on the consolidated income statement.

If the interest rates had been lower by 1%, during the year ended on 31 December 2013, the earnings before taxes would have been lower by 4,074 thousand Euros (31 December 2012: lower by 3,852 thousand Euros).

Foreign currency exchange rate risk

Exchange rate risk is related to the existence of balances in currencies other than the Euro, in particular balances arising from transactions with foreign Postal Operators recorded in Special Drawing Rights (SDR).

The management of foreign exchange risk relies on the periodic monitoring of the degree of exposure to the exchange rate risk of assets and liabilities, with the reference of previously defined objectives based on the evolution of the international business activities. As at 31 December 2013 and 31 December 2012, the net exposure (assets minus liabilities) of the Group amounted to 160,414 SDR (179,234 Euros at the exchange rate €/SDR 1.11732), negative 1,192,621 SDR (1,390,394 Euros at the exchange rate €/SDR 1.16583), respectively.

Based in the sensitivity analysis performed for the balances of accounts receivable and payable to foreign Postal Operators, on 31 December 2013 and 31 December 2012, assuming an increase / decrease in the exchange rate € / SDR of 10%, the earnings before taxes would have been higher by 17,923 Euros and lower by 139,039 Euros, respectively.

Liquidity risk

Liquidity risk might occur if the funding sources, such as cash balance, operating cash flow divestments operations, credit lines and cash flows obtained from financial operations, do not match the Group's financial needs, such as cash outflows for operating and financing activities, investments and shareholder remuneration. Based on the cash flow generated by operations and the available cash in hand, the Group believes that it has the capacity to meet its obligations.

The principal contractual obligations of the Group are related to the funding received (essentially financial leases) and respective interest, the employees' benefits, the operating leases and other non-contingent financial commitments. The following table detailed the expected contractual obligations and financial commitments as at 31 December 2013 and 31 December 2012 do not reconcile with consolidated balance sheet:

	2013			Total
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	
Financial liabilities				
Debts	1,363,474	3,255,164	113,063	4,731,701
Accounts payable	385,912,923	-	-	385,912,923
Other current liabilities	13,425,256	-	-	13,425,256
Non-financial liabilities				
Operating leases (Note 35)	8,901,867	16,433,847	-	25,335,714
Non-contingent financial commitments (1)	967,710	-	-	967,710
	<u>410,571,231</u>	<u>19,689,011</u>	<u>113,063</u>	<u>430,373,305</u>
	2012			Total
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	
Financial liabilities				
Debts	6,898,820	4,625,694	-	11,524,514
Accounts payable	343,598,366	-	-	343,598,366
Other current liabilities	10,220,456	-	-	10,220,456
Non-financial liabilities				
Operating leases (Note 35)	9,100,531	8,509,807	-	17,610,338
Non-contingent financial commitments (1)	166,026	-	-	166,026
	<u>369,984,199</u>	<u>13,135,501</u>	<u>-</u>	<u>383,119,700</u>

(1) The non-contingent financial commitments are essentially related to contracts signed with fixed costs suppliers and a corresponding liability has not been recognised in the balance sheet.

Capital risk

The Group manages its capital to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new debt or sell assets to reduce debt.

The balance of capital structure is monitored on the basis of the adjusted Equity to Liabilities ratio, calculated as: Equity / (Liabilities, less net Financial Services payables).

During the year ended 31 December 2013 and 2012, the Group's strategy was to maintain the Equity to Liabilities ratio higher than 35%. The solvency ratio at 31 December 2013 and 31 December 2012 was as follows:

	2013	2012
Equity	275,934,219	273,481,153
Liabilities	824,200,214	789,699,096
Amounts of third parties	308,058,255	249,222,509
Adjusted Equity to Liabilities ⁽¹⁾	53.5%	50.6%

⁽¹⁾ Equity / (Total liabilities - Net Financial Services payables)

13. INVENTORIES

As at 31 December 2013 and 31 December 2012, the Group's Inventories are detailed as follows:

	2013			2012		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Merchandise	5,018,085	1,812,893	3,205,192	5,687,910	1,903,511	3,784,399
Raw, subsidiary and consumable materials	3,410,775	685,925	2,724,850	3,583,586	715,248	2,868,338
Advances on purchases	63,929	-	63,929	58,002	-	58,002
	<u>8,492,789</u>	<u>2,498,818</u>	<u>5,993,971</u>	<u>9,329,498</u>	<u>2,618,759</u>	<u>6,710,739</u>

Cost of sales

During the years ended on 31 December 2013 and 31 December 2012, the details of the "Cost of sales" were as follows:

	2013		
	Merchandise	Raw, materials and consumable	Total
Opening balance	5,687,910	3,583,586	9,271,496
Purchases	12,344,623	3,975,606	16,320,229
Offers	(39,145)	(17,354)	(56,499)
Adjustments	(123,775)	(76,464)	(200,239)
Closing balance	(5,018,085)	(3,410,775)	(8,428,860)
Cost of sales	12,851,528	4,054,599	16,906,127

	2012		
	Merchandise	Raw, materials and consumable	Total
Opening balance	7,148,329	3,966,757	11,115,086
Purchases	13,767,171	3,623,185	17,390,356
Offers	(105,661)	(20,691)	(126,352)
Adjustments	(377,410)	(186,804)	(564,214)
Closing balance	(5,687,910)	(3,583,586)	(9,271,496)
Cost of sales	14,744,519	3,798,861	18,543,380

Impairment

During the years ended on 31 December 2013 and 31 December 2012, the movement in “Accumulated impairment losses” (Note 19) was as follows:

	2013				
	Opening balance	Increases	Reversals	Utilization	Closing balance
Merchandise	1,903,511	4,906	(95,524)	-	1,812,893
Raw, subsidiary and consumable	715,248	28,623	(13,846)	(44,100)	685,925
	2,618,759	33,529	(109,370)	(44,100)	2,498,818

	2012				
	Opening balance	Increases	Reversals	Utilization	Closing balance
Merchandise	3,275,093	-	(1,371,582)	-	1,903,511
Raw, subsidiary and consumable	1,616,011	83,575	(840,103)	(144,235)	715,248
	4,891,104	83,575	(2,211,685)	(144,235)	2,618,759

For the years ended on 31 December 2013 and 31 December 2012, impairment losses of inventories were recorded net of reversals amounting to (75,841) Euros and (2,128,110) Euros, respectively, in the heading “Impairment of inventories and accounts receivable net” (Note 37).

14. ACCOUNTS RECEIVABLE

As at 31 December 2013 and 31 December 2012 the heading "Accounts receivable" showed the following composition:

	2013	2012 Restated
Customers	135,589,453	135,317,364
Associated companies	192	192
	<u>135,589,645</u>	<u>135,317,556</u>

The impacts of the restatement are detailed in Note 3.

Customers

As at 31 December 2013 and 31 December 2012, the ageing of the balance of the heading "Customers" is detailed as follows:

	2013			2012		
	Gross amount	Accumulated impairment	Carrying amount	Gross amount	Accumulated impairment	Carrying amount
Current						
Not due	58,373,041	2,450	58,370,591	57,237,067	491	57,236,576
Past due:						
0-30 days	22,324,251	-	22,324,251	23,368,767	9,030	23,359,737
30-90 days	16,266,015	5,243	16,260,771	14,407,624	5,692	14,401,932
90-180 days	7,913,980	22,586	7,891,394	4,680,277	26,451	4,653,826
180-360 days	10,226,203	475,953	9,750,250	9,718,075	1,660,503	8,057,572
> 360 days	44,847,949	23,855,753	20,992,196	48,218,580	20,610,859	27,607,721
	<u>159,951,437</u>	<u>24,361,985</u>	<u>135,589,453</u>	<u>157,630,390</u>	<u>22,313,026</u>	<u>135,317,364</u>

The gross amount of accounts receivable overdue over 360 days was as follows:

	2013	2012
National accounts receivable	1,159,643	2,954,905
Foreign operators	19,832,745	24,652,816
Total	<u>20,992,388</u>	<u>27,607,721</u>
Foreign operators - payable	<u>(19,568,630)</u>	<u>(26,270,998)</u>

The caption of Foreign Operators relates to receivables associated with the distribution of postal traffic in Portugal with origin in other countries. These operations fall within the scope of the regulation of Universal Postal Union (UPU), that establish the closing of the accounts on an annual basis which therefore is only made after year end and originated the significant amount of overdue of more than 360 days with these customers.

Regarding UPU regulation, the accounts between Foreign Operators are cleared by netting accounts. The credit risk is mitigated by the accounts payable balances related to these entities (Note 28).

The balance of national customers includes receivables of public entities and other clients that are also suppliers which will be netted with accounts payables balances and customers with debt payment plans.

For the national customers, the banks guarantees and advance deposits coverage over the customers receivables decreased from 2.3% in 2012 and to 1.9% in 31 December 2013.

	<u>2013</u>	<u>2012</u>
Advance deposits	1,614,064	1,952,293
Bank guarantees	<u>273,674</u>	<u>273,674</u>
Total	<u>1,887,738</u>	<u>2,225,967</u>

Customer's impairment

During the years ended on 31 December 2013 and 31 December 2012, the movement in "Accumulated impairment losses" (Note 19) was as follows:

	<u>2013</u>					<u>Closing</u>
	<u>Opening</u>	<u>Increases</u>	<u>Reversals</u>	<u>Reduction</u>	<u>Transfers</u>	<u>balance</u>
Customers	<u>22,313,026</u>	<u>4,413,997</u>	<u>(1,505,980)</u>	<u>(859,058)</u>	<u>-</u>	<u>24,361,985</u>
	<u>22,313,026</u>	<u>4,413,997</u>	<u>(1,505,980)</u>	<u>(859,058)</u>	<u>-</u>	<u>24,361,985</u>

	<u>2012</u>					<u>Closing</u>
	<u>Opening</u>	<u>Increases</u>	<u>Reversals</u>	<u>Reduction</u>	<u>Transfers</u>	<u>balance</u>
Customers	<u>21,268,700</u>	<u>2,888,988</u>	<u>(398,421)</u>	<u>(1,961,257)</u>	<u>515,016</u>	<u>22,313,026</u>
	<u>21,268,700</u>	<u>2,888,988</u>	<u>(398,421)</u>	<u>(1,961,257)</u>	<u>515,016</u>	<u>22,313,026</u>

For the years ended on 31 December 2013 and 31 December 2012, impairment losses of accounts receivable were recorded (net of reversals) amounting to 2,908,017 Euros and 2,490,567 Euros, respectively in the heading "Impairment of inventories and accounts receivable, net" (Note 37).

15. DEFERRALS

As at 31 December 2013 and 31 December 2012, the Deferrals included in current assets and current and non-current liabilities showed the following composition:

	2013	2012 Restated
Assets deferrals		
Current		
Rents payable	1,370,452	1,479,225
Meal allowances	1,727,311	1,772,639
Works on rented buildings	1,777,376	2,342,972
Other	4,875,139	5,594,836
	<u> </u>	<u> </u>
Liabilities deferrals		
Non-current		
Deferred capital gains	8,475,340	10,874,369
Tangible fixed assets	361,697	372,832
Other	-	75,424
	<u> </u>	<u> </u>
Current		
Deferred capital gains	2,399,029	2,399,029
Phone-ix top ups	453,150	572,687
Tangible fixed assets	11,201	11,267
Other	1,240,371	1,385,983
	<u> </u>	<u> </u>
	<u>4,103,751</u>	<u>4,368,966</u>
	<u>12,940,788</u>	<u>15,691,591</u>

The impacts of the restatement are detailed in Note 3.

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

During the years ended in 31 December 2013 and 31 December 2012, 1,511,128 Euros and 2,399,029 Euros, were recognised under the caption “Other operating income” in the consolidated income statement, respectively, related to the above mentioned gains.

16. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

As at 31 December 2013 and 31 December 2012, the Group did not have non-current assets classified as held for sale, nor were there operations classified as discontinued operations.

17. CASH AND CASH EQUIVALENTS

As at 31 December 2013, 31 December 2012 and 30 September 2012, cash and cash equivalents correspond to the value of cash, sight deposits, time deposits and cash investments on the monetary market, net of bank overdrafts, and are detailed as follows:

	2013	2012 Restated
Cash	9,361,282	12,138,936
Sight deposits	52,285,521	32,217,527
Time deposits	483,229,000	444,947,000
Cash and cash equivalents (Consolidated balance sheet)	544,875,803	489,303,463
Bank overdrafts	-	-
Cash and cash equivalents (Consolidated cash flow statement)	544,875,803	489,303,463

The impacts of the restatement are detailed in Note 3.

18. OTHER NON-CURRENT AND CURRENT ASSETS

As at 31 December 2013 and 31 December 2012, the headings “Other non-current assets” and “Other current assets” had the following composition:

	2013	2012 Restated
Non-current		
Advances to staff	463,546	312,243
Other receivables from staff	1,296,044	1,384,664
Ministry of Health	1,487,593	1,444,883
INESC loan	1,397,613	1,455,643
Impairment	(2,693,657)	(2,578,814)
	<u>1,951,139</u>	<u>2,018,619</u>
Current		
Advances to suppliers	137,692	49,803
Advances to staf	3,421,376	2,900,773
Ministry of Health	1,531,568	1,487,594
INESC loan	49,740	49,740
Postal financial services	1,932,246	9,461,390
State and other public entities	-	330,546
Debtors by accrued revenues	5,488,909	3,284,201
Amounts collected on our behalf	3,650,377	1,969,894
Pledges as collateral	357,748	331,899
CGA reimbursements	77	296,524
Advances to lawyers	263,592	236,220
Debtors by asset disposals	158,647	201,540
Other current assets	9,259,137	9,230,614
Impairment	(9,148,673)	(8,974,606)
	<u>17,102,436</u>	<u>20,856,132</u>

The impacts of the restatement are detailed in Note 3.

The account receivable from the Ministry of Health relates to the State's contribution to health care costs for the years of 2000 to 2006, under the CTT health plan, which ceased on 31 December 2006. The debt is recorded at amortised cost and classified based on schedule payment.

The amounts recorded in the heading "Postal financial services" refer to receivables from amortization of saving products and the marketing of insurance.

Debtors by accrued revenues

As at 31 December 2013 and 31 December 2012, the debtors by accrued revenues refer to accrued interest, philatelic products, philatelic agents and other values not invoiced.

Impairment

For the years ended on 31 December 2013 and 31 December 2012, the movement in "Accumulated impairment losses" (Note 19) was as follows:

		2013					
		Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Other accounts receivable		10,048,037	903,564	(147,512)	(84,410)	(324,702)	10,394,977
INESC loan		1,505,383	-	(58,030)	-	-	1,447,353
		<u>11,553,420</u>	<u>903,564</u>	<u>(205,542)</u>	<u>(84,410)</u>	<u>(324,702)</u>	<u>11,842,330</u>

		2012					
		Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Other accounts receivable		9,640,020	913,120	(435,819)	-	(69,284)	10,048,037
INESC loan		1,546,833	-	(41,450)	-	-	1,505,383
		<u>11,186,853</u>	<u>913,120</u>	<u>(477,269)</u>	<u>-</u>	<u>(69,284)</u>	<u>11,553,420</u>

For the years ended on 31 December 2013 and 31 December 2012, impairment losses (net increases of reversals) of "Other current and non-current assets" amounted to 698,022 Euros and negative 435,851 Euros, respectively, and were booked under the heading "Impairment of inventories and accounts receivable, net" (Note 37).

19. ACCUMULATED IMPAIRMENT LOSSES

During the years ended on 31 December 2013 and 31 December 2012, the following movements occurred in the impairment losses:

	2013					Closing balance
	Opening balance	Increases	Reversals	Utilization	Transfers	
Other non-current assets (Note 18)						
Other accounts receivable	1,123,171	172,873	-	-	-	1,296,044
INESC loan	1,455,643	-	(58,030)	-	-	1,397,613
	<u>2,578,814</u>	<u>172,873</u>	<u>(58,030)</u>	<u>-</u>	<u>-</u>	<u>2,693,657</u>
Customers and Other current assets (Notes 14 and 18)						
Customers	22,313,026	4,413,997	(1,505,980)	(859,058)	-	24,361,985
Other accounts receivable	8,924,866	730,691	(147,512)	(84,410)	(324,702)	9,098,933
INESC loan	49,740	-	-	-	-	49,740
	<u>31,287,632</u>	<u>5,144,688</u>	<u>(1,653,492)</u>	<u>(943,468)</u>	<u>(324,702)</u>	<u>33,510,658</u>
Inventories (Note 13)						
Merchandise	1,903,511	4,906	(95,524)	-	-	1,812,893
Raw, subsidiary and consumable	715,248	28,623	(13,846)	(44,100)	-	685,925
	<u>2,618,759</u>	<u>33,529</u>	<u>(109,370)</u>	<u>(44,100)</u>	<u>-</u>	<u>2,498,818</u>
	<u>36,485,205</u>	<u>5,351,090</u>	<u>(1,820,892)</u>	<u>(987,568)</u>	<u>(324,702)</u>	<u>38,703,133</u>
	2012					Closing balance
	Opening balance	Increases	Reversals	Utilization	Transfers	
Other non-current assets (Note 18)						
Other accounts receivable	1,166,208	-	(43,037)	-	-	1,123,171
INESC loan	1,497,093	-	(41,450)	-	-	1,455,643
	<u>2,663,301</u>	<u>-</u>	<u>(84,487)</u>	<u>-</u>	<u>-</u>	<u>2,578,814</u>
Customers and Other current assets (Notes 14 and 18)						
Customers	21,268,700	2,888,988	(398,421)	(1,961,257)	515,016	22,313,026
Other accounts receivable	8,473,812	913,120	(392,782)	-	(69,284)	8,924,866
INESC loan	49,740	-	-	-	-	49,740
	<u>29,792,252</u>	<u>3,802,108</u>	<u>(791,203)</u>	<u>(1,961,257)</u>	<u>445,732</u>	<u>31,287,632</u>
Inventories (Note 13)						
Merchandise	3,275,093	-	(1,371,582)	-	-	1,903,511
Raw, subsidiary and consumable	1,616,011	83,575	(840,103)	(144,235)	-	715,248
	<u>4,891,104</u>	<u>83,575</u>	<u>(2,211,685)</u>	<u>(144,235)</u>	<u>-</u>	<u>2,618,759</u>
	<u>37,346,657</u>	<u>3,885,683</u>	<u>(3,087,375)</u>	<u>(2,105,492)</u>	<u>445,732</u>	<u>36,485,205</u>

Impairment losses regarding tangible fixed assets, investment properties and goodwill are detailed respectively in Notes 5, 7 and 9.

20. EQUITY

As at 31 December 2013, the Company's share capital was composed of 150,000,000 shares with the nominal value of 0.50 Euros each. The share capital is fully underwritten and paid-up.

At the General Meeting held on 30 October, 2013, the registered capital of CTT was reduced from 87,325,000 to 75,000,000 Euros, being from that date forward represented by 150,000,000 shares, as a result of a stock split which was accomplished through the reduction of the nominal value of 4.99 Euros to 0.50 Euros. The amount of 12,325,000 Euros related to the reduction of the capital was transferred to "Other reserves" (Note 20).

As at 31 December 2012, the Company's share capital was composed of 17,500,000 shares with the nominal value of 4.99 Euros each, and fully owned by the Portuguese State. In January 2013, became

effective the transference to Parpública of the financial investment that the Portuguese State held at CTT. The share capital is fully underwritten and paid-up.

As at 31 December 2013 and 31 December 2012 the Company's shareholders with, greater than or equal to, 2% shareholdings are as follows:

Shareholder	2013		
	Nr shares	%	Nominal value
Parpública - Participações Públicas (SGPS), SA ⁽¹⁾	45,000,000	30.000%	22,500,000
Parpública - Participações Públicas (SGPS), SA ⁽²⁾	9,545,455	6.364%	4,772,728
Total ⁽³⁾	54,545,455	36.364%	27,272,728
Goldman Sachs International ⁽⁴⁾	7,496,479	4.998%	3,748,240
Deutsche Bank AG London ⁽⁵⁾	3,063,798	2.043%	1,531,899
Other shareholders ⁽⁶⁾	84,894,268	56.596%	42,447,134
Total	150,000,000	100.000%	75,000,000

Shareholder	2012		
	Nr shares	%	Nominal value
Portuguese State	17,500,000	100.000%	87,325,000
Total	17,500,000	100.000%	87,325,000

- (1) Shares held by Parpública – Participações Públicas (SGPS), SA, which in turn is fully owned by the Portuguese State.
- (2) Shares attributed to Parpública - Participações Públicas (SGPS), SA, in accordance with the call option on the Underwriters, represented for the purpose by the Stabilisation Agent (Stabilisation Manager) under direct sales institutional Contract (institutional Underwriting agreement) signed with the Underwriters in the privatization process of CTT. Under this contract the Underwriters also held an option to sell (put option) on Parpública - Participações Públicas (SGPS), SA. The share stabilisation operations were completed on 3 January, 2014, having the underwriters exercised the option to sell 2,253,834 shares of all 9,545,455 shares, representing 1.5% of the share capital of CTT.
- (3) Full participation Parpública - Participações Públicas (SGPS), SA as at 31 December, 2013, which in turn is owned entirely by the Portuguese State. From 3 January, 2014 Parpública - Public Participation (SGPS), SA holds 47,253,834 shares, i.e. 31.5% of the share capital of CTT.
- (4) Shares held by Goldman Sachs International, controlled by Goldman Sachs Holding (UK), which in turn is controlled by Goldman Sachs Group Holdings (UK) Limited, controlled by Goldman Sachs Group UK Limited, controlled by Goldman Sachs (UK) LLC, which in turn is controlled by the Goldman Sachs Group, Inc..
- (5) Shares held by Deutsche Bank AG London which in turn is a branch of Deutsche Bank AG.
- (6) Includes 2,064,660 shares held by CTT workers who, according to the terms of the offer reserved for employees under the privatization of CTT, are unavailable until 5 March, 2014.

21. RESERVES, OTHER CHANGES IN EQUITY AND RETAINED EARNINGS

Reserves

As at 31 December 2013 and 31 December 2012, the heading "Reserves" was detailed as follows:

	2013	2012
Reserves	18,072,559	18,072,559
Other reserves	12,325,000	10,555,949
	30,397,559	28,628,508

Legal reserves

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

Other reserves

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

In 2013, the amount of 10,555,949 Euros was used for the payment of an extraordinary dividend (Note 22).

The value of 12,325,000 Euros refers to the amount of reduction of the share capital and was transferred to this caption.

Retained earnings

During the years ended on 31 December 2013 and 31 December 2012, the following movements were made in the heading "Retained earnings":

	2013	2012 Restated
Opening balance	87,105,292	88,568,765
Application of net profit of the prior year	35,735,268	52,424,781
Distribution of dividends (Note 22)	(39,444,051)	(53,876,585)
Adjustments from the application of the equity method	(29,044)	(11,669)
Closing balance	<u>83,367,465</u>	<u>87,105,292</u>

The impacts of the restatement are detailed in Note 3.

The amount of 2,818,861 Euros on the distribution of the net profit for the previous period corresponds to the effect of the restatement mentioned in Note 5, in which the net income for the year 2012, initially established in 38,554,129 Euros, was reduced to 35,735,268 Euros. As mentioned in Note 21 the net income obtained initially was fully paid as dividend to the shareholder.

Additionally, the balance that was presented under the heading "Revaluation reserve" in the balance sheet of 31 December, 2012, included in financial statements prepared and disclosed by CTT for the year ended on that date, in the amount of 56,088,705 Euros (58,625,232 Euros on 31 December, 2011) was reclassified to "Retained earnings".

Other changes in equity

The Actuarial gains/losses associated to post-employment benefits, as well as the corresponding deferred taxes, are recognised in this heading (Note 26).

Thus, for the years ended on 31 December 2013 and 31 December 2012 the movements occurred in this heading were as follows:

	2013	2012 Restated
Opening balance	33,079,577	15,850,935
Actuarial gains/losses	(11,680,870)	24,265,693
Tax effect	3,150,049	(7,037,051)
Closing balance	<u>24,548,756</u>	<u>33,079,577</u>

22. DIVIDENDS

At the General Assembly held on 30 May 2013, the Board approved the distribution of a dividend of about 2.20 Euros per share relative to 31 December 2012 and a total dividend of 38,554,129 Euros was paid, which was subject to a withholding tax of 25% in June 2013. It was also decided to pay an extraordinary dividend in the amount of 11,445,871 Euros (0.65 Euro per share), which was also subject to withholding tax of 25% in June 2013.

For the extraordinary payment "Other reserves" were used in the amount of 10,555,949 Euros and "Retained earnings" in the amount of 889,922 Euros.

The General meeting held on 30 May 2012 approved the distribution of dividends of 53,876,585 Euros relative to 2011 net profit, which represented a dividend per share of 3.08 Euros. The payment was made to the shareholder on 30 June 2012.

23. EARNINGS PER SHARE

During the years ended on 31 December 2013 and 31 December 2012, the earnings per share were calculated as follows:

	2013	2012 Restated
Net profit for the period	61,016,067	35,735,268
Average number of ordinary shares	150,000,000	150,000,000
Earnings per share:		
Basic	0.41	0.24
Diluted	0.41	0.24

The basic earnings per share are calculated dividing the net profit attributable to equity holders of the parent company by the average ordinary shares.

The number of shares varied in the course of 2013, from 17,500,000 to 150,000,000 following the capital reduction made to reserves and a stock split by reducing the nominal value. Thus, since the

change in the number of shares did not comprise the entry or exit of Company funds, the calculation of earnings per share for 2013 and 2012, took into account the number of existing shares in 31 December, 2013 (150,000,000).

There are no dilutive factors of earnings per share.

24. NON-CONTROLLING INTERESTS

During the years ended on 31 December 2013 and 31 December 2012, the following movements occurred in non-controlling interests:

	2013	2012
Opening balance	1,607,508	1,627,958
Net profit for the period attributable to non-controlling interests	89,218	232,002
Distribution of dividends	(64,173)	(252,452)
Other movements	(28,181)	-
Closing balance	<u>1,604,372</u>	<u>1,607,508</u>

As at 31 December 2013 and 31 December 2012, non-controlling interests related to the following companies:

	2013	2012
EAD - Empresa de Arquivo de Documentação, S.A.	1,594,101	1,467,632
Correio Expresso de Moçambique, S.A.	10,271	139,876
	<u>1,604,372</u>	<u>1,607,508</u>

25. DEBT

As at 31 December 2013 and 31 December 2012, the debt was detailed as follows:

	2013	2012 Restated
Non-current liabilities		
Bank loans	-	45,785
Leasing	3,282,126	4,514,917
	<u>3,282,126</u>	<u>4,560,702</u>
Current liabilities		
Bank loans	2,393,536	2,467,562
Leasing	1,235,919	1,310,451
Other loans	87,102	3,079,348
	<u>3,716,557</u>	<u>6,857,361</u>
	<u>6,998,683</u>	<u>11,418,063</u>

The impacts of the restatement are detailed in Note 3.

At 31 December 2013, the interest rates applied to finance leases were between 0.82% and 1.47% (31 December 2012: between 0.71% and 1.12%) and the interest rates applied to other loans were between 0.14% and 4.69% (31 December 2012: 0.81% and 5.24%).

Bank loans and other loans

As at 31 December 2013 and 31 December 2012, the details of the bank loans were as follows:

Financing entity	2013			2012		
	Limit	Amount used		Limit	Amount used	
		Current	Non-current		Current	Non-current
Bank loans:						
Banco Sabadell (Spain)	400,000	-	-	300,000	231,292	-
BBVA (Spain)	500,000	-	-	450,000	182,888	-
Millennium BCP (Spain)	5,000,000	2,346,626	-	5,000,000	1,997,353	-
BIM - (Mozambique)	218,270	46,910	-	218,270	56,029	45,785
Other loans:						
Millennium BCP	5,000,000	-	-	5,000,000	2,995,873	-
Millennium BCP	250,000	-	-	250,000	83,475	-
Millennium BCP	150,000	1,990	-	-	-	-
BIM - (Mozambique)	72,745	60,864	-	-	-	-
Millennium BCP (Mozambique)	96,993	85,112	-	-	-	-
	<u>11,688,008</u>	<u>2,541,502</u>	<u>-</u>	<u>11,218,270</u>	<u>5,546,910</u>	<u>45,785</u>

The funding received from Spanish banks is intended to finance the operating activity of the Tourline subsidiary, subject to Eonia interest rate.

Leasings

As at 31 December 2013 and 31 December 2012, the Group has the following assets under finance lease:

	2013			2012		
	Gross amount	Depreciation/accumulated impairment losses	Carrying amount	Gross amount	Depreciation/accumulated impairment losses	Carrying amount
Land	9,651,895	815,990	8,835,905	9,651,895	815,990	8,835,905
Buildings and other constructions	5,641,685	1,396,499	4,245,186	5,641,685	1,326,333	4,315,352
Basic equipment	856,109	365,739	490,370	1,914,855	1,193,080	721,775
Transport equipment	<u>87,790</u>	<u>79,732</u>	<u>8,058</u>	<u>187,306</u>	<u>170,238</u>	<u>17,068</u>
	<u>16,237,479</u>	<u>2,657,960</u>	<u>13,579,519</u>	<u>17,395,741</u>	<u>3,505,641</u>	<u>13,890,100</u>

The key contracts are the following:

CTT, S.A. is the lessee, under a leasing contract signed with IMOLEASING – Sociedade de locação financeira imobiliária, S.A., of a property in the municipality of Maia (Porto) where the new Mail Operating Centre is located. The type of lease contract determines its classification as a lease, namely by the fact there is an option to buy it for a residual value of approximately 6% of the contract, value considered significantly lower than the estimated market value at the end of the contract. There are no contingent rents payable nor any restrictions.

The subsidiary EAD is the lessee of:

- (i) Contracts for the acquisition of two properties located in the Autonomous Region of Madeira and a property located in Vilar do Pinheiro;
- (ii) Contracts for the acquisition of metal shelves for stowing client's archives;
- (iii) Contracts for the acquisition of vehicles for use in operating activity.

The subsidiary CTT Expresso is the lessee of a property located in Perafita (Matosinhos) where is located the Operating Centre of the Northern Region, which includes an option to buy the asset at the end of the contract for a residual value considered significantly lower than the estimated market value at the end of the contract.

The monthly rents are calculated based on the initial contract value, and it is possible to exercise the call option by paying a residual value.

There are no other restrictions in the contracts that have been signed.

As at 31 December 2013 and 31 December 2012, Group's liabilities with financial lease contracts presented the following plan of due dates:

	2013			2012		
	Capital	Interest	Total	Capital	Interest	Total
Due within 1 year	1,235,919	42,443	1,278,362	1,310,451	41,459	1,351,910
Due between 1 to 5 years	3,183,268	71,896	3,255,164	4,514,917	64,992	4,579,909
Over 5 years	98,858	14,205	113,063	-	-	-
	<u>3,282,126</u>	<u>86,101</u>	<u>3,368,227</u>	<u>4,514,917</u>	<u>64,992</u>	<u>4,579,909</u>
Total	<u>4,518,045</u>	<u>128,544</u>	<u>4,646,589</u>	<u>5,825,368</u>	<u>106,451</u>	<u>5,931,819</u>

In the year ended on 31 December 2013 and the year ended 31 December 2012, the values paid in relation to leasing interest amounted to 54,416 Euros and 155,196 Euros, respectively.

26. EMPLOYEE BENEFITS

Liabilities related to employee benefits refer to (i) post-employment benefits – health care and (ii) other benefits for employees. During the years ended on 31 December 2013 and 31 December 2012, these liabilities presented the following movement:

	2013		
	Health care	Other long term benefits	Total
Opening balance	252,803,000	50,513,360	303,316,360
Movement of the period	10,568,000	(15,341,306)	(4,773,306)
Closing balance	<u>263,371,000</u>	<u>35,172,054</u>	<u>298,543,054</u>
	2012		
	Health care	Other long term benefits	Total
Opening balance	272,102,000	49,328,746	321,430,746
Movement of the period	(19,299,000)	1,184,614	(18,114,386)
Closing balance	<u>252,803,000</u>	<u>50,513,360</u>	<u>303,316,360</u>

The heading “Other long term benefits” liabilities essentially refer to the on-going staff reduction programme.

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

	2013	2012
Non-current liabilities	278,638,869	282,065,364
Current liabilities	<u>19,904,186</u>	<u>21,250,996</u>
	<u>298,543,054</u>	<u>303,316,360</u>

As at the years ended on 31 December 2013 and 31 December 2012, the costs related to employee benefits recognised in the consolidated income statement and the amount recognised directly in “Other changes in equity” were as follows:

	2013	2012
Costs for the period		
Health care	13,747,000	17,608,000
Other long term benefits	<u>(5,034,183)</u>	<u>7,803,116</u>
	<u>8,712,817</u>	<u>25,411,116</u>
Other changes in equity		
Health care	<u>(11,680,870)</u>	<u>24,265,693</u>
	<u>(11,680,870)</u>	<u>24,265,693</u>

Health care

As mentioned in Note 2.18, CTT is responsible for financing the health care plan applicable to certain employees. In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is made by an independent entity every year, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable, having, as at 31 December 2013, elaborated an actuarial study.

As at 31 December 2013, the Company requested an actuarial study to an independent entity to assess the liabilities at the reporting date.

The main assumptions followed in the actuarial assessment were:

	2013	2012
Financial assumptions		
Discount rate	4.00%	4.00%
Salaries expected growth rate	0% in 2013 and 2014 2.75% from that date	0% in 2013 and 2014 2.75% from that date
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP < 2%)	Law no. 53-B/2006 (with Δ GDP < 2%)
Inflation rate	2.00%	2.00%
Health costs growth rate		
- Inflation rate	2.00%	2.00%
- Growth due to ageing	0% in 2013 and 2014 2% from that date	0% in 2013 and 2014 2% from that date
Demographic assumptions		
Mortality table	TV 88/90	TV 88/90
Disability table	Swiss RE	Swiss RE

The discount rate is estimated based on interest rates of private debt bonds with high credit rating ("AA" or equivalent) at the date of the balance sheet and with a duration equivalent to that of the liabilities with health care.

The maintenance of the discount rate to 4.00% was motivated by the Group's analysis of the evolution of the macroeconomic context taking into account a constant need to match the actuarial and financial assumptions to that reality.

The salaries expected growth rate is determined according to the salary policy defined by the Group.

The pensions expected growth rate is determined considering the estimated evolution of inflation and GDP growth rate.

The health care costs growth rate reflects the best estimate for the future evolution of these costs, considering the history of the plan's data.

The demographic assumptions are based on the mortality and disability tables considered appropriate for the actuarial assessment of this plan.

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

	2013	2012	2011	2010	2009
Liabilities at the end of the period	<u>263,371,000</u>	<u>252,803,000</u>	<u>272,102,000</u>	<u>272,123,000</u>	<u>299,454,000</u>

For the years ended on 31 December 2013 and 31 December 2012, the movement which occurred in the present value of the defined benefits liability regarding the health care plan was as follows:

	2013	2012
Opening balance	252,803,000	272,102,000
Service costs of the period	3,882,000	4,330,000
Interest cost of the period	9,865,000	13,278,000
Pensioners contributions	3,552,478	3,409,494
(Payment of benefits)	(17,249,738)	(14,877,637)
(Other costs)	(1,162,610)	(1,173,164)
Actuarial (gains)/losses	11,680,870	(24,265,693)
Closing balance	<u>263,371,000</u>	<u>252,803,000</u>

During the years ended on 31 December 2013 and 31 December 2012, the total costs for the period are recognised as follows:

	2013	2012
Staff costs/employee benefits (Note 36)	2,719,390	3,156,836
Other costs	1,162,610	1,173,164
Interest expenses (Note 40)	9,865,000	13,278,000
	<u>13,747,000</u>	<u>17,608,000</u>

The actuarial gains / (losses) amounting to (11,680,870) Euros (24,265,693 Euros as at 31 December 2012) were recognised in the equity under the caption "Other changes in equity", net of deferred taxes amounting to 3,150,049 Euros ((7,037,051) Euros as at 31 December 2012).

The best estimate the Group has at this date for costs related to the health care plan, which it expects to recognise in the next annual period of 2014 is 14,093 thousand Euros.

The sensitivity analysis performed for the health care plan leads to the following conclusions:

(i) If there was an increase of 1 per cent in the growth rate of medical costs, keeping all the remaining variables constant, the liabilities of the health care plan would be 307,989 thousand Euros, increasing by approximately 16.9%.

(ii) If the discount rate was reduced 0.5 per cent and keeping all the remaining variables constant, the liabilities would increase by approximately 6.8%, amounting to 281,280 thousand Euros.

Other long term benefits

As mentioned in Note 2.18, in certain situations, the Group has liabilities related to the payment of salaries in situations of "Suspension of contracts, redeployment and release of employment", the allocation of subsidies of "Support for termination of professional activity", which was eliminated as of 1 April 2013, the payment of the "Telephone subscription fee", "Pensions for work accidents", and

“Monthly life annuity”. In order to obtain the estimate of the value of these liabilities and the costs to be recognised for each period, every year, an actuarial study is made by an independent entity, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable.

As at 31 December 2013, the Company requested an actuarial study to an independent entity to assess the liabilities at the reporting date.

The main assumptions followed in the assessment of these liabilities were:

	2013	2012
Financial assumptions		
Discount rate	4.00%	4.00%
Salaries growth rate	0% in 2013 and 2014 2.75% from that date	0% in 2013 and 2014 2.75% from that date
Pensions growth rate	Lei n ^o . 53-B/2006 (com Δ PIB < 2%)	Law no. 53-B/2006 (with Δ GDP < 2%)
Inflation rate	2.00%	2.00%
Demographic assumptions		
Mortality table	TV 88/90	TV 88/90
Disability rate	Swiss RE	Swiss RE

For the determination of the Group's liabilities to employees in situations of “Suspension of contracts, redeployment and release of employment”, salary growth rates of 0% were considered for 2013 and 2014, and 2.75% for the following years. The salary growth rate of 2.75% was applied to the remaining employee benefits, except for the “Telephone subscription fee” and “Support for cessation of professional activity” for which no value update was considered.

For the years ended on 31 December 2013 and 31 December 2012, the movement of liabilities with other employee long-term benefits was as follows:

	2013	2012
Suspension of contracts, redeployment and release of employment		
Opening balance	24,084,448	17,010,161
Interest cost of the period	844,267	1,255,368
Liabilities relative to new beneficiaries (Payment of benefits)	1,914,115 (7,459,833)	12,556,711 (4,073,264)
Actuarial (gains)/losses	360,894	(2,664,528)
Closing balance	<u>19,743,891</u>	<u>24,084,448</u>
Telephone subscription charge		
Opening balance	14,242,125	14,296,771
Interest cost of the period	451,814	676,602
Curtailment	(8,211,129)	-
(Payment of benefits)	(1,445,398)	(1,512,475)
Actuarial (gains)/losses	(237,217)	781,227
Closing balance	<u>4,800,195</u>	<u>14,242,125</u>
Pension for accidented at work		
Opening balance	7,563,939	7,166,624
Interest cost of the period	293,948	347,635
(Payment of benefits)	(422,708)	(425,297)
Actuarial (gains)/losses	(430,809)	474,977
Closing balance	<u>7,004,370</u>	<u>7,563,939</u>
Monthly life annuity		
Opening balance	3,691,640	3,047,431
Interest cost of the period	145,503	149,739
(Payment of benefits)	(108,120)	(112,719)
Actuarial (gains)/losses	(184,239)	607,189
Closing balance	<u>3,544,784</u>	<u>3,691,640</u>
Support for cessation of professional activity		
Opening balance	931,208	7,807,759
Service cost of in the period	-	345,177
Interest cost of the period	18,624	384,031
Curtailment	-	(6,563,175)
(Payment of benefits)	(871,064)	(494,747)
Actuarial (gains)/losses	46	-547837
Closing balance	<u>78,814</u>	<u>931,208</u>
Total closing balances	<u><u>35,172,054</u></u>	<u><u>50,513,360</u></u>

In the year ended 31 December, 2013, due to Ordinance 378-G/2013, 31 December, the retirement age changed from 65 to 66 for employees covered by Social Security. This change had a more significant impact on the liability related to the "Suspension of contracts, relocation and release of employment" where the increase in the liability was about 642 thousand Euros.

During the years ended on 31 December 2013 and 31 December 2012, the total costs for the period were recognised as follows:

	2013	2012
Staff costs/employee benefits (Note 36)		
Suspension of contracts, redeployment and release of employment	2,275,009	9,892,183
Telephone subscription charge	(8,448,346)	781,227
Pension for accidents at work	(430,809)	474,977
Monthly life annuity	(184,239)	607,189
Support for cessation of professional activity	46	(6,765,835)
subtotal	<u>(6,788,339)</u>	<u>4,989,741</u>
Interest expenses (Note 40)	1,754,156	2,813,375
	<u>(5,034,183)</u>	<u>7,803,116</u>

In 2012, as a result of the Company's decision to discontinue, as of 1 April 2013, the benefit referred to as "Support for cessation of professional activity" that had been granted to employees when they reach the end of its active life, the responsibilities associated to that benefit decreased, 6,563 thousand Euros.

As at 31 December 2013, the Board of Directors of CTT, decided to modify the economic benefit related to the Telephone Subscription Charge. Thus, from 1 January, 2014, the cash payment will be replaced by a benefit in kind.

The best estimate that Group has at this date for costs with other long-term benefits, which it expects to recognise in the next annual period of 2014 is 1,268 thousand Euros.

The sensitivity analysis done for the "Other long term benefits" plans leads to the conclusion that, if the discount rate was reduced by 50bps compared to the final discount rate on 31 December 2012, keeping everything else constant, this would give rise to an increase of liabilities for past services of approximately 3.1%, increasing to 36,262 thousand Euros.

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

For the years ended on 31 December 2013 and 31 December 2012, in order to face legal proceedings and other liabilities arising from past events, the Group recognised provisions, which showed the following movement:

	2013					Closing balance
	Opening balance	Increases	Reversals	Reduction	Transfers	
Non-current provisions						
Litigations	9,268,429	3,757,359	(3,595,059)	(1,269,365)	2,707,611	10,868,975
Investments in associated companies	220,816	-	-	(6,976)	-	213,840
Onerous contracts	13,212,379	1,844,338	-	(2,413,003)	-	12,643,714
Other provisions	13,894,565	4,387,527	(746,183)	(377,694)	(2,382,909)	14,775,306
	<u>36,596,189</u>	<u>9,989,224</u>	<u>(4,341,242)</u>	<u>(4,067,038)</u>	<u>324,702</u>	<u>38,501,835</u>

	2012 Restated					Closing balance
	Opening balance	Increases	Reversals	Reduction /Transfers	Closing balance	
Non-current provisions						
Litigations	8,504,959	4,809,960	(2,785,699)	(1,260,791)	-	9,268,429
Investments in associated companies	222,205	-	-	(1,389)	-	220,816
Onerous contracts	5,480,419	7,731,960	-	-	-	13,212,379
Other provisions	2,268,160	12,251,656	(74,344)	(550,907)	-	13,894,565
	<u>16,475,743</u>	<u>24,793,576</u>	<u>(2,860,043)</u>	<u>(1,813,087)</u>	<u>-</u>	<u>36,596,189</u>

The impacts of the restatement are detailed in Note 3.

The provision for investments in associated companies corresponds to the assumption by the Group of legal or constructive obligations regarding the associated company PayShop Moçambique, S.A..

The provisions for litigations are due to the liabilities raised from lawsuits brought against the Group and are estimated based on information from its lawyers.

Onerous Contracts

During the year ended 31 December 2013 the provision to cover the estimated of the net present value of the expenditure associated with onerous contracts was increased by 1,844,338 Euros. This value was obtained from the update of the parameters used in the 31 December 2012 and taking into consideration the following:

- Following the move to the Edifício Báltico, CTT released a set of 4 properties with long-term binding lease contracts vacant without operating occupancy. For the property located in Praça D. Luís was negotiated between the owner and CTT for the early termination of the lease contract, and CTT agreed to pay 50% of the discounted lease payments;
- For the remaining buildings (Avenida Casal Ribeiro, Praça dos Restauradores e Rua do Conde Redondo), we estimated the present value of the unavoidable costs to meet the obligations under the contract terms;
- The increase in liabilities, in 2013, follows the update of assumptions, including the discount rate.

As at 31 December 2013 and 31 December 2012 the provisioned amount for contracts is 12,643,714 and 13,212,379 Euros, respectively.

Other provisions

As at 31 December 2013 the Group increased the “Other provisions” in 3,9 million Euros, to cover any contingencies relating to employment litigation actions not included in the current court

proceedings, and related to differences in the basis of calculating holidays, holiday pay and Christmas bonus required by workers.

As at 31 December 2013 this provision amounts to 12,512,193 Euros (11,344,569 Euros in 2012).

As at 31 December 2013, in addition to the previously mentioned situations, this heading also included:

- the amount of 303,022 Euros for coverage of costs of dismantlement of tangible fixed assets and/or removal of facilities and restoration of the location.
- the amount of 417,952 Euros for tangible fixed assets in storage.
- the amount of 890,000 Euros, which arises from the assessment made by the management regarding the possibility of the enforcement of tax contingencies.

The net amount between increases and reversals of provisions was recorded in the Consolidated income statement under the headings “Provisions, net” and amounted to 5,647,982 Euros and 21,933,533 Euros as at 31 December 2013 and 2012, respectively.

Guarantees provided

As at 31 December 2013 and 31 December 2012 the Group had provided bank guarantees to third parties to the amounts as follows:

Description	2013	2012
Tribunais	754,399	1,030,991
Autoridade Tributária e Aduaneira	390,000	-
Lisboagás, S.A.	190,000	190,000
Autarquias	153,674	140,423
Sofinsa	91,618	91,618
Solred	80,000	80,000
Parc Logistics Zona Franca	77,969	77,969
Alfândega do Porto	74,820	74,820
Secretaria Geral do Ministério da Administração Interna	14,000	48,000
Autoridade Nacional da Segurança Rodoviária	-	43,223
ACT Autoridade Condições Trabalho	45,733	146,210
PT PRO - Serv Adm Gestao Part, S.A.	50,000	50,000
DRCAL Direcção Regional Contencioso Administrativo Lis	49,880	49,880
Record Rent a Car (Cataluña, Levante)	40,000	40,000
SetGás, S.A.	30,000	30,000
ANA - Aeroportos de Portugal	29,000	29,000
Santa Casa da Misericórdia de Lisboa	86,917	86,917
TIP - Transportes Intermodais do Porto, ACE	50,000	50,000
Ministério Educação	38,700	38,700
EPAL - Empresa Portuguesa de Águas Livres	21,433	21,433
Albert Vilella I Camprubi	-	16,800
Portugal Telecom, S.A.	16,657	16,657
SPMS - Serviços Partilhados do Ministério da Saúde	16,092	-
Poczta Polska Usługi Cyfrowe Sp	257,783	-
Secretaria-Geral do Ministério da Administração Interna	-	14,000
Petrogal, S.A.	10,774	10,774
Alquiler Nave Tarragona	7,155	7,155
TNT Express Worldwide	6,010	6,010
SMAS Torres Vedras	4,001	4,002
Infarmed IP	8,223	8,223
Instituto do emprego e formação profissional	3,718	3,718
Controlplan S.L	3,400	3,400
Junta de Extremadura	-	1,335
Inmobiliaria Ederkin	7,800	7,800
Instituto Infra-Estruturas Rodoviárias	3,725	3,725
Estradas de Portugal, EP	5,000	5,000
ARM - Águas e Resíduos da Madeira , SA	4,752	-
REN Serviços, S.A.	9,818	9,818
EMEL, S.A.	19,384	19,384
IFADAP	1,746	1,746
Casa Pia de Lisboa, I.P.	1,863	-
Martinez Estevez	3,000	3,000
Jose Luis Sanz Gomez	-	5,400
Gexploma	3,000	3,000
Consejería Salud	6,433	6,433
Universidad Sevilla	4,237	4,237
Fonavi, Nave Hospitalet	40,477	-
Outras entidades	2,735	4,597
	<u>2,734,022</u>	<u>2,503,494</u>

Guarantees for Contracts

According to the determinations in some lease contracts of the buildings occupied by the Company's services, having the Portuguese State ceased to hold the majority of the share capital of CTT-Correios de Portugal, S.A., bank guarantees on first demand must be provided.

Thus, all landlords have already requested the above mentioned bank guarantees, in the global amount of 12.5 million Euros, standing at the time the negotiations with the banks in course.

Contingent liabilities

According to the analysis made in the subsidiary Payshop, there are some potential risks associated with the activity and procedures implemented by the Company between 2010 and January 2013. It is our understanding that the risk associated with these contingencies is not probable, therefore no provision was recognised.

Commitments

As at 31 December 2013 and 31 December 2012 the Group has subscribed promissory notes amounting to approximately 670.6 thousand Euros and 1,012 thousand Euros, respectively, for various rental companies intended to secure complete and timely compliance with the corresponding lease contracts.

Additionally, there are contractual commitments related to tangible fixed assets and intangible assets that are detailed respectively in Notes 5 and 6.

28. ACCOUNTS PAYABLE

As at 31 December 2013 and 31 December 2012, the heading "Accounts payable" showed the following composition:

	2013	2012 Restated
Advances from customers	2,826,481	3,079,145
CNP money orders	202,301,462	186,169,916
Suppliers c/a	59,737,076	75,722,601
Invoices pending confirmation	8,816,225	2,350,705
Fixed assets suppliers	2,463,632	2,220,531
Invoices pending confirmation (fixed assets)	523,341	49,274
Rent of Concessions	201,424	1,101,323
Values collected on behalf of third parties	4,180,724	3,566,227
Postal financial services	107,689,039	72,417,788
Other accounts payable	3,218,635	2,537,648
	<u>391,958,039</u>	<u>349,215,159</u>

The impacts of the restatement are detailed in Note 3.

CNP money orders

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

Postal financial services

The increase in this heading arises, mainly, from values collected related to taxes, insurances, savings certificates and other money orders.

