

CONSOLIDATED FINANCIAL STATEMENTS

9 month report 2013

Consolidated Accounts

CTT-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED BALANCE SHEET AS AT 30 SEPTEMBER 2013 AND 31 DECEMBER 2012

Euro

| | NOTES | Unaudited 30.09.2013 | 31.12.2012 |
|---|-------|-------------------------|----------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Tangible fixed assets | 5 | 223,341,250 | 259,076,712 |
| Investments properties | 7 | 25,428,081 | 1,368,943 |
| Intangible assets | 6 | 13,256,720 | 14,355,060 |
| Goodwill | 9 | 25,083,869 | 25,528,608 |
| Investments in associated companies | 10 | 710,723 | 690,215 |
| Other investments | 11 | 130,829 | 130,829 |
| Other non-current assets | 18 | 1,850,300 | 2,018,619 |
| Deferred tax assets | 41 | 99,775,247 | 102,228,537 |
| Total non-current assets | | 389,577,019 | 405,397,523 |
| Current assets | | | |
| Inventories | 13 | 6,543,602 | 6,710,739 |
| Accounts receivable | 14 | 135,606,279 | 135,317,556 |
| Deferrals | 15 | 5,991,209 | 5,594,836 |
| Other current assets | 18 | 23,563,677 | 20,856,132 |
| Cash and cash equivalents | 17 | 610,082,046 | 489,303,463 |
| Total current assets | | 781,786,813 | 657,782,726 |
| Total assets | | 1,171,363,832 | 1,063,180,249 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 20 | 87,325,000 | 87,325,000 |
| Reserves | 21 | 18,072,559 | 28,628,508 |
| Retained earnings | 21 | 83,373,359 | 87,105,292 |
| Other changes in equity | 21 | 29,118,324 | 33,079,577 |
| Net profit attributable to equity holders of parent company | | 45,169,483 | 35,735,268 |
| Non-controlling interests | 24 | 1,674,652 | 1,607,508 |
| Total equity | | 264,733,377 | 273,481,153 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Medium and long term debt | 25 | 3,646,541 | 4,560,702 |
| Employee benefits | 26 | 275,311,938 | 282,065,364 |
| Provisions | 27 | 38,440,183 | 36,596,189 |
| Deferrals | 15 | 9,446,945 | 11,322,625 |
| Deferred tax liabilities | 41 | 5,482,101 | 5,740,233 |
| Total non-current liabilities | | 332,327,708 | 340,285,113 |
| Current liabilities | | | |
| Accounts payable | 28 | 471,612,043 | 349,215,159 |
| Employee benefits | 26 | 19,202,195 | 21,250,996 |
| Income taxes payable | 29 | 2,666,850 | 862,444 |
| Short term debt | 25 | 2,830,691 | 6,857,361 |
| Deferrals | 15 | 3,463,214 | 4,368,966 |
| Other current liabilities | 30 | 74,527,754 | 66,859,057 |
| Total current liabilities | | 574,302,747 | 449,413,983 |
| Total liabilities | | 906,630,455 | 789,699,096 |
| Total equity and liabilities | | 1,171,363,832 | 1,063,180,249 |

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 30 SEPTEMBER 2013 AND 30 SEPTEMBER 2012

Euro

| | NOTES | Unaudited 30.09.2013 | Unaudited 30.09.2012 |
|--|-------|-------------------------|-------------------------|
| Revenues | | 519,974,482 | 529,260,931 |
| Sales and services rendered | 4 | 509,741,715 | 520,186,915 |
| Other operating income | 33 | 10,232,767 | 9,074,016 |
| Operating costs | | (452,925,482) | (476,313,906) |
| Cost of sales | 13 | (11,454,663) | (13,225,700) |
| External supplies and services | 34 | (176,219,532) | (183,415,430) |
| Staff costs | 36 | (231,606,569) | (243,106,035) |
| Impairment of inventories and accounts receivable, net | 37 | (1,929,832) | (71,644) |
| Provisions, net | 27 | (4,753,575) | (12,295,540) |
| Depreciation/amortisation and impairment of investments, net | 38 | (19,521,496) | (17,468,309) |
| Other operating costs | 39 | (7,439,814) | (6,731,248) |
| Earnings before financial income and taxes | | 67,049,000 | 52,947,025 |
| Financial results | | (2,189,965) | (2,302,428) |
| Interest expenses | 40 | (8,951,587) | (12,127,999) |
| Interest income | 40 | 6,741,114 | 9,609,536 |
| Gains/losses in associated companies | 10 | 20,508 | 216,035 |
| Earnings before taxes | | 64,859,035 | 50,644,597 |
| Income tax for the period | 41 | (19,607,642) | (15,110,515) |
| Net profit for the period | | 45,251,393 | 35,534,082 |
| Net profit for the period attributable to: | | | |
| Equity holders of parent company | | 45,169,483 | 35,358,292 |
| Non-controlling interests | 24 | (81,910) | (175,790) |
| Earnings per share of the parent company | 23 | 2.58 | 2.02 |

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 30 SEPTEMBER 2013 AND 30 SEPTEMBER 2012

Euro

| | NOTES | Unaudited 30.09.2013 | Unaudited 30.09.2012 |
|---|---------|-------------------------|-------------------------|
| Net profit for the period | | 45,251,393 | 35,534,082 |
| Adjustments from application of the equity method (not re-classifiable adjustment to profit and loss) | 21 | - | (461,464) |
| Employee benefits (not re-classifiable adjustment to profit and loss) | 26 | (5,579,230) | 1,093,380 |
| Deferred tax/Employee benefits (not re-classifiable adjustment to profit and loss) | 41 | 1,617,977 | (317,080) |
| Other changes in equity | 21 / 24 | 26,260 | 461,467 |
| Other comprehensive income for the period after taxes | | (3,934,993) | 776,303 |
| Comprehensive income for the period | | 41,316,400 | 36,310,385 |
| Attributable to non-controlling interests | 24 | (131,318) | (175,790) |
| Attributable to shareholder of CTT | | 41,185,082 | 36,134,595 |

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

Quarterly Report

3rd Quarter 2013



CTT-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 SEPTEMBER 2013 AND 30 SEPTEMBER 2012