Suppliers, fixed assets suppliers

As at 31 December 2013 and 31 December 2012, the ageing of the balance of the headings “Suppliers, current c/a” and “fixed assets suppliers” is detailed as follows:

	<u>2013</u>	<u>2012</u>
Suppliers c/a		
Not due	19,936,179	27,128,387
0-30 days	5,219,465	3,585,391
30-90 days	4,789,328	5,918,453
90-180 days	2,653,581	2,959,006
180-360 days	7,521,660	7,591,006
› 360 days	<u>19,616,862</u>	<u>28,540,358</u>
	<u>59,737,076</u>	<u>75,722,601</u>
	<u>2013</u>	<u>2012</u>
Fixed assets suppliers		
Not due	2,121,192	1,555,840
0-30 days	118,356	277,472
30-90 days	48,355	177,096
90-180 days	6,840	8,240
180-360 days	128,539	129,148
› 360 days	<u>40,350</u>	<u>72,735</u>
	<u>2,463,632</u>	<u>2,220,531</u>

The current amount of Accounts payable overdue over 360 days is as follows:

	<u>2013</u>	<u>2012</u>
National account payable	4,739	2,269,360
Foreign operators	<u>19,612,123</u>	<u>26,270,998</u>
Total	<u>19,616,862</u>	<u>28,540,358</u>
Foreign operators - receivables	<u>(20,682,551)</u>	<u>(24,652,816)</u>

The balances between Foreign Operators are cleared by netting accounts. These amounts are related to the accounts receivable balances related to these entities (Note 14).

29. INCOME TAXES PAYABLE

As at 31 December 2013 and 31 December 2012 the heading “Income taxes payable” showed the following composition:

	<u>2013</u>	<u>2012</u>
Current liabilities		
Corporate income tax	93,968	862,444
	<u>93,968</u>	<u>862,444</u>

30. OTHER CURRENT LIABILITIES

As at the year ended on 31 December 2013 and the year ended 31 December 2012, the heading “Other current liabilities” showed the following composition:

	<u>2013</u>	<u>2012</u> Restated
Current		
Estimated holiday salary and holiday bonus	37,049,207	41,749,350
Estimated supplies and external services	13,425,256	10,220,456
State and other public entities		
Value added tax	3,280,693	3,002,406
Personal income tax with holdings	3,468,536	2,356,632
Social Security contributions	5,333,117	4,808,195
Caixa Geral de Aposentações	961,880	794,990
Local Authority taxes	512,055	638,169
Other taxes	77	-
Other	5,651,148	3,288,859
	<u>69,681,969</u>	<u>66,859,057</u>

The impacts of the restatement are detailed in Note 3.

31. FINANCIAL ASSETS AND LIABILITIES

As at 31 December 2013 and 31 December 2012, the categories of financial assets and liabilities were as follows:

	2013				
	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/liabilities	Total
Assets					
Other investments	-	130,829	-	-	130,829
Other non-current assets	1,951,139	-	-	-	1,951,139
Accounts receivable	135,589,645	-	-	-	135,589,645
Other current assets	10,676,882	-	-	6,425,554	17,102,436
Cash and cash equivalents	544,875,803	-	-	-	544,875,803
Total Financial Assets	693,093,468	130,829	-	6,425,554	699,649,851
Liabilities					
Medium and long term debt	-	-	3,282,126	-	3,282,126
Accounts payable	-	-	385,912,923	6,045,116	391,958,039
Short term debt	-	-	3,716,558	-	3,716,558
Cash and cash equivalents	-	-	19,076,404	50,605,565	69,681,969
Total Financial Liabilities	-	-	411,988,011	56,650,681	468,638,692
	2012				
	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/liabilities	Total
Assets					
Other investments	-	130,829	-	-	130,829
Other non-current assets	2,018,619	-	-	-	2,018,619
Accounts receivable	135,317,556	-	-	-	135,317,556
Other current assets	16,222,215	-	-	4,633,917	20,856,132
Cash and cash equivalents	489,303,463	-	-	-	489,303,463
Total Financial Assets	642,861,853	130,829	-	4,633,917	647,626,599
Liabilities					
Medium and long term debt	-	-	4,560,702	-	4,560,702
Accounts payable	-	-	343,598,366	5,616,793	349,215,159
Short term debt	-	-	6,857,361	-	6,857,361
Cash and cash equivalents	-	-	13,509,315	53,349,742	66,859,057
Total Financial Liabilities	-	-	368,525,744	58,966,535	427,492,279

The Group believes that the fair value of its financial assets and liabilities is similar to its book value.

32. SUBSIDIES OBTAINED

As at the year ended on 31 December 2013 and the year ended at 31 December 2012, the information regarding European Union subsidies or grants (Note 2.21) was as follows:

Subsidy	2013					2012				
	Attributed value	Value received	Value to be received	Accumulated income	Value to be used	Attributed value	Value received	Value to be received	Accumulated income	Value to be used
FEDER	9,815,622	9,662,306	153,316	9,442,724	372,898	9,815,622	9,662,306	153,316	9,431,523	384,099
	<u>9,815,622</u>	<u>9,662,306</u>	<u>153,316</u>	<u>9,442,724</u>	<u>372,898</u>	<u>9,815,622</u>	<u>9,662,306</u>	<u>153,316</u>	<u>9,431,523</u>	<u>384,099</u>

The values received are recognised in the Consolidated income statement, in the heading “Other operating income”, as the corresponding assets are amortised.

33. OTHER OPERATING INCOME

For the years ended on 31 December 2013 and 31 December 2012, the composition of the heading "Other operating income" was as follows:

	2013	2012 Restated
Own work capitalised	332,883	571,540
Supplementary revenues	3,424,447	3,447,161
Prompt-payment discounts obtained	162,619	233,016
Gains in inventories	25,840	91,211
Favourable exchange rate differences of assets and liabilities different from financing	3,490,736	2,392,451
Income from financial investments	563,426	668,924
Income from non-financial investments	1,959,175	2,700,837
Interests income and expenses - financial services	3,287,305	2,534,552
Other	1,531,895	2,253,499
	<u>14,778,326</u>	<u>14,893,191</u>

The impacts of the restatement are detailed in Note 3.

The interests related to the "Financial Services" segment began to be recognised under this caption when previously were included under "Interest income" (Note 2.20).

34. EXTERNAL SUPPLIES AND SERVICES

For the years ended on 31 December 2013 and 31 December 2012, the composition of the heading "External supplies and services" was as follows:

	2013	2012
Transportation of goods	66,325,292	67,173,532
Specialised services	63,713,719	62,282,158
Rents	36,660,569	38,866,377
Energy and liquids	15,798,613	15,972,445
Remuneration to postal operators	16,186,241	15,573,666
Other services	11,939,854	13,154,330
Communication	6,031,577	6,549,251
Agencing	5,903,553	7,054,046
Subcontracts	5,584,449	5,132,955
Cleaning, hygiene and comfort	4,137,874	4,370,399
Remuneration to postal Agencies	4,331,920	4,215,330
Insurance	2,778,918	2,665,587
Materials	1,794,286	1,569,255
Litigation and notary	384,779	244,754
Staff transportation	272,707	1,390,773
Royalties	214,231	201,370
	<u>242,058,580</u>	<u>246,416,228</u>

- (i) "Specialised services" refer in particular to the outsourcing contracts for the provision of IT services and the maintenance of IT equipment.

- (ii) “Transportation of goods” refers to costs with the transportation of mail in several ways (sea, air, surface).
- (iii) “Rents” refer to costs with leased facilities from third-parties and the operating lease of vehicles.
- (iv) “Postal operators” refer to costs with similar postal operators.
- (v) “Energy and liquids” refers mainly to diesel for goods vehicles used in the operating process.

In the year ended 31 December, 2013 is included in this item the amount of 4.8 million Euros related to the privatization process and strategic studies associated with the Express segment.

35. OPERATING LEASES

As at the years ended on 31 December 2013 and 31 December 2012, the Group maintained medium and long term liabilities in operating lease contracts of vehicles, with penalty clauses in the case of cancellation.

The total amount of the future payments relative to operating leases is as follows:

	<u>2013</u>	<u>2012</u>
Due within 1 year	8,901,867	9,100,531
Due between 1 to 5 years	16,433,847	8,509,807
Over 5 years	-	-
	<u>25,335,714</u>	<u>17,610,338</u>

The increase in the period between 1 and 5 years relates to the process of renewal of the vehicle fleet that is currently in progress.

During the years ended on 31 December 2013 and 31 December 2012, the costs incurred with operating lease contracts of 7,943,693 Euros and 7,563,379 Euros, respectively, were recognised under the caption "Rents" in the heading "Supplies and external services" of the Consolidated income statement.

The operating leases relates to leasing agreement of short duration, in which the lessor transfers the temporary use of the asset to a third party upon payment of an income or rental.

Lease payments are made monthly by equal amounts during the period of the lease agreement and the recognition of the rent is considered as an expense which will also be performed on a linear basis (straight-line basis).

There is no recognition of any leased asset, because the lease is a rental in substance and there is no evidence that demonstrate the lessee will obtain future economic benefits from the asset beyond the contract period.

The transfer of the legal ownership of the assets to the lessee at the end of the contract is not expected.

36. STAFF COSTS

During the years ended on 31 December 2013 and 31 December 2012, the composition of the heading "Staff Costs" was as follows:

	2013	2012 Restated
Board of Directors and Audit Board remuneration (Note 42)	1,253,044	866,964
Staff remuneration	244,542,405	254,148,054
Employee benefits	(4,068,949)	8,146,574
Indemnities	2,058,112	2,476,706
Social security charges	53,399,408	53,301,325
Occupational accident and disease insurance	2,795,986	2,117,496
Social welfare costs	12,986,712	12,063,295
Other staff costs	105,761	198,837
	<u>313,072,477</u>	<u>333,319,251</u>

In 2013, the interest associated with defined benefit plans are recognised under the caption "Interest expenses" (Note 40), whereas previously were included in "Staff costs", having been restated. The effects of the restatement are disclosed in Note 3.

The variation in the heading "Staff remunerations" is mainly a result of the reduction in the average number of employees working for the Company, although in the year ended 31 December, 2012, this item does not include the recognition of the cost of the Christmas bonus, in accordance with the provisions of the State Budget for 2012. However, includes responsibility for the payment of holiday pay because the regulation that suspended it on the Orçamento Geral do Estado de 2013 (Portuguese state budget law) was declared unconstitutional by the corresponding court.

The social welfare costs are almost exclusively composed by health costs supported by the company with active employees and costs related to Health and Safety at work.

The caption "Indemnities" includes the amount of 1,246,746 Euros related to compensations paid in proceedings for termination of employment contracts by mutual agreement.

During the years ended 31 December, 2013 and 31 December, 2012 the heading "Staff costs" includes the amounts of 838,647 Euros and 1,085,005 Euros, respectively, related to expenses with workers' representative bodies.

For the years ended on 31 December 2013 and 31 December 2012, the average number of staff of the Group was 12,904 and 13,756 employees, respectively.

Remuneration of the statutory bodies

As at the years ended on 31 December 2013 and 31 December 2012, the fixed and variable remunerations attributed to the members of the Statutory bodies of the different companies of the Group were as follows:

	2013				
	Board of Directors	Audit Board /Chartered Accountant	General Meeting of Shareholders	Executive officers	Total
Fixed remuneration	1,085,542	166,242	-	5,339,085	6,590,869
Variable remuneration	-	-	1,260	-	1,260
	<u>1,085,542</u>	<u>166,242</u>	<u>1,260</u>	<u>5,339,085</u>	<u>6,592,129</u>
	2012				
	Board of Directors	Audit Board /Chartered Accountant	General Meeting of Shareholders	Executive officers	Total
Fixed remuneration	648,156	217,838	-	3,916,196	4,782,190
Variable remuneration	-	-	970	-	970
	<u>648,156</u>	<u>217,838</u>	<u>970</u>	<u>3,916,196</u>	<u>4,783,160</u>

Regarding the year ending on 31 December 2012, and by joint order of the Ministries of Economy and Finance from 24 August 2012, a new Board of Directors was appointed for CTT- Correios de Portugal, S.A.. The previous Board had only 3 executive directors, since two directors from the previous Board of Directors had resigned.

37. IMPAIRMENT OF INVENTORIES AND ACCOUNTS RECEIVABLE

For the years ended on 31 December 2013 and 31 December 2012, the detail of “Impairment of inventories and accounts receivable, net” was as follows:

	2013	2012
Impairment losses		
Customers (Note 14)	4,413,997	2,888,988
Other accounts receivable (Note 18)	903,564	913,120
Inventories (Note 13)	33,529	83,575
	<u>5,351,090</u>	<u>3,885,683</u>
Reversals of impairment losses		
Customers (Note 14)	1,505,980	398,421
Other accounts receivable (Note 18)	147,512	435,819
INESC loan (Note 18)	58,030	41,450
Inventories (Note 13)	109,370	2,211,685
	<u>1,820,892</u>	<u>3,087,375</u>
Net movement of the period	<u>3,530,198</u>	<u>798,308</u>

38. DEPRECIATION/ AMORTISATION (LOSSES/REVERSALS)

For the years ended on 31 December 2013 and 31 December 2012, the detail of “Depreciations/ amortisation and impairment losses, net” was as follows:

	<u>2013</u>	<u>2012</u>
Tangible fixed assets		
Depreciation (Note 5)	19,281,488	19,936,066
Impairment losses (Note 5)	-	502,113
Intangible assets		
Amortisation (Note 6)	4,546,712	4,196,322
Investment properties		
Depreciation (Note 7)	782,537	1,313
Impairment losses (Note 7)	<u>1,104,392</u>	<u>-</u>
	<u>25,715,129</u>	<u>24,635,814</u>

39. OTHER OPERATING COSTS

For the years ended on 31 December 2013 and 31 December 2012, the breakdown of the heading "Other operating costs" was as follows:

	<u>2013</u>	<u>2012</u>
Taxes	924,465	1,121,873
Bad debts	177,112	115,956
Losses in inventories	206,330	669,968
Cost and losses from non-financial investments	587,836	9,180
Concession rent	196,240	1,101,936
Unfavourable exchange rate differences of assets and liabilities different from financing	3,664,931	2,358,136
Donations	813,664	972,906
Banking services	981,081	863,527
Default interest	645,388	634,784
Subscriptions	657,380	643,110
Insufficient estimated Income tax	18,142	4,156
Contractual penalties	103,296	1,361,938
Other costs	<u>1,705,069</u>	<u>1,750,223</u>
	<u>10,680,935</u>	<u>11,607,693</u>

40. INTEREST EXPENSES AND INTEREST INCOME

For the years ended on 31 December 2013 and 31 December 2012, the heading "Interest Expenses" had the following detail:

	2013	2012 Restated
Interest expenses		
Bank loans	177,576	484,839
Other interest	57,315	155,196
Unfavourable exchange rate differences of financing liabilities	2,602	-
Interest costs from employee benefits	11,619,156	16,091,375
Other interest costs	17,814	29,424
	<u>11,874,463</u>	<u>16,760,834</u>

As mentioned in Notes 3 and 36, the interest associated with defined benefit plans began to be recognised in "Interest expenses" when previously were included in "Staff costs", the comparative has been restated.

During the years ended on 31 December 2013 and 31 December 2012, the heading "Interest income" was detailed as follows:

	2013	2012 Restated
Interest income		
Deposits in credit institutions	7,763,801	11,806,240
Other supplementary income	107,758	575,418
	<u>7,871,559</u>	<u>12,381,658</u>

As mentioned in Notes 3 and 33, in 2013 the interest related to the "Financial Services" segment began to be included in "Other operating income", having the comparatives been restated.

41. INCOME TAX FOR THE YEAR

Companies with head office in Portugal are subject to tax on their profit through Corporate Income Tax ("IRC") at the normal tax rate of 25%, whilst the municipal tax is established at a maximum rate of 1.5% of taxable profit, and state surcharge is 3% of taxable profit above 1,500,000 Euros and 5% of taxable profit above 7,500,000 Euros (10,000,000 Euros in 2012). Tourline is subject to income taxes in Spain, through income tax (Impuesto sobre Sociedades - "IS") at a rate of 30%, and the subsidiary Corre is subject to corporate income tax in Mozambique ("IRPC").

Corporate income tax (IRC) is levied on the Group and its subsidiaries Postcontacto – Correio Publicitário, Lda., CTT – Expresso, S.A., Mailtec Holding, SGPS, S.A., Mailtec Comunicação, S.A., Mailtec Consultoria, S.A., Mailtec Processos, Lda., Payshop Portugal, S.A. ("Payshop"), and CTT GEST – Gestão de Serviços e Equipamentos Postais, S.A. ("CTT Gest"), through the Special Regime for the Taxation of Groups of Companies ("RETGS"). The remaining companies are taxed individually.

Reconciliation of the income tax rate

As at the years ended on 31 December 2013 and 31 December 2012, the reconciliation between the nominal rate and the effective income tax rate was conducted as follows:

	2013	2012 Restated
Earnings before taxes	83,253,185	52,832,173
Nominal tax rate	25.0%	25.0%
	20,813,296	13,208,043
Tax Benefits	(418,783)	(401,224)
Accounting capital gains	(2,158)	(65,807)
Tax capital gains	(164,575)	4,511
Equity method	(5,127)	(63,648)
Provisions not considered in the calculation of deferred tax	(186,546)	138,707
Impairment losses and reversals	209,890	67,647
Other situations, net	(1,028,997)	(197,343)
Adjustments related with - autonomous taxation	728,426	627,563
Adjustments related with - Municipal Surcharge	1,055,713	1,110,401
Adjustments related with - State Surcharge	2,784,895	2,975,184
Extraordinary investment tax credit	(841,698)	-
Excess estimated income tax	(796,437)	(539,131)
Income taxes for the period	<u>22,147,899</u>	<u>16,864,903</u>
Effective tax rate	<u>26.60%</u>	<u>31.92%</u>
Income taxes for the period		
Current tax	21,469,361	24,627,064
Deferred tax	1,474,975	(7,223,030)
Excess estimated income tax	(796,437)	(539,131)
	<u>22,147,899</u>	<u>16,864,903</u>

As at 31 December 2012, the heading “Excess estimated income tax” includes the amount of 439,432 Euros relative to the deferral of the claim regarding Corporate Income Tax 2008. As at 31 December 2013 the same heading includes the amount of 621,190 Euros related to the deferral of the claims regarding the amounts of Autonomous Taxation and Municipal and State Surcharge determined in the years 2008 to 2011.

Deferred taxes

As at the years ended on 31 December 2013 and 31 December 2012, the balance of deferred tax assets and liabilities was composed as follows:

	<u>2013</u>	<u>2012</u>
Deferred tax assets		
Employee benefits - health care	78,221,187	73,312,870
Employee benefits - other long term benefits	10,433,440	14,789,263
Deferred accounting capital gains	3,229,688	3,897,266
Impairment losses and provisions	8,651,941	8,549,846
Conversion adjustments - derecognition of inventories	77,821	157,216
Conversion adjustments - value deducted from staff debts	18,692	37,761
Tax losses carried forward	2,432,702	1,335,932
Impairment losses in tangible fixed assets	452,859	145,613
Other	126,926	2,770
	<u>103,645,256</u>	<u>102,228,537</u>
	<u>2013</u>	<u>2012</u>
Deferred tax liabilities		
Revaluation of tangible fixed assets before IFRS	4,288,852	4,529,436
Suspended capital gains	1,082,455	1,096,522
Other	110,571	114,275
	<u>5,481,878</u>	<u>5,740,233</u>

As at 31 December 2013, expected deferred tax assets and liabilities to be settled within 12 months amounts to 4,388,213 Euros and 258,355 Euros, respectively.

During the years ended on 31 December 2013 and 31 December 2012, the movements which occurred under the deferred tax headings were as follows:

	<u>2013</u>	<u>2012</u>
Deferred tax assets		
Opening balances	102,228,537	102,467,758
Effect on net profit	-	
Employee benefits - health care	1,757,201	1,440,341
Employee benefits - other long term benefits	(4,354,755)	371,714
Deferred accounting gains	(667,578)	(743,699)
Impairment losses and provisions	(105,163)	4,831,056
Impairment losses in tangible fixed assets	307,246	145,613
Derecognition of inventories	(79,395)	(81,228)
Value deducted from debts	(19,069)	(19,510)
Tax losses carried forward	1,358,869	853,543
Other	69,314	-
Effect on net profit		
Employee benefits - health care	3,150,049	(7,037,051)
Closing balance	<u>103,645,256</u>	<u>102,228,537</u>

	2013	2012
Deferred tax liabilities		
Opening balances	5,740,233	6,165,433
Effect on net profit		
Revaluation of tangible fixed assets before IFRS adoption	(240,583)	(282,320)
Suspended capital gains	(14,067)	(59,408)
Other	(3,705)	(83,472)
Closing balance	<u>5,481,878</u>	<u>5,740,233</u>

The tax losses carried forward are entirely related to the losses of the subsidiary Tourline in the years 2008, 2009, 2011, 2012 and 2013. These losses may be tax reported in the next 15 years, except the tax loss related to 2012 and 2013, which may be carried forward in the next 18 years.

The sensitivity analysis performed allows us to conclude that a 1% reduction in the underlying rate of deferred tax would imply an increase in the income tax for the period of about 3.7 million Euros.

SIFIDE

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

Regarding the expenses incurred with R&D during 2011, approximately amounting to 5,287,949 Euros, the Group will have the possibility of benefiting from a tax deduction estimated to be 2,553,349 Euros, however through notification on 16 April 2013 of the Certification Commission, the non-eligibility of the presented projects was confirmed.

Regarding the expenses incurred with R&D during 2012, approximately amounting to 97,792, the Group would have the possibility of benefiting from a tax deduction in IRC estimated as 8,913 Euros. According to the notification dated 16 January 2014 of the Certification Commission a tax credit of 3,885 Euros was attributed to CTT.

Regarding the expenses incurred with R&D during 2013, approximately amounting to 33,987, the Group will have the possibility of benefiting from a tax deduction in IRC estimated as 9,519 Euros.

Other information

Pursuant to the legislation in force, income tax returns are subject to review and correction by the tax authorities for a period of four years (five for Social Security), except when there have been tax losses, tax benefits have been received, or when inspections, claims or challenges are in progress, in which cases, depending on the circumstances, these periods are extended or suspended. Therefore, the Group's income tax returns after 2010 may still be reviewed and corrected, since the income tax returns prior to this date have already been inspected.

The Board of Directors of the Company believes that any corrections arising from reviews/inspections by the tax authorities of these income tax returns will not have a significant effect on the consolidated financial statements as at 31 December 2013.

42. RELATED PARTIES

According to the Group's internal rules on financial reporting, the parties related to the Group are the Portuguese State, through the Ministry of Finance, and other shareholders of companies in which the Group has a stake, the associated companies, joint ventures, and the members of the Board of Directors, the General Meeting, and the Statutory Audit Board.

The terms or conditions applied between the Group's companies and the related parties are, as a rule, substantially identical to those which are normally contracted, accepted and applied between independent entities in comparable operations.

During the years ended on 31 December 2013 and 31 December 2012, the following transactions took place and the following balances existed with related parties:

	2013				
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Parpública, SGPS	-	-	-	50,000,000	-
Other shareholders Group companies	-	-	-	-	-
Associated companies	-	(14,084)	19,493	-	29
Jointly controlled	44,671	56,932	238,808	-	61,107
Members of the	-	-	-	-	-
Board of Directors	-	-	-	-	1,218,108
General Meeting	-	-	-	-	1,260
Statutory Audit Board	-	-	-	-	128,636
Executive officers	-	-	-	-	5,339,085
	<u>44,671</u>	<u>42,847</u>	<u>258,301</u>	<u>50,000,000</u>	<u>6,748,225</u>
	2012				
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Ministry of Finance (a)	-	-	-	53,876,585	-
Other shareholders Group companies	-	-	-	-	-
Associated companies	2,894	34,198	9,923	-	127,775
Jointly controlled	40,654	14,920	246,672	-	183,662
Members of the	-	-	-	-	-
Board of Directors	-	-	-	-	648,156
General Meeting	-	-	-	-	970
Statutory Audit Board	-	-	-	-	217,838
Executive officers	-	-	-	-	3,916,196
	<u>43,548</u>	<u>49,118</u>	<u>256,595</u>	<u>53,876,585</u>	<u>5,094,597</u>

(a) CTT has availed of the exemption available in paragraph 25 of IAS 24, and therefore has not provided detailed disclosure of its transaction with the State of Portugal and related parties. A summary of the Group's transactions with the State of Portugal and its related parties is included below:

- 1- CTT sells and render services to the State of Portugal and various of it's related entities.□
- 2- CTT collets various payroll taxes and other taxes on behalf of the State of Portugal and its liable to Portuguese Corporate Tax on profits earned and to employes's Social Security Taxes on its payroll.
- 3- CTT accounts for VAT in Portugal.□
- 4- CTT Group incurs in costs as result of services provided by several State of Portugal related parties, namely:
 - Energy costs;
 - Water Supply costs;
 - Air transportation costs.

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

43. FEES AND SERVICES OF THE EXTERNAL AUDITORS

During the years ended on 31 December 2013 and 31 December 2012, the fees and services provided by the Group's external auditors were as follows:

	<u>2013</u>	<u>2012</u>
Parent Company		
Statutory accounts review services	79,525	81,320
Independent audit services	182,344	110,772
Other services	<u>501,214</u>	<u>18,612</u>
	<u>763,083</u>	<u>210,704</u>
Subsidiary companies		
Statutory accounts review services	61,328	59,180
External audit services	-	<u>19,165</u>
	<u>61,328</u>	<u>78,345</u>
	<u>824,411</u>	<u>289,049</u>

As at 31 December 2013, the caption "Other services" in the parent company includes the amount of 382,560 Euros related to the privatization process.

44. OTHER INFORMATION

The following situations do not represent probable liabilities and thus no amount was recorded as a provision for these items.

Company Agreement

After a long and demanding negotiation process, the Group reached an agreement with all the Trade Unions that took part in the negotiations for the signing of a New Company Agreement (AE).

Signing a single AE implies the simplification of management, affect the social atmosphere, and strengthen collective labour relations in the Group, which are fundamental elements for the new challenges in a context of full liberalisation. It also allowed the harmonisation of conditions among workers.

PUDO Network

CTT (Express and Parcels) is in a process of expanding its PUDO network (Pickup/Drop-off network) through a partnership with one of the largest retailers in Portugal (also with locations in Spain), which should allow CTT to provide extended opening hours and open new PUDO locations inside major shopping centres and neighbourhood supermarkets.

Citizen's Bureaux

CTT signed an agreement with the Government to set up Citizen Stores in the retail network, with a pilot project to start on 1 December, 2013 in the metropolitan area of Lisbon, and is set to extend to all CTT post offices in 2014. The Government intends to create 1,000 Citizen stores, and 625 will be in the post offices of CTT retail network.

In the new Citizen's Bureaux will be offered various services including renewal of driving licenses, applications for Social Security statements, certificates of land registration or exemption from property taxes ("IMI"), submission of IRS statements, students enrolments in schools, etc..

The economic model of operation will still be agreed between the parties, as well as operational issues and investment required.

BANIF

On 7 April 2006, Banco Internacional do Funchal (BANIF) brought an ordinary action against CTT – Correios de Portugal, which was personally cited on 27 June 2006, demanding the execution of the MoU (agreement principles) for the incorporation of Banco Postal and its subsidiary, if this condemnation is deemed non-enforceable, the obligation to indemnify BANIF for emerging damage and loss of profits, with the application amounting to 100,000,000 Euros plus accrued interest. As the Group's legal consultant believes, in a classification at three levels, from low to high probability, that BANIF's demands have little probability of receiving a favourable judgement, the Company decided not to record a provision for this possibility. Moreover, the period for Caixa Geral de Depósitos to exercise its right of preference terminated in January 2008.

In 12 January 2011, the court found that essential facts underlying the claims for compensation by BANIF were not proved, and the facts brought forth by CTT that contradicted the thesis defended by BANIF were proven. As sentenced on 2 December 2011, CTT was acquitted from the application lodged by BANIF, which appealed against this decision to the Court of Appeals of Lisbon, where the appeal is currently underway.

On 28 March 2013, via an application filed at the Court of Appeals of Lisbon, BANIF waived all its applications, including the appeal mentioned in the previous paragraph.

SNTCT

On 17 September 2012, CTT was summoned in a court case brought to the Labour Court of Lisbon by SNTCT (National Syndicate of Postal and Telecommunications Workers), demanding the Group to be sentenced to pay the amounts that, regarding its members, it had deducted or would deduct from the corresponding remunerations, holiday and Christmas bonuses for 2012 under articles 20 and 21 of Law no. 64-B/2011 (LOE 2012).

Through the sentence of 22 January 2013, CTT was acquitted from the application, and SNTCT appealed against this decision at the Appeals Court of Lisbon, which is still pending.

Legal Proceeding

Under the court case that took place in the 2nd Section of the Court of Coimbra, involving 3 former board members of CTT- Correios de Portugal, S.A, a decision was issued on the 11th June 2013,

which absolved the defendants of all crimes that they were being charged off and, consequently, CTT was not granted the request for civil indemnities that it had placed.

CTT's Board was made aware of this decision on 16 July, and decided not to appeal the decision, due to the belief of CTT's Lawyers that a favourable decision was not probable. The Group informed its shareholder of this decision, in case it wanted to give a different instruction. The court fees to be charged to CTT – Correios de Portugal, which should be between 207,570 Euros and 311,355 Euros, will be determined by the Judges in accordance with their view of the complexity of the process.

Postal Bank

On the 5th August 2013, CTT filed a formal request to the Bank of Portugal for a license to create a Postal Bank. The proposal foresees the creation of a postal bank supported by the current branches network and with a low level of investment.

The Bank of Portugal issued on 27 November, 2013, authorization for the creation of the postal bank, subject to a set of conditions and requirements, including the reaffirmation by the new shareholders of CTT that the project will be implemented in terms of what was submitted and assessed by the Bank of Portugal.

CTT has no obligation to create the postal bank, having only the option. Given that the terms of the notification of the Bank of Portugal and the strategy of CTT for the segment Financial Services (which does not include the creation of the postal bank in a short period of time), the Board of Directors of CTT decided on 28 November, 2013, to take no immediate action regarding the establishment of the postal bank.

CTT will evaluate the next steps to be taken in this matter, only in the year 2014 and in any event prior to the General Meeting of Shareholders will decide on the election of new members of the Board of Directors of the Company.

Health Care

In the report that accompanied the State Budget Law proposal for 2014, on 15 October, is mentioned that for the workers covered by CGA, the access to the CTT Health Care Plan (IOS) will be maintained while they are active workers in the company. After retirement, or immediately for those who are already retired, the State, through ADSE, will ensure the health care benefit.

However as at 31 December 2013 there was no agreement as to the completion of such transfer, nor as to the terms, conditions and amount, which depend on the negotiation between the state and CTT, thus cannot, CTT, determine their achievement.

45. SUBSEQUENT EVENTS

On 1 January, 2014 there was an update (increase) of prices and the respective discounts tables for the special prices (ordinary mail service in quantity, both domestic and international, also referred to as bulk mail) of the postal services which are included in the provision of universal service. This

update was partial and should be completed only when reviewing prices for the remaining universal postal services.

On 18 February, 2014 ANACOM approved the methodology for calculating the net cost of the universal service provided by CTT while provider of the universal service, and the concept of unfair financial burden with the purpose of compensating for the net cost of the universal postal service, as well as the terms for its determination.

On 11 March, 2014 CTT signed an Agreement for the purchase and sale of shares of the company EAD – Empresa de Arquivo de Documentação, S.A. (“EAD”). This Agreement between CTT and the other two shareholders of EAD aims to sell the current 51% share of CTT in EAD’s share capital for the price of €2.75 million, amount which includes the dividends for the fiscal year 2013.

Corporate accounts

CTT-CORREIOS DE PORTUGAL, S.A.

CORPORATE BALANCE SHEET AS AT 31 DECEMBER 2013 AND 31 DECEMBER 2012

Euro

	NOTES	31.12.2012	
		31.12.2013	Restated
ASSETS			
<u>Non-current assets</u>			
Tangible fixed assets	7	205,899,314	238,883,879
Investment property	8	21,761,886	1,368,943
Goodwill	9	25,083,869	25,083,869
Intangible assets	10	8,382,995	9,178,107
Investment in subsidiaries and associated companies	11	45,900,095	50,069,477
Investment in other companies	12	130,829	130,829
Accounts receivable from Group companies	6	13,302,473	13,477,473
Other accounts receivable	15	1,951,139	2,018,619
Deferred tax assets	38	100,849,449	100,673,390
Total non-current assets		423,262,049	440,884,586
<u>Current assets</u>			
Inventories	14	5,106,627	5,669,967
Accounts receivable	15	97,129,660	99,128,893
Accounts receivable from Group companies	6	744,621	384,147
Other accounts receivable	15	13,658,366	17,685,147
Deferrals	16	3,479,632	4,054,112
Cash and cash equivalents	4	528,519,241	471,348,513
Total current assets		648,638,147	598,270,779
Total assets		1,071,900,196	1,039,155,365
EQUITY AND LIABILITIES			
<u>Equity</u>			
Share capital	19	75,000,000	87,325,000
Legal reserves	20	18,072,559	18,072,559
Other reserves	20	12,325,000	10,555,947
Retained earnings	20	57,823,615	61,787,635
Adjustments in investments	20	25,543,850	25,317,659
Other changes in equity	20	24,810,903	33,352,062
Net income for the year		61,016,067	35,735,269
Total equity		274,591,994	272,146,131
<u>Liabilities</u>			
<u>Non-current liabilities</u>			
Provisions	23	37,915,283	35,868,024
Medium and long term debt	25	1,647,925	2,104,100
Employee benefits	26	278,484,455	281,919,352
Deferrals	16	8,475,340	10,874,369
Deferred tax liabilities	38	5,482,058	5,737,572
Total non-current liabilities		332,005,061	336,503,417
<u>Current liabilities</u>			
Accounts payable	27	56,871,632	66,833,187
Portuguese State and other public entities	28	12,078,644	10,916,154
Accounts payable to Group companies	6	244,953	549,952
Short term debt	25	456,263	3,449,018
Employee benefits	26	19,748,171	21,089,780
Other accounts payable	27	372,002,897	323,470,614
Deferrals	16	3,900,581	4,197,112
Total current liabilities		465,303,141	430,505,817
Total liabilities		797,308,202	767,009,234
Total equity and liabilities		1,071,900,196	1,039,155,365

The attached notes are an integral part of these financial statements

CTT- CORREIOS DE PORTUGAL, S.A.

CORPORATE INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2013 AND 31 DECEMBER 2012

Euro

	Notes	2013	2012 Restated
Sales and services rendered	30	524,797,466	532,213,596
Gains/losses from subsidiaries and associated companies	11	8,800,827	11,181,197
Own work capitalised		295,915	339,584
Cost of sales	14	(14,148,463)	(15,879,844)
Supplies and external services	32	(159,583,221)	(165,540,674)
Staff costs	33	(279,439,972)	(295,716,601)
Impairment of inventories, net	14, 18	71,182	2,211,685
Impairment of accounts receivable, net	15, 18	240,016	(610,418)
Provisions, net	23	(5,769,333)	(21,811,431)
Other operating revenues	31	45,406,125	46,899,659
Other operating costs	35	(9,253,199)	(9,939,763)
Earnings before interest, taxes, depreciation and amortisation		111,417,343	83,346,990
Depreciation and amortisation, net	34	(20,059,693)	(19,325,766)
Impairment of depreciable/amortisable assets, net	7	(1,104,392)	(502,113)
Operating income (earnings before interest and taxes)		90,253,258	63,519,111
Interest and similar income received	36	681,141	644,978
Interest and similar expenses	36	(11,662,948)	(16,199,924)
		79,271,451	47,964,165
Income tax	38	(18,255,384)	(12,228,896)
Net income for the year		61,016,067	35,735,269
Earnings per share	22	0.41	0.24

The attached notes are an integral part of these financial statements

CTT-CORREIOS DE PORTUGAL, S.A.

CORPORATE STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS ENDED ON 31 DECEMBER 2013 AND 2012

Euro

	Notes	Share capital	Legal reserves	Other reserves	Retained earnings	Adjustments in investments	Other changes in equity	Net income for the year	Total equity
Balance on 1 January 2012 (Restated)		87,325,000	15,236,949	10,555,947	63,704,243	24,864,526	16,131,349	55,260,391	273,078,403
CHANGES DURING THE PERIOD									
Realisation of revaluation reserve	20	-	-	-	-	-	-	-	-
Actuarial gains/losses - health care	20	-	-	-	-	-	17,228,642	-	17,228,642
Other changes in equity	20	-	-	-	(664,804)	453,135	(7,929)	-	(19,598)
		-	-	-	(664,804)	453,135	17,220,713	-	17,209,044
NET INCOME FOR THE PERIOD								35,735,269	35,735,269
COMPREHENSIVE INCOME								35,735,269	52,944,313
TRANSACTIONS WITH STAKEHOLDERS IN THE YEAR									
Appropriation of net income for the year of 2011	20	-	2,835,610	-	(1,451,804)	-	-	(1,383,806)	-
Distribution of dividends	21	-	-	-	-	-	-	(53,876,585)	(53,876,585)
		-	2,835,610	-	(1,451,804)	-	-	(53,876,585)	(53,876,585)
Balance on 31 December 2012 (Restated)		87,325,000	18,072,559	10,555,947	61,787,635	25,317,659	33,352,062	35,735,268	272,146,131
CHANGES DURING THE PERIOD									
Realisation of revaluation reserve	20	-	-	-	-	-	-	-	-
Actuarial gains/losses - health care	20	-	-	-	-	-	(8,530,822)	-	(8,530,822)
Other changes in equity	20	-	-	-	(255,235)	226,191	(10,338)	-	(39,383)
		-	-	-	(255,235)	226,191	(8,541,160)	-	(8,570,204)
NET INCOME FOR THE PERIOD								61,016,067	61,016,067
COMPREHENSIVE INCOME								61,016,067	52,445,863
TRANSACTIONS WITH STAKEHOLDERS IN THE YEAR									
Share Capital reduction	19	(12,325,000)	-	12,325,000	-	-	-	-	-
Appropriation of net income for the year of 2012	20	-	-	-	(2,818,861)	-	-	2,818,861	-
Distribution of dividends	20, 21	-	-	(10,555,947)	(889,924)	-	-	(38,554,129)	(50,000,000)
		(12,325,000)	-	1,769,053	(3,708,785)	-	-	(35,735,268)	(50,000,000)
Balance on 31 December 2013		75,000,000	18,072,559	12,325,000	57,823,615	25,543,850	24,810,903	61,016,067	274,591,994

The attached notes are an integral part of these financial statements

CTT-CORREIOS DE PORTUGAL, S.A.CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2013 AND 31 DECEMBER 2012

Euro

	Notes	2013	2012
<u>OPERATING ACTIVITIES:</u>			
Collection from customers		525,241,517	543,974,681
Payments to suppliers		(181,008,788)	(163,613,263)
Payments to staff		(277,404,185)	(261,353,094)
Cash flow generated by operations		<u>66,828,543</u>	<u>119,008,324</u>
Payment of income tax		(18,973,692)	(24,121,004)
Payment of other taxes		(9,595,584)	(8,712,189)
Other receivables/payments		61,109,260	24,653,306
		<u>32,539,984</u>	<u>(8,179,887)</u>
Cash flow from operating activities (1)		<u>99,368,527</u>	<u>110,828,436</u>
<u>INVESTING ACTIVITIES:</u>			
Receivables remeting from:			
Tangible fixed assets		820,569	787,162
Financial investments		58,030	41,450
Loans granted		-	56,219
Interest and related income		11,010,737	12,674,120
Dividends		12,942,029	19,015,461
		<u>24,831,364</u>	<u>32,574,412</u>
Payments remeting from:			
Tangible fixed assets		(8,160,100)	(15,837,647)
Intangible assets		(4,728,476)	(2,929,969)
Loans granted		-	(4,000,000)
		<u>(12,888,576)</u>	<u>(22,767,616)</u>
Cash flow from investment activities (2)		<u>11,942,788</u>	<u>9,806,796</u>
<u>FINANCING ACTIVITIES:</u>			
Receivables remeting from:			
Loans obtained		-	2,995,872
		<u>-</u>	<u>2,995,872</u>
Payments remeting from:			
Loans repaid		(2,995,872)	-
Finance leases - repayment of principal		(453,057)	(445,018)
Interest and related expenses		(691,657)	(741,260)
Dividends	20	(50,000,000)	(53,876,585)
		<u>(54,140,587)</u>	<u>(55,062,863)</u>
Cash flow from financing activities (3)		<u>(54,140,587)</u>	<u>(52,066,991)</u>
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		57,170,728	68,568,242
Cash and cash equivalents at the beginning of the year	4	471,348,513	402,780,271
Cash and cash equivalents at the end of the year	4	528,519,241	471,348,513

The attached notes are an integral part of these statements

CTT – CORREIOS DE PORTUGAL, S.A.

NOTES TO THE CORPORATE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2013

(AMOUNTS EXPRESSED IN EUROS)

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1 INTRODUCTION

1.1 CTT – Correios de Portugal, S.A.

CTT – Correios de Portugal, S. A. (“CTT, SA”, “Parent Company” or “Company”), with head office at Avenida D. João II, Lote 01.12.03, 1999-001 in Lisbon, had its origin in the “Administração Geral dos Correios Telégrafos e Telefones” government department designated and its legal form is the result of successive re-organizations carried out by the Portuguese state business sector in the Communications area.

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

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

At the General Meeting held on 30 October, 2013, the registered capital of CTT was reduced from 87,325,000 Euros to 75,000,000 Euros, being from that date onward represented by 150,000,000 shares, as a result of a stock split which was accomplished through the reduction of the nominal value from 4.99 Euros to 0.50 Euros.

For the year ended 31 December, 2013 CTT’s capital was opened to the private sector. Thus, and supported by Decree-Law No. 129/2013 of 6 September and the Resolution of the Council of Ministers (“RCM”) No. 62-A/2013, 10 October, RCM No. 62-B/2013 of 10 October and RCM No. 72-B/2013, 14 November, on 5 December, 2013 the first phase of the privatization of CTT’s capital took place. On this date, 63.64% of the shares of CTT (95.5 million shares) were transferred to the private sector, of which 14% (21 million shares) was sold in a Public Offering and 49.64% (74.5 million shares) by Institutional Direct Sale. On 31 December, 2013 the Portuguese State, through Parpública-Public Holdings, SGPS, SA held 30.00% by direct ownership and 6.36% by attribution, of the shares of CTT.

The shares of CTT are listed on Euronext Lisbon.

1.2 Activity

The main activity of CTT is the provision of postal services, which includes the provision of courier and parcel service in Portugal, and express service in Portugal and Spain. The Company also provides financial services in Portugal sustained in a network with high capillarity and

telecommunication services as mobile virtual network operator (MVNO) under the trade name "Phone-ix" supported in the Portugal Telecom network.

The postal service is provided by CTT under the Concession contract of the Universal Postal Service signed on 1 September, 2000 between the Portuguese State and CTT. In addition to the concessioned services, CTT can provide other postal services, as well as develop other activities, namely those which enable the use of the universal service network in a profitable manner, either directly or through incorporation or interests in companies or other forms of cooperation between companies. Among these activities the provision of services of public interest or general interest subject to conditions to be agreed with the State should be highlighted.

Following the amendments introduced by Directive 2008/6/EC of 20 February 2008 of the European Parliament and of the Council to the regulatory framework that governs the provision of postal services, it was transposed into national law in 2012 through the adoption of Law No. 17/2012, of 26 April ("new Postal Law"), with the amendments introduced in 2013 by Decree-Law No. 160/2013, of 19 November, revoking Law No. 102/99, of 26 July.

The new Postal Law establishes the legal regime for the provision of postal services in full competition in the national territory, as well as international services originating or terminating in the country.

Thus, as from the entry into force of the new Postal Law, the postal market in Portugal has been fully open to competition, eliminating areas within the universal service that were still reserved for the provider of the universal postal service CTT – Correios de Portugal, SA ("CTT"). However, on the grounds of the general interest, the following activities and services remained reserved: placement of 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.

According to the new Postal Law the universal postal service includes the following services, of national and international scope:

- A postal service for letter mail (excluding direct mail), books, catalogues, newspapers and other periodicals up to 2 kg;
- A postal service for postal parcels up to 10 kg, as well as delivery in the country of parcels received from other Member States of the European Union weighing up to 20kg;
- A delivery service for registered items and for insured items.

As a result of the new Postal Law, the Portuguese Government revised the basis of the concession, through the publication of Decree-Law No. 160/2013 of 19 November, after which the Fourth Amendment to the concession contract of the universal postal service was effected on 31 December, 2013.

Thus, the concession contract signed between the Portuguese State and CTT on 1 September, 2000, subsequently amended on 1 October, 2001, 9 September, 2003, 26 July, 2006 and 31 December, 2013, covers:

- The universal postal service as defined above;

- The reserved services: (i) the right to place mailboxes on public roads for the acceptance of mail, (ii) the issuance and sale of postage stamps with the word "Portugal" and (iii) the service of registered mail used in legal or administrative proceedings;
- The provision of special payment orders which allows the transfer of funds electronically and physically, at national and international level, designated by postal money order service, on an exclusive basis;
- Electronic Mailbox Service, on a non-exclusive basis.

As the Universal Postal Service incumbent operator, CTT remains the provider of universal postal services until 2020, ensuring the exclusivity of the reserved activities and services mentioned above.

Once the concession ends, in the event that it is not renewed, CTT may provide, together with any other operators, all the postal services they choose, in a system of free competition, in accordance with a strategic and commercial policy, excluding the services granted by concession on an exclusive basis.

In summary, in view of the legal and regulatory framework in force, CTT considers that there are no grounds for the introduction of any relevant change to the accounting policies of the Company.

The corporate financial statements attached herewith are expressed in Euros, as this is the currency mainly used by the Company.

2 ACCOUNTING STANDARDS USED TO PREPARE THE FINANCIAL STATEMENTS

The present financial statements were drawn up on a going concern basis from the Company's ledgers and accounting records kept in conformity with the standards of the Portuguese Accounting Normalisation System – “SNC” (Sistema de Normalização Contabilística), regulated by the following legal diplomas:

- Decree-Law No. 158/2009, of 13 July (Accounting Normalisation System) , as rectified by Declaration of Rectification No. 67-B/2009, of 11 September, and as amended by Law No. 20/2010, of 23 August;
- Implementing Order No. 986/2009, of 7 September (Financial Statement Models);
- Notice No. 15652/2009, of 7 September (Conceptual Structure);
- Notice No. 15655/2009, of 7 September (Accounting and Financial Reporting Standards);
- Notice No. 15654/2009, of 7 September (Interpretative Standards);
- Implementing Order No. 1011/2009, of 9 September (Code of Accounts).

The Accounting and Financial Reporting Standards ("NCRF"), which are an integral part of the SNC, were used for all aspects relative to recognition, measurement and disclosure. The financial statements were prepared using the financial statement models established in article 1 of Implementing Order No. 986/2009, of 7 September, namely the balance sheet, income statement, statement of changes in equity, cash flow statement and notes.

The SNC standards were used to prepare the financial statements for the first time in 2010, and became the reference basis for subsequent periods.

Pursuant to the Annex to Decree-Law No. 158/2009, the Company supplementarily applies the International Accounting Standards (IAS) adopted under Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, the International Accounting and Financial Reporting Standards ("IAS/IFRS") and their respective interpretations ("SIC/IFRIC") of the IASB, in order to address any gaps or omissions relative to aspects of some transactions or particular situations that are not covered by the SNC.

During the periods of 2013 and 2012, to which the present financial statements refer, there was no derogation of any provisions of the SNC which might have produced materially relevant effects and call into question the true and appropriate image of the information that was disclosed.

3 SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies adopted by the Company in the preparation of these financial statements are described below and were applied consistently.

3.1 Tangible fixed assets

Tangible fixed assets (Note 7) are initially recorded at acquisition or production cost. The acquisition cost includes: (i) the purchase price of the asset, (ii) the expenses directly imputable to the purchase, and (iii) the estimated costs of dismantlement or removal of the assets and restoration of the location (Notes 3.13 and 23). After their initial recognition, tangible fixed assets are measured at cost less any accumulated depreciation and accumulated impairment losses, when applicable. Under the exception of NCRF3 – First-time Adoption of the Accounting Financial Reporting Standards, the revaluation of the tangible assets made, in accordance with Portuguese legislation applying monetary indices, in the years prior to 1 January 2009, was maintained, for the purposes of the NCRF, and the revalued amounts were referred to as “deemed cost”.

Depreciation of tangible assets, minus their residual estimated value, is calculated in accordance with the straight line method, as of the month when they are available for use, during the useful life of the assets, which is determined according to their expected useful life. The depreciation rates that are applied correspond, on average, to the following estimated useful lives for the different categories of assets:

	<u>Years of useful life</u>
Buildings and other constructions	10 – 50
Basic equipment	4 – 10
Transport equipment	4 – 7
Tools and utensils	4
Office equipment	3 – 10
Other tangible fixed assets	5 – 10

Land is not subject to depreciation.

Depreciation terminates when the assets are re-classified as available for sale.

On each reporting date, the Company assesses whether there is any indication that an asset might be impaired. Whenever such indications exist, the tangible fixed assets are subject to impairment tests, where any reserve of the carrying value relative to the recoverable amount, should this exist, is recognised in the corporate income statement. The recoverable amount corresponds to the higher of an asset's fair value less costs to sell and its value in use.

Tangible fixed assets in progress correspond to tangible assets that are still under construction/production, and are recorded at acquisition or production cost. These assets are depreciated as of the month when they are in condition to be used for their intended purpose.

Costs related to maintenance and repair of current nature are recorded as costs for the period in which they are incurred. Major repairs which lead to increased benefits or expected useful life are recorded as tangible assets and depreciated at the rates corresponding to their expected useful life. Any replaced component is identified and written off.

Gains or losses arising from the divestment of tangible fixed assets, determined by the difference between the sales proceeds and the respective carrying value on the date of the divestment, are stated in the corporate income statement under the heading "Other operating revenues" or "Other operating costs".

3.2 Investment Property

Investment property is property (land or buildings) held by the Group to earn rentals or for capital appreciation or both, rather than for:

- a) use in the production or supply of goods or services or for administrative purposes, or
- b) sale in the ordinary course of business.

Investment property comprises mainly buildings that the Group did not allocate to the rendering of services by the company and holds to earn rentals or for capital appreciation.

An investment property is initially measured at its acquisition or production cost, including any transaction costs which are directly attributable to it. After its initial recognition, investment property is measured at cost less any accumulated depreciation and accumulated impairment losses, when applicable.

The depreciation rates are between 10 and 50 years.

The Company ensures the annual assessment of assets qualified as investment property, in order to determine any impairment and perform the required fair value disclosure.