Euro

| | NOTES | Share capital | Reserves | Other changes in equity | Retained earnings | Net profit for the year | Non-controlling interests | Unaudited Total |
|---|---------|-------------------|---------------------|-------------------------|--------------------|-------------------------|---------------------------|---------------------|
| Balance on 1 January 2012 | | 87,325,000 | 25,792,898 | 15,850,935 | 88,568,765 | 55,260,391 | 1,627,958 | 274,425,947 |
| Appropriation of net profit for the year of 2011 | | - | 2,835,610 | - | 52,424,781 | (55,260,391) | - | - |
| Dividends | 22 / 24 | - | - | - | (53,876,585) | - | (252,452) | (54,129,037) |
| | | - | 2,835,610 | - | (1,451,804) | (55,260,391) | (252,452) | (54,129,037) |
| Other movements | 21 | - | - | - | 461,467 | - | - | 461,467 |
| Actuarial gains/losses - Health Care | 21 | - | - | 776,300 | - | - | - | 776,300 |
| Adjustments from the application of the equity method | 21 | - | - | - | (461,464) | - | - | (461,464) |
| Net profit for the period | | - | - | - | - | 35,358,292 | 175,790 | 35,534,082 |
| Comprehensive income for the period | | - | - | 776,300 | 3 | 35,358,292 | 175,790 | 36,310,385 |
| Balance on 30 September 2012 | | 87,325,000 | 28,628,508 | 16,627,235 | 87,116,964 | 35,358,292 | 1,551,296 | 256,607,295 |
| Balance on 1 January 2013 | | 87,325,000 | 28,628,508 | 33,079,577 | 87,105,292 | 35,735,268 | 1,607,508 | 273,481,153 |
| Appropriation of net profit for the year of 2012 | | - | - | - | 35,735,268 | (35,735,268) | - | - |
| Dividends | 22 / 24 | - | (10,555,949) | - | (39,444,053) | - | (64,174) | (50,064,176) |
| | | - | (10,555,949) | - | (3,708,785) | (35,735,268) | (64,174) | (50,064,176) |
| Other movements | 21 / 24 | - | - | - | (23,148) | - | 49,408 | 26,260 |
| Actuarial gains/losses - Health Care | 21 | - | - | (3,961,253) | - | - | - | (3,961,253) |
| Adjustments from the application of the equity method | | - | - | - | - | - | - | - |
| Net profit for the period | | - | - | - | - | 45,169,483 | 81,910 | 45,251,393 |
| Comprehensive income for the period | | - | - | (3,961,253) | (23,148) | 45,169,483 | 131,318 | 41,316,400 |
| Balance on 30 September 2013 | | 87,325,000 | 18,072,559 | 29,118,324 | 83,373,359 | 45,169,483 | 1,674,652 | 264,733,377 |

CTT-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIODS ENDED 30 SEPTEMBER 2013 AND 30 SEPTEMBER 2012

Euro

| | NOTES | Unaudited 30.09.2013 | Unaudited 30.09.2012 |
|---|-------|-------------------------|-------------------------|
| <u>Operating activities</u> | | | |
| Collections from customers | | 495,899,243 | 528,246,393 |
| Payments to suppliers | | (208,230,808) | (197,144,133) |
| Payments to employees | | (221,418,537) | (220,122,871) |
| Cash flow generated by operations | | <u>66,249,898</u> | <u>110,979,389</u> |
| Payments/receivables of income taxes | | (15,137,387) | (19,852,539) |
| Other receivables/payments | | 125,662,535 | 146,755,501 |
| Cash flow from operating activities (1) | | <u>176,775,046</u> | <u>237,882,351</u> |
| <u>Investment activities</u> | | | |
| Receivables resulting from: | | | |
| Tangible fixed assets | | 185,786 | 762,283 |
| Financial investments | | 45,595 | 29,015 |
| Interest income | | 3,664,492 | 7,303,147 |
| Payments resulting from: | | | |
| Intangible assets | | (395,804) | (2,584,353) |
| Tangible fixed assets | | (3,648,499) | (17,361,772) |
| Cash flow from investment activities (2) | | <u>(148,430)</u> | <u>(11,851,679)</u> |
| <u>Financing activities</u> | | | |
| Receivables resulting from: | | | |
| Loans obtained | | 3,209,780 | - |
| Payments resulting from: | | | |
| Loans repaid | | (7,122,725) | (36,001) |
| Interest expenses | | (1,190,166) | (779,297) |
| Finance leases | | (744,922) | (1,135,907) |
| Dividends | 22 | (50,000,000) | (53,876,585) |
| Cash flow from financing activities (3) | | <u>(55,848,033)</u> | <u>(55,827,790)</u> |
| Net change in cash and cash equivalents (1+2+3) | | <u>120,778,583</u> | <u>170,202,882</u> |
| Cash and equivalents at the beginning of the period | | 489,303,463 | 426,259,362 |
| Cash and cash equivalents at the end of the period | 17 | 610,082,046 | 596,462,244 |

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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45. SUBSEQUENT EVENTS

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1. INTRODUCTION

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

CTT – Correios de Portugal, S. A. (“CTT”, “Parent Company” or “Company”), with head Office at Rua de São José, no. 20, in Lisbon, was originated from the government department designated “Administração Geral dos Correios Telégrafos e Telefones”) and its legal form is the result of successive reorganizations carried out by the Portuguese State in the Communications sector.

Decree-Law no. 49.368 of 10th November 1969 established the state-owned company CTT - Correios e Telecomunicações de Portugal, E. P., which started operating on 1st January 1970. By Decree-Law no. 87/92, of May 14, CTT – Correios e Telecomunicações de Portugal, E. P. was transformed into an entity subject to the private law with the statute of a state-owned public limited company. Finally, with the incorporation of the former Telecom Portugal, S.A. through a 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., which is fully owned by the Portuguese State.

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 October 25, 2013.

1.2- Business

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..

Law no. 102/99 of 26 July defined the general basis for the establishment, management and operation of mail services on national territory, as well as the international services with origin or

destination on national territory, and ensured the continuity of the universal service in compliance with the public postal administration services mission.

Decree-Law no. 448/99 of 4 November defined the basis of the concession of the Universal Postal Services based on which CTT - Correios de Portugal, S.A. signed the concession contract with the State on 1 September 2000. Pursuant to this contract, the purposes of the concession are the establishment, management and operation of the public postal network and the provision of various reserved and unreserved mail services defined in the contract.

The provision of concessionary postal services includes, both on a domestic or international basis, a postal service for letter mail, books, catalogues, newspapers and periodicals up to 2Kg, as well as for parcels up to 20Kg, registered items and insured items. In the context of the progressive liberalisation of the sector defined at EU level, the scope of the regulated services is subject to periodic reviews.

Hence, the scope of the regulated services was further narrowed in 2006 which included, up to 2011, mail service for letters weighing up to 50 grams and priced up to 2.5 times the reference tariff (1st class mail, in the case of Portugal). The contract has an initial term of 30 years and is subject to renewal for successive periods of fifteen years. Under the terms of the Decree-Law referred above, as payment for the concession, CTT must annually pay the Portuguese State, a rent corresponding to 1% of the revenues related to the concession of services rendered on an exclusive basis to the Portuguese State. Decree-Law no. 112/2006 of 9 June changed the basis of the concession of the Universal Postal Service, with the concessionaire being entrusted with the public electronic mailbox services, and adapting the concession contract to the regulatory mail services environment, as well as giving the Company the degree of flexibility needed to enable it to operate in an increasingly liberalised and competitive sector. The amendments to the concession contract were signed on 26 July 2006.

Under the new regulatory framework, implemented by Law no. 17/2012, of 26 April (“Nova Lei Postal” – New Postal Act), during the period ended 30 September of 2013, there was no development concerning the legislation.

For this reason, in the absence of (i) publication of the acts for the implementation provided for in the New Postal Law (concerning the regime of operation and use of the postal services on national territory, as well as the international services with origin or destination on national territory) and also in the absence of (ii) change in the concession basis (approved by Decree-Law no. 448/99, of 4 November, partially revoked by Decree-Law no. 150/2001, of 7 May, and altered by Decree-Laws no. 116/2003, of 12 June and no. 112/2006 of 9 June) having in mind its adjustment to the new law regime, the provisions of the Public Postal Service (approved by Decree-Law no. 176/88, of 18 May) remained in force, as well as the regulatory measures adopted under it, provided that they are compatible with the approved legal framework, as well as with the obligations set out in the concession contract of the Universal Postal Service.

As the Universal Postal Service incumbent operator, CTT is a provider of universal services, whose quality parameters, performance targets and pricing methodology should comply with the terms

stipulated under the quality agreement and price agreement, signed on 10 July 2008 between CTT and ICP-ANACOM (in force during the three-year period 2008-2010, renewed for successive one-year periods).

It should be noted that, although the process of amendment of the concession contract is still in progress, namely concerning its term, which was stipulated as 20 years by Law no. 17/2012, of 26 April, it is foreseen that the concession contract will continue to ensure the provision of a universal quality service, with full coverage of national territory. At present, the universal 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 service for postal parcels up to 10 Kg, as well as the delivery, on national territory, of postal parcels received from other European Union countries weighting up to 20Kg; a service for registered items and for insured items.

Once the concession terminates, in the event that it is not renewed to CTT, CTT may provide, as any other operator, all the postal services, in a system of free competition, in accordance with a strategic and commercial policy, excluding the services granted by concession on an exclusive basis (service of placement of letter boxes on the streets, for the delivery of mail, issuing and selling of postal stamps with the name of Portugal, the registered mail service used in judicial or administrative procedures, as well as the service of issue of money orders), which correspond less than 10% of the Group revenues.

In summary, considering the legal and regulatory framework in force, namely the on-going process of amendment of the concession contract, CTT considers that there are no grounds for the introduction of any relevant change to the accounting policies of the Group.

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 30 September 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”.

These unaudited interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements and International Accounting Standard (“IAS”) 34,

Interim Financial Reporting, and the accounting policies applied in these interim unaudited consolidated financial statements are based on IFRS as issued, outstanding and effective on September 30, 2013. 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 30 September 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 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. This adoption had no impact on the consolidated financial statements of CTT Group.
- The CTT Group adopted IFRS 13 – Fair Value Measurement. This adoption had no impact on the consolidated financial statements of CTT Group.

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 11 - Joint agreements | 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 IAS 27: holdings exemption | 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 |
| <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, all the amendments and interpretations were adopted by the European Union.

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

IFRS 9 (new), Financial instruments - classification and measurement (to be applied in financial years beginning on or after 01 January 2015). 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 it becomes effective.

IFRS 10 (new), 'Consolidated Financial Statements' (to be applied in the EU to financial years that begin on or after 01 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 it becomes effective. This adoption will not impact the consolidated financial statements of CTT Group.

IFRS 11. (new), 'Joint Arrangements' (to be applied in the EU to financial years that begin on or after 01 January 2014, at the latest). IFRS 11 focuses on the rights and obligations of the joint arrangements rather than their legal form. Joint arrangements may be Joint Operations (rights over assets and obligations) or Joint Ventures (rights over the net assets by application of the equity method). Proportional consolidation is no longer allowed in the measurement of jointly controlled Entities. 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.

IFRS 12 (new) - 'Disclosure of interests in other entities' (to be applied in the EU to financial years that begin on or after 01 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.

Alteration to IFRS 10, IFRS 11 and IFRS 12 - 'Transitional Relief' (to be applied to financial years that begin on or after 01 January 2014, at the latest). This alteration clarifies that, when the application of IFRS 10 results in the accounting of a financial investment in a manner different from that used previously in accordance with IAS 27/SIC 12, the comparison figures must be restated, but only for the previous comparison period, and the differences calculated at the date of the start of the comparison period are recognised in equity. Specific disclosures are required by IFRS 12. This standard will not impact 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 01 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 it becomes effective. This adoption will not impact the consolidated financial statements of CTT Group.

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 change 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 CTT Group.

IAS 36 (amendment) Recoverable Amount Disclosures for Non-Financial Assets (to be applied in financial years beginning on or after 01 Jan 2014). This alteration is still awaiting adoption by the European Union. The alteration comes as a consequence of the issuance of IFRS 13 - Fair Value

Measurement and Disclosure, removing the requirement to disclose the recoverable amount of Cash-Generating Units (CGU) with goodwill and/or associated intangible assets with an undetermined useful life when impairment was not recognised. The alteration also requires the disclosure of the recoverable amount of an asset or CGU when there is a reversal or recognition of impairment loss, and detailed disclosures on the manner in which the fair value less costs of disposal was determined, in the same type of situation. This adoption will not impact the consolidated financial statements of CTT Group.

IAS 39 (amendment) Novation of derivatives and Continuation of Hedge Accounting (to be applied in financial years beginning on or after 01 Jan 2014). This alteration is still awaiting adoption by the European Union. This alteration introduces an exception to the obligation for derecognition of hedge accounting, when there is an alteration of the counterpart in a contract for financial derivatives, as long as this is required by law and certain conditions are met. This adoption will not impact the consolidated financial statements of CTT Group.