Costs incurred in relation to investment property, namely with maintenance, repairs, insurance and property taxes are recognised as costs for the period to which they refer. Improvements which are expected to generate additional future economic benefits are capitalised.

3.3 Concentration of corporate activities and Goodwill

Investments in subsidiaries, joint ventures and associates are recorded at acquisition cost and subsequently measured by the equity method (Note 3.5).

At the date of acquisition of a subsidiary, jointly controlled entity or associate any excess of the acquisition cost compared with the identifiable fair value of the assets, liabilities and contingent liabilities of each acquired entity is considered goodwill (Note 9), in accordance with NCRF 14 – Business Combinations. Under the exception provided by NCRF 3 – First-time Adoption of the Accounting Financial Reporting Standards, the Company applied the provisions of NCRF 14 only to acquisitions that occurred after 1 January 2009. The goodwill values corresponding to acquisitions prior to 1 January 2009 were maintained, at the net amounts presented on that date.

Goodwill is not amortised, and its recoverable amount is assessed annually or whenever there is indication of an eventual loss of value. Impairment losses are recognised in the costs for the period. The recoverable amount is determined based on the value in use of the assets, and is calculated by using assessment methods based on cash flow discounting, considering market conditions, the time value and business risks. Impairment losses are not reversible.

In cases where the acquisition cost is less than the fair value of the acquired assets and liabilities, the difference is recorded as a financial gain in the income statement for the period when the acquisition takes place.

Whenever the cost of acquisition is less than the fair value of the acquired assets and liabilities, the difference is recorded as a financial gain in the income statement in the period in which the acquisition occurs after confirmation of the estimated fair value.

In the disposal of a cash generating unit, the corresponding goodwill is included in the determination of the capital gain or loss.

3.4 Intangible assets

Intangible assets (Note 10) are initially recorded at acquisition cost. After their initial recognition, intangible assets are measured at cost less any accumulated amortisation and impairment losses, when applicable. Intangible assets are only recognised when it is probable that they will result in future economic benefits for the Company, and when they can be measured reliably.

Intangible assets are essentially composed of expenses related to patents, software (whenever this is separable from the hardware and associated to projects where the generation of future economic benefits is quantifiable), licenses and other user rights. Also included are expenses related to the development of R&D projects whenever the intention and technical capacity to complete this

development is demonstrated, for the purpose of the projects being available for marketing or use. Research costs incurred in the search of new technical or scientific knowledge or aimed at the search of alternative solutions, are recognised through profit or loss when incurred.

Intangible assets are amortised through the straight line method, as of the month when they are available for use, during their expected useful life, which varies between 3 and 20 years:

	<u>Years of useful life</u>
Development projects	3
Industrial property	3 – 20
Computer programmes	3 – 10

The exceptions to the above are assets relative to industrial property which are amortised over the period of time during which their exclusive use takes place, and intangible assets with undefined useful life, which are not amortised, but, rather, are subject to impairment tests on an annual basis or whenever there is indication that they might be impaired.

The Company performs impairment testing whenever events or circumstances indicate that the carrying amount exceeds the recoverable amount, with the difference, if any, being recognized in the income statement. The recoverable amount is determined as the higher of its net selling price and value in use, which is calculated based on the present value of estimated future cash flows that are expected to be derived from continuing use of the asset and its disposal at the end of its useful life.

Gains or losses arising from the divestment of intangible assets are determined by the difference between the sales value and their carrying value on the date of the divestment, and are stated in the Corporate Income Statement as "Other operating revenues " or "Other operating costs ".

3.5 Foreign currency transactions and balances

Transactions in foreign currency (a currency different from the Company's functional currency) are recorded at the exchange rates in force on the transaction date. Assets and liabilities in foreign currency for which there is no agreement on the determination of the exchange rate are converted to Euros at the exchange rates in effect at the reporting date.

Favourable and unfavourable currency conversion differences arising from differences between the exchange rates in force on the transaction dates and those in force on the collection, payment or reporting date are recorded as "Other operating revenues" or "Other operating costs" in the corporate income statement for the period (Notes 31, 35, and 37).

Positive currency conversion differences regarding financing activities are recorded in the corporate income statement as "Interest and similar income" and negative differences as "Interest and similar expenses" (Notes 36 and 37).

The exchange rates used in the translation of the financial statements expressed in foreign currency are for the consolidated balance sheet, the closing exchange rates and, in the case of the consolidated income statement, the average exchange rate of the period.

The following exchange rates were used in the conversion of the balances, transactions and financial statements in foreign currency (X foreign currency for 1 Euro):

	2013		2012	
	Close	Average	Close	Average
Mozambican Metical (MZM)	41.24000	39.66750	39.24000	36.56000
United States Dollar (USD)	1.37910	1.32815	1.31940	1.31990
Special Drawing Right (SDR)	1.11732	1.14440	1.16583	1.17373

Source: Bank of Portugal

3.6 Investments in subsidiaries, associates and other companies

Investments in which the Company holds control, usually represented by more than half the voting rights (subsidiary companies), in which it exercises a significant influence, usually where the investment represents between 20% and 50% of the voting rights (associated companies), or those it controls jointly with other entities, are recorded in the balance sheet under Investment in subsidiaries and associated companies, at acquisition cost and are measured subsequently by the equity method (Note 11).

In accordance with the equity method, investments are initially recorded at cost and subsequently adjusted by the value corresponding to the investment in the income statement of the subsidiary, joint ventures or associated companies, against “Gains/losses from subsidiaries and associated companies”, and through other changes in equity against “Adjustments to financial assets in investments”. Additionally, investments may also be adjusted through the recognition of impairment losses. Whenever there are indications that the assets may be impaired, assessments are carried out and the existing impaired losses are recorded as costs in the corporate income statement.

The net income of subsidiaries, which have been acquired or disposed of during the period, are included in the income statement, from the acquisition date until their respective disposal date.

Whenever losses in associated or subsidiary companies exceed the investment made in these entities, the carrying value is reduced to zero and the recognition of future losses is discontinued, except in what concerns the part in which the Company incurs in any legal or constructive obligation of assuming all those losses in the name of the associated or subsidiary company, in which case a provision is recorded (Note 23).

Dividends received from subsidiary and associated companies are recorded as a decrease in value of the Investment in subsidiaries and associated companies.

When the impairment losses recognized in previous years no longer exist, they are subject to reversal, with the exception of those related to goodwill.

Unrealized gains and losses on transactions with subsidiaries, jointly controlled entities and associates are eliminated in proportion to the Company's interest in the subsidiary, jointly controlled entity or associate, against the investment in said subsidiary, jointly controlled entity or associate entity. Unrealised losses are eliminated similarly but only to the extent that the loss does not show that the transferred asset is impaired.

Financial investments are recorded in Investment in subsidiaries and associated companies at acquisition cost (Note 12). Whenever there are indications that assets may be impaired, an assessment of those investments is carried out, and if there is an impairment loss, this is recorded as "Impairment of others assets, net". Dividends received from companies thus classified are recorded in the income statement for the period when their distribution is decided and announced.

3.7 Impairment of tangible and intangible assets, except goodwill

The Company carries out impairment tests on its tangible and intangible fixed assets, whenever any event or situation occurs which may indicate that the amount by which the asset is recorded might not be recovered. In case of any such indication, the Company estimates the recoverable amount of the asset, in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, then the recoverable amount of the cash generating unit to which the asset belongs is estimated.

The recoverable amount of the asset or cash generating unit is the higher between (i) its fair value less costs to sell and (ii) its value in use. The fair value is the price that would be received, for the sale of an asset, in a transaction between market participants at the measurement date. The value in use arises from the future and estimated cash flows discounted from the assets during the estimated useful life. The discount rate used in updating the discounted cash flows reflects current market assessments of the time value of money and the specific risk of the asset.

Whenever the carrying amount of the asset or cash generating unit is higher than its recoverable amount, an impairment loss is recognised. The impairment loss is recorded in the corporate income statement.

The reversal of impairment losses recognised in previous years is recorded whenever there is evidence that the recognised impairment losses no longer exist or have decreased, being recognised in the corporate income statement. However, the reversal of the impairment loss is made up to the amount that would have been recognised (net of amortisation or depreciation) if the impairment loss had not been recorded in the previous years, and is recognised as revenues in the income statement.

3.8 Financial instruments

A financial instrument is an agreement which gives rise to a financial asset at an entity or a financial liability or equity instrument at another entity.

Financial assets and liabilities are recognised in the balance sheet when the Company becomes a party in the corresponding contractual provisions. A financial asset is any asset, whether money or a contractual right to receive money. A financial liability is any liability which is embodied in a contractual obligation to deliver money.

The Company's financial assets are basically its Customers and other accounts receivable, Cash, and Cash equivalents. The financial liabilities are fundamentally its Debt and suppliers and other accounts payable. The financial assets and liabilities are measured on the reporting date at cost or amortised cost less any impairment loss, where amortised cost is determined through the effective interest rate method. The effective interest is calculated through the rate that exactly discounts the estimated future cash flows over the expected life of the financial instrument to the net carrying value of the financial asset or financial liability.

An equity instrument is defined as any agreement which provides evidence of an interest in the Company's assets after deducting all of its liabilities. Equity instruments are basically Company shares, supplementary and additional capital payments, whenever they comply with the concept of an equity instrument.

Accounts receivable

The balances of customers and other debtors constitute the accounts receivable derived from services rendered by the Company during normal business activity (Note 15). When it is expected that their collection will occur within one year or less, they are classified as current assets. Otherwise, they are classified as non-current assets.

Accounts receivable that are classified as current assets have no implicit interest and are stated at their respective nominal value, net of any allowances for impairment losses, calculated essentially based on the aging of the accounts receivable. Impairment losses identified are charged to the income statement and the charge is subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

Accounts receivable classified as non-current assets are measured at their respective amortised cost, determined in accordance with the effective interest rate method. When there is evidence that they are impaired, the corresponding loss is recorded in the income statement.

Their de-recognition only occurs when the contractual rights expire.

Cash and cash equivalents

The amounts included under the heading of cash and cash equivalents correspond to cash, sight deposits, time deposits and other cash investments which are repayable on demand with insignificant risk of change of value. If their maturity is less than 12 months, they are recognised under current assets; otherwise, and even where there are restrictions to their availability or withdrawability, they are recognised under non-current assets. These assets are measured at amortised cost. Usually, their amortised cost does not differ from the nominal value.

For the purposes of the cash flow statement, the heading "Cash and cash equivalents" does not include the bank overdrafts reported in the balance sheet under "Debt" (Note 4).

Debt

Debt (Note 25) is recorded at cost or at amortised cost. Amortised cost is determined by the effective interest rate method. They are expressed in current or non-current liabilities, depending on whether their maturity is less or more than a year, respectively. Their de-recognition only occurs when the obligations arising from contracts terminate, namely when their full payment, cancellation or expiry has taken place.

Financial charges are calculated according to the effective interest rate and recorded in the income statement according to the accrual basis principle, and the due and unpaid amounts as at the reporting date are classified under “Other accounts payable”(Note 27).

Accounts payable

The balances of suppliers and other accounts payable (Note 27) are liabilities relative to the acquisition of goods or services by the Company during normal business activity. If their payment falls due within one year or less, then they are classified as current liabilities. Otherwise, they are classified as non-current liabilities.

Accounts payable classified as current liabilities are recorded at their nominal value.

Accounts payable classified as non-current liabilities, for which there is no contractual obligation to pay interest, are measured at their respective amortised cost, determined in accordance with the effective interest rate method.

Their de-recognition only occurs when the obligations arising from agreements terminate, namely when their full payment, cancellation or expiry has taken place.

Equity instruments

An equity instrument is only recognised when it is issued and underwritten. If an equity instrument is issued and underwritten, and if the funds are not provided, the amount receivable is stated as a deduction from equity.

Should the Company acquire its own equity instruments, these instruments are recognised as a deduction from equity.

Costs related to the issue of new shares are recognised directly in the share capital as a deduction from the cash inflow.

The costs related to an issue of equity which has not been concluded are recognised as expenditure in the income statement.

3.9 Inventories

Goods and raw materials, subsidiary materials and consumables (Note 14), are valued at the lowest cost between the acquisition cost and net realizable value, using the weighted average cost as the method of valuing warehouse outputs.

Net realizable value corresponds to the normal selling price less costs to complete production and costs to sell.

Whenever cost exceeds net realizable value, the difference is recorded in the operating cost caption "Impairment of inventories (losses/reversals).

The inventory system used in the Company is the perpetual inventory system.

3.10 Non-current assets available for sale and discontinued operations

Non-current assets, namely tangible fixed assets and equity holdings, are classified as available for sale (Note 17) if the corresponding value can be achieved through its sale and not its continuous use. It is considered that this situation occurs only when: (i) the sale is highly probable and the asset is available for immediate sale in its present condition, (ii) the Company has made a commitment to sell, and (iii) the sale is expected to be completed within a 12-month period.

Non-current assets, which are classified as available for sale, are measured at the lower of their carrying amounts before this classification and fair values less expected sale costs. Whenever the fair value is less than the carrying value, the difference is recognised in "Impairment of depreciable/amortisable assets, net" or in "Impairment of non-depreciable assets, net"

Non-current assets available for sale are shown on a separate line of the balance sheet.

Non-current assets are not, under any circumstances, subject to depreciation or amortisation.

If an asset no longer meets the requirements to be classified as held for sale, this classification must cease and its value must be stated as the lowest of: (i) the carrying value before the classification as available for sale, adjusted by any depreciation or amortisation that would be made if it had not been classified as such; and, (ii) the recoverable amount at the date of the subsequent decision not to sell. Any adjustment is recognised through the corporate income statement.

A discontinued operation is a component of the Company that has been sold or classified for sale, and (i) represents an important separate business line or operational geographic area, or (ii) is part of a single coordinated plan to sell an important separate business line or operational geographic area.

The earnings of discontinued operations are shown on a separate line in the income statement, after the net income for the period.

3.11 Earnings per share

Earnings per share (Note 22) are calculated by dividing the profit attributable to the shareholders by the weighted number of ordinary shares in circulation during the period.

However, if there is a change in the number of shares that does not imply the input or output of Company funds, the calculation of earnings per share will take into consideration the number of shares existing today.

3.12 Distribution of dividends

The distribution of dividends, when approved at the General Meeting of the Company, and until the shareholders are paid, is recognised as a liability (Note 21).

3.13 Provisions and contingent liabilities

Provisions (Note 23) are recognised when, cumulatively: (i) the Company has a present obligation (legal or implicit) arising from a past event, (ii) it is probable that its payment will be demanded, and (iii) there is a reliable estimate of the value of this obligation.

The amount of the provisions corresponds to the present value of the obligation, with the financial updating being recorded as a financial cost under the heading "Interest and similar expenses" (Note 36).

The provisions are reviewed on every reporting date and are adjusted in order to reflect the best estimate at that date.

Whenever losses in subsidiary or associated companies exceed the investment made in these entities, the carrying value is reduced to zero and the recognition of future losses is discontinued, except in what concerns the part in which the Company incurs in any legal or constructive obligation to assume all these losses on behalf of the associated or subsidiary company, in which case a provision is recorded for investments in subsidiaries and associated companies.

Restructuring provisions are created whenever a detailed formal restructuring plan has been approved by the Company and it has been launched or publicly disclosed.

Provisions are made for dismantling costs, costs of removal of the asset and costs of restoration of the site of certain assets, when these assets are in use and it is possible to reliably estimate the respective obligation, or when there is a contractual commitment to restore the spaces rented by third parties.

A provision for litigation in progress is recorded when there is a reliable estimate of costs to be incurred due to legal actions brought by third parties, based on the evaluation of the probability of having to pay based on the opinion of the Company's lawyers.

Whenever any of the conditions for the recognition of provisions is not met, the Company discloses the events as contingent liabilities (Note 23). Contingent liabilities are: (i) possible obligations which arise from past events and whose existence will only be confirmed by the occurrence, or not, of one or more future events that are uncertain and not fully under the Company's control, or (ii) present obligations which arise from past events, but which are not recognised because it is not probable

that an outflow of resources which incorporate economic benefits will be necessary to settle the obligation, or the value of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed unless the possibility of an outflow of resources is remote.

3.14 Leases

Leases are classified as financial or operating according to the substance of the transaction and not the form of the contract. Leases are classified as financial whenever their terms imply the substantial transfer, to the lessee, of all the risks and advantages associated to the ownership of the asset (Note 25). All other leases are classified as operating (Note 24).

Tangible assets acquired through financial leasing contracts, as well as the corresponding liabilities payable to the lessor, are recorded in the balance sheet at the beginning of the lease at the lower of the fair value of the assets and the present value of the minimum lease payments. The discount rate to be used should be the rate implicit in the lease. If this rate is not known, then the Company's funding rate for this type of investment should be used. The policy of depreciation of these assets follows the rules applicable to tangible fixed assets owned by the Company. The interest included in the rents and amortisation of fixed tangible assets are recognised in the income statement for the period to which they refer.

For operating leases, the instalments that are owed are recognised as a cost in the income statement, during the lease period (Note 32).

3.15 Employee benefits

The Company adopts as accounting policy for the recognition of its liability for the payment of post-retirement health care and other benefits, the criteria set out in NCRF 28 - Employee Benefits, namely the use of the projected unit credit method (Note 26).

In order to obtain an estimate of the value of the liabilities (present value of the defined benefit obligation) and the cost to be recognised in each period, an annual actuarial study is prepared by an independent entity under the assumptions considered appropriate and reasonable. The "present value of defined benefit obligation" is recorded as a liability under "Employee benefits".

As at 31 December 2012, CTT, SA early adopted the amendments set out in IAS 19, and, as a result, the actuarial gains and losses are fully recognised, in Equity, contrary to the procedure that occurred in previous years, when these were deferred and amortised for the estimated average period of future services provided by the employees until their retirement age. In the case of actuarial gains and losses on other long-term benefits, not post-employment, they are recognized in the income statement as they occur.

IAS 19 does not specify whether interest expense in respect of defined benefit obligations should be presented as staff costs or financial costs. Most European postal operators present interest expense as financial costs, and accordingly CTT, as at 31 December 2012, reclassified the interest expense in

respect of defined benefit obligations, to financial costs in order to ensure comparability with the majority of its peers.

Retirement pensions of the staff integrated in “Caixa Geral de Aposentações” (“CGA”)

Decree-Law No. 246/2003 of 8 October transferred to CGA, as of 1 January 2003, the liability for retirement pensions due to retired and current personnel covered by that entity, and so, this Decree-Law extinguished the CTT, S.A. Personnel Pension Fund. Upon extinction of the fund, as determined by the same law, the Company transferred to CGA and to the General Directorate of the Treasury, the value of the respective assets, reported to 1 January 2003, plus the respective incomes until the date of its effective delivery, in December 2003.

Post-employment benefits - health care

Workers who are integrated in CGA and workers who are beneficiaries of Social Security, (recruited as permanent staff of the Company after 19 May 1992 and up to 31 December 2009) are entitled to the health care benefits established in the CTT Social Work Regulation. These benefits are extended to all permanent workers of the company, whether they are still working, or if they are pensioners, or in a situation of pre-retirement or retirement.

Workers hired by the company after 31 December 2009, are only entitled to the benefits provided for in the Social Work Regulation while they remain bound to the Company by an individual employment contract, having no right to a pension, pre-retirement or retirement.

Health care benefits include contributions to the cost of medication, medical, surgical and nursing services, as well as auxiliary diagnostic means and hospital services, as defined in the CTT Social Work Regulation.

The funding of the post-employment health care plan is ensured mostly by the Company, and the remaining costs are covered by the fees paid by the beneficiaries.

The maintenance of the post-employment health plan benefits requires that the beneficiaries (retirees and pensioners) pay a fee corresponding to 1.5% of their respective pension. For each family member enrolled a fee is also paid, corresponding to 1.5% or 2% of the pension, depending on the percentage of the amount of the pension. In certain special situations, an exemption from the payment of the fee may be granted, either for the beneficiaries or for family members.

The management of the health care plan is ensured by the IOS – Instituto das Obras Sociais (Institute of Social Work), which in turn hired Portugal Telecom – Associação de Cuidados de Saúde (Health Care Association) (“PT-ACS”) to provide health care services.

Other long term benefits

CTT also assumed a series of constructive obligations to certain groups of workers (Note 26), namely:

- Suspension of contracts, redeployment, pre-retirement contracts, and release from employment

The liability for the payment of salaries to employees in the abovementioned situations or equivalent, are fully recognised at the time they move into these conditions.

- Telephone subscription charges

CTT has assumed the obligation of the life-long payment, to a closed group of retired workers and surviving spouses (7,680 beneficiaries as at 31 December 2013, and 8,117 beneficiaries as at 31 December 2012), of the telephone rental charges, for a monthly amount of 15.30 Euros.

During the year ended on 31 December 2013, the Board of Directors of CTT decided to replace this payment with an equivalent measure. Thus, from 1 January, 2014, the cash payment will be replaced by a benefit in kind.

- Pensions for accidents at work

The liabilities related to the payment of pensions for accidents at work is restricted to workers integrated in CGA.

The Company also supports other liabilities arising from accidents at work suffered by these workers.

According to the legislation in force concerning employees integrated in CGA, CTT is liable for the costs incurred with pensions that have been attributed for damages resulting from accidents at work, and which have resulted in permanent handicap or death of the worker. The value of these pensions is updated pursuant to a legal diploma. Currently, because it is not considered as economically justifiable, no insurance policy has been taken out to meet these liabilities. As at 31 December 2013 and 31 December 2012 there were 67 and 66 beneficiaries, respectively, receiving this type of pension.

- Monthly life annuity

This is an annuity provided for in the family benefits legal system set out in D.L. No. 133-B/97 of 30 May, as amended by the Declaration of Rectification No. 15-F/97, of 30 September, amended by D.L. No. 248/99, of 2 July, D.L. No. 341/99 of 25 August, D.L. No. 250/2001 of 21 September, and D.L. No. 176/2003, of 2 August.

Beneficiaries are workers, still working or retired, who have descendants over 24 years old, with physical, organic, sensorial, motor or mental disabilities, who are in a situation that prevents them from normally providing for their subsistence through the exercise of professional activity. In the case of beneficiaries integrated in the CGA, the cost of the monthly life annuity is the responsibility of CTT. As at 31 December 2013 there were 48 beneficiaries under these conditions, (51 beneficiaries as at 31 December 2012), receiving a monthly amount of 176.76 Euros, 12 months a year. This value is updated by Implementing Order of the Ministry of Finance and the Ministry of Labour and Social Security.

- Support for termination of professional activity

This benefit is granted to employees who retire with at least 5 years of seniority at the Company. Its amount depends on the seniority on the retirement date. As at 31 December 2012, the table in force determined a maximum amount of 1,847.16 Euros for 36 or more years of service. In 2012, the Board of Directors decided to discontinue the compensation awarded to the workers who have reached the end of their active life at the service of CTT, SA. It has also ruled that, in situations of disconnection and reform that may occur as a result of the requests for retirement submitted until 31 March, 2013, the benefit referred to above would be maintained (Note 26).

The main financial and demographic assumptions used in calculating these liabilities, namely the discount rate, the mortality and disability rates, are the same as those used in the actuarial assessment of the CTT health care plan.

3.16 Revenues

The revenue relative to sales, services rendered, royalties, interests and dividends (from investments not stated by the equity method), arising from the Company's normal business activity is measured at the fair value of the consideration that has been or will be received, which is defined as the sums established freely between the contractual parties on an independent basis, where, in relation to sales and services rendered, their fair value reflects any discounts granted and does not include Value Added Tax (Notes 30, 31, and 36).

The recognition of revenue requires that (i) it is probable that the economic benefits associated to the transaction will flow into the Company, (ii) the amount of the revenue may be measured reliably, (iii) the costs that have been or will be incurred with the transaction may also be measured reliably, and (iv) the stage of completion of the services rendered/transaction can be measured reliably, in the case of the services rendered being recognised based on percentage completion.

Revenue from the sale of merchandising products and from postal business is recognised when the risks and benefits of ownership of the products are transferred to the buyer, which usually occurs at the time of the transaction.

The revenue from rendering postal services is recognised at the moment the customer requests the service, since CTT has no information that would allow a reliable estimate of the amount concerning the deliveries not made on the date of the balance sheet, although it is understood that this issue is not materially relevant, as the date of the service request does not significantly differ from the date of delivery.

The prices of the services rendered within the scope of the concession of the Universal Postal Service have been subject to regulation under the Price Agreement signed between CTT and ICP-ANACOM.

Fees from collections made and from the selling of financial products are recognised on the date that the client is charged. Only the fee from collections charged by CTT is recognised as revenue, as CTT acts as an agent.

Revenue for Post Office Boxes is recognized over the period of the respective contracts.

Revenue from the recharging of prepaid mobile phone services is deferred and recognised in earnings, according to the traffic of the specific client, during the period when the service is rendered.

Revenue and costs relative to international mail services, estimated based on surveys and indices agreed with the corresponding postal administrations, are recognised in provisional accounts in the month that the traffic occurs. Differences between the estimated and definitive amounts determined

in agreement with these administrations, which are not usually significant, are recognised in the income statement when the accounts become definitive.

Revenue concerning royalties is recognised under the accrual method, according to the substance of the respective contracts, provided it is probable that economic benefits will flow to the Group and their costs may be measured reliably.

Revenue from interest is recognised using the effective interest rate method, provided that it is probable that economic benefits will flow to the Company and their amount can be measured reliably.

CTT registers a portion of the interest received from deposits in other operating income, specifically interest from short-term deposits in the Financial Services segment. CTT considers the temporary investment of funds received and to be paid to third parties as one of the main operational objectives of its Financial Services segment. In the cash flow statement, this portion of interest is recognised as operational cash flows.

Revenue from dividends, arising from investments not stated by the equity method, is recognised when the Company's right to receive the payment is determined, which usually occurs through deliberation of the shareholders' company.

3.17 Subsidies obtained

Subsidies are recognised when there is reasonable assurance that they will be received and that the Company will comply with the conditions required for their assignment (Note 29).

Subsidies associated with the acquisition or production of tangible fixed assets or intangible assets are initially recognised in equity (Note 20), and are later recognised in the income statement on a systematic basis as revenues of the period (Note 31), in a consistent and proportional way to the depreciation of the assets for which they were acquired. If the subsidies relate to non-depreciable assets with undefined useful life, the amounts will be kept in equity, unless they are necessary to offset any impairment loss.

Operating subsidies, namely for employee training, are recognised in the Income statement as income, for the periods necessary to balance them with the expenses incurred (Note 31), to the extent that these subsidies are not refundable.

3.18 Borrowings costs

Financial charges related to loans are recognised as a cost in the period in which they are incurred (Note 36). With the exception of interest, which is capitalised when loans are directly attributable to the acquisition or construction of an asset that requires a substantial period of time (over one year) in order to reach its intended use.

3.19 Taxes

Corporate income tax (“IRC”)

Corporate income tax (Note 38) corresponds to the sum of current taxes and deferred taxes. Current taxes and deferred taxes are recorded through net income, unless they refer to items stated directly under equity. In these cases, current and deferred taxes are also recorded under equity.

Current tax payable is based on the taxable income for the period, calculated in accordance with the tax laws in force on the reporting date. Taxable income differs from carrying amounts, since it excludes various costs and income which will only be deductible or taxable in other financial years, as well as costs and revenue that will never be deductible or taxable.

Deferred taxes refer to temporary differences between the amounts of assets and liabilities for the purposes of accounts reporting and the corresponding amounts for tax purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are recognised for deductible temporary differences. However, this recognition only takes place when there are reasonable expectations of sufficient future taxable profits to use these deferred tax assets, or when there are deferred tax liabilities whose reversal is expected in the same period that the deferred tax assets may be used. On each reporting date, a review is made of these deferred tax assets, which are adjusted according to expectations on their future use.

Deferred tax assets and liabilities are measured using the tax rates which are in force on the date of the reversal of the corresponding temporary differences, based on the taxation rates (and Portuguese tax legislation) which are issued, formally or substantially, on the reporting date.

The Company is covered by the Special Taxation Group Regime for groups of companies which includes all the companies where CTT holds, directly or indirectly, at least 90% of the share capital and are simultaneously resident in Portugal and subject to corporate income tax, hence the estimated income tax and withholdings enforced by third parties are recorded in the balance sheet as accounts payable and receivable by CTT.

Value Added Tax (“VAT”)

For purposes of VAT, CTT follows the monthly normal regime, in accordance with the provisions of paragraph a) of No. 1 of article 40 of the Portuguese VAT Code, with the exemption of various operations in its activity that fall under the provisions of article 9 of the Portuguese VAT Code, as well as non-exemption of other operations which are subject to VAT, and for this reason, using the effective allocating method and the *pro rata* method.

3.20 Accrual principle

Revenues and costs are recorded in accordance with the accrual principle, such that they are recognised as they are generated or incurred, regardless of when they are received or paid.

Revenues and costs recognised in the income statement which have not yet been invoiced or whose acquisition invoice has not yet been received are recorded against "Accrued income" or "Accruals" stated under the balance sheet headings "Other accounts receivable" and "Other accounts payable", respectively (Notes 15 and 27). Deferred revenues and costs paid in advance are recorded against the "Deferrals" headings of the liabilities and assets, respectively (Note 16).

3.21 Judgements and estimates

In the preparation of the financial statements pursuant to the NCRF, judgements and estimates were used which affect the reported amounts of assets and liabilities, as well as the reported amounts of revenues and costs during the reporting period. The estimates and assumptions are determined based on the best existing knowledge as at the date of preparation of the financial statements and on the experience of past and/or current events considering certain assumptions relative to future events. However, situations might occur in subsequent periods which, due to not having been predictable on the date of approval of the financial statements, were not considered in these estimates. Alterations to estimates which occur after the date of the financial statements will be corrected in a prospective manner. For this reason and in view of the associated degree of uncertainty, the real outcome of the situations in question might differ from their corresponding estimates.

The main judgements and estimates made in the preparation of the financial statements occur in the following areas:

(i) Tangible and intangible assets / estimated useful lives (Note 3.1/Note 3.4/Note 7/Note 10)

Depreciation is calculated on the acquisition cost using the straight line method, as of the month when the asset is available for use. The depreciation rates that are applied reflect the best knowledge on the estimated useful life of the assets. The residual values of the assets and their respective useful lives are reviewed and adjusted, when deemed necessary.

(ii) Impairment of Goodwill (Note 9)

The Company tests goodwill, at least once a year, for the purpose of verifying if it is impaired, in accordance with the accounting policy referred to in Note 3.3. The recoverable amounts of the cash generating units are determined based on the calculation of values in use involving the same judgments, residing substantially in the analysis of the Management based on past experience, as well as future expectations of evolution of the corresponding activity. The assessment underlying the calculations that have been made uses assumptions based on the available information, both concerning the business and macro-economic environment. Changes in assumptions can have impacts on results and on the recording of impairments.

(iii) Impairment of accounts receivable (Note 15)

Impairment losses relative to bad debt are based on the Company's assessment of the probability of recovery of the balances of customers and other accounts receivable. This assessment is made according to the period of time of default, the credit history of the customer and other debtors, and the deterioration of the credit situation of the main customers and other debtors. Should the customers' financial conditions deteriorate, the impairment losses might be higher than expected.

(iv) Deferred taxes (Note 38)

The recognition of deferred taxes assumes the existence of future net income and a taxable amount. The deferred tax assets and liabilities were determined based on the tax legislation currently in force, or on legislation that has already been published for future application. Amendments to tax legislation may influence the value of the deferred taxes.

(v) Employee benefits (Note 3.15/Note 26)

The determination of the liabilities related to the payment of post-employment benefits and other long term benefits, namely with health care plans, requires the use of assumptions and estimates, including the use of actuarial projections, discount rates and other factors that could have an impact on the costs and liabilities associated to these benefits. Any changes in the assumptions used, which are described in Note 26, will have an impact on the carrying amount of employee benefits. CTT has a policy of periodically reviewing the main actuarial assumptions, in case its impact is relevant for the financial statements.

(vi) Provisions (Note 3.13/ Note 23)

The Company exercises considerable judgement in the measurement and recognition of provisions. Judgement is required in order to appraise the probability of litigation having a successful outcome. Provisions are constituted when the Company expects the lawsuits underway to lead to the outflow of funds, the loss is probable and can be estimated reasonably. Due to the uncertainties inherent to the process of assessment, real losses might be different from those originally estimated in the provision. These estimates are subject to alterations as new information becomes available. Reviews to the estimates of these losses might affect future results.

3.22 Environmental matters

The Company is legally bound to prevent, reduce or repair environmental damages arising from its activities, and can incur in expenditures to assure full compliance with its obligations (Note 40).

However, the Company's activity is essentially non-industrial in nature, and the incorporation of material inputs in its process of rendering services is relatively reduced, therefore its direct ecological footprint is limited.

Based on an empirical comparative analysis, the environmental impact of the Company's activity is much smaller than its contribution to the generation of value to the national economic and social fabric.

In terms of environmental policy, CTT's priority is to cover and master all the aspects of legal compliance, and has taken on commitments to continuously improve its environmental performance, in particular regarding:

- (i) Pollution prevention,
- (ii) Compliance with the legislation,
- (iii) Communication and disclosure to all the stakeholders of the Company's environmental policy,

- (iv) Training and awareness raising of the employees,
- (v) Analyses of environmental impact arising from the Company's activity,
- (vi) Definition of environmental standards for suppliers and partners.

This subject is developed in greater depth in the 2013 “Sustainability Report”.

3.23 Cash Flow Statement

The Cash Flow Statement is prepared according to the direct method, through which cash receipts and payments relative to operating, investment and financing activities are disclosed.

3.24 Subsequent events

Events which have occurred after the reporting date but before the date of approval of the financial statements by the Company's management body and, provided that they offer additional information on conditions which existed as at the reporting date, are reflected in the financial statements of the period. Events that occurred after the reporting date which are indicative of conditions that emerged after the reporting date (non-adjusting events) are disclosed in the notes to the financial statements, if considered of material relevance (Note 43).

4 CASH FLOW

The cash flow statement discloses the cash receipts and cash payments from operating, financing and investing activities.

Operating activities cover receipts from customers, payments to suppliers, payments to staff and other related to operating activity, namely income tax. Investment activities namely include acquisitions and divestments in participated companies, payments and receipts arising from the purchase and sale of assets, and receipts of interest and dividends. Financing activities include payments and receipts relative to loans received, financial lease contracts, interest paid and payments of dividends.

On 31 December 2013 and 31 December 2012, cash and cash equivalents includes cash, bank deposits repayable on demand and cash investments on the monetary market, net bank overdrafts and other equivalent short term financing, and is detailed as follows:

	<u>2013</u>	<u>2012</u>
Cash	9,321,167	12,095,973
Sight deposits	47,003,074	27,757,540
Time deposits	<u>472,195,000</u>	<u>431,495,000</u>
Cash and cash equivalents (Balance sheet)	<u>528,519,241</u>	<u>471,348,513</u>
Cash and cash equivalents (Cash flow statement)	<u>528,519,241</u>	<u>471,348,513</u>

5 CHANGES TO ACCOUNTING POLICIES, ERRORS AND ESTIMATES

In the year ended on 31 December 2012 the Group adopted IAS 19 - Employee benefits (amended). Accordingly, actuarial gains and losses, related to post-employment benefits, previously deferred and amortised for the estimated average period of the future services provided by the employees until retirement age, are henceforth immediately and only recognised in equity, in "Other comprehensive income".

IAS 19 does not specify whether interest expense in respect of defined benefit obligations should be presented as staff costs or financial costs. Most European postal operators present interest expense as financial costs, and accordingly CTT reclassified the interest expense in respect of defined benefit obligations, in the amount of 16,091,375 Euros, to financial costs in order to ensure comparability with the majority of its peers. These reclassifications do not affect CTT's net profit for the year ended 31 December 2012 as reported in the Statutory Financial Statements.

CTT's Statutory Financial Statements for the year ended 31 December 2010 included a qualified audit opinion relating to a provision for restructuring costs which did not fully comply with the requirements of accounting standards.

For Privatization purposes the Audited Consolidated Financial Statements were adjusted towards meeting the standards referred to. These adjustments were also applied to the corporate financial statements. However they do not affect net equity as of 31 December 2012 as reported in the Statutory Financial Statements. As at 31 December 2012, these adjustments corresponded to an increase in staff costs and provisions, respectively, in the amount of 659,500 Euros and 3,305,700 Euros and a reduction in income tax for the period amounting to 1,146,339 Euros, resulting in an increase in retained earnings in the amount of 2,818,861 Euros.

Additionally, the total balance of the "Revaluation reserve" in the amount of 56,088,705 Euros was, as at 31 December 2012 reclassified to the caption "Retained earnings" and the value of 706,635 Euros was reclassified from this last item to "Other changes in equity".

The impact per heading, of the above mentioned adjustments, in the financial statements was as follows:

Individual Balance Sheet

ASSETS	31-Dec-12		
	Reported	Adjustments	Restated
NON-CURRENT ASSETS:			
Tangible fixed assets	238,883,879	-	238,883,879
Investment property	1,368,943	-	1,368,943
Goodwill	25,083,869	-	25,083,869
Intangible assets	9,178,107	-	9,178,107
Investment in subsidiaries and associated companies	50,069,477	-	50,069,477
Investment in other companies	130,829	-	130,829
Accounts receivable from Group companies	13,477,473	-	13,477,473
Other accounts receivable	2,018,619	-	2,018,619
Deferred tax assets	100,673,390	-	100,673,390
Total non-current assets	440,884,586	-	440,884,586
CURRENT ASSETS:			
Inventories	5,669,967	-	5,669,967
Accounts receivable	99,128,893	-	99,128,893
Accounts receivable from Group companies	384,147	-	384,147
Other accounts receivable	17,685,147	-	17,685,147
Deferrals	4,054,112	-	4,054,112
Cash and cash equivalents	471,348,513	-	471,348,513
Total current assets	598,270,778	-	598,270,778
Total assets	1,039,155,364	-	1,039,155,364
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	87,325,000	-	87,325,000
Legal reserves	18,072,559	-	18,072,559
Other reserves	10,555,947	-	10,555,947
Retained earnings	3,586,704	58,200,931	61,787,635
Adjustments in investments	25,317,659	-	25,317,659
Revaluation reserve	56,088,705	(56,088,705)	-
Other changes in equity	32,645,427	706,635	33,352,062
Net income for the year	38,554,129	(2,818,861)	35,735,268
Total equity	272,146,130	-	272,146,130
LIABILITIES:			
NON-CURRENT LIABILITIES:			
Provisions	35,868,024	-	35,868,024
Medium and long term debt	2,104,100	-	2,104,100
Employee benefits	281,919,352	-	281,919,352
Deferrals	10,874,369	-	10,874,369
Deferred tax liabilities	5,737,572	-	5,737,572
Total non-current liabilities	336,503,417	-	336,503,417
CURRENT LIABILITIES:			
Accounts payable	66,833,187	-	66,833,187
Taxes payable	10,916,154	-	10,916,154
Accounts payable to Group companies	549,952	-	549,952
Short term debt	3,449,018	-	3,449,018
Employee benefits	21,089,780	-	21,089,780
Other accounts payable	323,470,614	-	323,470,614
Deferrals	4,197,112	-	4,197,112
Total current liabilities	430,505,817	-	430,505,817
Total liabilities	767,009,234	-	767,009,234
Total equity and liabilities	1,039,155,364	-	1,039,155,364

Individual Income Statement

	31-Dec-12		
	Reported	Adjustments	Restated
Sales and services rendered	532,213,596	-	532,213,596
Gains/losses from subsidiaries and associated companies	11,181,197	-	11,181,197
Own work capitalised	339,584	-	339,584
Cost of sales	(15,879,844)	-	(15,879,844)
External supplies and services	(165,540,674)	-	(165,540,674)
Staff costs	(311,148,476)	15,431,875	(295,716,601)
Impairment of inventories, net	2,211,685	-	2,211,685
Impairment of accounts receivable, net	(610,418)	-	(610,418)
Impairment of other assets, net	-	-	-
Provisions, net	(18,505,731)	(3,305,700)	(21,811,431)
Other operating revenues	46,899,659	-	46,899,659
Other operating costs	(9,939,763)	-	(9,939,763)
Earnings before interest, taxes, depreciation and amortisation	71,220,815	12,126,175	83,346,990
Depreciation and amortisation, net	(19,325,766)	-	(19,325,766)
Impairment of depreciable/amortisable assets, net	(502,113)	-	(502,113)
Earnings before interest and taxes	51,392,936	12,126,175	63,519,111
Interest income	644,978	-	644,978
Interest expenses	(108,549)	(16,091,375)	(16,199,924)
Earnings before taxes	51,929,364	(3,965,200)	47,964,165
Income tax	(13,375,235)	1,146,339	(12,228,896)
Net income for the year	38,554,129	(2,818,861)	35,735,269
Earnings per share	2.20	-	2.04

Furthermore, no material errors were recognised relative to estimates made in the preparation of the financial statements of previous periods.

The underlying estimates and assumptions were determined based on the best knowledge at the time the financial statements were approved of the on-going events and transactions, as well as on the experience of past and/or current events. However, situations might occur in subsequent periods which, due to not having been predictable on the date of approval of the financial statements, were not considered in these estimates. Changes to estimates which occur after the date of the financial statements will be corrected in a prospective manner. For this reason and in view of the associated degree of uncertainty, the real outcome of the transactions in question might differ from their corresponding estimates.

6 RELATED PARTIES

According to CTT's internal reporting standards, all the companies which are part of the CTT Group were considered related parties, which includes not only the subsidiary and associated companies of CTT, but also other companies held by subsidiary companies of CTT. The related parties also include the executive officers of the Company, CTT shareholders, and of other Group companies, members of the Board of Directors, General Assembly and Statutory Audit Board.

The executive officers are composed of people in charge directly under the Board of Directors.

The terms or conditions applied between the related parties are, as a rule, substantially identical to those which are normally contracted, accepted and applied between independent entities in comparable operations.

Shareholders who exercise significant influence are related parties. Thus, the Portuguese State and its related parties are related parties of CTT. A summary of CTT's transactions with the State of Portugal and its related parties is included below:

- CTT sells and renders services to the Portuguese State and various of its related entities.
- CTT collects various payroll taxes and other taxes on behalf of the Portuguese State and it is liable to Portuguese Corporate Tax on profits earned and to employees' Social Security Taxes on its payroll.
- CTT accounts for VAT in Portugal.
- CTT incurs costs as result of services provided by several Portuguese State related parties, namely:
 - Energy costs;
 - Water supply costs;
 - Air transportation costs.

SUBSIDIARY COMPANIES:

As at 31 December 2013 and 31 December 2012, the Company held investments in the following subsidiary companies:

Subsidiary	Head office	Percentage of Ownership	
		2013	2012
Post Contacto - Correio Publicitário, Lda.	Lisbon	95%*	95%*
CTT - Expresso, S.A.	S. Julião do Tojal	100%	100%
CTT - Gestão de Serviços e Equipamentos Postais, S.A.	Lisbon	100%	100%
Payshop Portugal, S.A.	Lisbon	100%	100%
Mailtec Holding, SGPS, S.A.	Amadora	100%	100%
Tourline Express Mensajeria, SLU	Barcelona	100%	100%
EAD - Empresa de Arquivo de Documentação, S.A.	Palmela	51%	51%
CORRE - Correio Expresso de Moçambique, S.A.	Maputo	50%	50%

* Directly and indirectly, CTT fully owns this entity.

ASSOCIATED COMPANIES:

As at 31 December 2013 and 31 December 2012, the Company held the following investments in associated companies:

Associated company	Head office	Percentage of Ownership	
		2013	2012
Multicert - Serviços de Certificação Electrónica, S.A.	Lisbon	20%	20%
Mailtec Comunicação, S.A.	Amadora	17.695%*	17.695%*
Mailtec Consultoria, S.A.	Amadora	10%*	10%*

* Directly and indirectly, CTT fully owns these entities.

JOINT VENTURES:

As at 31 December 2013 and 31 December 2012, the Company held the following interests in joint ventures:

	Head office	Percentage of Ownership	
		2013	2012
TI-Post Prestação de Serviços Informáticos, ACE	Lisbon	49%	49%
Postal Network - Prestação de Serviços de Gestão de Infra estruturas de Comunicações, ACE	Lisbon	49%	49%
PTP & F (ACE)	Amadora	51%	51%

OTHER COMPANIES OF THE CTT GROUP:

As at 31 December 2013 and 31 December 2012, through indirect investments, the Company held the following interests in other companies of the Group:

	Head office	Percentage of Ownership	
		2013	2012
Payshop Moçambique, SARL	Mozambique	35%	35%
Mailtec Processos, Lda.	Amadora	100%*	100%*
Mafelosa, SL	Spain	25%	25%
Urpacksur, SL	Spain	30%	30%

* Indirectly, CTT fully owns this entity.

During the years ended on 31 December 2013 and 31 December 2012, the following transactions took place and the following balances existed with related parties:

	2013							
	Accounts receivable	Shareholders and Group companies (DB)	Accounts payable	Shareholders and Group companies (CB)	Revenues	Costs	Interest income	Dividends
Shareholders								
Dividends	-	-	-	-	-	-	-	50,000,000
CTT Group companies								
Subsidiaries	4,217,833	13,988,240	981,306	12,458	23,116,458	8,322,280	681,140	-
Associated companies	64,796	-	455,918	231,788	1,444,190	4,280,898	-	-
Joint Ventures	44,671	-	56,932	-	238,808	61,107	-	-
Other related parties	14,898	58,454	203,629	-	252,421	3,115,582	-	-
Members of the								
Board of Directors	-	-	-	-	-	843,733	-	-
General Meeting	-	-	-	-	-	1,260	-	-
Statutory Audit Board	-	-	-	-	-	74,521	-	-
Executive officers								
	-	-	-	-	-	2,368,804	-	-
	4,342,198	14,046,694	1,697,785	244,245	25,051,877	19,068,184	681,140	50,000,000

	2012							
	Accounts receivable	Shareholders and Group companies (DB)	Accounts payable	Shareholders and Group companies (CB)	Revenues	Costs	Interest income	Dividends
Shareholders								
Dividends	-	-	-	-	-	-	-	53,876,585
CTT Group companies								
Subsidiaries	2,654,252	13,861,621	5,690,720	386,298	20,690,303	6,647,304	644,978	-
Associated companies	234,290		422,185	108,953	993,617	3,506,303	-	-
Joint Ventures	40,491				245,079	4,074	-	-
Other related parties	41,484		504,186	54,701	503,909	7,101,323	-	-
Members of the								
Board of Directors	-	-	-	-	-	518,968	-	-
General Meeting	-	-	-	-	-	970	-	-
Statutory Audit Board	-	-	-	-	-	155,792	-	-
Executive officers	-	-	-	-	-	1,541,489	-	-
	<u>2,970,517</u>	<u>13,861,621</u>	<u>6,617,091</u>	<u>549,952</u>	<u>22,432,908</u>	<u>19,476,222</u>	<u>644,978</u>	<u>53,876,585</u>

The costs with the members of the Board of Directors, Statutory Auditor Board and Executive Officers correspond to all the costs with remunerations for the stated period.

During the year ended on 31 December 2012, a new Board of Directors was appointed, on 24 August 2012, which was composed of 5 members.

As at 31 December 2013 and 31 December 2012, the nature and detail, by company of the CTT Group, of the main debit and credit balances was as follows:

	2013					
	Accounts receivable	Shareholders and Group companies (DB)	Total accounts receivable	Accounts payable	Shareholders and Group companies (CB)	Total accounts payable
Subsidiaries						
Tourline Express Mensajeria, S.A.	1,163,138	11,700,000 ¹	12,863,138	188,237	-	188,237
Post Contacto - Correio Publicitário, Lda.	555,714	63,041	618,755	36,313	-	36,313
CTT Expresso, S.A.	1,978,359	95,232	2,073,591	178,492	-	178,492
Payshop Portugal, S.A.	182,554	467,661	650,215	421,104	-	421,104
CTT Gestão de Serviços e Equipamentos Postais, S.A.	43,193	-	43,193	140,813	12,458	153,271
EAD - Empresa de Arquivo de Documentação, S.A.	32,569	1,499,375 ¹	1,531,944	16,346	-	16,346
Mailtec SGPS, S.A.	-	2,988	2,988	-	-	-
CORRE - Correio Expresso Moçambique, S.A.	262,306	159,942 ¹	422,248	-	-	-
Associated companies						
Mailtec Consultoria, S.A.	881	-	881	155,495	45,796	201,291
Mailtec Comunicação, S.A.	63,915	-	63,915	314,508	185,992	500,500
Multicert - Serviços de Certificação Electrónica, S.A.	-	-	-	(14,084)	-	(14,084)
Joint Ventures						
Ti-Post Prestação Serviços Informáticos, ACE	6,036	-	6,036	56,932	-	56,932
Postal Network - Prestação de Serviços de Gestão	38,635	-	38,635	-	-	-
Other related parties						
Payshop Moçambique, S.A.R.L.	192	-	192	-	-	-
Mailtec Processos, Lda.	14,706	58,454	73,160	203,629	-	203,629
	<u>4,342,198</u>	<u>14,046,694</u>	<u>18,388,892</u>	<u>1,697,785</u>	<u>244,245</u>	<u>1,942,030</u>

	2012					
	Accounts receivable	Shareholders and Group companies (DB)	Total accounts receivable	Accounts payable	Shareholders and Group companies (CB)	Total accounts payable
Subsidiaries						
Tourline Express Mensajeria, S.A.	64,736	11,700,000	¹ 11,764,736	3,932,109	-	3,932,109
Post Contacto - Correio Publicitário, Lda.	326,663	87,324	413,987	152,825	-	152,825
CTT Expresso, S.A.	1,863,343	-	1,863,343	1,249,416	361,965	1,611,381
Payshop Portugal, S.A.	90,404	213,862	304,266	157,947	-	157,947
CTT Gestão de Serviços e Equipamentos Postais, S.A.	47,579	-	47,579	182,201	24,333	206,534
EAD - Empresa de Arquivo de Documentação, S.A.	6,405	1,674,375	1,680,780	16,222	-	16,222
Mailtec SGPS, S.A.	-	26,118	26,118	-	-	-
CORRE - Correio Expresso Moçambique, S.A.	255,122	159,942	415,064	-	-	-
	-	-	-	-	-	-
Associated companies						
Mailtec Consultoria, S.A.	941	-	941	135,789	23,743	159,532
Mailtec Comunicação, S.A.	230,455	-	230,455	252,198	85,210	337,408
Multicert - Serviços de Certificação Electrónica, S.A.	2,894	-	2,894	34,198	-	34,198
	-	-	-	-	-	-
Joint Ventures						
Ti-Post Prestação Serviços Informáticos, ACE	1,957	-	1,957	-	-	-
Postal Network - Prestação de Serviços de Gestão	38,534	-	38,534	-	-	-
	-	-	-	-	-	-
Other related parties						
Payshop Moçambique, S.A.R.L.	192	-	192	-	-	-
Mailtec Processos, Lda.	41,292	-	41,292	504,186	54,701	558,887
	-	-	-	-	-	-
	<u>2,970,517</u>	<u>13,861,621</u>	<u>16,832,138</u>	<u>6,617,091</u>	<u>549,952</u>	<u>7,167,043</u>

¹ These amounts relate to loan contracts from CTT to the respective subsidiaries.