IFRIC 21 (new), Levies (to be applied in financial years beginning on or after 01 Jan 2014). This interpretation is still awaiting adoption by the European Union. This is an interpretation of IAS 37, in regard to the accounting for levies imposed by a government. The interpretation clarifies that the event that leads to the recognition of the obligation to pay levies corresponds to the activity described in the relevant legislation that obligates the Entity to pay these levies, also indicating the moment at which the liability must be recognised. This adoption will not impact the consolidated financial statements of 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 period 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, during a period of 12 months after that date. 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 "Retained earnings". 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 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 "Retained earnings". 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:

| | 30.09.2013 | | 31.12.2012 | | 30.09.2012 | |
|-----------------------------|------------|----------|------------|----------|------------|----------|
| | Close | Average | Close | Average | Close | Average |
| Mozambican Metical (MZN) | 39.54000 | 39.39000 | 39.24000 | 36.56000 | 36.92000 | 35.82444 |
| United States Dollar (USD) | 1.35050 | 1.31718 | 1.31940 | 1.31190 | 1.29300 | 1.28168 |
| Special Drawing Right (SDR) | 1.13594 | 1.14956 | 1.16583 | 1.17373 | 1.19272 | 1.19430 |

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 on the profit or loss for that period.

2.5 Tangible fixed assets

Tangible fixed assets are recorded at their acquisition or production cost, minus accumulated depreciation and impairment losses, where applicable. 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 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 the Retained earnings.

The depreciation of tangible assets, minus 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.

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 in 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 or 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.

2.7 Investment Properties

Investment Properties mainly include land and buildings owned by the Group for undetermined future use.

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 properties are measured at cost minus any accumulated depreciation and accumulated impairment losses, when applicable.

The depreciation rates are similar to those of tangible fixed assets.

The Group ensures that annual assessment of assets qualified as investment properties are carried out in order to determine any impairment and to disclose their fair value.

Costs incurred in relation to investment properties, 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 highest value between (i) its fair value minus the costs of selling it and (ii) its value in use. The fair value is the amount that would be obtained through the disposal of the asset, in a transaction between independent and expert entities. 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 in the consolidation, or subsidiary, joint ventures or associated entity, 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 subsidiary, joint venture or associated company, 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 flows (excluding future credit losses that have not been incurred) 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 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".

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 plane 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 (7,765 beneficiaries as at 30 September 2013, 8,117 beneficiaries as at 31 December 2012), of the telephone subscription charge, amounting to 15.30 Euro per month.

During the period ended on 30 September 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 30 September 2013, there were 65 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 30 September 2013 there were 47 beneficiaries under these conditions, (51 beneficiaries as at 31 December 2012), receiving a monthly amount of 176.76 Euro, 12 months a year. This value is updated by Order of the Finance Ministry of Finance and Ministry of 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 Euro 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. 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.

(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.

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

The accounting policies were consistently applied to all periods presented.

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;
- Express and parcels –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 are cross wide to all businesses and products, the Retail Network and Large Customers. In this analysis, the Retail Network, which is connected to the obligations of the universal postal service concession, is incorporated in the Mail segment and integrates internal revenues related to the provision of services to other segments, as well as the sale in its network of third party products and services.

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

The 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 refers to services provided across the different CTT S.A. business areas, and the income is calculated according to standard activities valued through internally set transfer prices.

Initially, CTT S.A. operating costs are affected to the different segments by charging the internal transactions 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 at 30 September 2013 and 2012, as follows:

| | 30.09.2013 | | | | | | | |
|--|-------------------|-------------------|--------------------|--------------------|-----------------------|-------------------------|----------------------|-------------------|
| | Mail | Express & parcels | Financial Services | Business Solutions | Central CTT Structure | Intragroup eliminations | Others non allocated | Total |
| Revenues | 387,436,413 | 95,062,706 | 44,108,293 | 16,142,603 | 73,210,230 | (95,985,763) | - | 519,974,482 |
| Sales and services rendered | 362,463,516 | 93,910,419 | 41,777,132 | 15,197,027 | - | (3,606,379) | - | 509,741,715 |
| Sales | 14,106,343 | 943,069 | - | - | - | (18,979) | - | 15,030,433 |
| Services rendered | 348,357,173 | 92,967,350 | 41,777,132 | 15,197,027 | - | (3,587,400) | - | 494,711,282 |
| Other operating income | 11,901,538 | 1,152,287 | 2,320,062 | 939,589 | 11,127,289 | (17,207,999) | - | 10,232,767 |
| Internal services rendered | 13,071,359 | - | 11,099 | 5,987 | 53,994,301 | (67,082,746) | - | - |
| Allocation central CTT structure | - | - | - | - | 8,088,639 | (8,088,639) | - | - |
| Operating costs | 321,673,851 | 88,881,938 | 24,164,396 | 14,775,927 | 73,210,230 | (95,985,763) | - | 426,720,579 |
| External supplies and services | 73,782,814 | 69,979,503 | 7,828,509 | 7,143,205 | 38,160,167 | (20,674,666) | - | 176,219,532 |
| Staff Costs | 173,845,416 | 17,357,757 | 2,321,024 | 5,490,535 | 32,591,838 | - | - | 231,606,570 |
| Other costs | 13,899,344 | 1,544,678 | 264,845 | 1,420,804 | 1,904,519 | (139,712) | - | 18,894,477 |
| Internal services rendered | 52,123,821 | - | 13,689,417 | 715,801 | 553,706 | (67,082,746) | - | - |
| Allocation to central CTT structure | 8,022,457 | - | 60,601 | 5,582 | - | (8,088,639) | - | - |
| EBITDA(1) | 65,762,562 | 6,180,768 | 19,943,897 | 1,366,676 | - | - | - | 93,253,903 |
| Depreciation/amortisation and impairment of investments, net | (10,813,286) | (2,390,640) | (540,786) | (1,138,116) | (2,929,595) | - | (1,709,072) | (19,521,496) |
| Impairment of inventories and accounts receivable, net | | | | | | | | (1,929,832) |
| Provisions net | | | | | | | | (4,753,575) |
| Interest expenses | | | | | | | | (8,951,587) |
| Interest income | | | | | | | | 6,741,114 |
| Gains/losses in associated companies | | | | | | | | 20,508 |
| Earnings before taxes | | | | | | | | 64,859,035 |
| Income tax for the year | | | | | | | | (19,607,642) |
| Net profit for the year | | | | | | | | 45,251,393 |
| Non-controlling interests | | | | | | | | (81,910) |
| Net profit for the year | | | | | | | | 45,169,483 |

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

| | 30.09.2012 | | | | | | | |
|--|-------------------|-------------------|--------------------|--------------------|-----------------------|-------------------------|----------------------|-------------------|
| | Mail | Express & parcels | Financial Services | Business Solutions | Central CTT Structure | Intragroup eliminations | Others non allocated | Total |
| Revenues | 398,889,263 | 94,773,974 | 43,612,095 | 17,818,943 | 81,161,899 | (106,995,243) | - | 529,260,931 |
| Sales and services rendered | 372,046,805 | 93,868,959 | 41,342,218 | 16,780,750 | - | (3,851,816) | - | 520,186,915 |
| Sales | 15,938,787 | 946,975 | - | - | - | (6,112) | - | 16,879,650 |
| Services rendered | 356,108,018 | 92,921,983 | 41,342,218 | 16,780,750 | - | (3,845,704) | - | 503,307,265 |
| Other operating income | 12,113,943 | 905,016 | 1,798,682 | 915,185 | 11,030,207 | (17,689,017) | - | 9,074,016 |
| Internal services rendered | 14,728,515 | - | 471,195 | 123,008 | 33,812,152 | (49,134,869) | - | - |
| Allocation central CTT structure | - | - | - | - | 36,319,541 | (36,319,541) | - | - |
| Operating costs | 343,541,633 | 88,719,180 | 23,933,849 | 16,117,095 | 81,161,899 | (106,995,243) | - | 446,478,413 |
| External supplies and services | 80,719,946 | 69,391,479 | 6,644,870 | 7,640,422 | 40,540,704 | (21,521,992) | - | 183,415,430 |
| Staff Costs | 180,088,276 | 18,003,806 | 2,369,452 | 5,969,676 | 36,674,825 | - | - | 243,106,035 |
| Other costs | 13,699,059 | 1,323,895 | 296,162 | 1,383,711 | 3,272,963 | (18,842) | - | 19,956,948 |
| Internal services rendered | 33,074,331 | - | 14,359,888 | 1,027,242 | 673,407 | (49,134,869) | - | - |
| Allocation to central CTT structure | 35,960,021 | - | 263,476 | 96,044 | - | (36,319,541) | - | - |
| EBITDA(1) | 55,347,630 | 6,054,794 | 19,678,246 | 1,701,848 | - | - | - | 82,782,518 |
| Depreciation/amortisation and impairment of investments, net | (10,892,579) | (2,166,881) | (402,475) | (1,288,479) | (2,717,894) | - | - | (17,468,309) |
| Impairment of inventories and accounts receivable, net | | | | | | | | (71,644) |
| Provisions net | | | | | | | | (12,295,540) |
| Interest expenses | | | | | | | | (12,127,999) |
| Interest income | | | | | | | | 9,609,536 |
| Gains/losses in associated companies | | | | | | | | 216,035 |
| Earnings before taxes | | | | | | | | 50,644,597 |
| Income tax for the year | | | | | | | | (15,110,515) |
| Net profit for the year | | | | | | | | 35,534,082 |
| Non-controlling interests | | | | | | | | (175,790) |
| Net profit for the year | | | | | | | | 35,358,292 |

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

The revenues are detailed as follows:

| Thousand of euro | 30.09.2013 | 30.09.2012 |
|-------------------------|----------------|----------------|
| Mail | 387,436 | 398,889 |
| Transactional mail | 300,849 | 303,944 |
| Press mail | 10,046 | 11,214 |
| Parcels (USO) | 5,195 | 5,183 |
| Advertising mail | 25,307 | 28,370 |
| Retail | 12,412 | 15,555 |
| Philately | 4,948 | 4,636 |
| Other | 28,679 | 29,987 |
| Express & parcels | 95,063 | 94,774 |
| Financial Services | 44,108 | 43 612 |
| Business Solutions | 16,143 | 17,819 |
| Central CTT Structure | 73,210 | 81,162 |
| Intragroup eliminations | (95,986) | (106,995) |
| | <u>519,974</u> | <u>529,261</u> |

The assets by segment are detailed as follows:

| 30.09.2013 | | | | | | | |
|---------------------------|--------------------|-------------------|--------------------|--------------------|----------------------|----------------------|----------------------|
| Assets | Mail | Express & parcels | Financial Services | Business Solutions | Central CTT Struture | Non allocated assets | Total |
| Intangible assets | 2,776,374 | 3,363,274 | 257,766 | 467,689 | 3,986,212 | 2,405,406 | 13,256,720 |
| Tangible fixed assets | 172,104,889 | 12,037,030 | 945,952 | 7,069,837 | 29,034,304 | 2,149,238 | 223,341,250 |
| Goodwill | | 16,592,248 | 406,101 | 8,085,520 | | | 25,083,869 |
| Deferred tax assets | | | | | | 99,775,247 | 99,775,247 |
| Account receivable | | | | | | 135,606,279 | 135,606,279 |
| Other assets | | | | | | 64,218,420 | 64,218,420 |
| Cash and cash equivalents | | | | | | 610,082,046 | 610,082,046 |
| Total | 174,881,263 | 31,992,553 | 1,609,818 | 15,623,046 | 33,020,516 | 914,236,636 | 1,171,363,832 |

| 31.12.2012 | | | | | | | |
|---------------------------|--------------------|-------------------|--------------------|--------------------|----------------------|----------------------|----------------------|
| Assets | Mail | Express & parcels | Financial Services | Business Solutions | Central CTT Struture | Non allocated assets | Total |
| 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 | 298,947 | 259,076,712 |
| Goodwill | | 17,096,987 | 406,101 | 8,025,520 | | | 25,528,608 |
| Deferred tax assets | | | | | | 102,228,537 | 102,228,537 |
| Account receivable | | | | | | 135,317,556 | 135,317,556 |
| Other assets | | | | | | 37,370,313 | 37,370,313 |
| Cash and cash equivalents | | | | | | 489,303,463 | 489,303,463 |
| Total | 208,524,182 | 33,728,387 | 1,828,824 | 16,003,926 | 35,796,339 | 767,298,591 | 1,063,180,249 |

The reduction of tangible assets from December 2012 to September 2013, reflects the allocation of 25,773,206 Euro to investments properties.