During the years ended on 31 December 2013 and 31 December 2012, the nature and detail, by company of the CTT Group, of the main transactions was as follows:

	2013								
	Fixed assets acquired	Services to be invoiced	Inventories acquired	Fixed assets sold	Sales and services rendered	Other operating revenues	Supplies and external services	Other operating costs	Interest income
Subsidiaries									
Tourline Express Mensajeria, S.A.	190,252	8,392	-	-	10,101	1,122,055	1,647	-	584,572
Post Contacto - Correio Publicitário, Lda.	-	231,369	-	25,782	-7,389	3,987,284	264,904	685	-
CTT Expresso, S.A.	-	37,375	-	22,321	210,629	15,570,528	1,684,142	20,934	-
Payshop Portugal, S.A.	-	-	-	-	87,190	1,545,288	4,104,378	50	-
CTT Gestão de Serviços e Equipamentos Postais, S.A.	-	-	-	-	37	512,071	1,804,315	-	-
EAD - Empresa de Arquivo de Documentação, S.A.	-	1,918	-	-	-	6,990	441,224	-	96,569
CORRE - Correio Expresso Moçambique, S.A.	-	-	-	-	-	71,674	-	-	-
	-	-	-	-	-	-	-	-	-
Associated companies									
Mailtec Consultoria, S.A.	-	-	-	-	-	201,873	1,749,144	-	-
Mailtec Comunicação, S.A.	-	853,466	-	-	173,131	1,049,694	2,531,725	-	-
Multicert - Serviços de Certificação Electrónica, S.A.	-	-	-	-	19,493	-	-	29	-
	-	-	-	-	-	-	-	-	-
Joint Ventures									
Ti-Post Prestação Serviços Informáticos, ACE	-	-	-	-	-	22,333	61,107	-	-
Postal Network - Prestação de Serviços de Gestão	-	-	-	-	-	216,474	-	-	-
	-	-	-	-	-	-	-	-	-
Other related parties									
Payshop Moçambique, S.A.R.L.	-	-	-	-	-	-	-	-	-
Mailtec Processos, Lda.	-	-	-	-	-	252,421	2,995,891	119,691	-
	-	-	-	-	-	-	-	-	-
	<u>190,252</u>	<u>1,132,521</u>	<u>-</u>	<u>48,103</u>	<u>493,191</u>	<u>24,558,686</u>	<u>15,638,477</u>	<u>141,389</u>	<u>681,140</u>

	2012								
	Fixed assets acquired	Services to be invoiced	Inventories acquired	Fixed assets sold	Sales and services rendered	Other operating revenues	Supplies and external services	Other operating costs	Interest Income
Subsidiaries									
Tourline Express Mensajeria, S.A.	3,924,854	-	-	-	5,043	543,442	9,776	-	531,301
Post Contacto - Correio Publicitário, Lda.	-	-	-	5,291	1,907	3,466,334	164,925	295	-
CTT Expresso, S.A.	-	-	-	27,871	310,366	14,853,649	1,517,371	10,188	-
Payshop Portugal, S.A.	-	-	-	-	83,664	788,153	1,704,863	-	-
CTT Gestão de Serviços e Equipamentos Postais, S.A.	-	-	-	-	60	569,985	3,060,770	-	-
EAD - Empresa de Arquivo de Documentação, S.A.	-	-	-	-	7	597	179,116	-	113,678
CORRE - Correio Expresso Moçambique, S.A.	-	-	-	-	-	67,098	-	-	-
Associated companies									
Mailtec Consultoria, S.A.	173,158	-	-	-	-	5,522	1,406,419	-	-
Mailtec Comunicação, S.A.	-	752,435	1,489	1,163	187,516	778,729	1,973,109	-	-
Multicert - Serviços de Certificação Electrónica, S.A.	-	-	-	-	21,850	-	126,775	-	-
Joint Ventures									
Ti-Post Prestação Serviços Informáticos, ACE	-	-	-	-	-	25,670	4,074	-	-
Postal Network - Prestação de Serviços de Gestão	-	-	-	-	-	219,410	-	-	-
Other related parties									
Payshop Moçambique, S.A.R.L.	-	-	-	-	-	-	-	-	-
Mailtec Processos, Lda.	-	-	-	-	-	503,909	7,101,323	-	-
	4,098,012	752,435	1,489	34,325	610,412	21,822,496	17,248,520	10,483	644,978

7 TANGIBLE FIXED ASSETS

During the years ended on 31 December 2013 and 31 December 2012, the movement which occurred in the carrying value of the "Tangible fixed assets", as well as the respective accumulated depreciation and impairment losses was as follows:

	2013								
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advances to suppliers	Total
Tangible fixed assets									
Opening balance	41,646,214	362,171,843	119,498,894	2,124,912	73,355,334	21,502,242	58,114	38,490	620,396,042
Acquisitions	393,899	3,430,068	1,290,986	1,232	284,216	1,149,408	46,905	712,500	7,309,214
Disposals	(376,886)	(3,443,845)	(1,256,101)	-	(48,298)	-	-	-	(5,125,130)
Transfers and write-offs	(19,706)	50,826	(1,853,409)	(8,823)	77,481	(189,043)	(50,826)	-	(1,993,500)
Adjustments	-	(79)	-	-	-	-	-	-	-
Other variations	(5,902,715)	(42,485,510)	-	-	(8,913)	(33,919)	-	3,051	(48,428,006)
Closing balance	35,740,806	319,723,303	117,680,370	2,117,321	73,659,820	22,428,688	54,193	754,041	572,158,620
Accumulated depreciation									
Opening balance	4,200,150	188,177,906	104,069,612	2,019,385	67,226,741	15,818,369	-	-	381,512,163
Depreciation for the period	-	8,199,490	4,198,903	33,046	2,623,517	1,120,341	-	-	16,175,297
Disposals	(26,370)	(2,019,717)	(1,256,101)	-	(48,298)	-	-	-	(3,350,486)
Transfers and write-offs	-	-	(1,860,090)	(8,823)	(94,023)	(6,458)	-	-	(1,969,394)
Other variations	(273,950)	(25,834,403)	-	-	-	-	-	-	(26,108,353)
Closing balance	3,899,830	168,523,276	105,152,324	2,043,608	69,707,937	16,932,252	-	-	366,259,227
Net tangible fixed assets	31,840,976	151,200,027	12,528,046	73,713	3,951,883	5,496,436	54,193	754,041	205,899,393
	2012								
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advances to suppliers	Total
Tangible fixed assets									
Opening balance	41,811,771	360,279,239	119,508,092	2,124,912	108,609,424	28,226,124	357,489	1,464,021	662,381,071
Acquisitions	-	2,037,629	3,178,416	-	1,270,279	1,470,949	58,114	542,194	8,557,581
Disposals	(162,109)	(498,500)	(4,473,864)	-	(321,114)	(4,213)	-	-	(5,459,800)
Transfers and write-offs	-	357,489	1,286,250	-	(36,203,255)	(7,981,109)	(357,489)	(1,967,725)	(44,865,839)
Adjustments	(3,448)	(4,014)	-	-	-	(209,509)	-	-	(216,971)
Closing balance	41,646,214	362,171,843	119,498,894	2,124,912	73,355,334	21,502,242	58,114	38,490	620,396,042
Accumulated depreciation									
Opening balance	4,200,150	178,901,543	104,722,218	1,982,237	102,439,658	21,761,567	-	-	414,007,373
Depreciation for the period	-	8,923,624	4,045,305	37,148	2,624,328	1,177,612	-	-	16,808,017
Disposals	-	(149,374)	(4,473,864)	-	(321,114)	(4,213)	-	-	(4,948,565)
Transfers and write-offs	-	-	(224,047)	-	(37,516,131)	(7,116,597)	-	-	(44,856,775)
Impairment losses	-	502,113	-	-	-	-	-	-	502,113
Adjustments	-	-	-	-	-	-	-	-	-
Closing balance	4,200,150	188,177,906	104,069,612	2,019,385	67,226,741	15,818,369	-	-	381,512,163
Net tangible fixed assets	37,446,064	173,993,937	15,429,282	105,527	6,128,593	5,683,873	58,114	38,490	238,883,879

The balances of the headings "Land" and "Buildings and other constructions" include 5,205,814 Euros (6,668,577 Euros as at 31 December 2012) related to land and property in co-ownership with PT Communications, SA.

During the year ended on 31 December 2013, the Other changes in tangible fixed assets include the amount of 48,388,304 Euros transferred to investment properties, as well as the respective accumulated depreciation in the amount of 25,606,240 Euros and the accumulated impairment in the amount of 502,113 Euros. These assets are not allocated to the Group's operating activities, nor have a specific future use.

As a result of the change in the concession agreement on 26 July 2006 (Note 1), at the end of the concession the assets included in the public and private domain of the State revert automatically, at no cost, to the conceding entity, while before the previous change, all the assets allocated to the concession reverted to the Portuguese state. As the postal network belongs exclusively to CTT, not being a public domain asset, only the assets that belong to the State revert to it, and as such, at the end of the concession CTT will continue to own its assets. The Board of Directors, supported by its legal advisors, believes that CTT's assets do not include any public or private domain assets of the Portuguese state.

During the year ended on 31 December 2012, the most significant movements in the headings of Tangible Fixed Assets are the following:

Land and natural resources:

The movements associated to additions and disposals relate mostly to exchange in co-ownership with PT.

The disposals include the sale of the land in Pinhão.

Buildings and other constructions:

Most of the movements associated to additions and disposals relate mostly to exchange in co-ownership with PT and capitalization and works in own and others' buildings completed this date.

Disposals include the sale of the land on Pinhão, which generated a capital gain of 7,733 Euros.

Basic equipment:

The amount concerning acquisitions (1,291 thousand Euro) relates to direct purchases or warehouse outputs of the following types of assets:

- Acquisition of containers and tray holders: 181,390 Euro;
- Upgrades to mail sorting machines: 149,332 Euro; and
- Acquisition of bikes, electric cars, trucks and trailers worth approximately 759 thousand Euros.

The recorded disposals, amounting to 1,256,101 Euros, relate to the sale of several assets of CTT, which were fully depreciated and generated a gain of 45,081 Euros.

Some write-offs were recorded due to the disabling/destruction of several categories of goods, such as postal receptacles and other fixtures, equipment for the internal handling of loads and weighing scales and safety deposit boxes, amounting to 1,853 thousand Euros.

Office equipment:

The amount of acquisitions and transfers / write-offs (361,697 Euro) is related with direct purchases or warehouse outputs (about 229,000 Euro), postal furniture (about 206,000 Euro), about 8,000 Euros in vaults.

Some write-offs were recorded due to the disabling/destruction of several categories of goods, such as tables, cabinets, furniture, etc., amounting to 94,063 Euro

Other tangible fixed assets:

The acquisitions in the amount of 1,149,408 Euros, consider 558 thousand Euros of prevention and safety equipment, 60 thousand Euros of communication equipment, as well as a variety of warehouse equipment amounting to around 393 thousand Euros.

Tangible fixed assets in progress:

The amounts under this heading are related to maintenance and preservation works on own property.

The depreciation recorded during the period of these Notes, of 16,175,297 Euros (16,808,017 Euros in 2012), was recorded under the heading " Depreciation and amortisation, net" of the income statement (Note 34).

Contractual commitments relative to Tangible Fixed Assets are detailed in Note 23.

8 INVESTMENT PROPERTY

As at 31 December 2013 and 31 December 2012, the Company has the following assets classified as investment property:

	2013		
	Land and natural resources	Buildings and other constructions	Total
Investment property			
Opening balance	1,334,499	65,653	1,400,152
Other variations	5,902,715	42,485,510	48,388,225
Closing balance	7,237,214	42,551,163	49,788,377
Accumulated depreciation			
Opening balance	-	31,209	31,209
Depreciation for the period	-	782,537	782,537
Other variations	273,950	25,332,290	25,606,240
Closing balance	273,950	26,146,036	26,419,986
Accumulated impairment			
Opening balance	-	-	-
Impairment losses for the period	-	1,104,392	1,104,392
Other variations	-	502,113	502,113
Closing balance	-	1,606,505	1,606,505
Net investment property	6,963,264	14,798,622	21,761,886
	2012		
	Land and natural resources	Buildings and other constructions	Total
Investment property			
Opening balance	2,692,616	65,653	2,758,269
Write-offs (note 35)	(1,361,565)	-	(1,361,565)
Other variations	3,448	-	3,448
Closing balance	1,334,499	65,653	1,400,152
Accumulated depreciation			
Opening balance	-	29,896	29,896
Depreciation for the period	-	1,313	1,313
Closing balance	-	31,209	31,209
Net investment property	1,334,499	34,444	1,368,943

These assets are not allocated to the operating activities of the Company, nor have a specific future use.

The market value of these fixed assets, which are classified as investment property, in accordance with the valuations recorded as at the end of the 2013 financial year which were conducted by independent entities, amounts to 29,374,185 Euros.

During the year ended on 31 December 2013, the Transfers / Adjustments in Investment properties include the amount of 48,388,225 Euros transferred from Tangible fixed assets, the respective accumulated depreciation in the amount of 25,606,240 Euros as well as an accumulated impairment loss of 502,113 Euros.

The Group owns a number of properties, classified as Investment Properties, regarding which there is indication that they might be impaired due to the economic crisis in the real estate market. Therefore it was necessary to determine the recoverable amount of the assets (fair value less costs to sell). The Company conducted a review of the properties' value, performed by an external entity, and concluded there was an impairment loss amounting to 1,104,392 Euros which resulted from the unfavourable market conditions in the geographical areas of the assets.

For the years ended on 31 December, 2013 and 2012, 782,537 Euros and 1,313 Euros, respectively, were recorded under the heading "Depreciation and amortisation, net" relative to depreciation (Note 34).

During the year ended on 31 December 2012, a loss caused by the breach of contract concerning the land of "Campo 24 de Agosto", in the amount of 1,361,565 Euros was recognised.

9 GOODWILL

As at 31 December, 2013 and 31 December, 2012, the composition of Goodwill was as follows:

Company	Year of acquisition	2013	2012
Subsidiary companies			
Mailtec Consultoria, S.A. (51%)	2004	4,718	4,718
Mailtec Comunicação, S.A. (51%)	2004	69,767	69,767
Mailtec Holding, SGPS, S.A. (51%)	2004	582,970	582,970
Mailtec Holding, SGPS, S.A. (49%)	2005	6,641,901	6,641,901
Payshop Portugal, S.A.	2004	406,101	406,101
Tourline Express Mensajeira, SLU	2005	16,592,248	16,592,248
EAD - Empresa de Arquivo de Documentação, S.A.	2006	786,164	786,164
		25,083,869	25,083,869

During the years ended on 31 December, 2013 and 31 December, 2012, no movements occurred in Goodwill.

Impairment

The recoverable amount of goodwill is assessed annually or whenever there is indication of an eventual loss of value. The recoverable amount is determined based on the value through a discounted cash flow methodology, considering the market conditions, the time value and business risks.

As at 31 December 2013 and 31 December 2012, the CTT Group performed an impairment test, based on the following set of assumptions to determine the recoverable amount of the investments made:

		2013			
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Growth rate in perpetuity
Tourline Express Mensajeria, SLU	CEP and Logistics	Equity Value/DCF	5 years	10.20%	2.0%
EAD - Empresa de Arquivo de Documentação, S.A.	Custody and archive management	Equity Value/DCF	5 years	11.72%	2.0%
Mailtec Group	Documental services	Equity Value/DCF	5 years	11.98%	2.0%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	12.73%	2.0%
		2012			
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Growth rate in perpetuity
Tourline Express Mensajeria, SLU	CEP and Logistics	Equity Value/DCF	5 years	12.14%	2.0%
EAD - Empresa de Arquivo de Documentação, S.A.	Custody and archive management	Equity Value/DCF	5 years	13.18%	2.0%
Mailtec Group	Documental services	Equity Value/DCF	5 years	13.48%	2.0%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	14.32%	2.0%

The decrease in the discount rate (WACC) for the year ended on 31 December, 2013 was a result of the decrease in the risk premium of the international market combined with the decrease in yields of Portuguese and Spanish government bonds.

The cash flow projections were based on the historical performance and the medium and long term business plans, approved by the Board of Directors, and were prolonged in perpetuity. As a consequence of this impairment analysis, the Company concluded that as at 31 December 2013 and 31 December 2012 there were no impairment losses.

Company	Year of acquisition	Initial value	2013		Carrying value	2012
			Impairment losses for the period	Accumulated impairment losses		Carrying value
Mailtec Consultoria, S.A. (51%)	2004	4,718	-	-	4,718	4,718
Mailtec Comunicação, S.A. (51%)	2004	69,767	-	-	69,767	69,767
Mailtec Holding, SGPS, S.A. (51%)	2004	582,970	-	-	582,970	582,970
Mailtec Holding, SGPS, S.A. (49%)	2005	6,641,901	-	-	6,641,901	6,641,901
Payshop Portugal, S.A.	2004	406,101	-	-	406,101	406,101
Tourline Express Mensajeria, SLU	2005	20,671,985	-	4,079,737	16,592,248	16,592,248
EAD - Empresa de Arquivo de Documentação, S.A.	2006	1,082,015	-	295,851	786,164	786,164
		<u>29,459,457</u>	-	<u>4,375,588</u>	<u>25,083,869</u>	<u>25,083,869</u>

Impairment losses are recorded in the income statement for the period they refer to under the heading "Impairment of depreciable/amortisable investments (losses/reversals)" of the income statement.

Sensitivity analyses were performed on the results of these impairment tests, namely regarding the following key variables: (i) growth perpetuity rate and (ii) discount rate.

The results of the sensitivity analyses for Payshop, EAD and the Mailtec Group do not determine that there are indications of impairment. Regarding Tourline, the results of the sensitivity analyses conclude that a 1% increase in the sovereign risk, with implications in the discount rate would determine the recognition of an impairment loss amounting to 726,048 Euros, according to the following tables:

Variation of perpetuity growth

Tourline	-0.5%	0.0%	0.5%
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	19,851,365	21,306,513	22,950,737
Test: impairment (if negative)	1,702,779	3,157,926	4,802,150

Mailtec	-0.5%	0.0%	0.5%
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	21,750,862	22,391,930	23,100,607
Test: impairment (if negative)	8,277,363	8,918,432	9,627,109

EAD	-0.5%	0.0%	0.5%
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	8,498,968	8,913,393	9,372,791
Test: impairment (if negative)	1,842,857	2,054,214	2,288,507

Payshop	-0.5%	0.0%	0.5%
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	56,842,272	58,359,658	60,025,418
Test: impairment (if negative)	49,277,949	50,795,334	52,461,094

Variation of sovereign risk

Tourline	-1%	0%	1%
WACC	9.29%	10.20%	11.11%
Equity Assessment	26,156,402	21,306,513	17,422,538
Test: impairment (if negative)	8,007,815	3,157,926	-726,048

Mailtec	-1%	0%	1%
WACC	10.98%	11.98%	12.98%
Equity Assessment	24,694,401	22,391,930	20,511,681
Test: impairment (if negative)	11,220,902	8,918,432	7,038,182

EAD	-1%	0%	1%
WACC	10.79%	11.72%	12.64%
Equity Assessment	10,216,957	8,913,393	7,837,799
Test: impairment (if negative)	2,719,032	2,054,214	1,505,661

Payshop	-1%	0%	1%
WACC	11.73%	12.73%	13.73%
Equity Assessment	63,383,221	58,359,658	54,191,160
Test: impairment (if negative)	55,818,897	50,795,334	46,626,836

10 INTANGIBLE ASSETS

During the years ended on 31 December 2013 and 31 December 2012, the movement which occurred in the main categories of intangible assets, as well as the respective accumulated amortisation and accumulated impairment losses, was as follows:

	2013				Total
	Development projects	Computer programmes	Industrial property	Intangible assets in progress	
Intangible assets					
Opening balance	3,670,096	24,158,494	3,220,203	2,779,775	33,828,568
Acquisitions	237,482	569,969	2,869	1,496,427	2,306,747
Transfers and write-offs	-	1,867,614	-	(1,867,614)	-
Closing balance	3,907,578	26,596,077	3,223,072	2,408,588	36,135,315
Accumulated amortisation					
Opening balance	3,670,096	18,104,669	2,875,696	-	24,650,461
Amortisation for the period	25,107	3,035,734	41,018	-	3,101,859
Closing balance	3,695,203	21,140,403	2,916,714	-	27,752,320
Net intangible assets	212,375	5,455,674	306,358	2,408,588	8,382,995
	2012				Total
	Development projects	Computer programmes	Industrial property	Intangible assets in progress	
Intangible assets					
Opening balance	3,670,096	20,599,818	3,220,203	1,426,079	28,916,196
Acquisitions	-	2,812,365	-	2,100,007	4,912,372
Transfers and write-offs	-	746,311	-	(746,311)	-
Closing balance	3,670,096	24,158,494	3,220,203	2,779,775	33,828,568
Accumulated amortisation					
Opening balance	3,670,096	15,629,466	2,834,463	-	22,134,025
Amortisation for the period	-	2,475,203	41,233	-	2,516,436
Closing balance	3,670,096	18,104,669	2,875,696	-	24,650,461
Net intangible assets	-	6,053,825	344,507	2,779,775	9,178,107

The amounts of 295,915 Euros and 339,584 Euros, capitalized in Computer programmes or intangible assets in progress as at 31 December 2013 and 31 December 2012, respectively, relates to the staff costs incurred in the development of these projects.

The transfers of Intangible assets in progress to computer software, concern IT projects which were concluded in the year ended on 31 December 2013.

As at 31 December 2013 intangible assets in progress relate to IT projects which are under development, of which the most relevant are:

	<u>2013</u>
New GRH application	742,903
Information management software	273,314
Certification of invoices	375,676
Approval of invoices	110,604
SAP Archives	115,982
Automatic address processing software	<u>69,006</u>
	<u><u>1,687,485</u></u>

The amortisation for the period, amounting to 3,101,859 Euros (2,516,346 Euros in 2012) was recorded in the heading "Depreciation and amortisation, net " (Note 34).

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

Contractual commitments relative to Intangible Assets are detailed in Note 23.

11 INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

During the years ended on 31 December 2013 and 31 December 2012, the movements occurred in "Investment in subsidiaries and associated companies" were as follows:

	<u>2013</u>		
	<u>Subsidiary companies</u>	<u>Associated companies</u>	<u>Total</u>
Gross carrying value			
Opening balance	48,487,346	1,582,131	50,069,477
Equity method - proportion of net income	8,769,523	31,304	8,800,827
Distribution of dividends	(12,794,170)	(147,858)	(12,942,028)
Other	(28,181)	-	(28,181)
Closing balance	<u>44,434,518</u>	<u>1,465,577</u>	<u>45,900,095</u>
	<u>2012</u>		
	<u>Subsidiary companies</u>	<u>Associated companies</u>	<u>Total</u>
Gross carrying value			
Opening balance	56,169,478	1,742,595	57,912,073
Equity method - proportion of net income	10,778,746	402,451	11,181,197
Distribution of dividends	(18,452,547)	(562,915)	(19,015,462)
Other	(8,331)	-	(8,331)
Closing balance	<u>48,487,346</u>	<u>1,582,131</u>	<u>50,069,477</u>

As at 31 December 2013 and 31 December 2012, the detail by company of “Investment in subsidiaries and associates companies” was as follows:

Corporate name	2013				2012			
	% held	Investment	Provision for investments	Proportion of net income	% held	Investment	Provision for investments	Proportion of net income
Subsidiaries:								
CORRE - Correio Expresso Moçambique, S.A.	50	10,271	-	(101,424)	50	139,876	-	49,431
EAD - Empresa de Arquivo de Documentação, S.A.	51	1,659,166	-	198,423	51	1,527,536	-	190,023
Post Contacto - Correio Publicitário, Lda.	95	2,169,583	-	1,662,947	95	2,176,249	-	1,669,612
CTT Expresso, S.A.	100	24,648,820	-	3,997,706	100	24,696,387	-	4,045,273
CTT Gestão de Serviços e Equipamentos Postais, S.A.	100	2,825,374	-	905,375	100	2,819,225	-	958,211
Mailtec Holding, SGPS, S.A.	100	5,119,907	-	546,321	100	5,770,524	-	1,196,938
Payshop Portugal, S.A.	100	7,472,730	-	5,671,966	100	6,717,092	-	4,916,327
Tourline Express Mensajeria, S.A.	100	528,666	-	(4,111,791)	100	4,640,457	-	(2,247,070)
		<u>44,434,518</u>	<u>-</u>	<u>8,769,523</u>		<u>48,487,346</u>	<u>-</u>	<u>10,778,746</u>
Associated companies:								
Mailtec Consultoria, S.A.	10	29,369	-	(3,057)	10	59,021	-	26,594
Mailtec Comunicação, S.A.	17.695	725,965	-	13,853	17.695	833,376	-	121,266
Multicert - Serviços de Certificação Electrónica, S.A. (a)	20	710,243	-	20,508	20	689,734	-	254,591
		<u>1,465,577</u>	<u>-</u>	<u>31,304</u>		<u>1,582,131</u>	<u>-</u>	<u>402,451</u>
Joint Ventures								
Ti-Post Prestação Serviços Informáticos, ACE	49	-	-	-	49	-	-	-
Postal Network - Prestação de Serviços de Gestão	49	-	-	-	49	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
		<u>45,900,095</u>	<u>-</u>	<u>8,800,827</u>		<u>50,069,477</u>	<u>-</u>	<u>11,181,197</u>

(a) The amount of 2012 reflects the effect of the Equity method 2011, and a provisional figure for 2012. In 2013 the amount recorded relates to the differential for the definitive amount for 2012.

The main disclosure regarding the abovementioned companies was as follows:

Company	2013				
	Assets	Liabilities	Sales and services rendered	Net income	Equity
Subsidiaries:					
CORRE - Correio Expresso Moçambique, S.A.	1,673,777	1,653,235	1,612,547	(202,847)	20,543
EAD - Empresa de Arquivo de Documentação, S.A.	6,197,828	2,944,561	4,211,150	389,065	3,253,267
Post Contacto - Correio Publicitário, Lda.	3,619,247	1,335,475	11,574,156	1,750,470	2,283,772
CTT Expresso, S.A.	38,494,093	13,845,273	74,708,131	3,997,706	24,648,820
CTT Gestão de Serviços e Equipamentos Postais, S.A.	3,217,899	392,524	1,838,151	905,375	2,825,374
Mailtec Holding, SGPS, S.A.	5,174,676	54,769	480,000	546,321	5,119,907
Payshop Portugal, S.A.	9,888,517	2,415,786	16,091,894	5,671,966	7,472,731
Tourline Express Mensajeria, S.A.	24,149,411	23,620,745	53,252,162	(4,111,791)	528,666
Associated companies:					
Mailtec Consultoria, S.A.	960,228	666,559	3,312,892	(30,569)	293,670
Mailtec Comunicação, S.A.	6,234,615	2,132,083	12,066,411	78,291	4,102,532
Multicert - Serviços de Certificação Electrónica, S.A. (a)	4,832,986	1,281,774	3,716,304	758,251	3,551,213

(a) Values of 2012

Joint Ventures

Ti-Post Prestação Serviços Informáticos, ACE	244,364	244,364	1,714,143	-	-
Postal Network - Prestação de Serviços de Gestão	158,613	158,613	183,662	-	-

(b) Values of September 2013

Company	2012				
	Assets	Liabilities	Sales and services rendered	Net income	Equity
Subsidiaries:					
CORRE - Correio Expresso Moçambique, S.A.	1,571,624	1,372,477	1,660,366	93,418	199,146
EAD - Empresa de Arquivo de Documentação, S.A.	6,602,556	3,607,387	4,533,059	372,594	2,995,168
Post Contacto - Correio Publicitário, Lda.	3,330,469	1,039,680	11,141,800	1,757,487	2,290,788
CTT Expresso, S.A.	38,220,743	13,524,355	73,961,504	4,045,273	24,696,387
CTT Gestão de Serviços e Equipamentos Postais, S.A.	3,348,453	529,229	1,855,751	958,211	2,819,225
Mailtec Holding, SGPS, S.A.	5,825,905	55,381	480,000	1,196,938	5,770,524
Payshop Portugal, S.A.	8,694,968	1,977,876	14,805,658	4,916,327	6,717,092
Tourline Express Mensajeria, S.A.	26,006,755	21,366,297	52,040,133	(2,247,070)	4,640,458
Associated companies:					
Mailtec Consultoria, S.A.	1,194,862	604,700	2,800,559	265,923	590,162
Mailtec Comunicação, S.A.	7,062,455	2,352,925	13,132,494	685,289	4,709,529
Multicert - Serviços de Certificação Electrónica, S.A. (a)	5,003,269	1,284,270	3,716,304	655,710	4,732,941
(a) Values of 2011					
Joint Ventures					
Ti-Post Prestação Serviços Informáticos, ACE	453,400	453,400	2,025,594	-	-
Postal Network - Prestação de Serviços de Gestão	320,851	320,851	262,076	-	-

Equity method

For the years ended on 31 December 2013 and 2012, the net income in subsidiaries, associated companies and joint ventures arising from the application of the equity method, and stated under the item “Gains/losses from subsidiaries, associated companies and joint ventures” of the income statement were recognised against the following items on the statement of financial position:

	2013	2012
Investment in subsidiaries and associated companies		
CORRE - Correio Expresso Moçambique, S.A.	(101,424)	49,431
EAD - Empresa de Arquivo de Documentação, S.A.	198,423	190,023
Post Contacto - Correio Publicitário, Lda.	1,662,947	1,669,612
CTT Expresso, S.A.	3,997,706	4,045,273
CTT Gestão de Serviços e Equipamentos Postais, S.A.	905,375	958,211
Payshop Portugal, S.A.	5,671,966	4,916,327
Tourline Express Mensajeria, S.A.	(4,111,791)	(2,247,070)
Mailtec Holding, SGPS, S.A.	546,321	1,196,938
Mailtec Comunicação, S.A.	13,853	121,266
Mailtec Consultoria, S.A.	(3,057)	26,594
Multicert, Serviços de Certificação Electrónica, S.A.	20,508	254,591
	<u>8,800,827</u>	<u>11,181,197</u>

The amount of 20,508 Euros concerns the proportion of 2012 income that had not been recognized in that year. During the year ended on 31 December, 2013 no additional records in Multicert, SA took place since the company does not have up-to-date financial information.

12 INVESTMENT IN OTHER COMPANIES

For the years ended on 31 December 2013 and 2012 the “Investment in others companies” had no movement. The final balance is 130,829 Euros and essentially refers to shareholdings in the companies IPC – International Post Corporation, Eurogiro, and CEPT of the amounts of 6,157 Euros, 124,435 Euros, and 237 Euros, respectively.

13 FINANCIAL RISK MANAGEMENT

The Company's activities imply exposure to financial risks, namely: (i) credit risks - risk that debtors will not comply with their financial obligations, (ii) market risks - fundamentally interest rate risk and exchange rate risk, which are associated, respectively, to the risk of the impact of variation of market interest rates on financial assets and liabilities and on net income, and to the risk of fluctuation in the fair value of financial assets and liabilities as a result of changes in exchange rates, and (iii) liquidity risks - risk of obligations related to financial liabilities not being met.

The categories of financial assets and liabilities as at 31 December 2013 and 31 December 2012 are detailed as follows:

FINANCIAL ASSETS	<u>2013</u>	<u>2012</u>
Accounts receivable	126,786,259	132,694,279
Cash and cash equivalents	<u>528,519,241</u>	<u>471,348,513</u>
	<u>655,305,500</u>	<u>604,042,792</u>
FINANCIAL LIABILITIES		
Account payable	56,871,632	66,833,187
Other accounts payable	<u>374,352,038</u>	<u>329,573,684</u>
	<u>431,223,670</u>	<u>396,406,871</u>

Financial risk is defined as the probability of obtaining results that are different from those expected, whether positive or negative, thus altering the net worth of the Company in a material and unexpected form.

Risk management focuses on the unpredictability of financial markets and seeks to mitigate the adverse effects arising from this unpredictability on the Company's financial performance.

The management of financial risks includes the Corporate Risk Management System, which is coordinated by the Corporate Risk Management unit, which reports directly to the Board of Directors. CTT's departments of Finance and Risk Management, and Accounting and Treasury assure the centralised management of financing operations, investment of reserve liquidity, exchange transactions, as well as the counterparty risk management of the Company, and monitoring of the exchange risk, according to the policies approved by the Board of Directors. Additionally, they are responsible for the identification, quantification, and the proposal and implementation of measures

to mitigate the financial risks that the Company is exposed to. The Company is developing an integrated system of risk management.

The financial risks of particular importance include credit risks, market risks and liquidity risks.

Credit risk

Credit risk is essentially related to the risk that a third party fails on its contractual obligations, resulting in financial losses to the Company. At the Company, credit risk basically resides in the accounts receivable from customers and other debtors, related to its operating and treasury activity.

The credit risk in the accounts receivable is monitored on a regular basis by each business of the Company with the objective of limiting the credit granted to customers, considering the respective profile and the aging of receivable from each customer, ensuring the follow-up of the evolution of credit that has been granted, and analysing the recoverability of the values receivable. The deterioration of economic conditions or adversities which affect economies may lead to the incapacity of customers to pay their liabilities, with consequent negative effects on the Company's net income. For this purpose, an effort has been made to reduce the term and amount of credit to clients.

The Company is not exposed to significant credit risk relative to any single customer in particular, since its accounts receivable refer to a large number of customers.

The impairment losses for accounts receivable are calculated considering essentially: (i) the aging of the accounts receivable; (ii) the risk profile of each client; and (iii) the financial condition of the client.

The movement of impairment losses of accounts receivable is disclosed in Note 15. As at 31 December 2013, the Company believes that impairment losses in accounts receivable are adequately estimated and recorded in the financial statements.

The risk arising from treasury activities essentially results from the cash deposits investments made by the Company. For the purpose of reducing that risk, the Company's policy is to invest on short/medium term periods applications, with several financial institutions, and all with a relatively high credit rating (considering the rating of the Portuguese Republic).

Interest rate risk

Interest rate risk is essentially associated to the interest received from the investment of reserve liquidity and to the determination, through its impact on the discount rate, of the estimated liabilities related to employee benefits.

Gains arising from financial operations are important, hence alterations in interest rates have a direct impact on the Company's interest income.

In order to reduce the impact of interest rate risk, the Company monitors market trends on a regular and systematic basis, with a view to leveraging the period/rate relationship on the one hand and the risk/yield relationship on the other hand. The Treasury Applications follow criteria of

diversification of financial risks, both in terms of timing and institutions, and are reviewed and updated regularly.

In 2013, results from financial investments were adversely affected by limits on compensation imposed by the Bank of Portugal in November 2011, reinforced in April 2012, and that had a direct impact on the rates offered by banks. In recent months the banking sector has reduced the remuneration of deposits below the limits of the Bank of Portugal, in line with sectoral data published in this regard. The breakdown of the remuneration of deposits was partially offset by the increased volume of short term financial investments, both as a result of business activity, as well as efficiency in treasury management.

The investment of reserve liquidity received interest income of approximately 10,673,605 Euros during the year of 2013 and 13,522,891 Euros during the year of 2012 (Note 31).

If interest rates had been lower by 1%, during the year ended on 31 December 2013, the interest received would have been reduced by 3,993,000 Euros.

With a reduction of 0.5 per cent in the discount rate and keeping all other variables constant, the liabilities with employee benefits – health care would increase by approximately 17.9 million Euros (Note 26).

Foreign currency exchange rate risk

Exchange rate risks are related to the existence of balances in currencies other than the Euro, in particular balances arising from transactions with foreign Postal Operators recorded in Special Drawing Rights (SDR).

The management of foreign exchange risk relies on the periodic monitoring of the degree of exposure to the exchange rate risk of assets and liabilities, with reference to previously defined objectives based on the evolution of the international business activities.

As at 31 December 2013 and 31 December 2012, the net exposure (assets minus liabilities) of the Company ascended, respectively, to -617,963 SDR (-690,463 Euros at the exchange rate €/SDR 1.11732) and -1,838,001 SDR (-2,142,796 Euros at the exchange rate €/SDR of 1.16583).

In the sensitivity analysis of the balances of accounts receivable and payable to foreign Postal Operators, as at 31 December 2013 and 31 December 2012, assuming an appreciation / depreciation in the exchange rate €/SDR (1.229052 as at 31 December 2013 and 1.282413 as at 31 December 2012) of 10%, the impact on results would be (69,046) Euros and (214,280) Euros, respectively.

Liquidity risk

Liquidity risk might occur if the funding sources, such as cash balances, operating cash flow divestments operations, credit lines and cash flows obtained from financing operations do not match the Company's financing needs, such as operating and financing outflows for operating and financing activities, investments and shareholders' remuneration. Based on the cash flow generated

by operations and the available cash, the Company believes that it has the capacity to meet its obligations.

The principal contractual obligations of the Company are related to the funding received (essentially financial leases) and respective interest, the operating leases and other non-contingent financial commitments. The following table sums up the expected contractual obligations and financial commitments of the Company as at 31 December 2013:

2013	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial Liabilities				
Debt (Note 25)	456,263	1,647,925	-	2,104,188
Interest expenses (Note 25)	13,912	20,326	-	34,237
Accounts payable and Other accounts payable	429,119,482	-	-	429,119,482
Non-financial liabilities				
Operating leases (Note 24)	7,274,279	15,776,043	-	23,050,322
Non-contingent financial commitments (1)	965,949	-	-	965,949
Total contractual obligations	437,829,885	17,444,294	-	455,274,178
2012	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial Liabilities				
Debt (Note 25)	3,449,018	2,104,100	-	5,553,118
Interest expenses (Note 25)	16,684	33,214	-	49,898
Accounts payable and Other accounts payable	390,853,753	-	-	390,853,753
Non-financial liabilities				
Operating leases (Note 24)	7,043,103	6,613,062	-	13,656,165
Non-contingent financial commitments (1)	166,026	-	-	166,026
Total contractual obligations	401,528,584	8,750,376	-	410,278,960

(1) As mentioned in Note 23, the non-contingent financial commitments are essentially related to contracts concluded with suppliers of tangible fixed assets.

14 INVENTORIES

As at 31 December 2013 and 31 December 2012, the Company's "Inventories" are as follows:

	2013			2012		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net amount
Merchandise	4,425,452	1,808,145	2,617,307	5,007,339	1,903,511	3,103,828
Raw materials and consumables	3,095,723	670,332	2,425,391	3,154,285	646,148	2,508,137
Advances on purchases	63,929	-	63,929	58,002	-	58,002
	7,585,104	2,478,477	5,106,627	8,219,626	2,549,659	5,669,967

Cost of sales

During the years ended on 31 December 2013 and 31 December 2012, details of the "Cost of sales" were as follows:

	2013		
	Merchandise	Raw materials and consumables	Total
Opening balance	5,007,339	3,154,285	8,161,624
Purchases	11,400,389	2,357,868	13,758,257
Inventory offers	(39,145)	(17,354)	(56,499)
Inventory adjustments	(108,233)	(85,512)	(193,745)
Closing balance	(4,425,452)	(3,095,723)	(7,521,175)
Cost of sales	11,834,898	2,313,564	14,148,463

	2012		
	Merchandise	Raw materials and consumables	Total
Opening balance	6,314,860	3,441,811	9,756,671
Purchases	12,842,536	2,071,234	14,913,770
Inventory offers	(44,070)	(20,691)	(64,761)
Inventory adjustments	(377,409)	(186,804)	(564,213)
Closing balance	(5,007,339)	(3,154,285)	(8,161,624)
Cost of sales	13,728,578	2,151,265	15,879,844

Impairment in inventories

For the years ended on 31 December 2013 and 31 December 2012, the movement occurred in “Accumulated impairment losses” (Note 18) was as follows:

	2013			
	Closing balance	Increases	Reversals	Closing balance
Merchandise	1,903,511	-	(95,366)	1,808,145
Raw materials and consumables	646,148	24,184	-	670,332
	2,549,659	24,184	(95,366)	2,478,477

	2012			
	Closing balance	Increases	Reversals	Closing balance
Merchandise	3,275,093	-	(1,371,582)	1,903,511
Raw materials and consumables	1,486,251	-	(840,103)	646,148
	4,761,344	-	(2,211,685)	2,549,659

For the years ended on 31 December 2013 and 31 December 2012, impairment losses of inventories were recorded (net increases of reversals) amounting to 71,182 Euros and (2,211,685) Euros, respectively, in the heading “Impairment of inventories, net”.

15 ACCOUNTS RECEIVABLE AND OTHER ACCOUNTS RECEIVABLE

As at 31 December 2013 and 31 December 2012, the headings "Accounts receivable" and "Other accounts receivable" showed the following composition:

	2013			2012		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net amount
Accounts receivable						
Current						
Third parties	64,660,110	3,570,265	61,089,845	60,499,260	4,596,368	55,902,892
Group companies (Note 6)	4,342,198	-	4,342,198	2,904,123	-	2,904,123
Postal operators	31,904,730	207,113	31,697,617	40,540,287	218,408	40,321,879
	<u>100,907,038</u>	<u>3,777,378</u>	<u>97,129,660</u>	<u>103,943,670</u>	<u>4,814,776</u>	<u>99,128,893</u>
Other accounts receivable						
Current						
Third parties	21,627,047	7,968,681	13,658,366	25,378,975	7,760,223	17,618,752
Group companies (Note 6)	-	-	-	66,395	-	66,395
Non-current	4,644,796	2,693,657	1,951,139	4,597,433	2,578,814	2,018,619
	<u>26,271,843</u>	<u>10,662,338</u>	<u>15,609,505</u>	<u>30,042,803</u>	<u>10,339,037</u>	<u>19,703,766</u>
	<u>127,178,881</u>	<u>14,439,716</u>	<u>112,739,165</u>	<u>133,986,473</u>	<u>15,153,813</u>	<u>118,832,659</u>

Accounts receivable

As at 31 December 2013 and 31 December 2012, the age of the gross amounts of the heading "Customers" is detailed as follows:

	2013				2012			
	Third parties	Postal operators	Group companies	Total	Third parties	Postal operators	Group companies	Total
Accounts receivable								
Balance not immediately due	32,700,672	2,188,393	3,068,619	37,957,683	31,679,668	4,189,162	2,692,126	38,560,956
Past due balance:								
0-30 days	16,141,204	-	179,690	16,320,893	16,863,958	-	36,773	16,900,731
30-90 days	8,460,574	1,797,946	317,174	10,575,693	5,899,581	2,400,885	17,557	8,318,023
90-180 days	2,415,997	2,405,382	309,634	5,131,012	401,702	1,238,832	16,175	1,656,709
180-360 days	572,913	6,392,630	284,245	7,249,789	159,249	6,857,769	37,088	7,054,106
> 360 days	4,368,751	19,120,379	182,837	23,671,968	5,495,102	25,853,639	104,404	31,453,145
	<u>64,660,110</u>	<u>31,904,730</u>	<u>4,342,198</u>	<u>100,907,038</u>	<u>60,499,260</u>	<u>40,540,287</u>	<u>2,904,123</u>	<u>103,943,670</u>

The gross amount of accounts receivable overdue over 360 days was as follows:

	2013	2012
National accounts receivable	815,037	816,796
Foreign operators	19,120,379	25,853,639
Total	19,935,416	26,670,435
Foreign operators - payable	(18,862,566)	(27,867,914)

The caption of Foreign Operators relates to receivables associated with the distribution of postal traffic in Portugal with origin in other countries.

These operations fall within the scope of the regulation of the Universal Postal Union (UPU), which establishes the closing of the accounts on an annual basis, after year end, and originated the significant amount of overdue of more than 360 days with these customers.

Regarding UPU regulation, the accounts between Foreign Operators are cleared by netting accounts. The credit risk is thus mitigated by the accounts payable balances related to these entities (Note 28).

The balance of national customers includes receivables of public entities and other clients that are also suppliers which will be netted with accounts payables balances and customers with debt payment plans.

For national customers, bank guarantees and advance deposits coverage over customers receivables is 2.4% for the year ended in 31 December 2013.

	2013	2012
Advance deposits	1,614,064	1,952,293
Bank guarantees	273,674	273,674
Total	1,887,738	2,225,967

Other accounts receivable

As at 31 December 2013 and 31 December 2012, the carrying values in the headings "Accounts receivable" and "Other accounts receivable" showed the following detail:

	2013			2012		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net amount
Non-current						
Advances to staff	463,546	-	463,546	312,243	-	312,243
Other amounts receivable from staff	1,296,044	1,296,044	-	1,384,664	1,123,171	261,493
Ministry of Health	1,487,593	-	1,487,593	1,444,883	-	1,444,883
INESC financing loan	1,397,613	1,397,613	-	1,455,643	1,455,643	-
	<u>4,644,796</u>	<u>2,693,657</u>	<u>1,951,139</u>	<u>4,597,433</u>	<u>2,578,814</u>	<u>2,018,619</u>
Current						
Advances to staff	3,338,227	944,895	2,393,332	2,836,285	911,743	1,924,542
Ministry of Health	1,531,568	-	1,531,568	1,487,594	-	1,487,594
Postal financial services	1,932,246	752,322	1,179,924	9,461,390	-	9,461,390
Accrued income	4,938,297	-	4,938,297	3,011,035	-	3,011,035
Other current assets						
Philatelic agents	52,788	-	52,788	54,001	-	54,001
Sundry invoicing CT	1,397,876	442,993	954,883	916,986	371,823	545,163
Caixa Geral de Aposentações - Social Work	77	-	77	296,524	-	296,524
INESC financing loan	49,740	49,740	-	49,740	49,740	-
Office for media	97,799	-	97,799	74,624	-	74,624
Debtors - escrow accounts	175,787	175,787	-	196,184	196,184	-
Foreign postal operators	55,641	-	55,641	-	-	-
Sundry debtors	5,412,398	5,412,398	-	5,124,781	5,124,781	-
Other	2,644,603	190,546	2,454,057	1,936,226	1,105,952	830,274
	<u>21,627,047</u>	<u>7,968,681</u>	<u>13,658,366</u>	<u>25,445,370</u>	<u>7,760,223</u>	<u>17,685,147</u>

The account receivable from the Ministério da Saúde refers to the Portuguese state contribution to health care costs from 2000 to 2006, under the CTT health plan, and according to the protocol signed with this entity, which ended on 31 December 2006. The debt is recorded at amortised cost and classified based on a scheduled payment.

The amounts recorded in the heading “Postal financial services” refer to amounts receivable from subscription of savings products and the marketing of insurance.

Accounts receivable and other accounts receivable impairments

For the years ended on 31 December 2013 and 31 December 2012, the movement occurred in “Accumulated impairment losses” (Note 18) was as follows:

	2013					
	Opening balance	Increases	Reversals	Uses	Transfers	Closing balance
Accounts receivable	4,814,776	93,181	(981,200)	(149,379)	-	3,777,378
Other accounts receivable	10,339,037	850,264	(202,261)	-	(324,702)	10,662,338
	<u>15,153,813</u>	<u>943,445</u>	<u>(1,183,461)</u>	<u>(149,379)</u>	<u>(324,702)</u>	<u>14,439,716</u>

	2012					
	Opening balance	Increases	Reversals	Uses	Transfers	Closing balance
Accounts receivable	5,692,955	299,124	-	(1,177,303)	-	4,814,776
Other accounts receivable	10,027,743	787,069	(475,775)	-	-	10,339,037
	<u>15,720,698</u>	<u>1,086,193</u>	<u>(475,775)</u>	<u>(1,177,303)</u>	<u>-</u>	<u>15,153,813</u>

For the years ended on 31 December 2013 and 31 December 2012, increases of impairment losses (net of reversals) were recorded in debts receivable for the amount of (240,016) Euros and 610,418 Euros, respectively.

16 DEFERRALS

As at 31 December 2013 and 31 December 2012, the headings “Deferrals” of the current assets and current and non-current liabilities had the following composition:

	<u>2013</u>	<u>2012</u>
Deferred assets		
Current		
Rents payable	1,049,402	1,141,837
Meal allowances	1,727,311	1,772,639
Other	702,919	1,139,636
	<u>3,479,632</u>	<u>4,054,112</u>
Deferred liabilities		
Non-current		
Deferred capital gains	8,475,340	10,874,369
	<u>8,475,340</u>	<u>10,874,369</u>
Current		
Deferred capital gains	2,399,029	2,399,029
Prepaid Phone-ix	453,150	572,687
Other	1,048,402	1,225,396
	<u>3,900,581</u>	<u>4,197,112</u>
	<u>12,375,921</u>	<u>15,071,481</u>

In previous years the Company sold certain property, which it subsequently leased. The gain on that sale was deferred and is being recognised over the period of the lease contracts.

During the years ended on 31 December 2013 and 31 December 2012, 1,511,128 Euros and 2,399,029 Euros, were recognised under the caption “Other operating income” in the company’s income statement, respectively, related to the above mentioned gains.

17 NON-CURRENT ASSETS AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS

As at 31 December 2013 and 31 December 2012, the Company did not have any non-current assets classified as available for sale.