Debt by segment is detailed as follows:

| 30.09.2013 | | | | | | |
|----------------------------------|------------------|-------------------|--------------------|--------------------|----------------------|------------------|
| Other information | Mail | Express & parcels | Financial Services | Business Solutions | Central CTT Struture | Total |
| Medium and long term debt | 1,762,268 | 1,421,417 | - | 462,857 | - | 3,646,541 |
| Bank loans | - | - | - | - | - | - |
| Leasings | 1,762,268 | 1,421,417 | - | 462,857 | - | 3,646,541 |
| Short term debt | 465,092 | 2,079,385 | - | 286,214 | - | 2,830,691 |
| Bank loans | 9,619 | 1,543,035 | - | - | - | 1,552,654 |
| Leasings | 455,473 | 536,350 | - | 286,214 | - | 1,278,037 |
| Total | 2,227,359 | 3,500,802 | - | 749,071 | - | 6,477,232 |

| 31.12.2012 | | | | | | |
|----------------------------------|------------------|-------------------|--------------------|--------------------|----------------------|-------------------|
| Other information | Mail | Express & parcels | Financial Services | Business Solutions | Central CTT Struture | Total |
| 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 |
| Total | 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:

| Thousands of Euros | 30.09.2013 | 30.09.2012 |
|---------------------------|----------------|----------------|
| Revenue - Portugal | 453,198 | 463,561 |
| Revenue - Other Countries | 56,544 | 56,626 |
| | <u>509,742</u> | <u>520,187</u> |

Additionally, less than 10% of CTT's assets are located in other countries besides Portugal.

There is no single external customer whom revenues amount to 10 per cent or more of CTT's consolidated revenues.

5. TANGIBLE FIXED ASSETS

During the periods ended on 30 September 2013 and 30 September 2012, the movement which occurred in the carrying value of the "Tangible fixed assets", as well as the respective accumulated depreciation, was as follows:

| | 30.09.2013 | | | | | | | | |
|----------------------------------|----------------------------|-----------------------------------|-------------------|---------------------|------------------|-----------------------------|-----------------------------------|-------------------------------|--------------------|
| | 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 | 1,350,924 | 1,788,309 | 4,632 | 713,966 | 804,862 | 1,113,813 | - | 6,170,404 |
| Disposals | (318,855) | (2,764,864) | (647,746) | - | (26,172) | (1,030) | - | - | (3,758,667) |
| Transfers and write-offs | (19,708) | (85,363) | (1,723,175) | (8,823) | 58,407 | (150,860) | (171,994) | (111,684) | (2,213,200) |
| Adjustments | - | (79) | - | - | (8,913) | (17,687) | - | 3,051 | (23,628) |
| Other changes | (7,009,406) | (47,025,552) | - | (5,924) | 436 | (2,798) | - | - | (54,043,244) |
| Closing balance | 37,491,893 | 331,014,422 | 148,304,313 | 3,592,918 | 81,632,973 | 24,066,288 | 1,171,927 | 41,541 | 627,316,274 |
| 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 | - | 6,812,746 | 4,160,306 | 125,481 | 2,400,957 | 865,773 | - | - | 14,365,263 |
| Disposals | (22,121) | (1,609,411) | (647,746) | - | (26,172) | (203) | - | - | (2,305,653) |
| Transfers and write-offs | - | (2,184) | (1,838,251) | (8,823) | (65,469) | (6,421) | - | - | (1,921,148) |
| Adjustments | - | - | - | - | - | - | - | - | - |
| Other changes | (442,980) | (27,818,772) | - | (6,646) | (2,983) | 46 | - | - | (28,271,335) |
| Closing balance | 3,735,049 | 172,190,860 | 130,278,208 | 3,353,415 | 75,977,143 | 18,440,349 | - | - | 403,975,024 |
| Net Tangible fixed assets | 33,756,844 | 158,823,561 | 18,026,105 | 239,503 | 5,655,830 | 5,625,939 | 1,171,927 | 41,541 | 223,341,250 |

| | 30.09.2012 | | | | | | | | |
|----------------------------------|----------------------------|-----------------------------------|-------------------|---------------------|------------------|-----------------------------|-----------------------------------|-------------------------------|--------------------|
| | 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 | - | 1,634,793 | 4,207,453 | 43,444 | 409,997 | 982,526 | 1,090,618 | 436,001 | 8,804,832 |
| Disposals | (162,109) | (498,500) | (3,342,933) | - | (308,101) | (3,904) | - | - | (4,315,547) |
| Transfers and write-offs | - | 603,292 | 1,462,764 | - | (35,957,004) | (7,617,182) | (1,441,450) | (2,095,314) | (45,044,894) |
| Adjustments | (3,449) | (4,011) | - | (44,710) | 8,635 | (200,148) | - | - | (243,683) |
| Other changes | - | - | (644) | 38,537 | (248,184) | (2,359) | - | - | (212,650) |
| Closing balance | 44,445,962 | 376,919,299 | 150,025,588 | 3,595,388 | 80,034,584 | 23,375,882 | 1,738,536 | 226,409 | 680,361,648 |
| Accumulated depreciation | | | | | | | | | |
| Opening balance | 4,200,150 | 184,602,605 | 128,326,275 | 3,028,655 | 108,528,398 | 23,440,622 | - | - | 452,126,705 |
| Depreciation for the period | - | 7,321,915 | 3,894,739 | 161,871 | 2,372,973 | 925,817 | - | - | 14,677,315 |
| Disposals | - | (149,371) | (3,342,933) | - | (308,101) | (3,904) | - | - | (3,804,309) |
| Transfers and write-offs | - | - | (146,864) | - | (37,445,162) | (7,112,166) | - | - | (44,704,192) |
| Adjustments | - | - | - | - | - | - | - | - | - |
| Other changes | - | - | (147,104) | 1,277 | (99,777) | 11,026 | - | - | (234,578) |
| Closing balance | 4,200,150 | 191,775,149 | 128,584,113 | 3,191,803 | 73,048,331 | 17,261,395 | - | - | 418,060,941 |
| Net Tangible fixed assets | 40,245,812 | 185,144,150 | 21,441,475 | 403,585 | 6,986,253 | 6,114,487 | 1,738,536 | 226,409 | 262,300,707 |

As at 30 September 2013 and 30 September 2012, Land and natural resources and Buildings and other constructions include 5,258,253 Euro and 6,668,577 Euro, respectively, related to land and property in co-ownership with PT Communications, S.A..

During the period ended 30 September 2013, the Other changes in tangible fixed assets include the amount of 54,034,958 Euro transferred to investment properties, as well as the respective accumulated depreciation in the amount of 27,759,639 Euro and the accumulated impairment in the amount of 502,113 Euro. 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 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 under the previous concession contract, 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 period ended on 30 September 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.