18 ACCUMULATED IMPAIRMENT LOSSES

As at 31 December 2013 and 31 December 2012, the following movements were made in the headings for accumulated impairments:

	2013					Closing balance
	Opening balance	Increases	Reversals	Uses	Transfers	
Goodwill (Note 9)	4,375,588	-	-	-	-	4,375,588
Tangible fixed assets (Note 7)	502,113	-	-	-	(502,113)	-
Investment properties (Note 8)	-	1,104,392	-	-	502,113	1,606,505
Inventories (Note 14)	2,549,659	24,184	(95,366)	-	-	2,478,477
Accounts receivable and other accounts receivable (Note 15)	15,153,813	943,445	(1,183,461)	(149,379)	(324,702)	14,439,716
	<u>22,581,173</u>	<u>2,072,021</u>	<u>(1,278,827)</u>	<u>(149,379)</u>	<u>(324,702)</u>	<u>22,900,286</u>
	2012					Closing balance
	Opening balance	Increases	Reversals	Uses	Transfers	
Goodwill (Note 9)	4,375,588	-	-	-	-	4,375,588
Tangible fixed assets (Note 7)	-	502,113	-	-	-	502,113
Inventories (Note 14)	4,761,344	-	(2,211,685)	-	-	2,549,659
Accounts receivable and other accounts receivable (Note 15)	15,720,698	1,086,193	(475,775)	(1,177,303)	-	15,153,813
	<u>24,857,630</u>	<u>1,588,306</u>	<u>(2,687,460)</u>	<u>(1,177,303)</u>	<u>-</u>	<u>22,581,173</u>

19 EQUITY

Share capital

As at 31 December 2013, the Company's share capital was composed of 150,000,000 shares with the nominal value of 0.50 Euros each. The share capital is fully underwritten and paid-up.

At the General Meeting held on 30 October, 2013, the registered capital of CTT was reduced from 87,325,000 to 75,000,000 Euros, being from that date forward represented by 150,000,000 shares, as a result of a stock split which was accomplished through the reduction of the nominal value of 4.99 Euros to 0.50 Euros. The amount of 12,325,000 Euros related to the reduction of the capital was transferred to "Other reserves" (Note 20).

As at 31 December 2012, the Company's share capital was composed of 17,500,000 shares with the nominal value of 4.99 Euros each, and fully owned by the Portuguese State. In January 2013, the transfer to Parública of the financial investment that the Portuguese State held at CTT became effective. The share capital is fully underwritten and paid-up.

As at 31 December 2013 and 31 December 2012 the Company's shareholders with, greater than or equal to, 2% shareholdings are as follows:

Shareholder	2013		
	Nr shares	%	Nominal value
Parpública - Participações Públicas (SGPS), SA ⁽¹⁾	45,000,000	30.000%	22,500,000
Parpública - Participações Públicas (SGPS), SA ⁽²⁾	9,545,455	6.364%	4,772,728
Total ⁽³⁾	54,545,455	36.364%	27,272,728
Goldman Sachs International ⁽⁴⁾	7,496,479	4.998%	3,748,240
Deutsche Bank AG London ⁽⁵⁾	3,063,798	2.043%	1,531,899
Other shareholders ⁽⁶⁾	84,894,268	56.596%	42,447,134
Total	150,000,000	100.000%	75,000,000

Shareholder	2012		
	Nr shares	%	Nominal value
Portuguese State	17,500,000	100.000%	87,325,000
Total	17,500,000	100.000%	87,325,000

- (1) Shares held by Parpública – Participações Públicas (SGPS), SA, which in turn is fully owned by the Portuguese State.
- (2) Shares attributed to Parpública - Participações Públicas (SGPS), SA, in accordance with the call option on the Underwriters, represented for the purpose by the Stabilisation Agent (Stabilisation Manager) under direct sales institutional Contract (institutional Underwriting agreement) signed with the Underwriters in the privatization process of CTT. Under this contract the Underwriters also held an option to sell (put option) on Parpública - Participações Públicas (SGPS), SA. The share stabilisation operations were completed on 3 January, 2014, having the underwriters exercised the option to sell 2,253,834 shares of all 9,545,455 shares, representing 1.5% of the share capital of CTT.
- (3) Full participation Parpública - Participações Públicas (SGPS), SA as at 31 December, 2013, which in turn is owned entirely by the Portuguese State. From 3 January, 2014 Parpública - Public Participation (SGPS), SA holds 47,253,834 shares, i.e. 31.5% of the share capital of CTT.
- (4) Shares held by Goldman Sachs International, controlled by Goldman Sachs Holding (UK), which in turn is controlled by Goldman Sachs Group Holdings (UK) Limited, controlled by Goldman Sachs Group UK Limited, controlled by Goldman Sachs (UK) LLC, which in turn is controlled by the Goldman Sachs Group, Inc..
- (5) Shares held by Deutsche Bank AG London which in turn is a branch of Deutsche Bank AG.
- (6) Includes 2,064,660 shares held by CTT workers who, according to the terms of the offer reserved for employees under the privatization of CTT, are unavailable until 5 March, 2014.

20 RESERVES AND OTHER EQUITY ITEMS

Legal reserves

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

As at 31 December 2013 and 31 December 2012, the heading "Legal reserves" was detailed as follows:

	2013	2012
Opening balance	18,072,559	15,236,949
Distribution of net profit for the previous period	-	2,835,610
Closing balance	18,072,559	18,072,559

The legal reserve is now fully incorporated, corresponding to over 20% of the share capital.

Other reserves

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

As at 31 December 2013 and 31 December 2012, the heading "Other reserves" corresponding to "Free Reserves" was as follows:

	2013	2012
Opening balance	10,555,947	10,555,947
Distribution of extraordinary dividend (Note 21)	(10,555,947)	-
Share capital reduction (Note 19)	12,325,000	-
Closing balance	<u>12,325,000</u>	<u>10,555,947</u>

Retained earnings

For the years ended on 31 December 2013 and 31 December 2012, the following movements were made in the heading "Retained earnings":

	2013	2012 Restated
Opening balance	61,787,635	63,704,243
Distribution of net profit for the previous period	(2,818,861)	(1,451,804)
Distribution of extraordinary dividend (Note 21)	(889,924)	-
Net profit not attributed by subsidiaries and associated companies	(254,372)	(461,466)
Other	(863)	(3,338)
Closing balance	<u>57,823,615</u>	<u>61,787,635</u>

The amount of 2,818,861 Euros on the distribution of the net profit for the previous period corresponds to the effect of the restatement mentioned in Note 5, in which the net income for the year 2012, initially established as 38,554,129 Euros, was reduced to 35,735,268 Euros. As mentioned in Note 21 the net income obtained initially was fully paid as dividend to the shareholder.

Additionally, the balance that was presented under the heading "Revaluation reserve" in the balance sheet of 31 December, 2012, included in the financial statements prepared and disclosed by CTT for the year ended on that date, in the amount of 56,088,705 Euros (58,625,232 Euros on 31 December, 2011) was reclassified to "Retained earnings".

Adjustments in investments

This heading reflects the adjustments arising from the application of the equity method on equity items other than the net income for the period. Its distribution only occurs when the subsidiary is sold.

Other changes in equity

The company recognises in this heading the subsidies related with the acquisition or production of non-current assets (subsidies to fixed assets), which were fully received and are non-refundable. These subsidies are subsequently allocated on a systematic basis as revenues of the period during the useful lives of the assets with which they are related, having recognised revenues amounting to 11,201 Euros in 2013 and 11,267 Euros in 2012 (Note 31). The balance of this heading corresponds to the part of these subsidies that have not yet been allocated to revenues of the period.

With the early adoption, in 2012, of the changes to IAS 19R, the Actuarial gains/losses associated with Health Care benefits, as well as the corresponding deferred income tax, are recognised in this heading.

Thus, for the years ended on 31 December 2013 and 31 December 2012 the movements occurred in this heading were as follows:

	2013	2012 Restated
Opening balance	33,352,062	16,131,349
Allocation of subsidies to the financial year	(11,201)	(11,267)
Deferred income taxes related to the subsidies	863	3,338
Actuarial gains/losses - Health Care (Note 26)	(11,680,870)	24,265,693
Deferred income taxes actuarial gains/losses - Health Care (Note 38)	3,150,049	(7,037,051)
Closing balance	<u>24,810,903</u>	<u>33,352,062</u>

As mentioned in Note 5, this heading, as of 31 December, 2011 and 2012 was increased by 706,635 Euros following the restatement made.

21 DIVIDENDS

At the General Assembly held on 30 May 2013, the Board approved the distribution of a dividend of about 2,20 Euros per share relative to 31 December 2012 and a total dividend of 38,554,129 Euros was paid, which was subject to a withholding tax of 25% in June 2013. It was also decided to pay an extraordinary dividend in the amount of 11,445,871 Euros (0.65 Euro per share), which was also subject to withholding tax of 25% in June 2013.

For the extraordinary payment "Other reserves" were used in the amount of 10,555,949 Euros and "Retained earnings" in the amount of 889,922 Euros.

At the General Meeting of 30 May 2012, the distribution of a dividend per share of approximately 3.08 Euros referring to 2011 was approved, and the total dividend of 53,876,585 Euros was paid, which was subject to withholding tax of 25% during the month of June 2012.

22 EARNINGS PER SHARE

During the years ended on 31 December 2013 and 31 December 2012, the earnings per share were calculated as follows:

	2013	2012 Restated
Net income for the period	61,016,067	35,735,268
Average number of ordinary shares	150,000,000	150,000,000
Earnings per share	<u>0.41</u>	<u>0.24</u>

The number of shares changed throughout 2013, from 17,500,000 to 150,000,000 following the capital reduction made to reserves and a stock split by reducing the nominal value. Thus, since the change in the number of shares did not comprise the entry or exit of Company funds, the calculation of earnings per share for 2013 and 2012 took into account the number of existing shares on 31 December, 2013 (150,000,000).

23 PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

During the years ended on 31 December 2013 and 31 December 2012, the "Provisions" constituted by the Company showed the following movements:

	2013					
	Opening balance	Increases	Reversals	Uses	Transfers	Closing balance
Non-current provisions						
Litigations	8.950.243	3.677.667	(3.394.017)	(1.269.365)	2.707.611	10.672.139
Other risks and charges	<u>26.917.781</u>	<u>6.231.864</u>	<u>(746.181)</u>	<u>(2.777.411)</u>	<u>(2.382.909)</u>	<u>27.243.144</u>
	<u>35.868.024</u>	<u>9.909.531</u>	<u>(4.140.198)</u>	<u>(4.046.776)</u>	<u>324.702</u>	<u>37.915.283</u>
	2012 Restated					
	Opening balance	Increases	Reversals	Uses	Transfers	Closing balance
Non-current provisions						
Litigations	8.096.619	4.691.208	(2.600.736)	(1.236.848)	-	8.950.243
Other risks and charges	<u>7.745.832</u>	<u>19.795.302</u>	<u>(74.344)</u>	<u>(549.009)</u>	-	<u>26.917.781</u>
	<u>15.842.451</u>	<u>24.486.510</u>	<u>(2.675.080)</u>	<u>(1.785.857)</u>	-	<u>35.868.024</u>

The provisions for legal actions are intended to meet the requirements arising from cases brought against the Company, estimated based on information from its lawyers.

The provisions for Other risks and charges include the item Labour contingencies, Onerous contracts and several other situations:

- Labour Contingencies

As at 31 December 2013 CTT increased the “Other provisions” in 3,9 million Euros, to cover any contingencies relating to employment litigation actions not included in the current court proceedings, and related to differences in the basis of calculating holidays, holiday pay and Christmas bonus required by workers.

During the year ended on 31 December 2012 this provision was initially recorded, in the amount of 11,344,569 Euros, for eventual contingencies that could lead to labour proceedings. This amount was determined taking into account the evolution of the legal actions referring to remuneration differences in holiday salaries, holiday and Christmas bonuses, as well as the trend of a significant number of court cases of this nature. For this calculation, technical analyses were made of the time horizons and criteria to consider for the purposes of determining the scope and type of the remuneration supplements susceptible of being included in holiday salaries, holiday and Christmas bonuses.

As at 31 December 2013 this provision amounts to 12,512,193 Euros (11,344,569 Euros in 31 December 2012).

- Onerous Contracts

During the current year the provision to cover the estimated of the net present value of the expenditure associated with onerous contracts was increased by 1,844,338 Euros. This value was obtained from the update of the parameters used in the 31 December 2012 and taking into consideration the following:

- Following the move to the Edifício Báltico, CTT released a set of 4 properties with long-term binding lease contracts vacant without operating occupancy. For the property located in Praça D. Luís was negotiated between the owner and CTT for the early termination of the lease contract, and CTT agreed to pay 50% of the discounted lease payments;
- For the remaining buildings (Avenida Casal Ribeiro, Praça dos Restauradores e Rua do Conde Redondo), we estimated the present value of the unavoidable costs to meet the obligations under the contract terms;
- The increase in liabilities, in 2013, follows the update of assumptions, including the discount rate.

As at 31 December 2013 the provisioned amount for contracts is 12,643,714 Euros (13,212,379 Euros in 31 December 2012).

- Other Provisions

As at 31 December 2013, in addition to the previously mentioned situations, the provision for Other Risks and Charges also included:

- the amount of 303,022 Euros for coverage of costs of dismantlement of tangible fixed assets and/or removal of facilities and restoration of the location.

- the amount of 417,952 Euros for tangible fixed assets in storage.
- the amount of 890,000 Euros, which arises from the assessment made by the management regarding the possibility of the enforcement of tax contingencies.

The net amount between increases and reversals of provisions was recorded in the Income statement under the headings “Provisions, net ” as (5,769,333) Euros (21,811,431 Euros in 2012).

Guarantees provided

As at 31 December 2013 and 31 December 2012, the Company had undertaken commitments relative to guarantees provided to third parties to the value of 1,325,579 Euros and 1,377,326 Euros, respectively.

The details of these guarantees were as follows:

Description	2013	2012
Bank guarantees in favour of courts	539,437	822,029
Bank guarantees requested by companies in favour of third parties:		
Autoridade Tributária e Aduaneira	390,000	-
Câmaras Municipais	148,737	137,036
Autoridade para as Condições de Trabalho(ACT)	45,733	146,210
Ana Aeroportos de Portugal , E.P.	29,000	29,000
Alfândega do Freixo	74,820	74,820
Direção Regional de Contenciosos e Administrativo de Lisboa (DRCAL)	49,880	49,880
Secretaria Geral do Ministério da Administração Interna	-	48,000
Autoridade Nacional de Segurança Rodoviária	-	43,223
SPMS - Serviços Partilhados Ministério da Saúde	16,092	-
Portugal Telecom, S.A.	16,658	16,657
ARM - Águas e Resíduos da Madeira, SA	4,752	-
Estradas de Portugal, E.P.	5,000	5,000
Instituto de Infra Estruturas Rodoviárias	3,725	3,725
IFADAP	1,746	1,746
	<u>1,325,579</u>	<u>1,377,326</u>

Guarantees for Contracts

According to the determinations in some lease contracts of the buildings occupied by the Company’s services, having the Portuguese State ceased to hold the majority of the share capital of CTT-Correios de Portugal, S.A., bank guarantees on first demand must be provided.

Thus, all landlords have already requested the above mentioned bank guarantees, in the global amount of 12.5 million Euros, standing at the time the negotiations with the banks in course.

Contingent liabilities

As at 31 December 2013, the Company does not have contingent liabilities.

Commitments

For the years ended on 31 December 2013 and 31 December 2012, during the normal course of its activity, the Company assumed purchase commitments as follows:

Description	2013	2012
Purchase commitments to:		
Suppliers of intangible assets	264,991	-
Suppliers of tangible fixed assets	700,958	166,026
	<u>965,949</u>	<u>166,026</u>

The tangible fixed assets commitments relate to the acquisition of improvements in the OCR System in the amount of 210,000 euros, of trailers (182,400 Euros), light vans of goods worth 64,900 Euros, Electric Scooters Govecs (49,700 Euros), for a parallel system for labelling machines TOP in the amount of 47,900 Euros, of sequencing by CP7 in MARS (44,300 Euros) and internal containers for tray holders in the amount of 41,800 Euros.

With respect to intangible assets, purchase commitments relate to developments in the "Sales Force Automation" solution in the amount of 120,300 Euros, the Project Business Intelligence (83,700 Euros) and developments in a software for Litigation and Legal Advisory in the amount of 44,100 Euros.

The Company assumed financial commitments (comfort letters) before Banco Bilbao Vizcaya Argentaria, S.A and regarding the subsidiary Tourline, SLU to the amount of 1,170,769 Euros, which are still active as at 31 December 2013.

24 OPERATING LEASES

As at 31 December 2013 and 31 December 2012, the Company maintained medium and long term liabilities in operating lease contracts of vehicles, with penalty clause in the case of cancellation. The total amount of the future payments of these operating leases is as follows:

	2013	2012
Due within 1 year	7,274,279	7,043,103
Due between 1 to 5 years	15,776,043	6,613,062
	<u>23,050,322</u>	<u>13,656,165</u>

The increase in the period between 1 and 5 years relates to the process of renewal of the vehicle fleet that is currently in progress.

During the years ended on 31 December 2013 and 31 December 2012, the costs incurred with operating lease contracts of vehicles were 6,583,293 Euros and 5,689,801 Euros, respectively, and are recognised under "Rents" in the heading "External supplies and services" of the company income statement (Note 32).

The operating leases relates to leasing agreement of short duration, in which the lessor transfers the temporary use of the asset to a third party upon payment of an income or rental.

Lease payments are made monthly by equal amounts during the period of the lease agreement and the recognition of the rent is considered as an expense which will also be performed on a linear basis (straight-line basis).

There is no recognition of any leased asset, because the lease is a rental in substance and there is no evidence that demonstrate the lessee will obtain future economic benefits from the asset beyond the contract period.

The transfer of the legal ownership of the assets to the lessee at the end of the contract is not expected.

25 DEBT

As at 31 December 2013 and 31 December 2012, the heading "Debt" was detailed as follows:

	2013	2012
Non-current liabilities		
Leasings	1,647,925	2,104,100
	<u>1,647,925</u>	<u>2,104,100</u>
Current liabilities		
Bank loans	-	2,995,872
Leasings	456,263	453,146
	<u>456,263</u>	<u>3,449,018</u>
	<u><u>2,104,188</u></u>	<u><u>5,553,118</u></u>

Bank loans

As at 31 December 2013 and 31 December 2012, the details of the bank loans and other loans were as follows:

Financing entity	2013			2012		
	Limit	Used amount		Limit	Used amount	
		Current	Non-current		Current	Non-current
Bank loans:						
Millennium BCP	5,000,000	-	-	5,000,000	2,995,872	-
	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>5,000,000</u>	<u>2,995,872</u>	<u>-</u>

Leasings

As at 31 December 2013 and 31 December 2012, the Company's liabilities with leasing contracts (Note 7) presented the following plan of due dates:

	2013			2012		
	Principal	Interest	Lease payments	Principal	Interest	Lease payments
Due within 1 year	456,263	13,912	470,175	453,146	16,684	469,830
Due between 1 to 5 years	1,647,925	20,326	1,668,250	2,104,100	33,214	2,137,314
Total	<u>2,104,188</u>	<u>34,237</u>	<u>2,138,426</u>	<u>2,557,246</u>	<u>49,898</u>	<u>2,607,144</u>

As at 31 December 2013 and 31 December 2012, the Company has following assets held under finance lease contracts:

	2013			2012		
	Gross Amount	Depreciation/accumulated impairment losses	Carrying value	Gross Amount	Depreciation/accumulated impairment losses	Carrying value
Land and natural resources	7,798,567	815,990	6,982,577	7,798,567	815,990	6,982,577
Buildings and other constructions	81,701	23,251	58,450	81,701	19,796	61,905
	<u>7,880,268</u>	<u>839,241</u>	<u>7,041,027</u>	<u>7,880,268</u>	<u>835,786</u>	<u>7,044,482</u>

The company is the lessee under a leasing contract signed with IMOLEASING – Sociedade de locação financeira imobiliária, S.A., relative to a property in the Município da Maia (Oporto) where the new Sorting Centre is located, which was opened in December 2010. The type of the lease contracts determines their classification as a lease.

There are neither contingent rents payable nor the imposition of any restrictions. There is an option to buy for a residual value of approximately 6% of the contract's value.

26 EMPLOYEE BENEFITS

Liabilities with employee benefits refer to (i) post-employment benefits – health care, and (ii) other long term benefits for employees.

During the years ended on 31 December 2013 and 31 December 2012, these liabilities showed the following movement:

	2013		
	Health care	Other long term benefits	Total
Opening balance	252,803,000	50,206,132	303,009,132
Movement of the period	10,568,000	(15,344,506)	(4,776,506)
Closing balance	<u>263,371,000</u>	<u>34,861,626</u>	<u>298,232,626</u>

	2012		
	Health care	Other long term benefits	Total
Opening balance	272,102,000	48,819,817	320,921,817
Movement of the period	(19,299,000)	1,386,315	(17,912,685)
Closing balance	<u>252,803,000</u>	<u>50,206,132</u>	<u>303,009,132</u>

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

	2013	2012
Non-current liabilities	278,484,455	281,919,352
Current liabilities	19,748,171	21,089,780
	<u>298,232,626</u>	<u>303,009,132</u>

The costs with employee benefits recognised in the Corporate income statement and the value recorded directly in “Other changes in equity” amounted to:

	2013	2012
Costs for the period		
Health care	13,747,000	17,608,000
Other long term benefits	(5,206,460)	7,824,526
	<u>8,540,540</u>	<u>25,432,526</u>
Other changes in equity		
Health care	(11,680,870)	24,265,693
	<u>(11,680,870)</u>	<u>24,265,693</u>

Health care

As mentioned in Note 3.15, CTT is responsible for financing the health care plan applicable to certain employees. In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is made by an independent entity every year, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable, having, as at 31 December 2013, elaborated an actuarial study.

The main assumptions followed in the actuarial assessment were:

	2013	2012	2011
Financial assumptions			
Discount rate	4.00%	4.00%	5.00%
Salaries expected growth rate	0% in 2013 and 2014 2.75% from that date	0% in 2013 and 2014 2.75% from that date	2.75%
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP < 2%)	Law no. 53-B/2006 (with Δ GDP < 2%)	Law no. 53-B/2006
Inflation rate	2.00%	2.00%	2.00%
Health costs growth rate			
Inflation rate	2.00%	2.00%	2.00%
Growth due to ageing	0% and 2013 and 2014 2% from that date	0% and 2013 and 2014 2% from that date	3.00%
Demographic assumptions			
Mortality table	TV 88/90	TV 88/90	TV 88/90
Invalidity table	Swiss RE	Swiss RE	Swiss RE

The discount rate is estimated based on interest rates of private debt bonds with a high credit rating (“AA” or equivalent) at the date of the financial position and with a duration equivalent to that of the liabilities with health care.

The maintenance of the discount rate to 4.00% is motivated by the analysis performed by the Company of the evolution of the macroeconomic context taking into account a constant need to match the actuarial and financial assumptions to that reality.

The expected growth rate of salaries is determined according to the salary policy defined by the Company.

The expected growth rate of pensions is determined considering the estimated evolution of inflation and GDP growth rate.

The growth rate of health care costs reflects the best estimate for the future evolution of these costs, considering the history of the plan's data.

The demographic assumptions are based on the mortality and disability tables considered appropriate for the actuarial assessment of this plan.

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

	2013	2012	2011	2010	2009
Liabilities at the end of the period	<u>263,371,000</u>	<u>252,803,000</u>	<u>272,102,000</u>	<u>272,123,000</u>	<u>299,454,000</u>

For the years ended on 31 December 2013 and 31 December 2012, the movement which occurred in the present value of the defined benefits liability regarding the health care plan was as follows:

	2013	2012
Opening balance	252,803,000	272,102,000
Service costs of the period	3,882,000	4,330,000
Interest costs of the period	9,865,000	13,278,000
Contributions of pensioners	3,552,478	3,409,494
(Payment of benefits)	(17,249,738)	(14,877,637)
(Other costs)	(1,162,610)	(1,173,164)
Actuarial (gains)/losses	11,680,870	(24,265,693)
Closing balance	<u>263,371,000</u>	<u>252,803,000</u>

For the years ended on 31 December 2013 and 31 December 2012, the composition of costs related to health care was as follows:

	2013	2012 Restated
Staff costs/employee benefits (Note 33)	2,719,390	3,156,836
Other operating costs	1,162,610	1,173,164
Interest expenses (Note 36)	9,865,000	13,278,000
Total costs for the period	<u>13,747,000</u>	<u>17,608,000</u>

The best estimate that Company has at this date for costs with the health care plan, which it expects to recognise in the next annual period of 2014 is 14,093 thousand Euros.

The actuarial gains / (losses) amounting to (11,680,870) Euros (24,265,693 Euros as at 31 December 2012) were recognised in equity under the caption "Other Changes in Equity", net of deferred taxes amounting to 3,150,049 Euros ((7,037,051) Euros as at 31 December 2012).

The sensitivity analysis performed for the health care plan leads to the following conclusions:

(i) If there was an increase of 1 per cent in the growth rate of medical costs, keeping all other variables constant, the liabilities of the health care plan would be 307,989 thousand Euros, increasing by approximately 16.9%.

(ii) If the discount rate was reduced 0.5 per cent and keeping all the remaining variables constant, the liabilities would increase by approximately 6.8%, amounting to 281,280 thousand Euros.

Other long term benefits

As mentioned in Note 3.15, in certain situations, the Company has liabilities with the payment of salaries in situation of “Suspension of contracts, redeployment, pre-retirement contracts and release of employment”, with the allocation of subsidies for the “Support for termination of professional activity”, which was terminated from 1 April 2013 onward, with the payment of the “Telephone subscription fee”, with “Pensions for accidents at work”, and “Monthly life annuity”. In order to obtain the estimate of the value of these liabilities and the costs to be recognised for each period, every year, an actuarial study is made by an independent entity, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable.

The main assumptions followed in the assessment of these liabilities were:

	2013	2012	2011
Financial assumptions			
Discount rate	4.0%	4.0%	5.0%
Salaries growth rate	0% in 2013 and 2014 2,75% from that date	0% in 2013 and 2014 2,75% from that date	2.75%
Pensions growth rate	Law no. 53-B/2006 (com Δ GDP < 2%)	Law no. 53-B/2006 (com Δ GDP < 2%)	Law no. 53-B/2006
Inflation rate	2.0%	2.00%	2.0%
Demographic assumptions			
Mortality table	TV 88/90	TV 88/90	TV 88/90
Disability rate	Swiss RE	Swiss RE	Swiss RE

For the determination of the Company's liabilities to employees in situations of “Suspension of contracts, redeployment and release of employment”, salary growth rates of 0% were considered for 2013 and 2014, and 2.75% for the following years. The salary growth rate of 2.75% was applied to the remaining employee benefits, except for the “Telephone subscription charge” and “Support for termination of professional activity” for which no value update was considered.

For the years ended on 31 December 2013 and 31 December 2012, the movement of liabilities with other employee long-term benefits was as follows:

	2013	2012
Suspension of contracts, redeployment and release of employment		
Opening balance	23,777,219	16,501,232
Interest cost	833,035	1,255,368
Liabilities relative to new beneficiaries	1,914,115	12,556,711
(Payment of benefits)	(7,290,756)	(3,892,974)
Actuarial (gains)/losses	199,849	(2,643,118)
Closing balance	<u>19,433,462</u>	<u>23,777,219</u>
Telephone subscription charge		
Opening balance	14,242,125	14,296,771
Interest cost	451,814	676,602
Curtailment	(8,211,129)	-
(Payment of benefits)	(1,445,398)	(1,512,475)
Actuarial (gains)/losses	(237,217)	781,227
Closing balance	<u>4,800,195</u>	<u>14,242,125</u>
Pension for accident at work		
Opening balance	7,563,939	7,166,624
Interest cost	293,948	347,635
(Payment of benefits)	(422,708)	(425,297)
Actuarial (gains)/losses	(430,809)	474,977
Closing balance	<u>7,004,370</u>	<u>7,563,939</u>
Monthly life annuity		
Opening balance	3,691,640	3,047,431
Interest cost	145,503	149,739
(Payment of benefits)	(108,120)	(112,719)
Actuarial (gains)/losses	(184,239)	607,189
Closing balance	<u>3,544,784</u>	<u>3,691,640</u>
Support for termination of professional activity		
Opening balance	931,209	7,807,759
Service costs of the period	-	345,177
Interest cost	18,624	384,031
Curtailment	-	(6,563,175)
(Payment of benefits)	(871,064)	(494,746)
Actuarial (gains)/losses	46	(547,837)
Closing balance	<u>78,815</u>	<u>931,209</u>
Total closing balance	<u><u>34,861,626</u></u>	<u><u>50,206,132</u></u>

In the year ended 31 December, 2013, due to Portaria 378-G/2013, 31 December, the retirement age has changed from 65 to 66 for employees covered by Social Security. This change had a more significant impact on the liability related to the "Suspension of contracts, relocation and release of employment" where the increase in the liability was about 494 thousand Euros.

In 2012, the Board of Directors decided to discontinue the compensation awarded to the workers who have reached the end of their active life at the service of CTT, SA. – Support for termination of professional activity. It has also ruled that, in situations of release and retirement that may occur as a result of the requests for retirement submitted until 31 March, 2013, the above referred benefit would be maintained (Note 3.15).

As at 31 December 2013, the Board of Directors of CTT, decided to modify the economic benefit related to the Telephone Subscription Charge. Thus, from 1 January, 2014, the cash payment will be replaced by a benefit in kind.

During the years ended on 31 December 2013 and 31 December 2012, the composition of expenditure related to other long term benefits, recognised under the heading "Staff costs" and "Interest and similar expenses", was as follows (Note 33):

	2013	2012
Staff costs/employee benefits (Note 33)		
Suspension of contracts, redeployment and release of employment	2,113,964	9,913,593
Telephone subscription charge	(8,448,346)	781,227
Pension for accident at work	(430,809)	474,977
Monthly living allowance	(184,239)	607,189
Support for termination of professional activity	46	(6,765,835)
subtotal	<u>(6,949,384)</u>	<u>5,011,151</u>
Interest expenses (Note 36)	<u>1,742,924</u>	<u>2,813,375</u>
Total costs for the period	<u><u>(5,206,460)</u></u>	<u><u>7,824,526</u></u>

The best estimate that Company has at this date for costs with other long-term benefits, which it expects to recognise in the next annual period of 2014 is 1,268 thousand Euros.

The sensitivity analysis done for the "Other long term benefits" plan leads to the conclusion that, if the discount rate was reduced by 50 b.p. compared to the final discount rate on 31 December 2013, keeping everything else constant, this would give rise to an increase of liabilities for past services of approximately 3.1%, increasing to 35,942 thousand Euros.

27 ACCOUNTS PAYABLE

As at 31 December 2013 and 31 December 2012, the headings "Accounts payable" and "Other accounts payable" showed the following composition:

Accounts payable

As at 31 December 2013 and 31 December 2012, the age structure of the balance of the "Accounts payable" headings was as follows:

	2013				2012			
	Group companies	Third parties	Postal operators	Total	Group companies	Third parties	Postal operators	Total
Accounts payable, current account:								
Not due	1,464,067	5,201,197	4,976,404	11,641,668	1,433,154	13,738,433	3,770,338	18,941,925
0-30 days	1,410	4,045,410	-	4,046,820	268	2,546,072	-	2,546,340
30-90 days	54,747	3,536,686	712,236	4,303,669	-	3,815,043	1,795,369	5,610,412
90-180 days	-	(6,762)	2,362,841	2,356,079	-	248,374	2,411,338	2,659,712
180-360 days	1,527	72,537	7,187,425	7,261,488	-	(4,410)	7,256,689	7,252,279
> 360 days	-	(3,355)	18,862,566	18,859,211	-	36,902	27,867,914	27,904,816
	<u>1,521,750</u>	<u>12,845,714</u>	<u>34,101,473</u>	<u>48,468,936</u>	<u>1,433,422</u>	<u>20,380,414</u>	<u>43,101,648</u>	<u>64,915,484</u>
Accounts payable, invoices pending confirmation	-	8,402,695	-	8,402,695	-	1,917,703	-	1,917,703
	<u><u>1,521,750</u></u>	<u><u>21,248,409</u></u>	<u><u>34,101,473</u></u>	<u><u>56,871,632</u></u>	<u><u>1,433,422</u></u>	<u><u>22,298,117</u></u>	<u><u>43,101,648</u></u>	<u><u>66,833,187</u></u>

The current amount of Accounts payable overdue over 360 days is as follows:

	2013	2012
National account payable	-	36,902
Foreign operators	18,862,566	27,867,914
<i>Total</i>	<u>18,862,566</u>	<u>27,904,816</u>
Foreign operators - receivables	<u>(19,120,379)</u>	<u>(25,853,639)</u>

The balances between Postal Operators are cleared by netting accounts. These amounts are related to the accounts receivable balances related to these entities (Note 15).

Other accounts payable

As at 31 December 2013 and 31 December 2012, the details of "Other accounts payable" were as follows:

	2013	2012
Current		
Advances from customers	2,800,837	3,049,633
Fixed assets suppliers		
Group companies	176,168	3,930,799
Third parties	2,375,547	1,514,494
Accruals		
Remunerations payable	28,540,087	31,082,639
Social contributions	6,117,131	7,728,410
Other	14,264,329	10,729,075
Centro Nacional de Pensões (CNP)	202,301,462	186,169,916
Other creditors		
Taxes	14,355,379	25,688,889
Money orders	17,274,707	21,532,103
Postal savings certificates	63,981,098	11,346,698
Cash-on-delivery services	9,307,990	12,255,109
Group companies	1,307,599	1,252,870
Other	9,200,564	7,189,979
	<u>372,002,897</u>	<u>323,470,614</u>

The increase in the heading "Postal savings certificates" results from the investment in this financial product by the savers.

The heading "Centro Nacional de Pensões (CNP)" refers to values received from the National Pensions Centre, whose payment date to the corresponding pensioners must occur in the month after the closing of the period.

28 TAXES PAYABLE

As at 31 December 2013 and 31 December 2012, the heading "Taxes Payable" presented the following composition:

	2013	2012
Current liabilities		
Corporate income tax	70,050	1,001,131
Personal income tax withholding	3,213,968	2,167,368
Value added tax	2,367,971	1,903,771
Social Security contributions	4,952,643	4,410,724
Caixa Geral de Aposentações	961,880	794,990
Local Authority taxes	512,055	638,169
Other taxes	77	-
	<u>12,078,644</u>	<u>10,916,154</u>

The current liabilities relative to corporate income tax was calculated as follows:

	2013	2012
Estimated income tax (Note 38)	16,247,993	19,109,323
Estimated Group companies' income tax	5,074,568	5,370,721
Payments on account	(17,683,782)	(19,610,340)
Withholding taxes	(3,568,729)	(3,868,573)
	<u>70,050</u>	<u>1,001,131</u>

29 SUBSIDIES OBTAINED

As at 31 December 2012, the information regarding community subsidies (Note 3.17) was as follows:

Subsidy	Attributed value	Value received	Value not received	Accumulated revenues	Value to be used	Deferred tax adjustment	Net value to be used
FEDER	9,815,622	9,662,306	153,316	9,442,724	372,898	110,751	262,147
	<u>9,815,622</u>	<u>9,662,306</u>	<u>153,316</u>	<u>9,442,724</u>	<u>372,898</u>	<u>110,751</u>	<u>262,147</u>

The amounts received from investment subsidies, initially recognised in equity (Note 20), were transferred to the Corporate Income statement, to the heading "Other operating revenues", as the subsidised assets were amortised (Note 31).

30 SALES AND SERVICES RENDERED

For the years ended on 31 December 2013 and 31 December 2012, the significant categories of the Company's revenue were as follows:

	2013	2012
Sales	21,093,522	23,008,136
Mail services rendered	452,681,975	460,745,881
Postal financial services	40,012,872	35,573,109
Electronic vehicle identification devices	4,888,025	5,382,191
Telecommunication services	3,275,453	3,772,017
Other	2,845,619	3,732,262
	<u>524,797,466</u>	<u>532,213,596</u>

The changes in the heading “Mail services rendered” fundamentally result from the decrease in the use of physical mail motivated by electronic substitution, which was enhanced by a difficult economic environment.

“Other services” fundamentally concern:

	2013	2012
Exchange of documents	355,468	611,869
Photocopies Certification	303,149	375,195
RAM transport allowance	427,799	429,419
Philately virtual store	19,356	212,987
PT services	203,982	306,108
Digital mailroom	276,705	440,735
Other	1,259,158	1,355,949
	<u>2,845,619</u>	<u>3,732,262</u>

31 OTHER OPERATING REVENUES

During the years ended on 31 December 2013 and 31 December 2012, the composition of the heading "Other operating revenues" was as follows:

	2013	2012
Amortisation of fixed assets subsidies (Notes 20 and 29)	11,201	11,267
Supplementary revenues	27,572,917	25,065,024
Prompt-payment discounts obtained	36,431	94,614
Gains in inventories	17,082	53,320
Sale of tangible fixed assets	1,951,211	2,693,139
Favourable exchange rate differences of assets and liabilities different from financing	3,409,320	2,330,942
Revenue from non-financial investments	345,873	531,587
VAT-pro rata adjustment	227,186	813,563
Interest from deposits in credit institutions	10,673,605	13,522,891
Other interest and similar income	107,758	575,418
Other	1,053,541	1,207,894
	<u>45,406,125</u>	<u>46,899,659</u>

According to clarification 26 of the Commission of Accounting Standards of May/2012, "Interest and similar income" that do not directly derive from the entity's funding shall affect the operating profit (before financing costs and taxes).

“Supplementary revenues” fundamentally concerns:

	<u>2013</u>	<u>2012</u>
Studies, projects and technical assistance	112,444	112,444
Royalties	500,000	500,000
Services rendered to subsidiaries and associated companies	23,437,794	20,695,686
Rental of spaces in urban buildings	2,673,142	2,804,296
Other	849,538	952,598
	<u>27,572,917</u>	<u>25,065,024</u>

32 EXTERNAL SUPPLIES AND SERVICES

During the years ended on 31 December 2013 and 31 December 2012, the composition of the heading "External supplies and services" was as follows:

		<u>2013</u>	<u>2012</u>
Specialised services			
IT services	(i)	23,505,871	25,467,866
Group company services		10,866,203	11,648,711
Maintenance and repair	(ii)	11,516,398	14,028,802
Publicity and Advertising		2,708,859	1,561,992
Surveillance and security		2,411,509	2,265,315
Consulting		4,625,540	2,476,222
Other specialised services		5,457,603	2,904,070
Materials		1,716,036	2,059,920
Energy	(iii)	12,882,544	13,252,799
Travel and hotels		479,013	404,934
Staff transportation		244,145	241,249
Transportation of goods	(iv)	11,871,724	14,363,381
Sundry services			
Rents			
Vehicle operational lease (Note 24)		6,583,293	5,689,801
Other Portal and telecom costs rental charge	(v)	20,742,747	23,148,923
Communication		4,323,793	4,802,848
Other services		39,647,944	41,223,841
		<u>159,583,221</u>	<u>165,540,674</u>

- (i) Costs with IT services refer in particular to the outsourcing contracts for rendering the mentioned services;
- (ii) Costs with “Maintenance and repair” concern the maintenance of IT equipment
- (iii) Costs with “Energy” refer fundamentally to diesel for goods vehicles used in the operating process;
- (iv) Costs with “Transportation of goods” refer to costs with the transportation of mail in several ways (sea, air, surface);
- (v) Costs with “Other rental charges” refer to costs with facilities leased from third-parties.

In the year ended 31 December, 2013 is included in this item the amount of 4.4 million Euros related to the privatization process and strategic studies associated with the Express segment.

The breakdown of "Other Services" is as follows:

	2013	2012
Litigation and notary	329,541	174,350
Uniforms	548,972	709,044
Insurance	2,020,900	1,912,930
Remuneration to postal agencies	4,331,920	4,215,330
Cleaning, hygiene and comfort	3,764,712	3,939,783
Services for Group companies	3,607,396	4,761,580
Delivery subcontracting	5,903,553	7,054,046
Postal operators	15,435,803	14,858,777
Other	3,705,147	3,598,001
	<u>39,647,944</u>	<u>41,223,841</u>

33 STAFF COSTS

During the years ended on 31 December 2013 and 31 December 2012, the composition of the heading "Staff Costs" was as follows:

	2013	2012 Restated
Remuneration of statutory bodies (Note 6)	999,036	675,730
Staff remuneration	220,002,164	225,561,315
Employee benefits (Note 26)		
Health care	2,719,390	3,156,836
Other benefits	(6,949,384)	5,011,151
Indemnities	1,612,647	1,792,476
Social charges security	47,029,790	46,341,045
Occupational accident and disease insurance	1,352,937	1,452,002
Social welfare costs	12,673,392	11,726,046
	<u>279,439,972</u>	<u>295,716,601</u>

Following the restatement described in Note 5, the balance of staff cost for 2012 presented in these financial statements for comparative purposes has changed in comparison to those disclosed in the statements of 31 December, 2012. Thus, the interest expenses related to long term employee benefits in the amount of 16,091,375 Euros were reclassified to "Interest and similar expenses" as well as an adjustment in the amount of 659,500 Euros in indemnities.

The variation in the heading " Staff remunerations " is mainly a result of the reduction in the average number of employees working for the Company, although in the year ended 31 December, 2012, this item does not include the recognition of the cost of the Christmas bonus, in accordance with the provisions of the State Budget for 2012. However, includes responsibility for the payment of holiday pay because the regulation that suspended it on the Orçamento Geral do Estado de 2013 (Portuguese state budget law) was declared unconstitutional by the corresponding court.

The caption "Indemnities" includes the amount of 869,500 Euros related to compensations paid in proceedings for termination of employment contracts by mutual agreement.

During the years ended 31 December, 2013 and 31 December, 2012 the heading "Staff costs" includes the amounts of 838,647 Euros and 1,085,005 Euros, respectively, related to expenses with workers' representative bodies.

During the years ended on 31 December 2013 and 31 December 2012, the average number of staff of the Company was, respectively, 11,217 and 11,921 employees.

Remuneration of the statutory bodies

During the years ended on 31 December 2013 and 31 December 2012, the fixed remunerations allocated to the members of the Board of Directors of the Company were as follows:

	2013	2012
Board of Directors		
Fixed remuneration	843,733	518,968
	<u>843,733</u>	<u>518,968</u>

During the year ended on 31 December 2012, and by joint order of the Ministério da Economia and the Ministério das Finanças of 24 August, a new Board of Directors was appointed, and this body is since composed of five members, since the previous Board of Directors was composed only of three executive directors due to the resignation of two directors in 2011.

Social welfare costs

During the years ended on 31 December 2013 and 31 December 2012, this heading includes, respectively, 7,357,040 Euros and 5,810,058 Euros, relative to costs with health care of active employees.

34 DEPRECIATION, AMORTISATION AND IMPAIRMENT

During the years ended on 31 December 2013 and 31 December 2012, the details depreciation and amortisation, net, and impairment of depreciable/amortisable assets, net were as follows:

	<u>2013</u>	<u>2012</u>
Tangible fixed assets (Note 7)	16,175,297	16,808,017
Investment properties (Note 8)	782,537	1,313
Intangible assets (Note 10)	<u>3,101,859</u>	<u>2,516,436</u>
	<u>20,059,693</u>	<u>19,325,766</u>

Impairments of depreciable/amortisable assets, net

	<u>2013</u>	<u>2012</u>
Investment properties (Note 8)	<u>1,104,392</u>	<u>502,113</u>
	<u>1,104,392</u>	<u>502,113</u>

35 OTHER OPERATIONS COSTS

During the years ended on 31 December 2013 and 31 December 2012, the breakdown of the heading "Other operating costs " was as follows:

	<u>2013</u>	<u>2012</u>
Taxes and fees	820,683	1,000,615
Bad debts	42,692	69,557
Write-offs of tangible fixed assets	24,106	9,064
Losses in inventories	210,826	617,531
Concession rent	196,240	1,101,936
Unfavourable exchange rate differences of assets and liabilities different from financing	3,513,306	2,266,404
Donations	810,122	967,786
Subscriptions	587,086	589,491
Alienations	399,727	-
Contractual penalties	103,296	1,361,937
Indemnities	323,586	188,498
Banking services	644,299	661,225
Default interest	645,388	634,784
Other costs	<u>931,842</u>	<u>470,935</u>
	<u>9,253,199</u>	<u>9,939,763</u>

The variation in the heading "Concession Rent" is caused by the issue of Law No. 17/2012, 26 April, which transposed to national law the 3rd Postal Directive, and introduced significant changes in the scope of universal and reserved service, considerably reducing the base for calculation of that amount.

The heading "Contractual penalties" on 31 December 2012 essentially concerns the de-recognition of the investment property "Campo 24 de Agosto", since CTT did not activate the safeguard clause that would allow to keep it in the company sphere (Note 8).

36 INTEREST EXPENSES AND INTEREST INCOME

During the years ended on 31 December 2013 and 31 December 2012, the heading "Interest income" was detailed as follows:

	<u>2013</u>	<u>2012</u>
Interest income		
Loans to Group companies	681,141	644,978
	<u>681,141</u>	<u>644,978</u>

During the years ended on 31 December 2013 and 31 December 2012, the heading "Interest expenses" was detailed as follows:

	<u>2013</u>	<u>2012</u> Restated
Interest expenses		
Bank overdrafts	26,313	41,630
Financial leases	16,938	31,595
Other interest	9,171	35,324
Interest expenses from employee benefits (Note 26)	11,607,924	16,091,375
Outros gastos de financiamento	2,602	-
	<u>11,662,948</u>	<u>16,199,924</u>

As mentioned in Note 5, the balance of interest and similar expenses for 2012 presented in these financial statements for comparative purposes has been restated to include the interest associated with defined benefit plans in the amount of 16,091,375 Euros that were previously included in Staff Cost (Note 33).

37 EXCHANGE RATE EFFECTS

During the years ended on 31 December 2013 and 31 December 2012, the Company recognised the following exchange rate differences:

	<u>2013</u>	<u>2012</u>
Unfavourable exchange rate		
Operating activity		
Other costs (Note 35)	3,513,306	2,266,404
	<u>3,513,306</u>	<u>2,266,404</u>
Favourable exchange rate		
Operating activity		
Other income (Note 31)	3,409,320	2,330,942
	<u>3,409,320</u>	<u>2,330,942</u>

38 INCOME TAX FOR THE YEAR

The Company is subject to taxes on its profits through Corporate Income Tax (“IRC”) at the normal rate of 25%, whilst Derrama (Municipal Surcharge) is established at a maximum rate of 1.5% of taxable profit, and state surcharge is 3% of taxable profit above 1,500,000 Euros and 5% of taxable profit above 7,500,000 Euros (10,000,000 Euros in 2012).

Corporate income tax (IRC) is levied in CTT and its subsidiaries Postcontacto – Correio Publicitário, Lda., CTT – Expresso, S.A., Mailtec Holding, SGPS, S.A., Mailtec Comunicação, S.A., Mailtec Consultoria, S.A., Mailtec Processos, Lda., Payshop Portugal, S.A. (“Payshop”), and CTT GEST – Gestão de Serviços e Equipamentos Postais, S.A. (“CTT Gest”), through the Special Regime for the Taxation of Groups of Companies (“RETGS”). The remaining companies are taxed individually.

Reconciliation of the tax rate

During the years ended on 31 December 2013 and 31 December 2012, the reconciliation between the amount arising from the application of the nominal tax rate to earnings before taxes and the cost of income tax was as follows:

	2013	2012 Restated
Earnings before taxes	79,271,451	47,964,164
Nominal income tax rate	25.0%	25.0%
Expected tax income	19,817,863	11,991,041
Tax benefits	(310,720)	(329,634)
Accounting capital gains	(2,152)	(65,029)
Tax capital gains	(164,575)	4,122
Equity method	(2,200,207)	(2,795,299)
Provisions not considered in the calculation of deferred taxes	(186,546)	95,424
Impairment losses and reversals	162,001	77,823
Other situations, net	363,192	372,183
Autonomous taxation	609,431	543,472
Municipal Surcharge	787,977	895,755
State Surcharge	2,431,590	2,740,849
Extraordinary investment tax credit	(713,957)	-
Impact of the change in income tax rate (deferred tax)	(2,484,264)	-
Excess estimated and refunded income tax	(711,085)	(539,131)
Other effects, net	856,836	(762,680)
Income taxes for the period	18,255,384	12,228,896
Effective income tax rate	23.03%	25.50%
Income taxes for the period		
Current tax	16,247,993	19,109,321
Deferred tax	2,718,476	(6,341,294)
Excess estimated income tax	(711,085)	(539,131)
	18,255,384	12,228,896

As at 31 December 2012, the heading “Excess estimated income tax” includes the amount of 439,432 Euros relative to the deferral of the claim regarding Corporate Income Tax 2008. As at 31

December 2013 the same heading includes the amount of 621,190 Euros related to the deferral of the claims regarding the amounts of Autonomous Taxation and Municipal and State Surcharge determined in the years 2008 to 2011.

The amount recorded in income tax for the year 2012 was restated as detailed in Note 5.

Deferred taxes

As at 31 December 2013 and 31 December 2012, the balance of deferred tax assets and liabilities was composed as follows:

	<u>2013</u>	<u>2012</u>
Deferred tax assets		
Employee benefits - health care	78,221,187	73,312,870
Employee benefits - other long term benefits	10,353,077	14,700,828
Deferred accounting capital gains	3,229,688	3,897,266
Impairment losses and provisions	8,496,125	8,421,836
Adjustments new GAAP - derecognition of inventories	77,821	157,216
Adjustments new GAAP - value deducted from staff debts	18,692	37,761
Impairment losses in tangible fixed assets	452,859	145,613
	<u>100,849,449</u>	<u>100,673,390</u>
	<u>2013</u>	<u>2012</u>
Deferred tax liabilities		
Revaluation reserves	4,288,852	4,529,436
Suspended capital gains	1,082,455	1,096,522
Fixed assets subsidies	110,751	111,614
	<u>5,482,058</u>	<u>5,737,572</u>

During the years ended on 31 December 2013 and 31 December 2012, the movement which occurred under the deferred tax headings was as follows:

	<u>2013</u>	<u>2012</u>
Deferred tax assets		
Opening balance	100,673,390	101,714,212
Movements of the period - effect on net profit		
Employee benefits - health care	1,758,268	651,168
Employee benefits - other long term benefits	(4,347,751)	428,516
Impairment losses and provisions	74,289	4,826,196
Impairment losses in tangible fixed assets	307,246	145,613
Deferred accounting capital gains	(667,578)	(743,699)
Adjustments new GAAP - derecognition of inventories	(79,395)	(81,228)
Adjustments new GAAP - value deducted from staff debts	(19,069)	(19,510)
Movements of the period - effect on equity		
Employee benefits - health care	3,150,049	(6,247,878)
Closing balance	<u>100,849,449</u>	<u>100,673,390</u>

	2013	2012
Deferred tax liabilities		
Opening balance	5,737,572	6,082,638
Movements of the period		
Revaluation reserves	(240,584)	(282,320)
Suspended capital gains	(14,067)	(59,408)
Fixed assets subsidies	(863)	(3,338)
Closing balance	<u>5,482,058</u>	<u>5,737,572</u>

As at 31 December 2013, expected deferred tax assets and liabilities to be settled within 12 months amounts to 4,337,997 Euros and 255,514 Euros, respectively.

The sensitivity analysis performed allows us to conclude that a 1% reduction in the underlying rate of deferred tax would imply an increase in the income tax for the period of about 3.7 million Euros.

SIFIDE

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

Regarding the expenses incurred with R&D during 2011, approximately amounting to 5,287,949, the Group would have the possibility of benefiting from a tax deduction in IRC estimated on 2,553,349 Euros, however through notification on 16 April 2013 of the Certification Commission, the non-eligibility of the presented projects was confirmed.

Regarding the expenses incurred with R&D during 2012, approximately amounting to 97,792, the Group would have the possibility of benefiting from a tax deduction in IRC estimated as 8,913 Euros. According to the notification dated 16 January 2014 of the Certification Commission a tax credit of 3,885 Euros was attributed to CTT.

Regarding the expenses incurred with R&D during 2013, approximately amounting to 33,987, the Group will have the possibility of benefiting from a tax deduction in IRC estimated as 9,519 Euros.

Other information

Pursuant to the legislation in force, income tax returns are subject to review and correction by the tax administration for a period of four years (five for Social Security), except when there have been tax losses, tax benefits have been received, or when inspections, claims or objections are underway, in which cases, depending on the circumstances, these periods are extended or suspended. Therefore, the Company's income tax returns for 2010 may still be reviewed and corrected, since the income tax returns prior to this date have already been inspected.

The Board of Directors of the Company believes that any corrections arising from reviews/inspections by the tax authority of these income tax returns will not have a significant effect on the financial statements.

39 FEES AND SERVICES OF THE AUDITORS

During the years ended on 31 December 2013 and 31 December 2012, the fees and services provided by the Company's auditors were as follows:

	<u>2013</u>	<u>2012</u>
Statutory accounts review services	79,525	81,320
Independent audit services	182,344	110,772
Other services	<u>501,214</u>	<u>18,612</u>
	<u><u>763,083</u></u>	<u><u>210,704</u></u>

As at 31 December 2013, the caption “Other services” includes the amount of 382,560 Euros related to the privatization process.

40 INFORMATION ON ENVIRONMENTAL MATTERS

The Company's activity is essentially non-industrial in nature, and the incorporation of material inputs in its supply processes is relatively reduced, thus having a limited direct ecological footprint.

Based on an empirical comparative analysis, the environmental impact of CTT's activity is much smaller than the company's contribution to the generation of value to the national economic and social fabric.

In terms of environmental policy, the Company's priority is to cover and master all the aspects of legal conformity, and has taken on commitments to continuously improve the environmental performance, and it has underwritten Civil Liability Insurance for the purpose of ensuring the coverage of environmental liabilities arising from the transposition to the Portuguese legal system, by Decree-Law No. 14/2008 of 29 July, of the Directive regarding the administrative responsibility to prevent and repair environmental damages, namely, (i) damages caused to protected species and natural habitats, (ii) damages caused to water and soil contamination due to pollution that creates a significant risk to human health.

This subject is developed in more depth in the “Sustainability Report”.

However, there are no current environmental liabilities or obligations, whether legal or constructive, related to environmental matters that should lead to the constitution of provisions.

41 PROVISION OF INSURANCE MEDIATION SERVICE

In accordance to the Regulatory Standard of the Instituto de Seguros de Portugal (Portuguese Insurance Institute) No. 15/2009-R of 30 December 2009, the Company discloses the relevant information regarding the activity of insurance mediation according to article 4 of the abovementioned Regulatory Standard.

- a) Description of the accounting policies adopted for the recognition of revenue.
The insurance intermediary recognises revenue in accordance with the rules in force, i.e. when the mediator closes accounts with the Insurance companies. The issuance and repayment insurance are recorded on each Post Office accounting document and allocated to the respective account, according to the respective nature.

- b) Indication of total revenue received disaggregated by nature.

By nature	2013	2012
<i>cash</i>	6,662,523	4,494,076
<i>kind</i>		
	<u>6,662,523</u>	<u>4,494,076</u>
By type	2013	2012
<i>Commissions</i>	6,662,523	4,494,076
<i>Fees</i>		
<i>Other revenue</i>		
	<u>6,662,523</u>	<u>4,494,076</u>

- c) Indication of total revenues relating to insurance contracts intermediated by itself disaggregated Branch Life and Non-Life.

By entity	2013	
	Branch Life	Branch Non-Life
Insurance Companies	6,639,420	23,103
Other mediators		
Customers (other)		
	<u>6,639,420</u>	<u>23,103</u>

- d) Indication of the existence of concentration levels at the level of insurance companies, other mediators, which are equal greater than 25% of total remuneration earned by the portfolio.

By entity	2013	2012
Insurance Companies		
FIDELIDADE	93.28%	92.91%
Other mediators		
Customers (other)		

- e) Values of "customers" accounts, at the beginning and end of the year, as well as the volume handled in the year applicable to insurance intermediaries that handle funds related to insurance contracts.

Accounts 'Customers'	2013	2012
Opening Balance	-	-
Closing Balance	-	-
Volume handled		
Debit	284,289,846	226,713,250
Credit	546,646,530	362,845,635

f) Accounts receivable and payable broken down by source.

By entity	Accounts receivable		Accounts payable	
	2013	2012	2013	2012
Policyholders, insureds or beneficiaries				
Insurance companies	36,803	3,459,136	1,110,213	464,281
Reinsurance undertakings				
Other mediators				
Customers (other)				
	36,803	3,459,136	1,110,213	464,281

g) Indication of the aggregate amounts included in accounts receivable and payable.

By entity	Accounts receivable		Accounts payable	
	2013	2012	2013	2012
Funds received in order to be transferred to insurance companies for payment of insurance premiums	546,646,530	362,845,635	534,657,623	362,942,276
Collecting funds in order to be transferred to insurance companies for payment of insurance premiums				
Funds entrusted to it by insurance companies in order to be transferred to policyholders, insureds or beneficiaries (or insurance companies in case the activity of reinsurance mediation)	277,478,829	225,641,668	284,289,846	226,713,250
Remuneration in respect of insurance premiums already collected and to be collected				
other mediators				
Total	824,125,358	588,487,302	818,947,469	589,655,526

Note: The remaining paragraphs of the standard do not apply.

42 OTHER INFORMATION

Company Agreement

After a long and demanding negotiation process, the Company reached an agreement with all the Trade Unions that took part in the negotiations for the signing of a New Company Agreement (AE).

Signing a single AE will affect the simplification of management and the social atmosphere, and strengthen the collective labour relations in the Company, which are fundamental elements for the new challenges in a context of full liberalisation.

BANIF

On 7 April 2006, Banco Internacional do Funchal (BANIF) brought an ordinary action against CTT – Correios de Portugal, which was personally cited on 27 June 2006, demanding the execution of the MoU (agreement principles) for the incorporation of Banco Postal and subsidiarily, if this condemnation is deemed non-enforceable, the obligation to indemnify BANIF for emerging damage and loss of profits, with the application amounting to 100,000,000 Euros plus accrued interest. As the Company's legal consultant believes, in a classification at three levels, from low to high probability, that BANIF's demands have little probability of being judged in its favour, the Company decided not to record a provision for it. Moreover, the period for Caixa Geral de Depósitos (CGD) to exercise its right of preference terminated in January 2008.

In 12 January 2011, the court found that the essential facts that support the claims for compensation by BANIF were not proved, and the facts brought forth by the Company that contradict the thesis defended by BANIF were proved. As sentenced on 2 December 2011, CTT was acquitted from the application lodged by BANIF, which appealed against this decision to the Court of Appeals of Lisbon, where the appeal is currently underway.

On 28 March 2013, via an application filed at the Court of Appeals of Lisbon, BANIF waived all its applications, including the appeal mentioned in the previous paragraph.

Citizen's Bureaux

CTT signed an agreement with the Government to set up Citizen's Bureaux in the retail network, with a pilot project to start on 1 December, 2013 in the metropolitan area of Lisbon, and is set to extend to all CTT post offices in 2014. The Government intends to create 1,000 Citizen's Bureaux, and 625 will be in the post offices of CTT retail network.

In the new Citizen's Bureaux will be offered various services including renewal of driving licenses, applications for Social Security statements, certificates of land registration or exemption from property taxes ("IMI"), submission of IRS statements, students enrolments in schools, etc..

The economic model of operation will still be agreed between the parties, as well as operational issues and investment required.

SNTCT

On 17 September 2012, CTT was summoned in a court case brought to the Labour Court of Lisbon by the SNTCT (National Syndicate of Postal and Telecommunications Workers), demanding the company to be sentenced to pay the amounts that, regarding its associates, it had deducted or would deduct from the corresponding remunerations, holiday and Christmas bonuses for 2012 under articles 20 and 21 of Law No. 64-B/2011 (LOE 2012).

Through the sentence of 22 January 2013, CTT was acquitted from the application, and SNTCT appealed against this decision at the Appeals Court of Lisbon, which is still pending.

Legal Proceeding

Under the court case that took place in the 2nd Section of the Court of Coimbra, involving 3 former board members of CTT- Correios de Portugal, S.A, a decision was issued on the 11th June 2013, which absolved the defendants of all crimes that they were being charged off and, consequently, CTT was not granted the request for civil indemnities that it had placed.

CTT's Board was made aware of this decision on the 16th July, and decided not to appeal the decision, due to the belief of CTT's Lawyers that a favourable decision was not probable. The Group informed its shareholder of this decision, in case it wanted to give a different instruction. The court fees to be charged to CTT – Correios de Portugal, which should be between 207,570 Euros and 311,355 Euros, will be determined by the Judges in accordance with their view of the complexity of the process.

Postal Bank

On the 5th August 2013, CTT filed a formal request to the Central Bank of Portugal for a license to create a Postal Bank. The proposal foresees the creation of a postal bank supported by the current branches network and with a low level of investment.

The Bank of Portugal issued on 27 November, 2013 , authorization for the creation of the postal bank, subject to a set of conditions and requirements, including the reaffirmation by the new shareholders of CTT that the project will be implemented in terms of what was submitted and assessed by the Bank of Portugal .

CTT has no obligation to create the postal bank, having only the option. Given that the terms of the notification of the Bank of Portugal and the strategy of CTT for the segment Financial Services (which does not include the creation of the postal bank in a short period of time), the Board of Directors of CTT decided the 28 November, 2013, to take no immediate action regarding the establishment of the postal bank.

CTT will evaluate the next steps to be taken in this matter, only in the year 2014 and in any event prior to the General Meeting of Shareholders will decide on the election of new members of the Board of Directors of the Company currently .

Health Care

In the report that accompanied the State Budget Law proposal for 2014, on 15 October, is mentioned that for the workers covered by CGA, the access to the CTT Health Care Plan (IOS) will be maintained while they are active workers in the company. After retirement, or immediately for those who are already retired, the State, through ADSE, will ensure the health care benefit.

However as at 31 December 2013 there was no agreement as to the completion of such transfer, nor as to the terms, conditions and amount, which depend on the negotiation between the state and CTT, thus cannot, CTT, determine their achievement.

No other relevant fact occurred, considered to be material to the Company's activity that has not been disclosed in the notes to the financial statements.

43 SUBSEQUENT EVENTS

On 1 January, 2014 there was an update (increase) of prices and the respective discounts tables for the special prices (ordinary mail service in quantity, both domestic and international, also referred to as bulk mail) of the postal services which are included in the provision of universal service. This update was partial and should be completed only when reviewing prices for the remaining universal postal services.

On 18 February, 2014 ANACOM approved the methodology for calculating the net cost of the universal service provided by CTT while provider of the universal service, and the concept of unfair financial burden with the purpose of compensating for the net cost of the universal postal service, as well as the terms for its determination.

On 11 March, 2014 CTT signed an Agreement for the purchase and sale of shares of the company EAD – Empresa de Arquivo de Documentação, S.A. (“EAD”). This Agreement between CTT and the other two shareholders of EAD aims to sell the current 51% share of CTT in EAD’s share capital for the price of €2.75 million, amount which includes the dividends for the fiscal year 2013.

The financial statements for the year ended on 31 December 2013 were approved by the Board of Directors of the Company and authorised for issue on 21 March 2014. However, they are still subject to the approval of the General Meeting of Shareholders under the terms of the commercial legislation in force in Portugal.

PART III – OTHER CORPORATE GOVERNANCE DOCUMENTS

1. Corporate Governance Report

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INTRODUCTION

This report seeks to disclose, in compliance with the Corporate Governance Code provided by the Securities Commission (CMVM) as revised by CMVM Regulation 4/2013 of 18 July, the corporate governance structure and practices adopted by CTT – Correios de Portugal (Portuguese Postal Services), S.A. – a Publicly-traded Company (hereinafter referred to as CTT), and was prepared in accordance with the provisions in articles 7 and 245-A of the Securities Code and following the model attached to said CMVM Regulation.

The year to which this Corporate Governance Report refers (2013) was a year of profound transformation within CTT, culminating in its privatisation, on 5 December 2013, with the sale of the majority of its share capital through an initial public offering (IPO) combined with an institutional direct sale.

Thus, this report reflects the reality of the transition from a State-held company to that of a company mainly of private ownership, issuer of shares listed for trading on a regulated market.

PART I – INFORMATION ON THE SHAREHOLDER STRUCTURE, ORGANISATION AND GOVERNANCE OF THE COMPANY

A. SHAREHOLDER STRUCTURE

I. CAPITAL STRUCTURE

1. Capital Structure

On 30 October 2013, CTT's share capital was 87,325,000 euros, represented by 17,500,000 shares with a nominal value of four euros and ninety-nine cents each.

By unanimous decision in writing by the then sole shareholder Parpública - Participações Públicas (SGPS), S.A. (Parpública) dated 30 October 2013, the nominal value of the shares representing the share capital of four euros and ninety-nine cents was changed to fifty cents, followed by a reduction of the share capital in the amount of 12,325,000 euros, for the purpose of releasing surplus capital.

Consequently, the share capital of CTT is currently 75,000,000 euros, being fully underwritten and paid-up and represented by 150,000,000 shares with a nominal value of fifty cents each. The shares are registered and dematerialized and there are no different categories of shares. Since 5 December 2013, as part of the privatisation process of CTT, the total of shares representing the capital of the Company are listed for trading on the regulated market of Euronext Lisbon.

CTT's privatisation process was approved by Decree-Law 129/2013 of 6 September and complemented by the Council of Ministers Resolution 62-A/2013 of 11 October, which authorized Parpública to sell up to 70% of CTT's share capital through a public offering and/or an institutional direct sale, reserving up to 5% of CTT's share capital for its workers, and Council of Ministers Resolution 72-B/2013 of 18 November, which stated the terms of the privatisation process, namely by determining the lots for each type of investor (21,000,000 shares in a public offering and 84,000,000 shares in institutional direct sales) and the price range of the shares to be sold: between €4.10 and €5.52.

Following the privatisation of CTT under the terms above stated, on 31 December 2013, 70.0% of the share capital was held by private shareholders and 30.0% by the State (although with the votes that were imputed to it, this amounted to 36.36% of the voting rights), as detailed in paragraph 7 of this Report. As of 3 January 2014, the State sector holds a participation of 31.5% (with an equal proportion of the voting rights) and the private sector shareholders hold the remaining 68.5%.

2. Restrictions on the transfer of shares

No limitations are statutorily defined regarding the transfer or ownership of Company shares.

However, the shares acquired by CTT employees under the offer reserved to them in the privatisation process, were subject to a lock-up period of 90 days as from the date of registration in their respective securities account, which ended on 5 March 2014.

The shares of the Company which are still held by Parpública – Participações Públicas (SGPS), S.A. and that were not included in the IPO (30%) can only be sold after the end of a period of 270 days from the date of listing for trading, if expressly authorised by the financial Institutions, the Global Coordinators of the Offer, subject to the fulfilment of a series of formal procedures to be undertaken by the Portuguese State when it deemed appropriate.

3. Own shares

The Company does not hold own shares, nor did it make any transactions with its own shares during 2013.

4. Significant Agreements with change of control clauses

Some of the lease contracts of immovable property entered into by the Company along the years expressly stipulated that if the Portuguese State was no longer to hold at least 50% of the share capital of the Company, the latter would be required to assure the issue of a bank guarantee on first demand, in favour of the respective leaseholder, in a revolving system, of the amount equivalent to 6 or 24 months of rent.

The sale by the Portuguese State of more than 50% of the Company's share capital in early December 2013, led most leaseholders to request the bank guarantees established in the respective contracts, which shall be provided within the contractually stipulated time limits. However, as a result of a negotiation process, it was possible to reduce the value of the guarantees to be provided, in some cases to a value corresponding to 12 months of rent.

Currently, there are no other significant agreements that will take effect, change or terminate in the event of change of control of the company, nor are there any measures that shall have the effect of requiring payment or reimbursement of expenses by the Company in the case of change of control or change of composition of the Board of Directors, which may hinder the free transfer of shares and the shareholders' free assessment of the members of the Board of Directors performance, complying CTT with CMVM Recommendation I.5.

- 5. Regime to which the renewal or revocation of defensive measures is subject to, particularly those that provide for the limitation of the number of votes capable of being held or exercised by a single shareholder, individually or jointly with other shareholders.**

There are no limits established in the company's Articles of Association regarding the exercise of voting rights.

- 6. Shareholder agreements that are known to the company and which may lead to restrictions on the transfer of securities or voting rights**

The Company is not aware of any shareholder agreements that may lead to restrictions on the transfer of securities or voting rights.

II. SHAREHOLDINGS AND BONDS HELD

7. Holders of qualifying holdings, percentage of capital and votes attributed, source and causes of the attribution

As at 31 December 2013, based on the communications made to the Company, pursuant to article 447 of the Companies Code (CSC) and article 16 of the Portuguese Securities Code (CVM), the structure of the qualifying holdings in CTT was as follows:

Shareholders	Nr. of Shares	% share capital	% voting rights
Parpública-Participações Públicas (SGPS), S.A. (1)	45,000,000	30.000%	30.000%
Parpública-Participações Públicas (SGPS), S.A. (2)	9,545,455	6.364%	6.364%
Total (3)	54,545,455	36.364%	36.364%
Goldman Sachs International (4)	7,496,479	4.998%	4.998%
Total	7,496,479	4.998%	4.998%
Deutsche Bank AG London (5)	3,063,798	2.043%	2.043%
Total	3,063,798	2.043%	2.043%
Remaining shareholders (6)	84,894,268	56.596%	56.596%
Total	84,894,268	56.596%	56.596%
TOTAL	150,000,000	100.000%	100.000%

(1) Shares held by Parpública-Participações Públicas (SGPS), S.A., which in turn is fully owned by the Portuguese State.

(2) Shares allocated to Parpública-Participações Públicas (SGPS), S.A. in conformity with its call option on the Underwriters, represented for this purpose by the Stabilisation Manager, under the Institutional Underwriting Agreement, signed with the Underwriters in the privatisation process of CTT. Under this contract the Underwriters also held a put option on Parpública - Participações Públicas (SGPS), S.A. The stabilisation transactions of the action were completed on 3 January, 2014, with the Underwriters exercising the put option of 2,253,834 shares, of a total of 9,545,455 shares, representing 1.5% of the share capital of CTT.

(3) Total shareholding of Parpública-Participações Públicas (SGPS), S.A., as at 31 December, 2013, which in turn is fully owned by the Portuguese State. From 3 January, 2014, Parpública - Participações Públicas (SGPS), S.A. holds 47,253,834 shares, that is, 31.5% of the share capital of CTT.

(4) Shares held by Goldman Sachs International, controlled by Goldman Sachs Holding (U.K.), which in turn is controlled by Goldman Sachs Group Holdings (U.K.) Limited, controlled by Goldman Sachs Group UK Limited, controlled by Goldman Sachs (UK) L.L.C., which in turn is controlled by The Goldman Sachs Group, Inc..

(5) Shares held by Deutsche Bank AG London, which is a branch of Deutsche Bank AG.

(6) Includes 2,064,660 shares held by CTT employees who, according to the terms of the offer reserved for employees within the privatisation of CTT, are unavailable until 5 March, 2014.

The updated information as at the date of approval of this Report on qualifying holdings in the Company can be found at www.ctt.pt and the Securities Commission (CMVM) website.

8. Number of shares and bonds held by members of the governing and Supervisory bodies

As at 31 December 2013, based on the communications made to the Company pursuant to article 447 of the Companies Code and article 14 of CMVM Regulation 5/2008, the members of the Board of Directors and Supervisory Board held the number of Company shares referred to in paragraphs 17 and 31 below.

9. Special Powers of the Board of Directors, especially as regards resolutions on capital increase

The granting of special powers to the Board of Directors for carrying out capital increases is not provided for in the company's articles of association.

10. Information on the existence of significant business relationships between the holders of qualifying holdings and the company

There are not any significant business relationships between the holders of qualifying holdings and the company. Nevertheless the following business relationships between CTT and the Portuguese State should be considered:

- CTT sells and renders services to the Portuguese State and various of its related entities;
- CTT collects various payroll taxes, and other taxes on behalf of the Portuguese State and is liable to Portuguese Corporate Tax on profits earned and to employees' social security taxes on its payroll;
- CTT accounts for VAT in Portugal;
- CTT incurs costs as result of services provided by several Portuguese State related parties, namely:
 - Energy costs;
 - Water supply costs;
 - Air transportation costs.

B. GOVERNING BODIES AND COMMITTEES

I. GENERAL MEETING

a) Composition of the Board of the General Meeting

11. Identification, position and term of office (beginning and end) of the Board members of the General Meeting

Until 30 October 2013, the Company's Articles of Association stated, in article 11, that the Board General Meeting should be composed of a Chairman, Vice-Chairman and a Secretary.

The Board of the General Meeting until said date was thus composed of the following members:

Pedro Miguel Nascimento Ventura
Maria Onilda Sousa
Paula Alexandra Caetano da Silva

Chairman
Vice-Chairman
Secretary

These members were appointed by a unanimous resolution in writing of the shareholder on 28 August 2012, for the term of office 2012-2014.

By unanimous resolution in writing, dated 30 October 2013, of the sole shareholder Parpública, who amended the Company's Articles of Association, the Board of the General Meeting of CTT would thereafter be composed of a Chairman and a Vice-Chairman, assisted by the Secretary of the Company, appointed by the Board of Directors.

Following the resignation of the former members of the Board of the General Meeting Parpública, by a unanimous resolution in writing dated 12 November 2013, elected the following members to complete the term of office of 2012-2014:

Júlio de Lemos Castro Caldas

Francisco Maria Freitas de Moraes Sarmiento Ramalho

Chairman

Vice-Chairman

The agenda of the General Meeting called for 24 March 2014, includes a proposal for an amendment to the Articles of Association, with the addition of new Chapter VI (Transitional Provision) and a new article 25 (Board of the General Meeting until 2016), which consigns the extension of the terms of office of the members of the General Meeting who began their duties in 2013, for the time required for alignment with the terms of office of the other Board members, i.e. until the end of 2016.

b) Exercising the right to vote

12. Possible restrictions on voting rights

The Company's Articles of Association do not provide for any limitation in terms of voting rights.

Under article 7 of the Articles of Association and in accordance with the law, the right to vote at the General Meeting is given to shareholders who, on the date of registration, corresponding to 0 hours (GMT) of the fifth trading day prior to the General Meeting, hold at least one share.

13. Maximum percentage of voting rights that may be exercised by a single shareholder or by shareholders who are in any of the relations noted in number 1 of article 20 of the Securities Code.

CTT's Articles of Association establishes no limitations with regard to voting rights.

14. Shareholder resolutions which, by statutory enforcement, can only be taken with a qualified majority in addition to those legally established

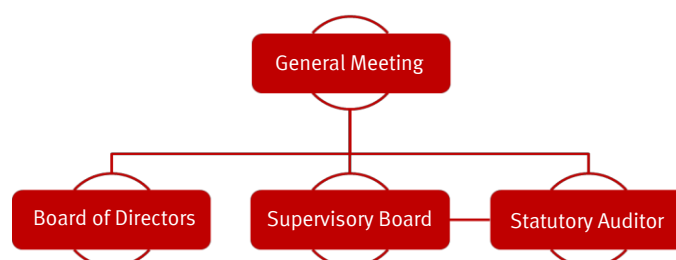
CTT's Articles of Association do not provide for the existence of resolutions requiring a qualified majority of votes. Resolutions are made by the majority of votes of the shareholders present or represented at the General Meeting whenever the law does not require a higher number.

II. MANAGEMENT AND SUPERVISION

c) Composition

15. Identification of the adopted governance model

The Company has adopted a one-tier governance model, composed of a Board of Directors, a Supervisory Board and a Statutory Auditor, which schematically has the following structure:



The members of the Board of Directors, Supervisory Board, including the respective Chairmen and Statutory Auditor, were appointed by unanimous resolution in writing by the shareholder Parpública, having the latter been elected upon proposal of the Supervisory Board.

With the objective of promoting the adjustment of the Company's Articles of Association to the new shareholder structure after privatisation, as well as to the best practices applicable to companies who are issuers of shares listed for trading on a regulated market, on 30 October 2013, Parpública, as the sole shareholder, approved a set of statutory changes to CTT's governance model, where an Anglo-Saxon governance model is foreseen, whose taking of effect would be conditional to (i) the conclusion of the privatisation process and (ii) the election of the governing bodies members according to the new model.

In compliance with the intention stated in the prospectus of requiring a General Meeting, no later than the 28 February 2014, for the election of the new Board members according to the Anglo-Saxon governance model, Parpública asked, on February 27, for the call of said General Meeting to the Chairman of the Board of the General Meeting. Bearing in mind CTT's new shareholder structure, composed of a majority of private shareholders (68.5 %) and a minority share of Parpública (31.5%), which does not allow it to exercise a controlling influence on the decision processes of the Company, Parpública submitted a proposal for the new shareholders to confirm the partial amendment of the Company's Articles of Association, with a view to adopting the Anglo-Saxon model of corporate governance.

This model is based on a Board of Directors, composed of five executive Directors and six non-executive Directors and, from among them, a set of independent Directors, which includes an Audit

Committee comprising three of the non-executive Directors, and a Statutory Auditor, elected by the General Meeting via a proposal of the Audit Committee.

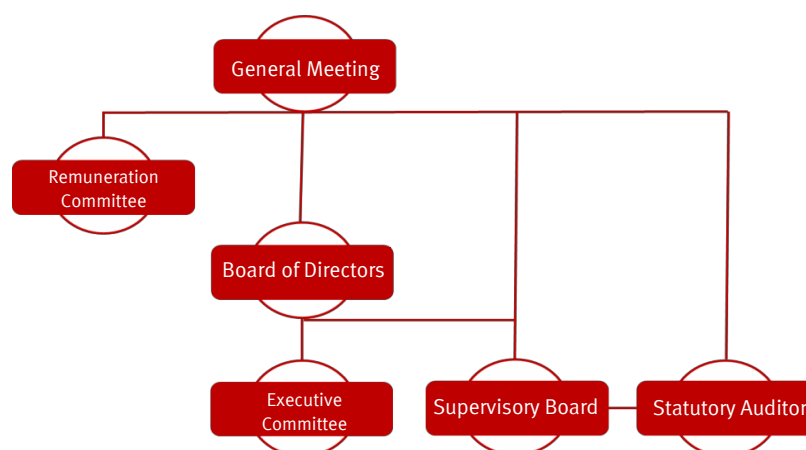
The organizational structure of CTT will also include a Remunerations Committee, elected by the General Meeting, responsible for determining the remuneration of the members of the governing bodies.

According to this model of corporate governance, once the new members of the Board of Directors have been elected and the Audit Committee has been formed, the Board of Directors shall have the necessary conditions to delegate ample powers for the Company's current management, through an Executive Committee.

In this context, the Board of Directors is primarily entrusted to (i) perform the duties which, according to the law, the Articles of Association (as amended) and its internal regulations, can not be delegated to the Executive Committee, including essentially strategic decisions, and (ii) develop specific duties of supervision of the executive management, particularly on matters of corporate governance and review, through the non-executive Directors and/or the establishment of internal committees.

The Audit Committee will, together with the Statutory Auditor, perform the duties of supervising the management of the company, resulting from the applicable legal provisions and the Articles of Association (as amended), becoming the corporate body responsible for these duties and, among others, the supervision of the independence and activity of the Statutory Auditor, internal control systems, internal audits and risk management of the Company.

In schematic terms, the Anglo-Saxon governance model whose confirmation will be submitted to the General Meeting of 24 March may be presented as follows:



16. Statutory rules on procedural and substantive requirements governing the appointment and replacement of members of the Board of Directors

According to the Company's Articles of Association, the General Meeting is responsible for electing the members of the Board of Directors, as well as for choosing the respective Chairman.

The Articles of Association approved on 30 October 2013 stipulate that one of the Directors may be elected from among a list of persons proposed by groups of shareholders, provided that none of these groups holds shares representing more than 20% and less than 10% of the share capital.

17. Composition of the Board of Directors and Executive Committee

Pursuant to the Articles of Association in force, the Board of Directors is composed of a minimum of five and a maximum of fifteen Directors, elected by a majority of votes by the shareholders present or represented at the General Meeting.

Currently, the Board of Directors is composed of the following members, all of whom have executive duties:

Holders	Board of Directors	Nr. of Shares 31.12.2013
Francisco José Queiroz de Barros de Lacerda	Chairman	3,110
Manuel Cabral de Abreu Castelo-Branco	Vice-Chairman	1,550
André Manuel Pereira Gorjão de Andrade Costa	Member	3,110
Dionizia Maria Ribeiro Farinha Ferreira	Member	-
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo	Member	-

A group of private shareholders endorsed a proposal which shall be presented at the General Meeting of 24 March for deliberation, allowing CTT's adoption of the Anglo-Saxon governance model, which proposes the election of eleven members to the Board of Directors for the 2014-2016 term of office, with the option to delegate powers to an Executive Committee (intended to be composed of five of the current Directors), with executive duties analogous to those presently performed.

If said proposal is approved, corresponding to paragraph 3 on the agenda of the aforementioned Extraordinary General Meeting, the Board of Directors of the Company shall have the following composition and duties:

Holders	Board of Directors	Executive Committee	Audit Committee	Independence (*)
Francisco José Queiroz de Barros de Lacerda	Chairman	Chairman		
António Sarmiento Gomes Mota	Vice-Chairman		Chairman	Yes
Manuel Cabral de Abreu Castelo-Branco	Vice-Chairman	Member		
André Manuel Pereira Gorjão de Andrade Costa	Member	Member		
Dionizia Maria Ribeiro Farinha Ferreira	Member	Member		
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo	Member	Member		
António Manuel de Carvalho Ferreira Vitorino	Member			Yes
José Alfredo de Almeida Honório	Member			Yes
Nuno de Carvalho Fernandes Thomaz	Member			Yes
Diogo José Parede Leite de Campos	Member		Member	Yes
Parpública - Participações Públicas, SGPS, S.A.	Member		Member	

(*)The independence assessment was conducted in accordance with number 5 of article 414 of the CSC and 2013 CMVM Recommendation nr. II.1.7.

Members of the Board of Directors are elected for a three-year period, with the election year being considered a full calendar year, and may be re-elected.

18. Distinction between executive and non-executive members of the Board of Directors and, with respect to non-executive members: identification of members who may be considered independent

Currently, all members of the Board of Directors perform executive duties.

As mentioned in paragraph 17 above, after the General Meeting on 24 March 2014, the Board of Directors will be composed of executive and non-executive members, of which the majority of non-executive members named in the proposal referred to in paragraph 17 are independent.

19. Professional qualifications and other curricular data of each of the members of the Board of Directors

The curricula of the current members of the Board of Directors of CTT are included in Annex I.

20. Family, professional or commercial, customary and significant relations of the members of the Board of Directors with shareholders imputable with a qualifying holding above 2% of voting rights

No member of the Board of Directors had, as at 31 December 2013, any family, professional or business relations with shareholders with qualifying holdings exceeding 2% of the voting rights in the Company.

21. Division of powers between the various governing bodies, committees and/or departments within the Company

The division of powers in force is as follows:

A. Governing body:

Board of Directors

Under the Company's Articles of Association, the Board of Directors is responsible for:

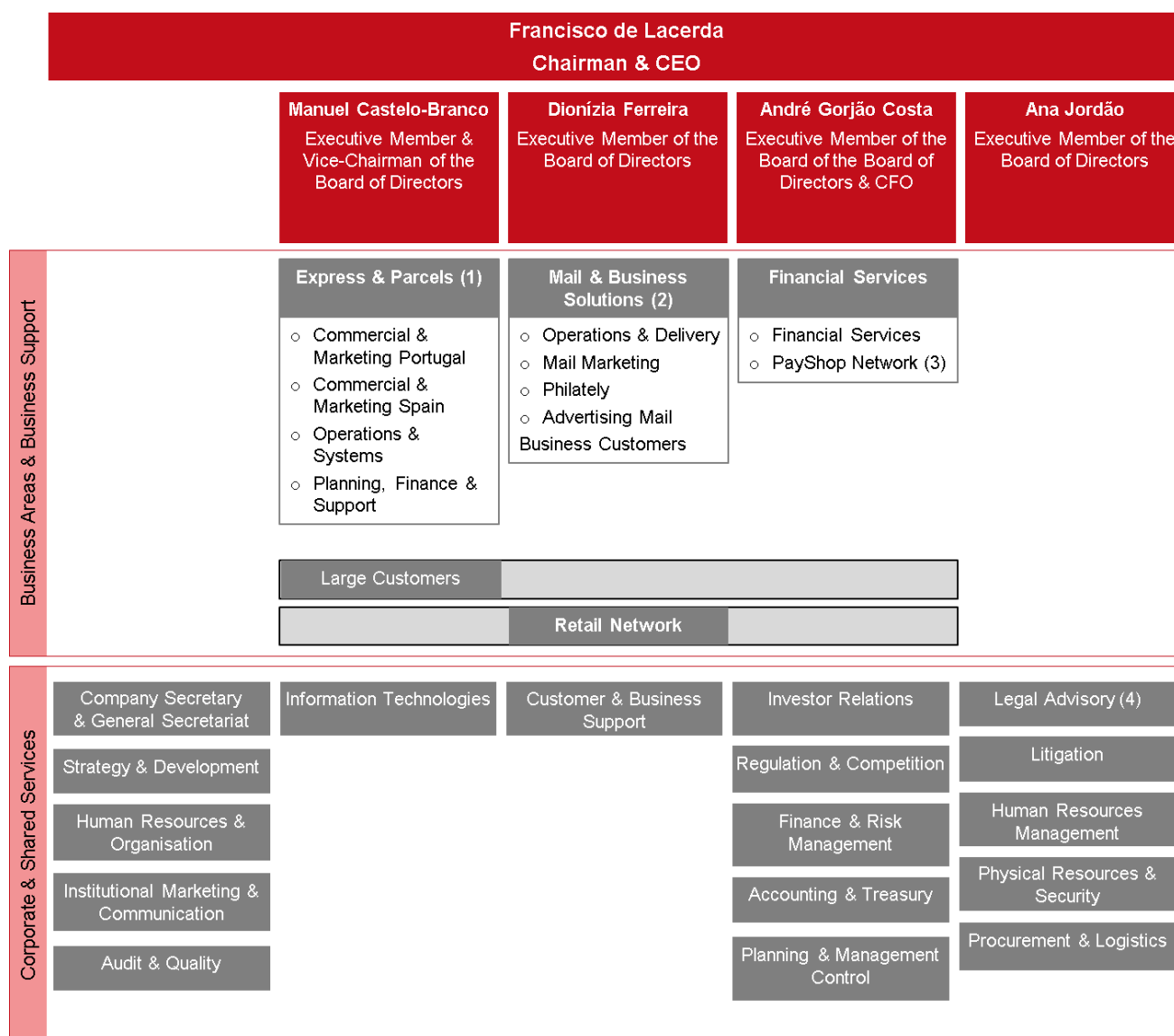
- Approving the Company's management policies and objectives;
- Approving business and financial plans, both annual and multi-annual, and annual budgets, as well as any changes that may be necessary;
- Managing the business of the Company and performing all actions and operations regarding the corporate objectives, which are not under competence entrusted to other bodies of the Company;
- Representing the Company in and out of court, as plaintiff or defendant, with the powers to discontinue, settle or confess in any legal proceedings, and also sign arbitration agreements;
- Acquiring, selling or in any way transferring or encumbering rights, including those relative to shares and movable and immovable property;
- Incorporating companies, subscribing, acquiring, encumbering and selling shares;
- Establishing the technical and administrative organisation of the Company and the rules of internal operation;
- Appointing representatives with the powers it deems appropriate, including those for appointing substitutes;
- Performing other duties as assigned by the General Meeting;
- Appointing the Company Secretary and his deputy.

According to the Articles of Association of the Company, the Chairman of the Board of Directors shall:

- Represent the Board of Directors in and out of court;
- Coordinate the activities of the Board of Directors and call and chair its meetings;
- Exercise the casting vote; and
- Ensure the correct implementation of the resolutions of the Board of Directors.

In his absence or impediment, the Chairman of the Board of Directors shall be replaced by the Vice-Chairman.

The Board of Directors distributed the various areas of responsibility among its members, as follows:



(1) Includes CTT Expresso, Tourline and CORRE.

(2) Includes Mailtec SGPS, Mailtec Comunicação, Mailtec Consultoria, Mailtec Processos, CTT Gest and PostContacto.

(3) Includes PayShop.

(4) General, labour, and disciplinary.

B. Committees and Departments to Support Management

The organisational model of CTT also provides for the existence of management committees and internal support structures that contribute to the decision-making process of the Company. The following Committees are in operation:

MANAGEMENT SUPPORT COMMITTEES AND THEIR OBJECTIVES	
<p>Ethics Committee</p> <p>Coordinated by the Director of Audit and Quality, it also includes the Director of Human Resources and Organization and the Director of International Affairs and Cooperation. This Committee reports to the Board of Directors through the Chairman of the Board.</p>	<p>Implementation, monitoring, interpretation and clarification of doubts and omissions in the Code of Ethics.</p>
<p>Risk Management Committee</p> <p>Constituted by the Chief Financial Officer and by the heads of the Finance and Risk Management, Strategy and Development, Operations and Distribution, Retail Network, Human Resources and Organization, Information Technology, Accounting and Treasury and Physical Resources and Security.</p>	<p>Promote the performance of the duties of Corporate Risk Management and act as a tool for leveraging the entire process of operationalization of the risk management system at CTT.</p>
<p>Credit Committee</p> <p>Composed of the Chief Financial Officer, who chairs it, and by the Directors with Business Responsibilities and by the heads of the following departments: Finance and Risk Management, Large Customers, Retail Network, Corporate Clients, Advertising Mail, Express Mail and Parcels.</p> <p>In follow-up and monitoring meetings, those responsible for Accounting and Treasury, the Legal Dept., Customer and Business Services, Mail and Network Marketing and Payshop Network should be represented.</p>	<p>Definition and submission to the Board of Directors of credit policies to clients; assessment and review of risk levels and credit limits; decision on granting/revision/suspension of credit prior to the formalization of contracts; evaluation of proposals for conclusion of payment agreements. Monitoring and evaluation of the results of the implementation of customer credit policy and identification of measures, to achieve the objectives that have been defined.</p>
<p>Treasury Committee</p> <p>Constituted by the Chief Financial Officer, who chairs it, and by the Directors of the Accounting and Treasury Dept., the Finance and Risk Management Dept. and the Financial Dept. of the subsidiaries.</p>	<p>Measure and analyse CTT's fund management process with a view to its continuous improvement and ongoing adaptation to needs.</p>
<p>Investment Committee</p> <p>Composed of the heads of the corporate directions of Development and Strategy (which coordinates it), Planning and Control of Management and Finance and Risk Management.</p>	<p>All proposals for investment projects worth more than € 50,000.00, prior to assessment/final approval by the Board of Directors, shall be submitted to this Committee for comment and preparation of a non-binding opinion.</p>
<p>Real Estate Management Committee</p> <p>Composed of 2 members of the Board of Directors of CTT - responsible for Physical Resources and Security and Finance - and the heads of the following departments: Physical Resources and Security (along with 2 assistants), Retail Network, Operations and Distribution, Management Planning and Control and a member of the Board of Directors of CTT Expresso. Depending on the items on the agenda, the following members may also be included: Vice-Chairman and Director responsible for the Retail Network and other frontline managers, other than those mentioned above.</p>	<p>Strategic planning and management of real estate, real estate investment programming and promotion of optimization and enhanced economic returns of real estate.</p>

The organisational structure of CTT as at 31 December 2013 was as follows:

LIST OF CTT DEPARTMENTS AND THEIR OBJECTIVES

Secretary-General and Legal Counsel	Ensure institutional relations of the company; provide technical and administrative support to the Board of Directors and other governing bodies; ensure formal communication between the Board of Directors, CTT's structure, subsidiaries and external entities; ensure general legal, labour and disciplinary counsel and the exercise of disciplinary authority.
Investor Relations	Act as CTT's representative with shareholders, investors, financial analysts, rating agencies, capital markets and the financial community in general, being responsible for providing information that allows knowledge on the evolution and economic, financial and management realities of CTT.
Strategy and Development	Support the Board of Directors in the definition, implementation and management of the development strategy of the CTT universe, proposing and promoting initiatives for strategic development and management of its business portfolio, in a perspective of sustainable value creation.
Human Resources and Organisation	Develop and implement HR policies aligned with the strategy defined for the Group, while promoting a culture of merit and continuing professional development; provide HR administration services to the CTT companies; promote health and safety at work, as well as the availability of health care and social protection.
Institutional Marketing and Communication	Define and implement strategies for the company's internal and external communications and sponsorship and patronage, through the development of actions that contribute to the improvement and value creation of the corporate image and the CTT brand, in close collaboration with the Board of Directors; ensure compliance with the policy and commitments to sustainability, the environment, social responsibility and corporate citizenship of the CTT universe; ensure media relations.
Audit and Quality	Examine and evaluate, in an independent fashion, the activities and business of CTT in order to mitigate risks associated with processes and transactions, recommending corrective measures to the audited areas and providing information required for the governance process; contribute to the management and mitigation of compliance risks in the provision of financial services; investigate unlawful and/or fraudulent practices; define and promote quality policies and procedures in CTT.
Information Technology	Develop strategy for CTT's information and technology systems to maximize its competitiveness and efficiency; ensure proper planning and control of information and technology systems; promote innovation and implementation of new solutions for business development.
Business and Customer Support	Develop the relationship policy for CTT customers in terms of after-sales and customer support and information, contributing to customer loyalty; ensure support to businesses in transversal functions, aimed at optimization of resource use, proposing measures of optimization of processes and/or improvement actions.
Regulation and Competition	Advise the Board of Directors on matters regarding regulation and competition and relations with regulators and supervisors in the industry; manage regulatory risk and relations with competitors.

Management Planning and Control	Advise the Board of Directors in terms of management planning and control of CTT, ensuring coordination with all CTT organizational units and subsidiaries, with a view to value creation.
Finance and Risk Management	Provide and implement strategies for the appropriate use of resources by optimizing the cost and return of capital and an appropriate risk management, in alignment with the strategic objectives defined for CTT.
Accounting and Treasury	Ensure accounting management, economic and financial management and the management of the evaluation of business processes with an impact on revenue generation.
Litigation	Ensure legal representation of the company and subsidiaries, as well as that of workers who lacking legal counsel, for reasons of work and their duties.
Physical Resources and Security	Define a coordinated strategy for the fleet and real estate resources; ensure that the provision of services by suppliers is done in a timely manner and in accordance with the contracted conditions; ensure integrated management of processes and procedures regarding documents and archives; define, coordinate and manage security policies and surveillance of facilities, equipment and people.
Procurement and Logistics	Define CTT's strategy in terms of procurement, centralization and planning of needs in terms of leasing and acquisition of goods, services and execution of contracts, coordination, preparation and monitoring of procurement procedures, centralization of administrative management of contracts, quality control and evaluation of suppliers and the effective management of warehouses and stocks.
Operations and Distribution	Manage the operations for the collection, transport, processing and distribution of mail in an efficient manner, ensuring excellence in quality of service and respect for the nationwide obligations Universal Postal Service, promoting synergies with all business areas of CTT towards increasing efficiency and value creation for the company.
Postal Marketing	Maximize the value of postal offers, contributing to a more efficient and competitive management of the postal business, and for the commercial objectives of profitability and positioning of the various businesses.
Philately	Develop the business of philately and collecting in a comprehensive, sustained and profitable fashion, maintaining the integrity and quality levels of Portuguese philately.
Corporate Clients	Ensure the loyalty of corporate clients, also maximizing the sales volume and profitability through the detection and appropriate response to business needs and business opportunities within the postal business unit.
Financial Services	Manage an innovative offer of competitive financial services and products, creating value for the stakeholders, strategically oriented towards customers, margin and efficiency, based on the retail network.
Business Solutions	Ensure the satisfaction of corporate clients and contracted quality; provide corporate clients with an offer tailored to their needs; manage strategic projects more directly linked to corporate clients.
Retail Network	Manage the retail network, ensuring increased revenue resulting from acts of sale; maximize resource productivity and rationalization of supply versus demand, in terms of the defined offer, price levels and obligations of the Universal Postal Service; rationalize the Retail Network and points of access to the Postal Network; ensure the quality of customer care at all points of access to the Postal Network.
Large Customers	Ensure integrated management of large customers, managing the key accounts segment in terms of maximizing sales and profitability of the various business areas of CTT.

22. Existence and place where the operating regulations of the Board of Directors and the Executive Committee may be viewed

On 28 April 2008, the Board of Directors adopted its internal operation rules, which were changed on 10 September 2013. The full text of this regulation is available on the CTT website via the link http://www.ctt.pt/fectt/export/download/grupoctt/quemSomos/Regulamento_CA.pdf

Following the Extraordinary General Meeting to be held on 24 March to confirm the statutory amendments relative to the governance model and to elect the new members of the Board of Directors, the new operating rules of the Board of Directors shall be approved, as well as the delegation of powers to the Executive Committee, which will later be made available for viewing on the CTT website.

23. Number of meetings of the Board of Directors which were held and attendance of each member

During 2013, 59 meetings of the Board of Directors were held, most of which included the presence, in person or via conference call, of all the members of the Board of Directors during this period.

The Chairman and Vice-Chairman of the Board of Directors, Francisco José Queiroz de Barros de Lacerda and Manuel Cabral de Abreu Castelo-Branco respectively, were absent in the meeting held on 16 April 2013, the latter having also been absent at the meeting held on 22 July 2013, and absent in part of the meeting held on 20 February 2013.

The Member of the Board of Directors, Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo, was absent in the meetings held respectively on 12 June, 4 July and 9 July 2013.

24. Indication of governing bodies with powers to perform the evaluation of executive Directors

Until 5 December 2013, as a State-held company, the evaluation of CTT's Directors was the responsibility of the shareholder, pursuant to number 3 of article 6 of the Public Manager's Statute approved by Decree-Law 71/2007 of 27 March, under its current version.

The proposal to be submitted to the resolution of the General Meeting of 24 March provides for the election of a Remuneration Committee composed of 3 members, for the triennium 2014-2016. This Committee will be responsible for monitoring and evaluating the performance of the Directors, verifying the extent to which the proposed objectives were achieved.

The members proposed for integrating the future Remuneration Committee have strong professional experience and the necessary knowledge to deal with and decide on all matters assigned to them.

25. Predetermined criteria for evaluating the performance of executive Directors

The appraisal of the performance of the executive Directors for 2013, is, as stated above, carried out by the shareholder, pursuant to the Public Manager's Statute approved by Decree-Law 71/2007 of 27 March, under its current version, where the parameters are based on the objectives set out in the guidelines provided for the State business sector and those arising from the management contract signed pursuant to article 18 of the said diploma.

The appraisal of the performance of the Directors for 2013, taking into account the objectives set by the shareholders for the term of office 2012-2014, has not yet been performed.

26. Availability of each member of the Board of Directors, with indication of positions held simultaneously in other companies, inside and outside the group, and other relevant activities carried out by members of the Board of Directors

The current Directors, with the exception of the Member of the Board of Directors, André Manuel Pereira Gorjão de Andrade Costa, who is Member of the Board of Directors of Eurogiro on behalf of CTT, do not hold any positions in other companies outside the Group, as detailed in Annex I.

d) Committees within the Board of Directors and management

27. Committees created within the Board of Directors and Executive Committee and place where their operating regulations can be viewed

During 2013, no committees had been established under the Board of Directors, whereby only one management support structure existed, consisting of committees, as referred to in Section B of paragraph 21 mentioned above.

After the General Meeting of 24 March, and if the proposals included in the agenda are approved, Committees will be created under the Board of Directors, using the governance model to be adopted, starting with the Executive Committee and the Audit Committee which will enforce internal regulations whose full texts will be available in time for consultation on the CTT website.

28. Composition of the Executive Committee

To date there is no Executive Committee; all members of the Board of Directors perform executive duties.

After the General Meeting of 24 March 2014, and having approved the proposals, the Board of Directors will delegate the daily management of the Company to an Executive Committee consisting of five members, with the intention that they be members of the current Board of Directors.

29. Powers of each of the committees created and overview of the activities developed during the exercise of those powers

Not applicable.

III. SUPERVISION

d) Composition

30. Identification of the Supervisory Board according to the adopted model

The monitoring of CTT's activity is the responsibility of a Supervisory Board and a Statutory Auditor or Company of Statutory Auditors that is not a member of this body, elected by the General Meeting upon proposal by the Supervisory Board.

After the General Meeting of 24 March 2014, upon confirmation of the proposed amendments to the Articles of Association, the supervision of business, stemming from the legal provisions and the Articles of Association, shall be the responsibility of the Audit Committee and Statutory Auditor.

31. Composition of the Supervisory Board/Audit Committee indicating the statutory minimum and maximum number of members, statutory term of office, number of permanent members, date of first appointment and date of end of term of office of each member

The Supervisory Board is composed, in statutory terms, of a Chairman, two appointed Board members and an alternate, all elected at the General Meeting.

Following the decision of the sole shareholder of CTT, dated 12 November 2013, the Supervisory Board consists of the following three members elected at that time to complete the term 2012-2014 in progress, and an alternate who stayed on from the previous Board. The term of office starts on 12 November 2013 and ends on 31 December 2014, for appointed members, and starts on 24 August 2012 and ends on 31 December 2014 for the alternate member.