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

Basic equipment:

The amount concerning acquisitions (1,788 thousand Euro) relates to direct purchases or warehouse outputs of the following types of assets:

- Acquisition of Containers and Trays Door: 142,853 Euro;
- Upgrades to machines divisive correspondence: 149,332 Euro; and
- Acquisition of printers (4): 1,120,344 Euro (Mailtec Comunicação).

The recorded disposals, amounting to 647,746 Euro, relate to the sale of several assets of CTT, which were fully depreciated and generated a gain of 21,635 Euro.

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 1,723 thousand Euro

Office equipment:

The amount of acquisitions and transfers / write-offs (772,373 Euro) is related with direct purchases or warehouse outputs (about 268,000 Euro), postal furniture (about 137,000 Euro), about 8,000 Euro in vaults and 385 PDT's by CTT Expresso worth 381,000 Euro.

Other tangible fixed assets:

The acquisitions in the amount of 804,862 Euro, consider 329 thousand Euro of prevention and safety equipment, 60 thousand Euro of communication equipment, as well as a variety of warehouse equipment amounting to around 389 thousand Euro.

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 14,365,263 Euro (14,677,315 Euro on 30 September 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**

The caption Basic equipment considers the improvements to the OCR system in the amount of 750.000 Euro, the acquisition of a labelling system for parallel machines TOP with the value of 45,000 Euro and the purchase of a pallet in the amount of 12,600 Euro.

6. INTANGIBLE ASSETS

During the periods ended on 30 September 2013 and 30 September 2012, the movements which occurred in the main categories of intangible assets, as well as the respective accumulated amortisation, were as follows:

| | 30.09.2013 | | | | | | |
|---------------------------------|----------------------|-------------------|---------------------|-------------------------|-------------------------------|-------------------------------|-------------------|
| | Development projects | Computer Software | Industrial property | Other intangible assets | Intangible assets in progress | Advance payments to suppliers | Total |
| Intangible assets | | | | | | | |
| Opening balance | 4,325,692 | 33,546,260 | 11,687,619 | - | 2,925,511 | 22,366 | 52,507,448 |
| Acquisitions | 47,231 | 469,193 | - | - | 1,579,231 | - | 2,095,655 |
| Alienations | - | - | - | - | (366,169) | - | (366,169) |
| Transfers and write-offs | - | 1,637,333 | - | - | (1,637,333) | - | - |
| Adjustments | - | - | - | 444,739 | - | - | 444,739 |
| Other changes | - | 4,597 | - | - | 165,004 | - | 169,601 |
| Closing balance | <u>4,372,923</u> | <u>35,657,383</u> | <u>11,687,619</u> | <u>444,739</u> | <u>2,666,244</u> | <u>22,366</u> | <u>54,851,274</u> |
| Accumulated amortisation | | | | | | | |
| Opening balance | 4,325,692 | 26,795,624 | 7,031,072 | - | - | - | 38,152,388 |
| Amortisation for the period | <u>3,014</u> | <u>2,735,520</u> | <u>314,971</u> | <u>388,661</u> | <u>-</u> | <u>-</u> | <u>3,442,166</u> |
| Closing balance | <u>4,328,706</u> | <u>29,531,144</u> | <u>7,346,043</u> | <u>388,661</u> | <u>-</u> | <u>-</u> | <u>41,594,554</u> |
| Net intangible assets | <u>44,217</u> | <u>6,126,239</u> | <u>4,341,576</u> | <u>56,078</u> | <u>2,666,244</u> | <u>22,366</u> | <u>13,256,720</u> |

| | 30.09.2012 | | | | | | |
|---------------------------------|----------------------|-------------------|---------------------|-------------------------|-------------------------------|-------------------------------|-------------------|
| | Development projects | Computer Software | Industrial property | Other intangible assets | Intangible assets in progress | Advance payments to suppliers | Total |
| Intangible assets | | | | | | | |
| Opening balance | 4,325,692 | 29,520,405 | 10,906,059 | - | 4,171,683 | 17,985 | 48,941,824 |
| Acquisitions | 0 | 192,583 | 24,971.00 | - | 1,512,841 | 4,380 | 1,734,775 |
| Alienations | - | - | - | - | - | - | - |
| Transfers and write-offs | - | 3,009,476 | - | - | (3,112,352) | - | (102,876) |
| Adjustments | - | - | - | - | - | - | - |
| Other changes | - | 355,007 | 72,922 | - | - | - | 427,929 |
| Closing balance | <u>4,325,692</u> | <u>33,077,471</u> | <u>11,003,952</u> | <u>-</u> | <u>2,572,172</u> | <u>22,365</u> | <u>51,001,652</u> |
| Accumulated amortisation | | | | | | | |
| Opening balance | 4,325,692 | 23,294,861 | 6,241,040 | - | - | - | 33,861,593 |
| Amortisation for the period | 0 | 2,634,186 | 155,823 | - | - | - | 2,790,009 |
| Other variations | - | 355,005 | 72,919 | - | - | - | 427,924 |
| Closing balance | <u>4,325,692</u> | <u>26,284,052</u> | <u>6,469,782</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>37,079,526</u> |
| Net intangible assets | - | 6,793,419 | 4,534,170 | - | 2,572,172 | 22,365 | 13,922,126 |

The license of the trademark “Payshop International” is booked under the caption Industrial Property of CTT Gest, in the amount of 1,200,000 Euro. 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 209,206 Euro and 233,842 Euro, capitalized in IT software on intangible assets in progress in as at 30 September 2013 and 30 September 2012, respectively, relates to the staff costs incurred in the development of these projects.

As at 30 September 2013 intangible assets in progress relate to IT projects which are under development, of which the most relevant are:

| | <u>30.09.2013</u> |
|---|-------------------|
| New GRH application | 731,865 |
| Information management software | 279,348 |
| Certification of invoices | 405,208 |
| Approval of invoices | 75,905 |
| Archives SAP | 86,153 |
| Automatic processing addresses software | 69,006 |
| Dynamic plan changing system | <u>216,935</u> |
| | <u>1,864,419</u> |

The amortisation, amounting to 3,442,166 Euro (2,790,009 Euro at 30 September 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.

There are also no contractual commitments for the acquisition of Intangible Assets.

DEVELOPMENT PROJECTS

During the periods ended on 30 September 2013 and 30 September 2012 no expenses were recorded relating to development projects.