António Sarmiento Gomes Mota	Chairman
Elsa Maria Roncon Santos	Member
Diogo José Paredes Leite de Campos	Member
Sara Alexandra Ribeiro Pereira Simões Duarte Ambrósio	Alternate Member

None of the members of the Supervisory Board own CTT shares.

Until 12 November 2013, the Supervisory Board consisted of the following members:

Holders	Supervisory Board
Elsa Maria Roncon Santos	Chairman
Maria Fernanda Ioanaz da Silva Martins	Member
Maria de Lurdes Pereira Moreira Correia de Castro	Member
Sara Alexandra Ribeiro Pereira Simões Duarte Ambrósio	Alternate Member

The members of the Supervisory Board had been appointed to complete the 2012-2014 period, on 24 August 2012, and renounced the office on 7 November 2013, by virtue of the then projected change in the shareholder structure of CTT, resulting from the privatisation.

32. Identification of the members of the Supervisory Board and the Audit Committee, who are deemed independent, under article 414, number 5 of the Companies Code

The Supervisory Board consists of the following independent members:

António Sarmiento Gomes Mota	Chairman
Diogo José Paredes Leite de Campos	Member

33. Professional qualifications and other relevant curricular data of each of the members of the Supervisory Board/Audit Committee

The curricula of the members of the Supervisory Board of CTT are presented in Annex I.

f) Operation

34. Existence and place where the operating regulations of the Supervisory Board/Audit Committee can be viewed

On 4 November 2013, the Supervisory Board adopted its rules of operation. The full text of this regulation is available on the CTT website, via the link: <http://www.ctt.pt/fectt/export/download/grupoctt/quemSomos/Regulamento do Conselho Fiscal.pdf>

Pursuant to article 19 of the Articles of Association and Regulation of the Supervisory Board, the latter will normally meet at least once every two months and whenever required by the Chairman or requested by any of the other members.

For the Supervisory Board to vote, the presence of a majority of its members is required. Decisions are taken by majority of votes.

After the General Meeting of 24 March, and having approved the proposals included in the agenda, the Audit Committee shall adopt its rules of operation whose full text will be available in time for consultation on the CTT website.

35. Number of meetings of the Supervisory Board/Audit Committee and attendance of each member

The Supervisory Board held seventeen meetings during 2013, where all of its appointed members were present.

36. Availability of each member of the Supervisory Board/Audit Committee, with indication of the positions held simultaneously in other companies inside and outside the group, and other relevant activities carried out by the respective members

The positions the Supervisory Board members in office in 2013 held in other companies are listed in Annex I.

g) Powers and duties

37. Procedures and criteria for intervention by the supervisory body for the purpose of hiring additional services from the external auditor

Pursuant to number 18 of Council of Ministers Resolution (RCM) 49/2007 of 28 March, which establishes rules similar to the CMVM Recommendations on Corporate Governance, the hiring of additional services from the external auditor was always preceded by prior opinion of the Supervisory body, in this case, the Supervisory Board.

The different treatment of matters relating to the "audit related" review were also respected, as were those not located within this perimeter, for which the maximum limit of 30% of total fees paid during 2013 to the auditor was respected.

38. Other duties of the Supervisory body

The Supervisory Board is entrusted with the following duties, pursuant to the law and the Articles of Association:

- Examine, whenever it deems appropriate and at least once a month, the books of the Company ;
- Monitor the operation of the Company and compliance with the applicable laws, Articles of Association and regulations ;
- Request the special calling of the General Meeting when deemed appropriate;
- Examine the situations presented by the Board of Directors during its management;
- Draw the attention of the Board of Directors to any matters that should be considered and rule on any matter submitted to it by that body;
- Oversee the preparation and disclosure of financial information;
- Propose to the General Meeting the appointment of the Statutory Auditors and monitor their independence, and oversee the audit of the Company's books;
- Receive reports of irregularities presented by shareholders , Company employees and others;
- Monitor the effectiveness of the risk management systems, internal audit and internal control ;
- Issue a binding opinion on advance payments on profits over a year.

IV. STATUTORY AUDITOR

39. Identification of the statutory auditor and its representative statutory auditor member

PricewaterhouseCoopers & Associates, Statutory Auditors, Ltd. was reappointed as Statutory Auditor for the term of office of 2012-2014, by unanimous deliberation in writing of 30 October 2012.

This company of Statutory Auditors is represented in its duties, since 30 October 2012, by José Pereira Alves (Chartered Accountant (ROC) number. 711) or by João Rui Fernandes Ramos (Chartered Accountant (ROC) number 1333).

João Rui Fernandes Ramos (Chartered Accountant (ROC) number 1333) was replaced by Ana Maria Ávila de Oliveira Lopes Bertão (Chartered Accountant (ROC) number 902), on 31 January 2014.

The Alternate Statutory Auditor appointed for the 2012-2014 term of office is José Manuel Henriques Bernardo (Chartered Accountant (ROC) number 903), having been reappointed during his office by resolution of 30 October 2012.

40. Number of years in which the statutory auditor performs duties consecutively with the company and/or the group

The current Statutory Auditors, PricewaterhouseCoopers & Associates, Statutory Auditors, Ltd. has performed these duties in the Company since 2008.

PricewaterhouseCoopers & Associates, Statutory Auditors, Ltd. still performs duties as Sole Auditor in the following Group companies:

- CTT Gest - Gestão de Serviços e Equipamentos Postais, S.A., since 2008, currently holding office for the term 2012-2014, and
- EAD – Empresa de Arquivo de Documentação, S.A., since 2007, currently holding office for the term 2012-2014.

41. Description of other services rendered by the Statutory Auditor to the company

In addition to their services as statutory auditors, during 2013 PricewaterhouseCoopers & Associates, Statutory Auditors, Ltd. (PwC) also provided audit services under the privatisation process that took place in the second half of 2013, including, in particular:

- (i) Audit of the accounts audited over the last three years of the CTT Group (2012, 2011 and 2010) in accordance with EU-IFRS and audit of the accounts of the two intermediate periods (Q3 of 2012 and 2013), prepared in accordance with ISRE 2410 (Balance Sheet, P&L, Cash Flow and Statement of Shareholders Equity, including Notes);
- (ii) Issue of SAS 72 and SAS 72 letters of comfort look alike; and
- (iii) Participation in conference calls of General Coordination of the Offer in order to assist the underwriter banks during the financial due diligence, including participation in the conference call of audit due diligence.

The procedure of direct awarding of the above services to PwC was conducted following a recommendation of the banks involved in the Overall Coordination of the Offer and after obtaining a favourable opinion from the Supervisory Board in office at the date of hire.

V. EXTERNAL AUDITOR

42. Identification of the external auditor and its representative statutory auditor member in the fulfilment of these duties, and its CMVM registration number

PricewaterhouseCoopers & Associates, Statutory Auditors, Ltd., (PwC), Statutory Auditors of the Company, registered with the Securities and Exchange Commission under number 9077, also holds the office of External Auditor since 2013.

This audit firm is currently represented by José Pereira Alves (Chartered Accountant (ROC) number 711) or Ana Maria Ávila de Oliveira Lopes Bertão (Chartered Accountant number 902).

Besides the external auditor whose duties were, from the second half of 2013, carried out by PwC, the accounts of CTT are also audited by the audit firm KPMG & Associates, Statutory Auditors, S.A., (KPMG), enrolled in the Statutory Auditors Association under number 189 and registered at the Securities and Exchange Commission under number 9093, represented by Maria Cristina Santos Ferreira (Chartered Accountant number 1010), as an independent auditor.

43. Number of years in which the external auditor, and the respective representative statutory auditor fulfilling these duties, consecutively performs duties at the company and/or group

The duties of external auditor performed by PwC and that of the respective Statutory Auditor member are exercised in CTT since the beginning of the second half of 2013.

KPMG served as an external auditor in CTT from 2012 until the first half of 2013, and is currently an independent auditor of the Company.

44. Policy and frequency of rotation of the external auditor and respective representative statutory auditor fulfilling these duties

The External Auditor was BDO during the years of 2010 and 2011, and KPMG in 2012.

PwC only acted as external auditor for the financial year of 2013, for the privatisation process by public offering, held in the fourth quarter of 2013.

As Statutory Auditors of CTT, PricewaterhouseCoopers & Associates, Statutory Auditors, Ltd. perform duties since 2008 and have therefore not yet exceeded the period corresponding to three terms which obligates the company to rotate, as provided in CMVM Recommendation IV.3.

45. Body responsible for the evaluation of the external auditor and frequency of this evaluation

The Supervisory Board is responsible for the annual evaluation of the external auditor.

46. Works, other than auditing, performed by the external auditor for the company and/or companies with which it is in a controlling relationship, as well as indication of internal procedures for approval of hiring such services and indication of the reasons for their hiring

During 2013, PricewaterhouseCoopers & Associates, Statutory Auditors, Ltd. was hired to independently check the information in the Sustainability Report, as well as the systems and processes that were used to support it.

These services were hired through direct awarding after consulting the Supervisory Board, based on

the in-depth knowledge that this entity has of CTT, due to the exercise of its duties as Statutory Auditors.

PwC also rendered fiscal consultancy services concerning transfer pricing.

47. Annual remuneration paid by the company and/or by legal entities in a controlling or group relationship, to the auditor and other natural or legal persons

During 2013 and 2012, the remuneration received by CTT's External Auditors, PricewaterhouseCoopers & Associates, Statutory Auditors, Ltd., was approximately 510 thousand euros, where this amount was allocated to the following services:

	(Euros)			
	2013		2012	
	Amount	%	Amount	%
CTT	508.410	100%	97.584	100%
Legal review of accounts	79.525	16%	81.320	83%
Reliability assurance services ⁽¹⁾	382.560	75%	0	0%
Tax advisory services	24.209	5%	16.263	17%
Other services	22.117	4%	0	0%
All other CTT Group companies	1.510	100%	21.055	100%
Legal review of accounts	1.510	100%	21.055	100%
TOTAL	509.920		118.639	

(1) Relative to the CTT privatisation process

During the financial years of 2013 and 2012, the remuneration received by CTT's current independent auditor, KPMG & Associados. SROC, S.A., stood at 266.857 euros, as detailed below:

	(Euros)			
	2013		2012	
	Amount	%	Amount	%
CTT	254,671	100%	30,118	100%
Independent audit services	182,344	72%	30,118	100%
Reliability assurance services	0	0%	0	0%
Tax advisory services	54,395	21%	0	0%
Other services	17,933	7%	0	0%
All other CTT Group companies	0	100%	0	100%
Independent audit services	0	100%	0	100%
TOTAL	254,671		30,118	

C. INTERNAL ORGANISATION

I. ARTICLES OF ASSOCIATION

48. Rules applicable to the alteration of the company's articles of association

The General Meeting shall decide upon any amendments to the Company's Articles of Association.

CTT's Articles of Association do not provide for any specific rules applicable to their alteration and, for this reason, the general rule established in number 3 of article 386 of the Companies Code shall apply, that is, the decision to amend the Articles of Association shall be approved in the General Meeting by two thirds of the votes cast.

II. COMMUNICATION OF IRREGULARITIES

49. Means and policy of communication of irregularities occurred in the company

Aimed at strengthening Corporate Governance practices and in strict correlation with the Standards of Conduct stipulated in the Code of Ethics, CTT has a mechanism for reporting irregularities, whose use presumes the appropriate understanding of its purpose and procedures, as well as the inherent rights and duties.

The Ethics Committee shall monitor and supervise the above referred mechanism and the Auditing and Quality Department shall be responsible for the technical assistance to the Ethics Committee in the implementation of the abovementioned system for reporting irregularities and shall assure its regular operation, namely in:

- a) Processing reports, ensuring that they are recorded and that a preliminary analysis is carried out, selecting only those related to the strict subject of the Code of Ethics;
- b) Identifying and acting on important reports;
- c) Proposing to the Ethics Committee whether the reports analyzed should be filed or corrective measures adopted.

Considering the nature of the mechanism and according to the terms of the procedures in force, confidential treatment of reports received is guaranteed and the principle of prohibition of retaliation by the CTT against people reporting the irregularities is preserved.

III. INTERNAL CONTROL AND RISK MANAGEMENT

50. Internal control system – persons/bodies responsible for the internal audit.

The Internal Audit function is ensured by the Auditing and Quality Department, which systematically assess the suitability and effectiveness of the internal control systems of CTT and its subsidiaries, through an approach according to the risk level associated to the processes, systems and business units, namely how the identified risks are being managed.

On its side, the Board of Directors has established a policy of rigor, transparency and accountability which fosters a culture of control, and there are also internal mechanisms of information and communication, enabling the follow-up and monitoring of performance at all levels of the organisation.

51. Hierarchical/functional relationship in relation to other bodies of the company.

The Audit and Quality is a Department, which reports directly to the Chairman of the Board of Directors, acting transversally within CTT and its subsidiaries. Moreover, it also directly sends to the Audit Board all the audit reports it prepares and it meets with them whenever the Fiscal Audit deems it suitable.

In addition to the analysis of the quality, integrity and effectiveness of the internal control system associated to materially relevant operations and proceedings, the Auditing and Quality Department also performs Compliance and Inspection duties.

52. Other functional areas competent in risk control.

In CTT, risk management and control are assumed throughout the organizational structure, first by the management and through mutual cooperation, by the employees in general.

The Finance and Risk Management Department is responsible for the centralized coordination of CTT, helping to create a risk-awareness culture and managing the planning and implementation of action programmes/projects against identified risks.

With a view of reinforcing the involvement and commitment to risk, the Risk Management Committee, as channel to aggregate the different visions and approaches of the departments involved, has to revitalize the function of the Risk management, acting as a tool to leverage the operation process of the Risk Management System in CTT.

53. Main risk factors (economic, financial and legal) inherent to the activity of the company.

Among the most significant risks, which might affect CTT, eventually to the detriment of the strategic and sustainable growth, the following risks must be stressed:

Markets and competition: The alteration of communication habits has caused a contraction of postal traffic. Together with this, the new legal and regulatory environment, which has totally opened the market, with the consequent increase of competition in certain business or product sectors, represents an enormous challenge to CTT. The management of this risk is entrusted to the business sectors and to the Regulation and Competition department, which are responsible for proactively monitoring the evolution of the regulatory standards issued by national and international bodies and for continuous and dynamic management of risk, including different initiatives towards its mitigation.

Innovation and development: The lack of leadership in innovation, which results in the timely introduction of new products, may signify a loss of market share to the competition. The management of this risk is the responsibility of the Strategy and Development department, which continuously monitors the diversity of trends and initiatives in different geographical areas, with a view to identifying solutions which could be applied by CTT.

The Portuguese State as Stakeholder: The Portuguese State still holds a stake of 31.5% in the Company, which does not confer it a controlling position, but allows an important participation in the decision-making process in what concerns all matters to be voted by the shareholders. In its position as a customer, the Portuguese State represents a percentage of approximately 15% of the operating income of CTT. A decrease in the traffic of the mail sent, either as a consequence of governmental initiatives related to cost limitation measures, or due to any other reasons, may enhance the decrease of the postal traffic level.

Obligation to provide Universal Coverage: The obligation of CTT as provider of an Universal Coverage Service in Portugal imply significant costs, which may not be sufficiently reduced or compensated, in order to cover the decrease in the operational income arising from increased competition. In the case of noncompliance by CTT with its obligations under the terms of the universal postal service concession contract, the Portuguese State may seize the concession and CTT shall bear any costs arising from the services maintenance and any other required extraordinary expenses, in order to resume normal operation. This risk management is the responsibility of the Regulation and Competition department and of the Strategy and Development department, and their mission, among others, is to determine the net cost of the Universal Postal Service and the effective mechanisms to pay for it.

Customer focus and loyalty: The alterations in the consumers' preferences or the lack of supply of quality services and products may adversely affect CTT. Furthermore, an important percentage of the operating income arises from a relatively concentrated customer base. Consequently, CTT's growth and sustainability depend heavily on the provision of a service focused on customer satisfaction and it is, therefore, fundamental to anticipate, assess, respond and monitor customer needs, offering appropriate products and services, at competitive prices and with increasing quality levels. This management of this risk is the concern of the business areas and of the Retail Network and Large Customers channels.

Human Resources Management: The ability to recruit and retain qualified workers and experienced managers is essential for the success of CTT. Even though some measures have been taken to mitigate this risk, namely through talent management and career progress programmes, there is no guarantee that CTT will succeed in the retaining of such executive officers, especially because the competition is increasing with regard to the contracting of professionals with these characteristics. The management of this risk is the responsibility of the Human Resources and Organization Department.

Partnerships: CTT's activity depends on partnerships and other similar agreements, either at the level of the mail business segment, financial services or corporate solutions, or at the level of the key service providers and suppliers in some of the operating areas. The non-fulfilment of the commitments referred to above, the termination of agreements or any other interruption of services provided may significantly disturb CTT's operations and adversely affect its business. The management of this risk is the responsibility of the business areas and internal support structures.

Information management: Analysis and decision-making on the basis of well-selected, relevant, reliable, consistent and confidential information are crucial for the efficient definition, implementation and management of the group's business strategy. The management of this risk is the responsibility of the Information Technology department and Planning and Management Control department.

Information Technologies (IT): Day-to-day management of IT operations depends heavily on CTT IT structure and communication systems. Operational breakdowns may compromise the ability to offer products and services, resulting in decreased operating income and with consequences for its reputation and image among the consumers. The management of this risk is entrusted to the Information Technologies department.

Culture of profitability analysis: CTT is subject to several financial risks, including credit risks, market risks, interest and exchange rate risks and liquidity risks. The existence of a culture of analysis and maximisation of profitability is crucial for the sustained growth of CTT. A regular and systematic assessment of the cost/benefit ratio in terms of products and services, customers and investment projects, is a critical success factor. The management of this risk is the responsibility of the Accounting and Treasury and the Finance and Risk Management departments.

54. Identification, assessment, monitoring, control and management of risks.

The mechanisms for risks assessment and management that may affect operations, fulfilment of the plan and compliance with the defined strategic objectives, are based on an integrated and transversal risk management model, which is intended to implement corporate governance good practices and transparency in market relations.

Consequently, risk management is integrated with the strategic planning and operating management of CTT and its subsidiaries, and the adoption of risk management as an integral part of their duties depends on the commitment of all employees, namely in recognizing, reporting and implementing actions to mitigate risks.

Risk management is promoted by the Board of Directors in cooperation with the managers responsible for the organizational units, in order to identify, appraise and manage the uncertainties and threats, which may affect pursuit of the plan and compliance with the strategic objectives.

The Audit and Quality and Risk Management department assist the Board of Directors in the implementation of the Risk Management System and in the continuous assessment of the established procedures, in order to ensure that the following objectives are achieved:

- Development of a risk management model, aligned with the strategic objectives of CTT.
- Identification and assessment of the risk events to which CTT are subject within its business, in the light of the impact and probability of occurrence of the events in question.
- Permanent monitoring of the main identified risks, in order to verify any possible alterations in their respective risk level, which may imply the need to modify the internal control system.

In addition to the identification of the risk factor of business activities and allocation of specific responsibilities, formal and informal channels of information and communication have been established to enable business activity to be monitored at all levels.

The assessment of the efficiency and effectiveness of the internal control systems of the organisational units of CTT is ensured by the Auditing and Quality department, through an approach based on risk.

The aim of the internal control system in force at CTT is to ensure, to a reasonable degree of certainty, that the following objectives are achieved:

- efficient, effective operations;
- efficient and effective operations, as well as the economic use of resources;
- reliable and complete financial information;
- compliance with the applicable policies, plans, procedures, laws, standards and regulations;
- safeguarding of assets;
- detection and reporting of serious risks to the group's activity, as well as risks of corruption and associated offences;
- active concern with sustainability, and social and environmental responsibility.

As a management instrument, the internal control system is founded on the following five components:

Controlled environment – this is functional basis of the organization, influencing the performance of its employees, establishing the benchmarks for the other components of the internal control system, in particular:

- CTT's organizational structure, defining the reporting lines, mission and duties of the different organic units;
- the documents containing the delegation of competencies, which define the limits and acts delegated to different management levels, under the approved plans and budgets;

- the Regulation of the Board of Directors and the activity of the Company Secretary, entrusted with the duties established in article 446-B of the Companies Code and whose term of office coincides with that of the Board of Directors.
- the Code of Ethics (distributed to all employees) embodying CTT's values and standards of conduct, which must be observed by all Directors and employees, and the Ethics Committee, which is responsible for the implementation, monitoring, interpretation and clarification of doubts or cases not addressed in the Code of Ethics;
- the Discipline Manual, which serves as a support for manager training and is available for consultation to employees;
- the Compliance Manual, designed to mitigate risks arising from the use of the CTT's financial system for money laundry and financing terrorism;
- training as a decisive strategic vector for improving employee performance;
- the Guiding Principles of the Information of Security Policy and its classification, with a definition of guidelines for the secure treatment of information;
- issue and dissemination of a vast body of standards and procedures, which regulate the activity of CTT Group companies, in all the different areas of action.

Risk assessment, management and control – this consists of the identification and assessment of relevant risks and implementation of mitigation measures, assumed by the entire organisational structure, first by the management and, through mutual cooperation, by the employees in general.

The Finance and Risk Management department is responsible for the centralized coordination of the entire CTT risk management process, helping to create a risk-aware culture and managing the planning and implementation of action programmes/projects against identified risks.

With a view to reinforcing the involvement and commitment to risk, the Risk Management Committee, as an aggregating channel of the different visions and sensitivity of the departments involved, is entrusted with revitalizing the Risk management function, acting as an instrument to leverage the entire operationalization process of the Risk Management System at CTT.

The Auditing and Quality department also considers the known or potential risks, in order to define the annual internal audit plan, through which it analyses the quality and effectiveness of the internal control system associated with materially important operations and processes, identifying improvements and good practices to be implemented by the audited departments, with a view to mitigating risks and/or potentially damaging events leading to operational inefficiencies and losses.

The Auditing and Quality Department is also responsible for:

- *Compliance* – identification and monitoring of the risks inherent to the financial activities carried out by CTT, aimed at ensuring compliance with ethical standards and respect for the applicable legal and regulatory provisions, as well as the recommendations and guidelines issued by the competent regulatory/Supervisory bodies;

- *Inspection* – assessment of internal procedures and practices, which allow or might lead to irregular and corrupt behaviour, namely embezzlement, fraud and bribery, in order to act and develop processes to recover values where the company might have incurred losses and/or to adopt preventive measures against occurrences of the same nature.

Control activities, based on defined policies and procedures, with a view to ensuring both compliance with instructions issued by superiors, or supervision of risks related to the pursuit of business objectives.

Also noteworthy, is the role played by the Investor Relations department, which is responsible, namely, for timely compliance with CTT's duties under the legal and regulatory terms, as a company issuing shares listed for trading on a regulated market.

In addition to the control activities carried out by the different units of the organization, the following should be noted:

- by the Board of Directors, in monitoring and managing the economic, environmental and social performance through the following instruments: CTT strategic plan, annual plan and budget, monthly control indicators, control meeting for the planning and publication of quarterly, half-yearly and annual reports;
- by the Investment Committee, responsible for assessing and issuing opinions on investment projects for amounts above 50,000 euros;
- by the Credit Committee responsible for customer credit management policy, for the assessment of risk levels and credit ceilings, as well as decisions on concession/review/credit suspension and payment agreements with customers;
- by the Property Management Committee, responsible for the strategic planning and management of property, for scheduling investments and promoting the optimal use and profitability of real property assets;
- by the Treasury Committee, under the assessment and analysis of CTT's fund management procedure, with a view to continuous improvement and permanent adjustment to needs ;
- by the external audit service (KPMG).

Information and communications, provide support to the internal control system, where formal and informal information and communication channels have been established, which allow the Group's activities to be monitored, namely the internal and external communication of the activities and results achieved in all actions in the socio-economic and environmental areas.

Supervision – CTT business activities are supervised by the Supervisory Board and by a Statutory Auditor, in accordance with the terms of the applicable legal provisions and Articles of Association. The Supervisory Board is particularly responsible for the supervision of the independence and activity of the Statutory Auditor, as well the internal control systems, the internal and risk management audit implemented at CTT.

The accounts of the Company are audited by an external Statutory Auditor (PwC) and by an independent Auditor (KPMG).

The mission of the Ombudsman is the defense and promotion of customer rights and guarantees, as well as contributing to increase trust in relations between CTT and its customers. It carries out investigations and formulates recommendations to the Board of Directors, with a view to correcting any discriminatory practices which might occur, proposing measures to improve the efficiency of the services provided.

Under current legal requirements, ICP – ANACOM (National Communications Authority) monitors CTT on a regular basis, for compliance with its Universal Postal Service concession contract.

Particular note should also be made of the activities of the regulatory entities under the provision of financial services to the public, especially the Supervisory role played by the Bank of Portugal concerning the use of the financial system in money laundry and the financing of terrorism.

55. Main elements of the internal control systems and risk management implemented in the Company for the disclosure of financial information (article 245-A, number 1, subparagraph m).

The procedure for disclosing financial information is monitored both by the Board of Directors and Supervisory Board and by the business units and corporate departments. The documents presenting the financial information to the capital market are prepared by the Planning and Control department, based on the information provided by the business units and by the Accounting and Treasury department.

Before their disclosure, the documents are sent to the Board of Directors and Supervisory Board. Consequently, these documents are approved by the two Boards, prior to disclosure. The press releases with the financial information previously sent to the Supervisory Board only require approval by the Board of Directors.

The Supervisory Board is responsible for the supervision of the effectiveness of the risk management system, internal control and audit, as well as for the annual assessment of system operation and respective internal procedures, in order to strengthen the internal control environment. The recommendations of the Supervisory Board on this matter are sent to the Board of Directors.

The Supervisory Board is also responsible for the supervision of the Company's adoption the principles and policies ruling the identification and management of the main financial and operational risks associated with CTT's business, as well as overseeing the measures to monitor, control and disclose risks. With a view to issuing the legal certification of accounts and the audit report concerning the individual and consolidated financial statements of CTT, the Statutory Auditor and external auditors assess the internal control mechanism of the main operational cycles of the Group's companies of impact in the financial report.

IV. INVESTOR SUPPORT

56. Department responsible for investor support, composition, duties, information provided by these departments and contact entities

CTT aims to provide information to shareholders, investors, and capital markets regulatory entities on a regular basis, in a timely, clear and transparent manner. To support this, in November 2013, CTT created a department to assist investors, shareholders and the capital markets regulatory entities.

This Department should regularly prepare press releases, statements and presentations, and hold meetings, conference-calls and road shows, in cooperation with other internal CTT structures, so as to ensure permanent contact with the capital markets, respecting the principle of the equality of shareholders.

The contacts of CTT's Department of Investor Relations are as follows:

Peter Iordanov Tsvetkov

Address: Avenida D. João II, Lote 01.12.03, 12^o andar, 1999-001 Lisboa-Portugal

Email: investors@ctt.pt

Fax: +351 210 471 996

Telephone: +351 210 471 867

Website: www.ctt.pt

The Department of Investor Relations is responsible for acting as the CTT liaison agent with its shareholders, investors, financial analysts, rating agencies, the capital market and financial community in general, being responsible for the provision of information to enable a clear understanding of the evolution and economic, financial and governance situation of CTT.

In performing its duties, this department is creating and will maintain a flow of communication with the financial community in general, providing all the necessary information, in accordance with the legal and regulatory principles, in order to answer all queries received.

57. Representative for market relations

The CTT representative for Market Relations is the Board of Directors member André Manuel Pereira Gorjão de Andrade Costa.

58. Information on the proportion and deadline to answer requests for information received during the year or pending from previous years

Since CTT has only recently become a Company issuing shares listed for trading on a regulated market, it does not yet have relevant information on response times to the requests submitted by the financial community in general – shareholders, investors and analysts.

V. INTERNET SITE

59. Address

The address of the CTT website is as follows:

<http://www.ctt.pt>

60. Site presenting information on the firm, its capacity as a publicly-traded company, head office and other elements

This information may be consulted on the CTT website, via the link:

<http://www.ctt.pt/fectt/wcmservlet/ctt/investidores/info/empresa/idsociedade.html>

61. Site presenting the articles of association and operating regulations of the governing bodies and/or committees

This information is available on the CTT website, via the link:

http://www.ctt.pt/fectt/export/download/investidores/By-laws/By-laws_CTT_PT.pdf;

http://www.ctt.pt/fectt/wcmservlet/ctt/institucional/grupoctt/quemsomos/governo_sociedade/regulamentosinternos/regulamentos_internos.html.

62. Site providing information on the identity of the members of the governing bodies, representative for market relations, Investor Support Office, their respective duties and means of access

This information is available on the CTT website, via the link:

http://www.ctt.pt/fectt/wcmservlet/ctt/investidores/info/governo_da_sociedade/conselho_administracao/conselho_administracao.html;

http://www.ctt.pt/fectt/wcmservlet/ctt/investidores/info/relacoes_investidores/representante_mercado.html;

http://www.ctt.pt/fectt/wcmservlet/ctt/investidores/info/relacoes_investidores/apoio_investidor.html.

63. Site providing the documents presenting the accounts, which must be available for at least five years, as well as the half-yearly calendar of corporate events, which is disclosed at the beginning of each semester, including, among others, the general meetings

This information is available on the CTT website, via the link:

http://www.ctt.pt/fectt/wcmservlet/ctt/investidores/info/informacao_financeira/contas_consolidadas.html;

http://www.ctt.pt/fectt/wcmservlet/ctt/investidores/info/informacao_financeira/indicadores_chave.html;

64. Site disclosing the call notice of the general meeting and all its related preparatory and subsequent information

This information is available on the CTT website, via the link:

http://www.ctt.pt/fectt/wcmservlet/ctt/investidores/info/relacoes_investidores/assembleias_gerais.html

65. Site providing the historical records with the decisions taken in the general meetings of the company, the represented share capital and voting results

This information is available on the CTT website, via the link:

http://www.ctt.pt/fectt/wcmservlet/ctt/investidores/info/relacoes_investidores/assembleias_gerais.html

D. REMUNERATION

I. COMPETENCE FOR DETERMINATION

66. Indication as to competence for determination of the remuneration of the governing bodies, members of the executive committee and Directors of the company

Pursuant to article 28 of the Public Manager's Statute in force, the remuneration of the governing bodies during 2013 is determined by the sole shareholder (the State) by unanimous resolution in writing of 24 August 2012, which appointed the members of the governing bodies for the exercise of their duties, under the rules applicable to State-held companies.

The remuneration of all the other Directors/managers was defined by the Board of Directors, also in accordance with the rules applicable to State-held companies.

After 5 December 2013, as a result of the company's privatisation, the reductions in remuneration applicable to State-held companies are no longer applicable.

Pursuant to subparagraph d) of paragraph 2 of article 9 of the Articles of Association approved on 30 October 2013, the General Meeting of Shareholders is responsible for deciding on the remunerations of the members of the governing bodies, which may appoint a Remuneration Committee for this

purpose.

The proposed election of the members of the governing bodies, to be deliberated at the General Meeting of 24 March 2014, includes the constitution of a Remuneration Committee composed of 3 independent members for the term of office of 2014-2016.

II. REMUNERATION COMMITTEE

67. **Composition of the remuneration committee, including identification of natural or legal persons contracted to provide support to said committee and statement on the independence of each member and advisors**

The Remuneration Committee did not exist during 2013 and has not yet been constituted at CTT.

The members listed below are proposed to form the Remuneration Committee following the General Meeting of 24 March 2014:

João Luís Ramalho de Carvalho Talone	Chairman
José Gonçalo Ferreira Maury	Member
Rui Manuel Meireles dos Anjos Alpalhão	Member

None of the proposed members of the Remuneration Committee is part of any governing body within the Company, or holds or operates on behalf and account of holders of qualifying stakes in the Company's share capital or has any family relationship to any member of the Board of Directors.

68. **Knowledge and experience of the members of the Remuneration Committee on remuneration policy**

Not applicable as at 31 December 2013.

All the members proposed to form the Remuneration Committee have experience and knowledge on this matter.

III. REMUNERATION STRUCTURE

69. **Description of the remuneration policy of the Board of Directors and Supervisory Board referred to in article 2 of Law 28/2009, of 19 June**

The remuneration policy of the members of the Board of Directors and Supervisory Board in force during the financial year of 2013 complied with the Public Manager's Statute, as established by Decree-Law 71/2007 of 27 March, amended by the Decree-Law 8/2012 of 18 January, Council of

Ministers Resolution 16/2012 of 9 February and Council of Ministers Resolution 36/2012 of 26 March.

The remuneration policy of the State sector managers takes into account specific distinction criteria for its determination, especially by distinguishing between companies which are, or are not, subject to a regime of free market competition, since its main purposes is the production of commercial goods and services, including financial services, and the other companies beyond this sphere.

Furthermore, the diploma referred to above also establishes a special regime for determining the remuneration of managers of the State sector when the company is under a process of privatisation, extinction or liquidation, which was the case of CTT.

The remuneration established for the members of the Board of Directors in office was identical to their predecessors.

70. Information on how remuneration should be structured in order to enable the alignment of the interests of members of the Board of Directors with the company's long term interests, as well as on how performance assessment should be based and discourage excessive risk-taking.

As noted in the paragraph above, the value of the fixed remuneration established for the members of the Board of Directors, through shareholder deliberation, corresponded to the value paid to their predecessors.

The remuneration of the members of the Board of Directors consists of a fixed remuneration paid 14 times per year, an annual variable remuneration based on the achievement of the defined annual goals, and a multi-annual variable remuneration based on the achievement of the defined multi-annual goals.

The management contracts concluded under the terms of article 18 of the State Manager Status established the formula to calculate the annual and multi-annual variable remunerations, in observance of the limit set out during the deliberation appointing the members of the governing bodies and establishing their remunerations.

71. Indication, if applicable, to the existence of a variable component of the remuneration and information on any potential impact of the performance assessment on this component

As mentioned in paragraph 70, the variable component of the remuneration is indexed to the performance assessment which is based on the achievement of strategic and annual goals as established in the management contract, in addition to the assessment performance relative to the strategic guidelines for the State Corporate Sector, measured in accordance with the best practices of Portuguese companies.

72. Deferral of payment of the variable component of the remuneration, with reference to the deferral period

Within this context, and in view of the nature of CTT, until 5 December 2013, the rules arising from the Public Manager's Statute, RCM 36/2012 of 26 March and State Budget were applied.

73. Criteria underlying the allocation of variable remuneration in shares, as well as on the maintenance of these shares by the executive Directors; any conclusion of agreements regarding these shares, especially hedging or risk transfer agreements, their limit and proportionate value in terms of total annual remuneration.

Not applicable.

74. Criteria underlying the allocation of variable remuneration in options and reference to the deferral period and exercise price.

Not applicable.

75. Main parameters and grounds of any annual system of bonuses and any other non-cash benefits.

The main parameters of both the variable remuneration and the term of office bonus systems were based on the strategic and annual goals set out in the management agreement as well as on the strategic guidelines for the State Corporate Sector.

The main strategic goals are based on four components:

- Preparation of the company for its privatisation
- Maximization of the company's value
- Reorganization and organizational development of the company in order to face the challenges of the future.
- Ensuring the service obligations arising from the universal postal service concession.

The annual goals are based on profitability and growth along with efficiency and on the strategic guidelines for the State Corporate Sector referred to in the annex to RCM 70/2008 of 22 April, subparagraphs d), f), g) and h) respectively.

76. Main characteristics of supplementary systems of pensions or early retirement for Directors and date on which they were individually approved at the general meeting.

The remuneration policy of the company does not include the attribution of pension supplements or any compensation in the case of the early retirement of its Directors.

IV. DISCLOSURE OF REMUNERATIONS

77. Indication of the annual remuneration earned, as a total and individually, by the members of the Board of Directors of the company.

The gross remunerations paid, individually, to the members of the Board of Directors during the financial year of 2013 by the Company are broken down as follows:

Costs related to the Board of Directors in 2013

Unit: €	Chairman	Vice-Chairman	Member	Member	Member
	Francisco de Lacerda	Manuel Castelo-Branco	André Gorjão Costa	Dionizia Ferreira	Ana Jordão
Term of office (<i>BoD current – 24/08/2012 to 31/12/2012</i>)	2012-2014	2012-2014	2012-2014	2012-2014	2012-2014
Adapted to EGP (Yes/No)	Yes	Yes	Yes	Yes	Yes
1.Total Remuneration (1+2+3+4)	171,600.00	154,440.00	145,860.00	145,860.00	145,860.00
OPRLO (Yes/No)	No	No	No	No	No
Original Entity (Identify)	-	-	-	-	-
Paying Entity (Source/Destination)	CTT	CTT	CTT	CTT	CTT
1.1. Annual remuneration (1+1.6)	200,200.00	180,180.00	170,170.00	170,170.00	170,170.00
1.2 Representation costs (annual)	-	-	-	-	-
1.3 Attendance fee	-	-	-	-	-
1.4. Reduction arising from Law 12-A/2010	8,675.33	7,807.80	7,374.03	7,374.03	7,374.03
1.5. Reduction arising from Law 64-B/2011	16,483.4	14,834.82	14,010.72	14,010.72	14,010.72
1.6. Suspension of payment of Christmas bonuses – PAID in twelfths	14,300.00	12,870.00	12,155.00	12,155.00	12,155.00
1.6. Suspension of payment of holiday – PAID in Nov/2013	14,300.00	12,870.00	12,155.00	12,155.00	12,155.00
1.7. Reductions from previous years	-	-	-	-	-
1. Effective net annual remuneration (1.1+1.2+ 1.3+1.6- 1.4-1.5-1.7)	175,041.53	157,537.38	148,785.25	148,785.25	148,785.25
2. Variable remuneration	-	-	-	-	-
3. IHT (Exempt from working hours)	-	-	-	-	-
4. Other (identify)	-	-	-	-	-
Travel allowance	-	-	-	-	-
Meals allowance	1,166.57	1,166.57	1,166.57	1,166.57	1,153.76
Cost of social benefits	-	-	-	-	-
Social security	16,726.88	16,726.88	16,726.88	16,726.88	16,726.88

Unit: €	Chairman	Vice-Chairman	Member	Member	Member
	Francisco de Lacerda	Manuel Castelo-Branco	André Gorjão Costa	Dionísia Ferreira	Ana Jordão
Health insurance	-	-	-	-	-
Life insurance	-	-	6,147.05	9,959.09	7,426.71
Travel person accident insurance	278.00	365.78	245.81	57.02	-
Other insurance – (civil liability)	665.40	665.40	665.40	665.40	665.40
Accumulation of management positions (Yes/No)	No	No	No	No	No
Vehicle fleet	13-IZ-97	50-HG-44	50-HG-45	59-HJ-12	50-HG-38
Method of use	<i>Renting</i>	<i>Renting</i>	<i>Renting</i>	<i>Renting</i>	<i>Renting</i>
Reference value of new vehicle	75,700.24	51,200.01	51,200.01	59,446.8	47,499.99
Start year	2010	2009	2009	2009	2009
End year	2014	2014	2014	2014	2014
Nr. of instalments (if applicable)	48	60	60	60	60
Residual value	-	-	-	-	-
Value of rent/annual instalment of service vehicle [with no insurance]	15,522.35	11,179.38	11,316.06	11,625.59	10,331.13
Fuel spent on the vehicle	4,073.89	3,704.77	2,946.86	5,811.84	1,821.93
Annual ceiling for attributed fuel (litres)	4 200	4 200	4 200	4 200	4 200
Other:					
Tolls	495.05	680.95	687.10	1,614.15	49.05
Repairs	954.26	619.37	472.00	516.55	112.00
Insurance	745.80	587.82	587.82	663.50	562.35
Defined limit according to article 33 of EGP (Yes/No)	Yes	Yes	Yes	Yes	Yes
Other benefits and compensation	-	-	-	-	-
<i>Monthly ceiling in mobile communications</i>					
i. Mobiles	150.00	150.00	150.00	150.00	150.00
ii. Broadband	38.33	38.33	38.33	38.33	38.33
Annual costs with mobile communications					
i. Mobiles	2,267.49	4,676.35	2,538.15	3,128.40	883.17
ii. Broadband	244.75	248.57	1,101.77	3,496.56	351.41
Other (specify)	-	-	-	-	-
Defined limit according to article 32 of EGP (Yes/No)	Yes	Yes	Yes	Yes	Yes
Costs with travel (total)	19,746.79	19,840.90	10,238.56	803.03	-
Annual total cost with travel	14,018.30	13,624.79	7,026.32	721.41	-
Annual total costs with accommodation	5,487.06	5,613.85	3,034.16	81.62	-
Daily allowance	-	-	-	-	-
Other (specify)	(visas) 241.43	(visas) 602,26	(taxis) 178.08	-	-

Key: EGP – Articles of Association of the Public Manager; OPRLO – Option for Remuneration of Original Post.

78. Amounts paid, for any reason whatsoever, by other companies in a controlling or group relationship or that are subject to joint control

During the financial year of 2013, the companies with which the Company has controlling or group relations did not pay any remunerations or services to the members of the Board of Directors.

79. Remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonuses and/or profit sharing were granted

During the financial year of 2013, members of the Board of Directors were not allocated any remuneration in the form of profit sharing or bonuses.

80. Compensations paid or owed to former executive Directors related to termination of their duties during the financial year

During the financial year of 2013, no compensation was paid or became due to former executive Directors in relation to the termination of their duties during the financial year.

81. Annual remuneration earned, together and individually, by the members of the Supervisory Board of the company, for the purposes of Law 28/2009, of 19 June

The gross remunerations paid individually to the members of the Supervisory Board during the financial year of 2013 by the Company are broken down as follows:

SUPERVISORY BOARD 2013 - Summary							
	Chairman	Member	Member	Chairman	Member	Member	
	ELSA SANTOS	FERNANDA MARTINS	LURDES CASTRO	ANTÓNIO MOTA	ELSA SANTOS	DIOGO CAMPOS	TOTAL
	Until 12 Nov. 2013			After 12 Nov. 2012			
Annual fixed remuneration (€)	29,669.87	22,343.75	22,343.75	4,671.33	3,625.30	1,859.00	84,513.00
Reduction arising from Law 12-A/2010 (€)	462.37	346.78	257.40		0.00		1,066.55
Reduction arising from Law 55-A (€)	-471.69	-604.05	105.13		0.00		-970.61
Reduction from Law 66-B (€)	-3,073.55	-2,208.30	-2,383.64	-219.26	-344.63		-8,229.38
Effective annual remuneration (€)	26,587.00	19,878.18	20,322.64	4,452.07	3,280.67	1,859.00	76,379.56

82. Remuneration of the Chairman of the Board of the General Meeting during the reference year.

During the financial year of 2013 the remuneration of the Chairman of the Board of the General Meeting amounted to 580 euros (excluding VAT).

V. AGREEMENTS WITH REMUNERATION IMPLICATIONS

83. Contractual limits established for compensation payable for unfair dismissal of a Director and their connection with the variable component of the remuneration.

During the financial year of 2013, there were no contractually established limits for compensations payable in the case of unfair dismissal of any member of the Board of Directors, beyond that provided for in the Law.

84. Agreements between the company and members of the Board of Directors and other Senior Managers, pursuant to number 3 of article 248-B of the Securities Code, providing for compensation in the case of resignation, unfair dismissal or termination of employment following a change in the control of the company (article 245-A, number 1, subparagraph l).

During the financial year of 2013 there were no agreements between the Company and the members of the Board of Directors or the Senior Management which provided for compensation in the case of resignation, unfair dismissal or termination of employment following a change in the control of the company.

VI. PLANS FOR SHARE ASSIGNMENT OR SHARE OPTIONS (STOCK OPTIONS)

85. Identification of the plan and its recipients

The Company does not have in force any plan for share assignment or share options.

86. Characterization of the plan (terms of attribution, provisions of inalienability of shares, criteria on the share price and exercise price of options, period during which options may be exercised; characteristics of shares or options to be attributed, existence of incentives for the acquisition of shares and/or exercise of options)

Not applicable, see paragraph 85.

87. Option rights granted for the acquisition of shares ('stock options') where company workers and employees are the beneficiaries

Not applicable, see paragraph 85.

- 88. Control mechanisms stipulated in any system of employee participation in equity to the extent that the voting rights are not exercised directly by them (article 245-A, number 1, subparagraph e)**

Not applicable, see paragraph 85.

E. TRANSACTIONS WITH RELATED PARTIES

I. CONTROL MECHANISMS AND PROCEDURES

- 89. Mechanisms implemented by the company for the purpose of monitoring transactions with related parties.**

According to CTT's internal rules on financial reporting, the related parties are its shareholders, other shareholders of companies in which the CTT Group has a participation, the associate companies or joint ventures, and the members of the Board of Directors, the General Meeting and the Audit Committee/Supervisory Board.

The terms or conditions applied to transactions with related parties are identical to those which are contracted with independent entities in comparable operations.

These transactions are recorded in accordance with the accounting policies adopted by the Company in preparing its financial statements.

A regulation for verification and control of transactions with related parties is under preparation.

- 90. Transactions subject to control in the reference year**

See the answer given in the previous paragraph.

- 91. Intervention of the Supervisory Board for the purposes of pre-assessment of business to be conducted between the company and holders of qualifying stakes**

See the answer given in paragraph 89 above.

II. ELEMENTS RELATED TO BUSINESS

- 92. Location providing the documents presenting the accounts which include information on the transactions with related parties, pursuant to IAS 24.**

The relevant business between related parties and CTT are set out in Note 42- Related Parties of the Notes to the consolidated financial statements of 2013.

SECTION II- CORPORATE GOVERNANCE ASSESSMENT

1. Identification of the adopted Corporate Governance Code

Under the terms of CMVM Regulation 4/2013, CTT adopts the Corporate Governance Code as approved by the CMVM in July of 2013, available for consultation at www.cmvm.pt.

2. Analysis of compliance with the adopted Corporate Governance Code

CORPORATE GOVERNANCE CODE OF CMVM		ADOPTION	CHAPTER
I. VOTING AND CONTROL OF THE COMPANY			
I.1.	Companies should encourage their shareholders to take part and vote in general meetings, especially by not establishing an excessively high number of shares required to be entitled to one vote and implementing the necessary means to the exercise of the voting right by mail and electronic means.	Adopted	I-B-I-12
I.2.	Companies should not adopt mechanisms that hinder the process of arriving at decisions from their shareholders, in particular by establishing a deliberative quorum higher than that provided for in the Law.	Adopted	I-B-I-13 I-B-I-14
I.3.	Companies should not establish mechanisms that have the effect of causing a gap between the right to receive dividends or the subscription of new securities and the voting right of each ordinary share, unless they are duly justified by reference to the long-term interests of shareholders.	Adopted	I-A-I-5 I-B-I-12 I-B-I-12 I-B-I-14
I.4.	Company articles of association providing for the limitation of the number of votes that may be held or exercised by a sole shareholder, individually or jointly with other shareholders, shall also provide that, at least every five years, the changing or maintenance of that statutory provision will be subject to deliberation by the General Meeting – with no quorum requirements in relation to the law – and that, on such deliberation, any votes cast are counted with no restriction.	n.a.	–
I.5.	Measures that have the effect of requiring payments or assuming charges by the company in case of control transfer or change in the composition of the management body and which appear likely to prejudice the free transfer of shares and the free assessment of the performance of the members of the management body by the shareholders shall not be adopted.	Adopted	I-A-I-4

II. MONITORING, MANAGEMENT AND SUPERVISION

II.1. MONITORING AND MANAGEMENT			
II.1.1.	Within the limits established by law, and unless as a result of the small size of the company, the Board of Directors must delegate the daily management of the company, with the delegated competences being identified in the Annual Corporate Governance Report.	n.a.	–
II.1.2.	The Board of Directors must ensure that the company operates in line with their objectives, and shall not delegate their duties, in particular with regard to: i) defining the strategy and the company's general policies; ii) defining the corporate structure of the group; iii) decision that should be considered as strategically due to its amount, risk or particular characteristics.	Adopted	I-B-II-15 I-B-II-21
II.1.3.	The General and Supervisory Board, in addition to the exercise of the supervisory duties for which it is responsible, shall assume full responsibilities for the company's governance, so that, by the statutory provision or through equivalent means, the requirement by this Board of deciding on the strategy and the main company's political policies, the definition of the group's corporate structure and the decisions that shall be considered as strategically regarding their amount and risk shall be included. This entity shall also assess the compliance with the strategic plan and the execution of the main policies of the company.	n.a.	–
II.1.4.	Unless as a result of the small size of the company, the Board of Directors must create the committees required to: a) Ensure a competent and independent performance assessment of the executive Directors and their overall performance, as well as the various existing committees b) Reflect on the system, structure and the practices of the governance adopted, verify its effectiveness and propose to the competent authorities the measures to be executed, with a view to their improvement.	n.a.	–
II.1.5.	The Board of Directors shall establish the objectives on risk-taking and create systems to control them, with a view to ensure that the risks actually incurred are consistent with these objectives.	Adopted	I-C-III-49 I-C-III-50 I-C-III-51
II.1.6.	The Board of Directors shall include a number of non-executive members who shall ensure effective skills of monitoring, supervision and assessment of the activity of the other members of the management Board.	n.a.	–

II.1.7.	<p>A suitable proportion of independent members among the non-executive Directors shall be considered, by taking into account the governance model adopted, the size of the company, its shareholder's structure and its free float.</p> <p>Among the members of the Board of Directors a person who is not associated with any group with specific interests in the company, nor is likely to affect their impartiality or decision making is considered as an independent member, in particular in relation to:</p> <ul style="list-style-type: none"> a. Having been employee of the company or a company which has a control or group relationship with it over the last three years; b. Having, over the last three years, provided services or established a relevant commercial relationship with the company or a company which has a control or group relationship with it, either directly or as a partner, administrator, Director, manager of a legal person; c. Being a recipient of remuneration paid by the company or company which has a control or group relationship with it in addition to the remuneration arising from the exercise of the duties of the Director; d. Living as an unmarried couple or being spouse, relative or similar in the straight line and up to the 3rd degree, inclusively, in the collateral line, of Directors or natural persons entitled, directly or indirectly, to qualifying holding; e. Being a holder of a qualifying holding or representative of a shareholder of qualifying holdings. 	n.a	–
II.1.8.	When requested by other members of the governing bodies, the Directors performing executive duties should provide, in due time and in a form appropriate to the request, any information required by them.	Adopted	I-B-III-38
II.1.9.	The chairman of the executive committee should send to the Chairman of the Board of Directors and the Chairman of the Supervisory Board the call notices and the minutes of their meetings.	Adopted	*
II.1.10.	If the chairman of the management Board performs executive duties, he/she shall appoint an independent Director, among its members, capable of ensuring the coordination of the work of other non-executive members and the terms so that they can decide on an independent and informed manner or find an equivalent mechanism to ensure such coordination.	n.a	–
II.2. SUPERVISORY BOARD			
II.2.1.	The Chairman of the Supervisory Board shall be independent, according to the legal applicable standard, and have the necessary skills to carry out their duties.	Adopted	I-B-III-32
II.2.2.	The Supervisory Board should be the main interlocutor of the external auditor and the first recipient of his/her reports, and it is responsible, inter alia, for proposing their remuneration and ensuring, within the company, that the appropriate conditions for the service contract are provided.	Adopted	I-B-III-38 I-B-V-45

II.2.3.	The Supervisory Board shall assess on an annual basis the external auditor and suggest to the competent body his/her dismissal or termination of the service contract whenever just cause for such exists.	Adopted	I-B-V-45
II.2.4.	The Supervisory Board shall assess the functioning of the internal control and risk management systems and suggest the adjustments as may be necessary.	Adopted	I-B-III-38
II.2.5.	The Supervisory Board shall decide on the working plan and resources allocated to the services of internal auditing and services that ensure the compliance of the rules applicable to the company (compliance services), and it shall receive the reports executed by these services at least when matters related to the accountability, the identification or the resolution of conflicts of interests and the detection of potential illegalities are concerned.	Adopted	I-B-III-38
II.3. ESTABLISHMENT OF REMUNERATIONS			
II.3.1.	Any member of the Remuneration Committee or equivalent should be independent from the executive members of the management Board and include at least one member with knowledge and experience on matters of remuneration policy.	n.a.	–
II.3.2.	No natural or legal person who provides or has provided, over the last three years, services to any structure dependent on the Board of Directors to the actual Board of Directors of the company or who has a current relationship with the company or a consultant of the company should be contracted to support the remuneration committee in the performance of their duties. This recommendation is equally applicable to any natural or legal person related to the above through work or service contract.	n.a.	–
II.3.3.	The statement on the remuneration policy of the Board of Directors and Supervisory Board referred to in article 2 of Law 28/2009, of 19 June, shall additionally include: <ul style="list-style-type: none"> a) Identification and explanation on the criteria for determining the remuneration to be attributed to the members of the governing bodies; b) Information on the maximum potential amount, individually, and the maximum potential amount, jointly, payable to the members of the governing bodies, and identification of the circumstances under which these maximum amounts are due; c) Information regarding the enforceability or unenforceability of payments for the dismissal or termination of duties of Directors. 	Adopted	I-D-III-69 I-D-III-70
II.3.4.	A proposal regarding the approval of plans to allocate shares and/or stock options or based on the variations in the prices of shares to members of the governing bodies must be submitted to the General Meeting.	n.a.	–
II.3.5.	The proposal regarding the approval of any retirement benefits system established on behalf of the members of the governing bodies must be submitted to the General Meeting. This proposal shall contain all the elements required for a correct assessment of the system.	n.a.	–

III. REMUNERATIONS

III.1.	The remuneration of the executive members of the management Board shall be based on the effective performance and discourage excessive risk-taking.	Adopted	I-D-III-71
III.2.	The remuneration of non-executive members of the management Board and the remuneration of the members of the Supervisory Board shall not contain any component whose value depends on the performance of the company or its value.	Adopted	I-D-III-69 I-D-III-70
III.3.	The variable component of the remuneration should be reasonable, as a whole, in relation to the fixed component of the remuneration and maximum limits should be established for all components.	Adopted	I-D-III-70
III.4.	A significant portion of the variable remuneration should be deferred for a period of not less than three years, and its payment should be dependent on the continuation of the positive performance of the company over this period.	n.a	–
III.5.	The members of the management Board should not sign contracts, either with the company or with third parties, which have the effect of mitigating the risk inherent to the variability of their remuneration established by the company.	n.a	–
III.6.	Until the end of their term of office, executive Directors must keep any company shares they had access to by virtue of variable remuneration plans, up to the limit of twice the value of the total annual remuneration, except for those that must be sold with a view to the payment of taxes arising from the benefit of the same shares.	n.a	–
III.7.	When the variable remuneration includes the attribution of options, the beginning of the exercise period shall be deferred for a period of not less than three years.	n.a.	–
III.8.	If the dismissal of a Director does not result from a serious fault of his/her duties nor his/her inability to regularly exercise his/her duties, but is, nonetheless, due to inadequate performance, the company shall be provided with the suitable and required legal instruments so as to ensure that any compensation, in addition to that legally due, is not paid.	Adopted	I-D-III-70

IV. AUDIT

IV.1.	The external auditor shall, under its competences, verify the application of policies and remuneration systems of the governing bodies, the effectiveness and operation of the internal control mechanisms and report any failings to the Supervisory Board of the company.	Adopted	I-C-III-53
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IV.2.	The company should not contract from the external auditor, or from any entities which are in a holding relationship with it or are part of the same network, services other than audit services. Where there are motives for the contracting of such services – which should be approved by the Supervisory Board and explained in its annual Corporate Governance Report – they cannot represent a figure above 30% of the total value of the services provided to the company.	Adopted	I-B-V-46 I-B-V-47
IV.3.	Companies should promote the rotation of the auditor at the end of two or three terms of office, according to whether they are of four or three years. The auditor's maintenance beyond this period should be based on the grounds produced in a specific opinion issued by the Supervisory Board which explicitly weighs up the conditions of independence of the auditor and the advantages and the costs of this auditor's replacement.	Adopted	I-B-V-44
V. INTEREST CONFLICTS AND TRANSACTIONS WITH RELATED PARTIES			
V.1.	The company's business activities with shareholders with a qualifying stake or with entities which are in any relationship with them, under the terms of article 20 of the Securities Code, shall be performed under regular market conditions.	Adopted	I-A-II-10
V.2.	The Supervisory body should establish the procedures and criteria required for the definition of the relevant level of significance of business with shareholders of qualifying stakes – or with entities which are in any of the relationships mentioned in number 1 of article 20 of the Securities Code - with the execution of business of significant relevance being dependent on the prior opinion of this body.	n.a.	–
VI. INFORMATION			
VI.1.	Companies shall provide, through their website, access to information, in Portuguese and English, enabling knowledge about its progress and its current situation in economic, financial and governance terms.	Adopted	I-C-V-63
VI.2.	Companies should ensure the existence of an investor support office and permanent contact with the market, which responds in due time to requests from investors, keeping a record of the submitted requests and their subsequent follow-on.	Adopted	I-C-V-62

* All the Board of Directors meetings call notices, agendas and minutes are sent to the Chairman of the Supervisory Board of the company.

It should be noted that a large number of recommendations of the CMVM Corporate Governance Code described in the table above are not applicable to the Company, in particular Recommendations II.1.1, II.1.4, II.1.6, II.1.10, II.3.1, II.3.2, III.3., III.4 and V.2. These shall be implemented as soon as the Anglo-Saxon governance model is confirmed and the members of the respective governing bodies are elected, as it is expected to occur at the General Meeting of 24 March 2014.

3. Other information

ANNEX I – CURRICULA OF THE MEMBERS OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD

BOARD OF DIRECTORS

CURRICULA

Chairman & CEO



Francisco de Lacerda	53 years
Born	24/09/1960, Portugal
Appointed to the Board	24/08/2012
Term of office	2012/2014

Education

1982: Degree in Business Administration, Universidade Católica Portuguesa

Internal appointments

Chairman & CEO of CTT - Correios de Portugal, S.A.
 Chairman of CTT Expresso - Serviços Postais e Logística, S.A.
 Chairman of Tourline Express Mensajería, S.L.U.

Skills & Experience

Until 2008, Francisco had a 25 years career in retail, commercial & investment banking, during which he was CEO of Banco Mello and Member of the Executive Board of Directors of Millennium BCP, a large listed Portuguese bank with relevant operations in Central & Eastern Europe, for which he was responsible. He then held various positions with large Portuguese listed entities, including CEO of CIMPOR - Cimentos de Portugal, an international cement group operating in 12 countries and one of the 5 leading companies in market cap at NYSE Euronext Lisbon, and Non-Executive Director and Member of the Audit Committee of EDP Renováveis, the world's #2 renewable energy company.

External Board of Directors or Audit Board appointments (last 5 years)

2010-2012: CEO of Cimpor - Cimentos de Portugal, SGPS S.A.
2010-2012: Chairman of Cimpor Inversiones, S.A.
2010-2012: Chairman of Investment Company Cimpor Macau, S.A.
2008-2012: Non-Executive Director of EDP Renováveis, S.A., Member of the Audit Committee in 2008-2011
2008-2012: Managing Partner of Deal Winds - Sociedade Unipessoal Lda
2008-2010: Member of the Board of Mague - SGPS, S.A.

Other External Appointments

2011-...: Member of the Advisory Board of Nova School of Business and Economics
2006-...: Member of the Advisory Board of the Master in Finance, Católica Lisbon School of Business and Economics
2006-...: Member of the Supervisory Board of Cascais Yacht Club

Vice-Chairman; Executive Director



Manuel Castelo-Branco	45 years
Born	14/09/1968, Portugal
Appointed to the Board	24/08/2012
Term of office	2012/2014

Education

1992: Degree in Business Administration, Universidade Católica Portuguesa

Internal appointments

Vice-Chairman of CTT - Correios de Portugal, S.A.
 Member of the Board of CTT Expresso - Serviços Postais e Logística, S.A.
 Member of the Board of Tourline Express Mensajería, S.L.U.
 Member of the Board of Correio Expresso de Moçambique, S.A.

Skills & Experience

Manuel is the Board member in charge of the Express & Parcels Business Unit at CTT, and also for Key Accounts/Clients and IT. He has held commercial and marketing positions in consumer goods companies, including Unilever, Sara Lee and Reckitt Benckiser, and later Sonae as business unit Head of Sales for retail brands such as Worten and Continente. As Managing Director of Media Capital he was responsible for launching what became the #3 Internet provider in Portugal. Later he was Board Member at Reditus, a listed IT company, being part of the senior management team after the merger with Tecnidata. He was also strategic advisor of Saudi Oger - Saudi Lebanese Holding - for their telecom business in Portugal.

External Board of Directors or Audit Board appointments (last 5 years)

2010-2012: Member of the Board of Reditus BS Products, S.A.
2009-2012: Member of the Board of Strong, S.A.
2009-2011: Member of the Board of Reditus Gestão, S.A.
2008-2012: Member of the Board of Partblack, S.A.
2008-2012: Member of the Board of ALL2it Infocomunicações, S.A.
2008-2011: Member of the Board of TD IF, S.A.
2008-2011: Member of the Board of Tecnisuporte, S.A.
2007-2012: Member of the Board of Tecnidata, S.A.
2007-2012: Member of the Board of Reditus, SGPS, S.A.
2007-2009: Member of the Board of Tecnidata, SGPS, S.A.

Other External Appointments

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CFO; Executive Director



André Gorjão Costa	40 years
Born	01/06/1973, Portugal
Appointed to the Board	24/08/2012
Term of office	2012/2014

Education

1996: Degree in Economics, Nova School of Business and Economics

Internal appointments

Member of the Board and Chief Financial Officer of CTT - Correios de Portugal, S.A.
 Member of the Board of CTT Expresso - Serviços Postais e Logística, S.A.
 Member of the Board of Tourline Express Mensajería, S.L.U.
 Chairman of Payshop (Portugal), S.A.

Skills & Experience

André is the Chief Financial Officer and the Board member in charge of the Financial Services Business Unit and of Regulation and Competition at CTT. He has developed his professional career in investment and commercial banking for 16 years at Santander Group, holding several positions in Portugal and abroad. He joined the Corporate Finance team of the bank in 1996 and later led their cross-border M&A team, being responsible for several acquisitions in LatAm. In 2000, was appointed Head of the Corporate Banking department, responsible for creating the Global Clients Department of Santander and for managing the relationships with major Portuguese corporate clients. He advised the acquisitions of Modelo Continente by Sonae from Carrefour and of 33.34% of Galp Energia by Americo Amorim Group, amongst many other relevant transactions in Portugal, Spain and Brazil. In 2007, he was appointed Managing Director of Credit Markets in Portugal. During this time, Santander acted as Bookrunner in many Eurobond issues and as Mandated Lead Arranger in some of the most relevant project and acquisition financings in Portugal in the renewable and infrastructure sectors.

External Board of Directors or Audit Board appointments (last 5 years)

2012-2014: Member of the Board of Eurogiro

Other External Appointments

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Executive Director



Dionízia Ferreira	48 years
Born	03/01/1966, Portugal
Appointed to the Board	24/08/2012
Term of office	2012/2014

Education

1988: Degree in Business Management, Instituto Superior de Economia e Gestão

Internal appointments

Member of the Board of CTT - Correios de Portugal, S.A.
 Member of the Board of CTT Expresso - Serviços Postais e Logística, S.A.
 Member of the Board of Tourline Express Mensajería, S.L.U.
 Chairwoman of Mailtec - Holding, SGPS, S.A.
 Chairwoman of Mailtec Comunicação, S.A.
 Chairwoman of Mailtec Consultoria, S.A.
 Chairwoman of EAD - Empresa de Arquivo de Documentação, S.A.
 Chairwoman of CTT Gest - Gestão de Serviços e Equipamentos Postais, S.A.
 Chairwoman of the Management Board of PostContacto - Correio Publicitário, Lda
 Manager of Mailtec Processos, Lda

Skills & Experience

Dionízia is the Board member in charge of Mail & Business Solutions Business Unit at CTT. Until 2003, Dionízia had a 14 years career in retail & commercial banking in Barclays Bank, Banco Mello and Millennium BCP. From 2003 to 2007 she was Commercial and Marketing Director at CTT, where she was responsible for the operational and strategic marketing of the retail network, the design and launch of Correio Verde, the optimization of the products and services portfolio and also for preparing the launch of Banco Postal. For five years until 2012, she worked as Chief Executive Officer of Payup, Coordinating Director of Barclays Bank PLC New Branches (Permanent Representation) and as Head of Divestment of Banco Popular Portugal.

External Board of Directors or Audit Board appointments (last 5 years)

2008-2009: Chief Executive Officer of Payup - Desenvolvimento de Negócios, S.A.

Other External Appointments

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Executive Director



Ana Maria Jordão	58 years
Born	14/12/1955, Portugal
Appointed to the Board	24/08/2012
Term of office	2012/2014

Education

1977: Degree in Law, Universidade Clássica de Lisboa

Internal appointments

Member of the Board of CTT - Correios de Portugal, S.A.

Skills & Experience

Ana is the Board member in charge of Legal, HR Administration, Physical Assets and Procurement. Her background is in public administration, where, from 1978, she held positions with increasing responsibility, such as Deputy to the Secretary of State for National Defence, Deputy to the Secretary of State for the Budget, Assistant General Secretary of the Ministry of Planning and Territorial Administration, Chief of Staff of the Secretary of State for Fiscal Affairs, Member of the Supervisory Commission of the Securities Market (CMVM) and Director-General of Customs and Consumption Taxes. In the past five years, she held positions as Director of Administrative and Financial Services (from 2006 to 2011) and Deputy General Secretary of the Parliament (2012).

External Board of Directors or Audit Board appointments (last 5 years)

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Other External Appointments

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AUDIT BOARD

CURRICULA

Chairman



António Gomes Mota	55 years
Born	10/06/1958, Portugal
Appointed to the Board	12/11/2013
Term of office	Completion of the term 2012/2014

Education

1981: Degree in Business Management, ISCTE - Instituto Universitário de Lisboa

1984: MBA, Nova School of Business and Economics

2000: PhD in Business Administration, ISCTE

Internal appointments

Chairman of the Audit Board of CTT - Correios de Portugal, S.A. (since 12 November 2013)

Skills & Experience

António has more than 20 years of business experience in senior positions in the banking, consulting and financial services industries. He was the Dean of ISCTE Business School (from 2003 to 2012) and Chairman at INDEG/ISCTE (from 2005 to 2012). He is a full professor at ISCTE Business School and in 2013 he also became a professor at the Lisbon MBA program at Nova/Católica. He has an extensive experience as a consultant in the areas of strategy, business appraisal and risk management for large Portuguese and international companies. He is author of several leading books in the area of finance. António has held various memberships and leadership positions in Boards and Oversight Committees at large Portuguese listed entities.

External Board of Directors or Audit Board appointments (last 5 years)

2014-...: Vice-Chairman of Soares da Costa Construção, SGPS, S.A.

2013-...: Chairman of Grupo Soares da Costa, SGPS, S.A.

2009-...: Member of the Supervisory Board, of the Audit, and (since 2012) of the Performance and Competitiveness Committees of EDP - Energias de Portugal, S.A.

2009-2012: Member of the Board of Directors and Chairman of the Nomination and Evaluation Committee of Cimpor - Cimentos de Portugal, SGPS, S.A.

Other External Appointments

2013-...: Member of the Remuneration Committee of Portugal Telecom, SGPS, S.A.

2010-...: Vice-Chairman of the Portuguese Institute of Corporate Governance

Member



Elsa Maria Roncon Santos	63 years
Born	10/03/1951, Goa
1st appointed on	24/08/2012
2nd appointment on	12/11/2013
Term of office	2012/2014 2 nd appointment to complete the term of office 2012/2014

Education

1975: Degree in Economics, Universidade Técnica de Lisboa

1976: Post-graduation at Instituto Gulbenkian de Ciência

Internal appointments

Member of the Audit Board of CTT - Correios de Portugal, S.A. (since 12 November 2013)

Skills & Experience

With a long professional career in the public business sector, she currently holds the office of Director General of the Treasury and Finance and inherently the duties of Chairperson of the Board of Fundo de Apoio ao Sistema de Pagamentos do Serviço Nacional de Saúde (Support Fund of the National Health Service Payment System) and Chairperson of the Board of Fundo de Reabilitação e Conservação Patrimonial (Fund for Asset Rehabilitation and Conservation). In addition, she is Chairperson of the Joint Committee of the Portuguese Fund for Investment Support in Mozambique; Representative of the Portuguese State in the Permanent Monitoring Committee of the Framework Agreement regarding the Reprivatisation of Banco Português de Negócios, S.A. entered into between the Portuguese Government and the Portuguese Bank BIC; Chairperson of the Board of the General Meeting of Shareholders of Parpublica – Participações Públicas (SGPS) S.A.; Member of the Board of the Termination Fund appointed by the Minister of State and Finance; and the Economic and Social Committee appointed by Resolution no. 2 /2012.

External Board of Directors or Audit Board appointments (last 5 years)

2011-...: Director General of the Treasury and Finance

2010-2011: Chairperson of the Audit Board of EMEF - Empresa de Manutenção de Equipamento Ferroviário, S.A.

2010-2011: Chairperson of the Audit Board of CP Carga – Logística e Transportes Ferroviários de Mercadorias, S.A.

Other External Appointments

2009-2011: Chairperson of the Ethics Board of CP – Comboios de Portugal, EPE

2005-2008: Chairperson of the Board of Fernave – Formação Técnica, Psicologia Aplicada e Consultoria em Transportes e Portos, SA

2005-2008: Chairperson of the Board of Directors of Ecosaúde, SA

2005-2008: Chairperson of the Management Board of Pactogest, Lda

Member



Diogo Leite Campos	69 years
Born	04/12/1944, Portugal
Appointed to the Board	12/11/2013
Term of office	Completion of the term 2012/2014

Education

1967: Degree in Law, Universidade de Coimbra
1978: Doctorate in Law, Universidade de Coimbra
1979: Docteur d'État en Droit, Université de Paris II
1979: PhD in Economics, Université de Paris IX

Internal appointments

Member of the Audit Board of CTT - Correios de Portugal S.A. (since 12 November 2013)

Skills & Experience

Diogo is a professor at the Faculty of Law of Coimbra and Universidade Autónoma de Lisboa. He was Member of the Board of Directors of the Bank of Portugal from 1994 to 2000 and Chairman of the Advisory Board of the CMVM between 1994 and 2000. He is a lawyer (partner) at Leite de Campos, Soutelinho & Associados - Sociedade de Advogados, RL. (Lisboa) and Rolim, Viotti e Leite de Campos (Brazil).

External Board of Directors or Audit Board appointments (last 5 years)

2009-...: Chairman of the Audit Committee of Banco Santander Consumer Portugal, S.A.
2008-...: Non-Executive Director of RES SGPS, S.A.
2008-2011: Chairman of the Audit Board of Hagen Engenharia, S.A.

Other External Appointments

2013-2014: Member of the Monitoring Committee for the privatisation of the insurance business of Caixa Geral de Depósitos, S.A.

Alternate Member



Sara Alexandra Ambrósio	42 years
Born	13/07/1971, Portugal
1st appointed on	24/08/2012
2nd appointment on	12/11/2013
Term of office	2012/2014 2 nd appointment to complete the term of office 2012/2014

Education

1994: Degree in Law, Universidade Autónoma de Lisboa

1996: Post-graduation in European Studies, Instituto Superior de Economia e Gestão, Lisboa

2011: Post-graduation in Administrative Litigation, Institute of Legal Political Science of the Faculty of Law, Universidade de Lisboa

Internal appointments

Alternate Member of the Audit Board of CTT - Correios de Portugal, S.A. (since 12 November 2013)

Skills & Experience

Sara is a Legal Expert at the Directorate General of the Treasury and Finance since 1997 where she issues legal advice, analyses and drafts legislative Projects, monitors administrative and legal lawsuits within the scope of that Directorate General. She has been appointed for different posts within audit boards or other similar bodies of several companies of the public business sector, such as member of the Board of the General Meeting of Shareholders and member of the Remuneration Committee. In addition, she has represented the State in various Shareholder General Meetings and working groups of similar companies.

External Board of Directors or Audit Board appointments (last 5 years)

2010-...: Member of the Audit Board of APSS – Administração dos Portos de Setúbal e Sesimbra, SA (Administration of the Ports of Setubal and Sesimbra)

2008-2010: Member of the Audit Board of APSS – Administração dos Portos de Setúbal e Sesimbra, SA (Administration of the Ports of Setubal and Sesimbra)

Other External Appointments

2013-...: Secretary of the Board of the General Meeting of APS – Administração do Porto de Sines, SA

2009-2011: Chairperson of the Board of the General Meeting of SIEV – Sistema de Identificação Eletrónica de Veículos, SA

2009-2011: Chairperson of the Remuneration Committee of CARRIS – Companhia Carris de Ferro de Lisboa, SA

2009-2011: Chairperson of the Remuneration Committee of STCP – Sociedade de Transportes Coletivos do Porto, SA

2009-2011: Member of the Remuneration Committee of LUSA – Agência de Notícias de Portugal, SA

2008-2010: Secretary of the Board of the General Meeting of APS – Administração do Porto de Sines, SA

2008-2010: Chairperson of the Remuneration Committee of Parque Expo 98, SA

2. Qualified Shareholdings

Holders of qualifying direct and indirect holdings as at 31 December 2013

Under paragraph 4 of article 448 of the CSC and article 20 of the CVM.

Shareholders	Nr. of Shares	% share capital	% voting rights
Parpública-Participações Públicas (SGPS), S.A. (1)	45,000,000	30.000%	30.000%
Parpública-Participações Públicas (SGPS), S.A. (2)	9,545,455	6.364%	6.364%
Total (3)	54,545,455	36.364%	36.364%
Goldman Sachs International (4)	7,496,479	4.998%	4.998%
Total	7,496,479	4.998%	4.998%
Deutsche Bank AG London (5)	3,063,798	2.043%	2.043%
Total	3,063,798	2.043%	2.043%
Remaining shareholders (6)	84,894,268	56.596%	56.596%
Total	84,894,268	56.596%	56.596%
TOTAL	150,000,000	100.000%	100.000%

(1) Shares held by Parpública-Participações Públicas (SGPS), S.A., which in turn is fully owned by the Portuguese State.

(2) Shares allocated to Parpública-Participações Públicas (SGPS), S.A. in conformity with its call option on the Underwriters, represented for this purpose by the Stabilisation Manager, under the Institutional Underwriting Agreement, signed with the Underwriters in the privatisation process of CTT.

Under this contract the Underwriters also held a put option on Parpública - Participações Públicas (SGPS), S.A.. The stabilisation transactions of the action were completed on 3 January, 2014, with the Underwriters exercising the put option of 2,253,834 shares, of a total of 9,545,455 shares, representing 1.5% of the share capital of CTT.

(3) Total shareholding of Parpública-Participações Públicas (SGPS), S.A., as at 31 December, 2013, which in turn is fully owned by the Portuguese State. From 3 January, 2014, Parpública - Participações Públicas (SGPS), S.A. holds 47,253,834 shares, that is, 31.5% of the share capital of CTT.

(4) Shares held by Goldman Sachs International, controlled by Goldman Sachs Holding (U.K.), which in turn is controlled by Goldman Sachs Group Holdings (U.K.) Limited, controlled by Goldman Sachs Group UK Limited, controlled by Goldman Sachs (UK) L.L.C., which in turn is controlled by The Goldman Sachs Group, Inc..

(5) Shares held by Deutsche Bank AG London, which is a branch of Deutsche Bank AG.

(6) Includes 2,064,660 shares held by CTT employees who, according to the terms of the offer reserved for employees within the privatisation of CTT, are unavailable until 5 March, 2014.

3. Own Shares

Under the terms of sub-paragraph d) of article 66 and paragraph 1 of article 325-A of the CSC, CTT – Correios de Portugal, S.A. – Public Company does not hold own shares.

During the financial year 2013 CTT did not make any transactions with its own shares.

4. Shareholdings of the Board of Directors, Audit Board and other Directors

Under the terms paragraph 5 of article 447 of the CSC, the shareholdings of the Board of Directors, Audit Board and other Directors are given below:

Name	Nr. of shares as at 31.12.2013 (a)	Price
Board of Directors		
Francisco José Queiroz de Barros de Lacerda	3,110	5.52 €
Manuel Cabral de Abreu Castelo Branco	1,550	5.52 €
André Manuel Pereira Gorjão de Andrade Costa	3,110	5.52 €
Dionizia Maria Ribeiro Farinha Ferreira	-	-
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo	-	-
Audit Board		
António Sarmiento Gomes Mota	-	-
Diogo José Paredes Leite de Campos	-	-
Elsa Maria Roncon Santos	-	-
Statutory Auditor and External Auditor		
PriceWaterhouseCoopers & Associados, SROC, Lda.	-	-
José Pereira Alves	-	-
Ana Maria Ávila de Oliveira Lopes Bertão	-	-
José Manuel Henriques Bernardo	-	-
Other managers		
Alberto Alves Maria Pimenta	1,000	5.24 €
Ana Rita Baião Matos	2,500	5.24 €
Antónia Ascensão Rato	2,500	5.24 €
António Augusto Labrincha Correia Marques	500	5.24 €
António Manuel Borges Vaz	2,500	5.24 €
António Pedro Ferreira Vaz da Silva	240	5.52 €
Carla Maria Teixeira Gonçalves Veiga	2,500	5.24 €
Carla Salomé Preto Martins Marques da Cruz	1,300	5.24 €
Fernando Manuel Costa Afonso	500	5.24 €
Filipe Jacinto Flores Ribeiro	200	5.24 €
Graça Maria Porto Temudo Pires de Oliveira	2,500	5.24 €
Helena Maria Gameiro Carreira Rodrigues	-	-
Hernâni Joaquim Mateus dos Santos	1,000	5.24 €
Isabel Maria Lemos Lourenço	1,750	1500 at 5.24 € 250 at 5.52 €
João Domingues dos Santos da Cunha Leal	620	5.52 €
João Manuel da Costa Araújo	2,500	5.24 €
João Pedro Namora Gonçalves	2,800	2500 at 5.24 € 300 at 5.52 €
José Eduardo Dias de Mendonça David	500	5.24 €
Julieta Aurora Barracho Gomes Jorge Cainço	-	-
Laura Maria Falcão da Costa	300	5.24 €
Luís Miguel Soares Rodrigues	2,500	5.24 €
Maria da Graça Farinha de Carvalho e Sousa Góis	200	5.24 €
Maria Helena Henriques Camacho	800	5.24 €

(a) All shares from the managers were purchased under the IPO process, on the first trading day (5 December, 2013).

(continued)

Name	Nr. of shares as at 31.12.2013 (a)	Price
Other managers		
Maria Margarida Jarego Colaço da Silva	950	5.24 €
Maria Teresa Geraldês Caetano	-	-
Miguel Alexandre Ferreira Amaral Salema Garção	3,130	2500 at 5.24 € 630 at 5.52 €
Paulo José Carteiro Veiga	2,500	5.24 €
Pedro Miguel Lourenço Salvador	-	-
Peter Iordanov Tsvetkov	4,990	2500 at 5.24 € 2490 at 5.52 €
Raul Manuel Matias Moreira	1,000	5.24 €
Sílvia Maria Correia	2,500	5.24 €
Related parties		
Alice Monjardino de Campos de Azevedo Soares (b)	120	5.52 €
Manuel Maria Azevedo Soares de Abreu Castelo-Branco (b)	1,550	5.52 €
Susana Gorjão Costa (c)	3,110	5.52 €
Helena Augusta Monteiro Afonso Gonçalves (d)	1,000	5.24 €
Ana Soraia Teixeira Vaz da Silva (e)	240	5.52 €
Jaime Francisco Teixeira (e)	240	5.52 €
Maria José Cabrita da Silva (f)	310	5.52 €
Carla Maria Teixeira Gonçalves Veiga (g)	2,500	5.24 €

(a) All shares from the managers were purchased under the IPO process, the first trading day (5 dezembro 2013).

(b) Person closely related to Manuel Cabral de Abreu Castelo Branco

(c) Person closely related to André Manuel Pereira Gorjão de Andrade Costa

(d) Person closely related to Alberto Alves Maria Pimenta

(e) Person closely related to António Pedro Ferreira Vaz da Silva

(f) Person closely related to João Pedro Namora Gonçalves

(g) Person closely related to Paulo José Carteiro Veiga

5. Related parties and other interests of current Directors

Under the terms of sub-paragraph e) of article 66 and of articles 397 and 398 of the CSC, in 2013 there is no record of authorisations given to the members of the Board of Directors of CTT – Correios de Portugal, S.A. – Public Company to do business with the Company.

During the financial year of 2013, none of the members of the Board of Directors of CTT – Correios de Portugal, S.A. – Public Company has held any temporary or permanent position subject to an employment or self-employment contract at any company of CTT Group.

6. Obligations deriving from previous State sector company status

Until 5 December 2013, CTT, as a company fully owned by the State, has to comply with a certain number of obligations deriving from such status. Such obligation ceased to be in force as a result of

the privatisation of the majority of its share capital on 5 December 2013.

After the privatisation and as at 31 December 2013, the Portuguese State through Parpública – Participações Públicas (SGPS), S.A. held a 30% stake by direct ownership and a 6.36% stake by attribution (according to its call option) in CTT share capital, hence it has no control on the company, pursuant to article 9 of Decree-Law no. 133/2013.

Public procurement

During the year 2013, CTT concluded 1,040 procurement procedures amounting to around 38.7 million Euros, of which are worth mentioning the awards following invitations to tender held under the Public Procurement Code, applicable to the company either because of its state-owned nature and because it is the concessionaire of the universal postal service. The public procurement contracts represented an awarded amount of 16.5 million Euros (around 43% of the total amount).

Following the guidelines for the State business sector, the company chose to award such contracts, whenever these appeared as the most advantageous option, within the Framework Agreement concluded with the Entidade e Serviços Partilhados da Administração Pública, I.P. (ESPAP, I.P.), as happened with the provision of security services for fuel supply and with the operational leasing of vehicles.

In terms of acquisition of vehicles, CTT complied with the obligation to previously notify ESPAP, I.P. as provided for in Order no. 1182/13-SET.

As of 5 December 2013, the public procurement rules only apply to CTT in respect of contracts directly related to the provision of the postal services under the concession agreement, the rules of Order no. 1182/13-SET ceasing to be applied to the remaining services.

Eco-friendly procurement policy

In accordance with Resolution of the Council of Ministers (RCM) no. 70/2008 of 22 April, CTT adopted the principles of the National Strategy for Eco-friendly Procurement approved by RCM no. 65/2007 of 7 May, and transposed into its procedural documents the requirements regarding environmental criteria, as follows:

- Environmental certification NP EN ISO 14001;
- Declaration of the applicant on oath that he had no fines and/or penalties for non-compliance of environmental laws and regulations;
- Submission of a summary of the procedures regarding Environmental management (training plans and other initiatives to mitigate environmental impacts associated with the provision of the service).

Environmental criteria were also taken into account when assessing the bids, where relevant for the contract's object.

The achievement level of the indicators of RCM no. 65/2007 of 7 May, to assess the application of environmental criteria followed in procurement procedures reached the following figures in 2013:

- Percentage of pre-contractual procedures following environmental criteria within the whole of the pre-contractual procedures: 70%;

- Percentage of pre-contractual procedures following environmental criteria within the whole of the agreements concluded: 97%.

These two indicators, which had target of 50% in 2010, are in line with the figures of 2011 and 2012 with no relevant variations.

Contracting of institutional advertising services

The Resolution of the Council of Ministers (RCM) no. 47/2010 of 25 June, defined a set of guidelines on institutional advertising aiming to, inter alia, reach increased transparency in the purchase of advertising spaces by the State and other public entities.

As the concessionaire of a public service and as far as the public service obligations are concerned, CTT had to comply with the obligation mentioned in that diploma, specifically to report to the Office for the Media on the institutional advertising initiatives pursuant to the Order no. 1297/2010, of 21 December, and to include in its Annual Report a summary analysis of its institutional activities exceeding 15,000 Euros.

In 2013, institutional advertising initiatives were undertaken for a total amount of 1.2 million Euros (without VAT), with the following quarter breakdown:

Unit: €	
1st quarter	7,604.47
2nd quarter	72,173.62
3rd quarter	5,913.55
4th quarter	1,086,305.02
Total	1,171,996.66

Institutional advertising initiatives carried out in 2013 of an amount exceeding 15,000 Euros (with tout VAT), were the following:

Advertising initiative	Objective	Total cost	Space investment
Trusted Brand 2013	Increase CTT Brand value and ensure the maintenance of the Trusted Brand of the Portuguese status	€35,211.39	€24,405.75
Portugal Biggest Network	Expand the CTT network and its retail, sorting and delivery outlets	€38,401.25	€37,818.25
Green Mail	Strengthen the product eco-friendly identity, as well as its facility and convenience features	€36,337.42	€28,665.14
App Campaign	Awareness of the CTT App for mobile devices, providing useful features such as track & trace parcels, forward mail to the workplace, look into toll payments due, etc.	€13,378.71	€8,586.97
Institutional Campaign “Ever more Present”	Highlight CTT role in the life of people with a valuable proposal that supports the whole product and service offer unveiling an innovative, progressive and modern character	€568,758.48	€334,499.54
IPO Campaign	Within the IPO process, to present to the Portuguese the investment opportunity in CTT shares	€468,937.53	€249,319.79

Principle of the gender equality

Pursuant to paragraph 1 of RCM No. 19/2012 of 23 February establishes that the adoption of the equality plans provided for in RCM No. 70/2008 of 22 April is mandatory in all companies of the State Business Sector (SEE). Paragraph 4 of said RCM 19/2012 recommends that the public listed companies adopt gender equality plan, as happens with the companies of the State Business Sector.

CTT has been improving its management indicators in this respect, by continuous monitoring of the variables relevant for the gender equality policy, and some periodic management indicators have been disaggregated. Half-yearly management reports have been produced, in which CTT has been disclosing the human resources situation in each company, as a function of gender, and some indicators have been included in the Company’s Sustainability Report.

On 18 February 2013, CTT signed a protocol with the Commission for Equality in Work and Employment (CITE), through the Forum of Companies for Equality (IGEN), in which it undertook to

incorporate the principles of gender equality into its management strategy, with a view to promoting professional equality and ending all discriminatory practices. A package of good practices will result from this effort, which will be shared.

Paragraph 2 of RCM No. 19/2012 defines the multiple presence of women and men in appointments to administrative and supervisory positions in SEE as an objective. The appeal of the Vice-President of the European Commission to the chairmen of the Boards of the largest companies to make a commitment to reaching a target of 30% women on their boards by 2015 and 40% by 2020 is mentioned. In the case of CTT, women already make up 40% of the Board of Directors and 33% of the Audit Board.

PART IV – MONITORING AND AUDIT DOCUMENTS

Audit Report for Statutory and Stock Exchange Regulatory Purposes on the Consolidated Financial Information

(Free translation from the original in Portuguese)

Introduction

1 As required by law, we present the Audit Report for Statutory and Stock Exchange Regulatory Purposes on the financial information included in the Directors' Report and in the attached consolidated financial statements of CTT – Correios de Portugal, S.A., comprising the consolidated balance sheet as at December 31, 2013 (which shows total assets of Euro 1,100,134,433 and total shareholder's equity of Euro 275,934,219, including non-controlling interests of Euro 1,604,372 and a net profit of Euro 61,016,067), the consolidated income statement, 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 to the accounts.

Responsibilities

2 It is the responsibility of the Company's Board of Directors (i) to prepare the Directors' Report and the consolidated financial statements which present fairly, in all material respects, the financial position of the Company and its subsidiaries, the consolidated results and the consolidated comprehensive income of their operations, the changes in consolidated equity and the consolidated cash flows; (ii) to prepare historic financial information in accordance with International Financial Reporting Standards as adopted by the European Union and which is complete, true, up to date, clear, objective and lawful, as required by the Portuguese Securities Market Code; (iii) to adopt appropriate accounting policies and criteria; (iv) to maintain appropriate systems of internal control; and (v) to disclose any significant matters which have influenced the activity, financial position or results of the Company and its subsidiaries.

3 Our responsibility is to verify the financial information included in the financial statements referred to above, namely as to whether it is complete, true, up to date, clear, objective and lawful, as required by the Portuguese Securities Market Code, for the purpose of issuing an independent and professional report based on our audit.

Scope

4 We conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Accordingly, our audit included: (i) verification that the Company and its subsidiaries' financial statements have been appropriately examined and, for the cases where such an audit was not carried out, verification, on a sample basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements, and assessing the reasonableness of the estimates, based on the judgements and criteria of the Board of Directors used in the preparation of the consolidated financial statements; (ii) verification of the consolidation operations and the utilization of the equity method; (iii) assessing the appropriateness of the accounting principles used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting; (v) assessing the overall presentation of the consolidated financial statements; and (vi) assessing the completeness, truthfulness, accuracy, clarity, objectivity and lawfulness of the consolidated financial information.

5 Our audit also covered the verification that the information included in the Directors' Report is consistent with the financial statements, as well as the verification set forth in paragraphs 4 and 5 of Article 451^o of the Companies Code.

6 We believe that our audit provides a reasonable basis for our opinion.

Opinion

7 In our opinion, the consolidated financial statements referred to above, present fairly in all material respects, the consolidated financial position of CTT – Correios de Portugal, S.A. as at December 31, 2013, the consolidated results and the consolidated comprehensive income of its operations, the changes in consolidated 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 included is complete, true, up to date, clear, objective and lawful.

Report on other legal requirements

8 It is also our opinion that the information included in the Directors' Report is consistent with the consolidated financial statements for the year and that the Corporate Governance Report includes the information required under Article 245^o-A of the Portuguese Securities Market Code.

March 21, 2014

PricewaterhouseCoopers & Associados

– Sociedade de Revisores Oficiais de Contas, Lda

Registered in the Comissão do Mercado de Valores Mobiliários with no. 9077

represented by:

José Pereira Alves, R.O.C.

**Audit Report for Statutory and Stock Exchange Regulatory Purposes on the Individual
Financial Information**

(Free translation from the original in Portuguese)

Introduction

1 As required by law, we present the Audit Report for Statutory and Stock Exchange Regulatory Purposes on the financial information included in the Directors' Report and in the attached financial statements of CTT – Correios de Portugal, S.A., comprising the balance sheet as at December 31, 2013 (which shows total assets of Euro 1,071,900,196 and total shareholder's equity of Euro 274,591,994, including a net profit of Euro 61,016,067), the income statement, the statement of changes in equity, the cash flow statement for the year then ended and the corresponding notes to the accounts.

Responsibilities

2 It is the responsibility of the Company's Board of Directors (i) to prepare the Directors' Report and the financial statements which present fairly, in all material respects, the financial position of the Company, the results of its operations, the changes in equity and the cash flows; (ii) to prepare historic financial information in accordance with generally accepted accounting principles in Portugal and which is complete, true, up to date, clear, objective and lawful, as required by the Portuguese Securities Market Code; (iii) to adopt appropriate accounting policies and criteria; (iv) to maintain an appropriate system of internal control; and (v) to disclose any significant matters which have influenced the activity, financial position or results of the Company.

3 Our responsibility is to verify the financial information included in the financial statements referred to above, namely as to whether it is complete, true, up to date, clear, objective and lawful, as required by the Portuguese Securities Market Code, for the purpose of issuing an independent and professional report based on our audit.

Scope

4 We conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Accordingly, our audit included: (i) verification, on a sample basis, of the evidence supporting the amounts and disclosures in the financial statements, and assessing the reasonableness of the estimates, based on the judgements and criteria of the Board of Directors used in the preparation of the financial statements; (ii) assessing the appropriateness of the accounting principles used and their disclosure, as applicable; (iii) assessing the applicability of the going concern basis of accounting; (iv) assessing the overall presentation of the financial statements; and (v) assessing the completeness, truthfulness, accuracy, clarity, objectivity and lawfulness of the financial information.

5 Our audit also covered the verification that the information included in the Directors' Report is consistent with the financial statements, as well as the verification set forth in paragraphs 4 and 5 of Article 451^o of the Companies Code.

6 We believe that our audit provides a reasonable basis for our opinion.

Opinion

7 In our opinion, the financial statements referred to above, present fairly in all material respects, the financial position of CTT – Correios de Portugal, S.A. as at December 31, 2013, 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 included is complete, true, up to date, clear, objective and lawful.

Report on other legal requirements

8 It is also our opinion that the information included in the Directors' Report is consistent with the financial statements for the year and that the Corporate Governance Report includes the information required under Article 245º-A of the Portuguese Securities Market Code.

March 21, 2014

PricewaterhouseCoopers & Associados

– Sociedade de Revisores Oficiais de Contas, Lda

Registered in the Comissão do Mercado de Valores Mobiliários with no. 9077

represented by:

José Pereira Alves, R.O.C.

AUDITOR'S REPORT (CONSOLIDATED ACCOUNTS)

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

Introduction

- 1 We have audited the consolidated financial statements of **CTT – Correios de Portugal, S.A.** (“the Group”), which comprise the Consolidated Balance Sheet as at 31 December 2013 (which shows total assets of 1,100,134,433 Euros and total equity of 275,934,219 Euros, including non-controlling interests of 1,604,372 Euros and net profit attributable to equity holders of the parent company of 61,016,067 Euros), the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity and the Consolidated statement of cash flows for the year then ended and the corresponding Notes.

Responsibilities

- 2 The Board of Directors is responsible for the preparation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union that give a true and fair view of the financial position of the group of companies included in the consolidation, the consolidated results of its operations, the consolidated changes in equity and its consolidated cash flows, as well as for the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system.
- 3 Our responsibility is to express a professional and independent opinion on those consolidated financial statements 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 a reasonable assurance about whether the consolidated financial statements are free of material misstatements. For this purpose, our audit included:
 - the verification that the financial statements of the companies included in the consolidation have been properly examined and, for the significant situations which have not been examined, the verification, on a test basis, of the information underlying the figures and disclosures contained in the financial statements, and an assessment of the estimates, based on judgements and criteria defined by the Board of Directors used in their preparation;
 - the verification of the consolidation operations and of the application of the equity method;
 - the assessment of the adequacy of the accounting principles used and their disclosure, considering the circumstances;
 - the appropriateness of the going concern basis of accounting; and,
 - the assessment of the adequacy of the overall presentation of the consolidated financial statements.
- 5 Our audit also included the verification that the consolidated financial information included in the Management Report is consistent with the consolidated financial statements.
- 6 We believe that our audit provides a reasonable basis for our opinion.

Opinion

- 7 In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of CTT – Correios de Portugal, S.A. as at 31 December 2013, the consolidated results of its operations, the consolidated comprehensive income, the consolidated changes in equity and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Reporting on other legal requirements

- 8 It is also our opinion that the financial information included in the Management Report is consistent with the consolidated financial statements for the year.

Lisbon, 21 March 2014

KPMG & Associados -

Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)

represented by

Maria Cristina Santos Ferreira (ROC nr. 1010)

AUDITOR'S REPORT

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

Introduction

- 1 We have audited the financial statements of CTT – Correios de Portugal, S.A. (“the Company”), which comprise the balance sheet as at 31 December 2013 (which shows total assets of 1,071,900,196 Euros and a total equity of 274,591,9940 Euros, including a net profit of 61,016,067 Euros), the Income statement by natures, the Statement of changes in equity and the Cash flow statement for the year then ended, and the corresponding Notes.

Responsibilities

- 2 The Board of Directors is responsible for the preparation of financial statements that give a true and fair view of the financial position of the Company, the results of its operations, the changes in equity and its cash flows, as well as for the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system.
- 3 Our responsibility is to express a professional and independent opinion on those financial statements 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. For this purpose, our audit included:
 - verification, on a test basis, of the information underlying the figures and disclosures contained in the financial statements, and an assessment of the estimates, based on judgements and criteria defined by the Board of Directors, used in their preparation;
 - the assessment of the adequacy of the accounting principles used and their disclosure, considering the circumstances;
 - the appropriateness of the going concern basis of accounting; and,
 - the assessment of the adequacy of the overall presentation of the financial statements.
- 5 Our audit also included the verification that the financial information included in the Management Report is consistent with the financial statements.
- 6 We believe that our audit provides a reasonable basis for our opinion.

Opinion

- 7 In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of CTT – Correios de Portugal, S.A. as at 31 December 2013, the results of its operations, the changes in equity and its cash flows for the year then ended, in accordance with generally accepted accounting principles in Portugal.

Reporting 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 for the year.

Lisbon, 21 March 2014

KPMG & Associados -

Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)

represented by

Maria Cristina Santos Ferreira (ROC nr. 1010)

Report and Opinion of the Audit Board Consolidated Accounts

Financial year of 2013

Shareholders,

1. In accordance with the law, the articles of association and the terms of our mandate, we are pleased to submit the report on our supervisory activities in 2013 and to issue our opinion on the management report, including the report of corporate governance and individual and consolidated financial statements presented by the Board of Directors of CTT, Correios de Portugal, S.A., for the financial year ended 31 December 2013.
2. Over the course of the year we monitored the affairs of the company, with the regularity and to the extent we deemed appropriate, through periodic meetings with the company's directors and senior management. We checked that the accounts were kept correctly and duly documented, and verified the effectiveness of the risks management, internal control and internal audit systems. We monitored compliance with law and the articles of association. We encountered no constraints in the course of our supervisory activities.
3. We met several times with the official auditor and external auditor, PricewaterhouseCoopers & Associados, SROC, Lda, and with the independent auditor, KPMG & Associados, SROC, SA, monitoring its auditing activities and checking its independence. We assessed the legal accounts certificate and the audit reports, and are in agreement with the Legal Accounts Certificate presented.
4. In the course of our work we found that:
 - a. the individual and consolidated financial statements and the corresponding notes provide an adequate information regarding the company's financial position and economic performance;
 - b. the accounting policies and valuation criteria adopted comply with National Accounting Reporting Standards, in which concerns the individual financial statements and with the International Financial Reporting Standards as adopted in the European Union regarding the consolidated financial statements, and are appropriate to ensure an adequate valuation of the company's assets and income;
 - c. the management report provides a sufficient description of the business affairs of the company and its affiliates included in the consolidated accounts, offering a clear view of the most significant developments during the year;
 - d. the corporate governance report, included in the management report, was prepared according with the Corporate Governance Code of the Comissão de Mercado de Valores Mobiliários (CMVM), established by the Regulation 4/2013 and complies with

articles 7 and 245º-A of the Código de Valores Mobiliários and the disclosure model established in the annex of the mentioned regulation of CMVM; the report reflects, additionally, the transition of CTT from a State owned company to a public company listed in the stock exchange, after the privatization through an IPO of the majority of the shares held by the State that took place on December 5, 2013.

5. Accordingly, taking into consideration the information received from the Board of Directors and the company departments, and also the conclusions of the legal accounts certificate and the audit report, we recommend that:
 - a. the management report, including the corporate governance report, be approved;
 - b. the individual and consolidated financial statements be approved.
6. Finally, the members of the Audit Board wish to acknowledge and express our gratitude for the assistance received from the Board of Directors, the senior managers of the company and other staff and from the external and independent auditors.

Lisbon, 21 of March 2014

António Gomes Mota

(Chairman of the Audit Board)

Elsa Roncon Santos

(Member of the Audit Board)

Diogo Leite de Campos

(Member of the Audit Board)

DECLARATION OF CONFORMITY

In compliance with paragraph c) of point 1 of article 245 of the Securities Code, the members of the Audit Board declare that, as to their knowledge, the following statements concerning the management report, individual and consolidated accounts and any other documents included in the annual accounts are truthful: i) all documents were prepared in compliance with the applicable accounting standards and all information contained therein give a true and fair view of the assets, liabilities, financial position, and profit and loss of CTT – Correios de Portugal, S.A. – Sociedade Aberta (CTT) and the remaining CTT Group companies included in the consolidation taken as whole; ii) all information concerning the business development, the performance and position of CTT and CTT Group companies is accurate; and iii) a description of the main risks currently faced by CTT – Correios de Portugal, S.A. is included.

Lisbon, 21 March 2014

The Audit Board

Chairman

António Sarmento Gomes Mota

Member

Diogo José Paredes Leite de Campos

Member

Elsa Maria Roncon Santos

CONTACTS

Headquarters

Avenida D. João II, Lote 01.12.03
1999-001 Lisboa
PORTUGAL
Telephone: +351 210 471 836
Fax: +351 210 471 994

Customers

E-mail: informacao@ctt.pt
Line CTT 707 26 26 26
Workdays and Saturdays from 8h to 22h

Market Relations Representative of CTT

André Gorjão Costa

Investor Relations of CTT

Peter Tsvetkov
E-mail: investors@ctt.pt
Telephone: +351 210 471 857
Fax: +351 210 471 996

Media

Fernando Marante
E-mail: gabinete.imprensa@ctt.pt
Telephone: +351 210 471 800