7. INVESTMENT PROPERTIES

As at 30 September 2013 and 30 September 2012, the Group has the following assets classified as investment properties:

| | 30.09.2013 | | |
|----------------------------------|----------------------------|-----------------------------------|-------------------|
| | Land and natural resources | Buildings and other constructions | Total |
| Investment properties | | | |
| Opening balance | 1,334,499 | 65,653 | 1,400,152 |
| Transfers/Adjustments | 7,009,406 | 47,025,552 | 54,034,958 |
| Closing balance | 8,343,905 | 47,091,205 | 55,435,110 |
| Accumulated depreciation | | | |
| Opening balance | - | 31,209 | 31,209 |
| Depreciation for the period | - | 682,800 | 682,800 |
| Transfers/Adjustments | 442,980 | 27,316,659 | 27,759,639 |
| Closing balance | 442,980 | 28,030,668 | 28,473,648 |
| Accumulated impairment | | | |
| Opening balance | - | - | - |
| Impairment losses | - | 1,031,268 | 1,031,268 |
| Transfers/Adjustments | - | 502,113 | 502,113 |
| | - | 1,533,381 | 1,533,381 |
| Net Investment properties | 7,900,925 | 17,527,156 | 25,428,081 |
| | | | |
| | 30.09.2012 | | |
| | Land and natural resources | Buildings and other constructions | Total |
| Investment properties | | | |
| Opening balance | 2,692,616 | 97,602 | 2,790,218 |
| Transfers/Adjustments | 3,448 | (31,949) | (28,501) |
| Closing balance | 2,696,064 | 65,653 | 2,761,717 |
| Accumulated depreciation | | | |
| Opening balance | - | 61,845 | 61,845 |
| Depreciation for the period | - | 985 | 985 |
| Transfers/Adjustments | - | (31,949) | (31,949) |
| Closing balance | - | 30,881 | 30,881 |
| Net Investment properties | 2,696,064 | 34,772 | 2,730,836 |

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

During the period ended at 30 September 2013, the Transfers / Adjustments in Investment properties include the amount of 54,034,958 Euro transferred from Tangible fixed assets, the respective

accumulated depreciation in the amount of 27,759,639 Euro as well as an accumulated impairment loss of 502,113 Euro.

The Group owns a number of properties which show evidence that may be impaired due to the economic crisis in the real estate market, mainly in specific regions where the Group holds some of its investment properties. 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 in ten of them, there was an impairment loss amounting to 1,031,268 Euro (Note 38) which resulted from the unfavourable market conditions in the geographical areas of the assets.

Depreciation for the period, amounting to 682,800 Euro (985 Euro on 30 September 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 30 September 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 | 30.09.2013 | | | 31.12.2012 | | |
|--|--|-------------------------|----------|-------|-------------------------|----------|-------|
| | | 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 Lisbon | - | - | - | - | - | - |
| Subsidiaries: | | | | | | | |
| PostContacto - Correio Publicitário, Lda. ("PostContacto") | Rua de S. José, 20 1166-001 Lisbon | 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 Lisbon | 100 | - | 100 | 100 | - | 100 |
| CTT GEST - Gestão de Serviços e Equipamentos Postais, S.A. ("CTT Gest") | Rua de S. José, 20 1166-001 Lisbon | 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 COM") | 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 - Mozambique | 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 30 September 2013 and 31 December 2012, the Group held the following interests in joint ventures, registered through the equity method:

| Company name | Head office | 30.09.2013 | | | 31.12.2012 | | |
|---|---|-------------------------|----------|-------|-------------------------|----------|-------|
| | | 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 30 September 2013 and 31 December 2012, the Group held the following interests in associated companies registered through the equity method:

| Company name | Head office | 30.09.2013 | | | 31.12.2012 | | |
|--|--|-------------------------|----------|-------|-------------------------|----------|-------|
| | | 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 Lisbon | 20 | - | 20 | 20 | - | 20 |
| Payshop Moçambique, S.A. (a) | R. da Sé, 114-4º. Maputo - Mozambique | - | 35 | 35 | - | 35 | 35 |
| Mafelosa, SL (b) | Castellon Spain | - | 25 | 25 | - | 25 | 25 |
| Urpacksur, SL (b) | Malaga Spain | - | 30 | 30 | - | 30 | 30 |

(a) Participation by Payshop Portugal, S.A.

(b) Participation by Tourline Mensajería S.A.

Changes in the consolidation perimeter

During the period ended on 30 September 2013 and in 2013, there were no changes in the consolidation perimeter.

9. GOODWILL

As at 30 September 2013 and 31 December 2012, the Goodwill was made up as follows:

| Company | Year of acquisition | 30.09.2013 | 31.12.2012 |
|--|---------------------|-------------------|-------------------|
| 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 periods ended on 30 September 2013 and 30 September 2012, the movements in Goodwill were as follows:

| | 30.09.2013 | 30.09.2012 |
|------------------------|-------------------|-------------------|
| 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 Euro 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.

In 30 June 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:

| Company | Activity | 30.06.2013 | | | |
|--|--------------------------------------|---|--------------------------------|----------------------|------------------------|
| | | 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 | 11.17% | 2.0% |
| EAD - Empresa de Arquivo de Documentação, S.A. | Custody and archive management | Equity Value/DCF | 5 years | 12.21% | 2.0% |
| Mailtec Group | Documental services | Equity Value/DCF | 5 years | 12.49% | 2.0% |
| Payshop Portugal, SA | Management of payment points network | Equity Value/DCF | 5 years | 13.27% | 2.0% |

| Company | Activity | 31.12.2012 | | | |
|--|--------------------------------------|---|--------------------------------|----------------------|------------------------|
| | | 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 | 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% |

As at 30 September of 2013, as no additional indications of impairment was identified, the CTT Group did not perform a new impairment assessment.

| Company | Year of acquisition | 30.09.2013 | | | |
|--|---------------------|-------------------|----------------------------------|-------------------------------|-------------------|
| | | 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 | 30.09.2012 | | | |
|--|---------------------|-------------------|----------------------------------|-------------------------------|-------------------|
| | | 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> |

(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 Tourline, PayShop, EAD and Mailtec Group do not indicate impairment.

As far as Mailtec Group is concerned, the results from the sensitivity analysis conclude that a decrease of 0.5% in the perpetuity growth rate would imply the recognition of an impairment loss of 101,452 Euro, as well as an increase of 1% in the discount rate would result in an impairment loss of 741,599 Euro, as stated below:

| Variation of perpetuity growth | | | |
|--------------------------------|------------|------------|------------|
| Tourline | -0.5% | 0.0% | 0.5% |
| g (Growth perpetuity rate) | 1.5% | 2.0% | 2.5% |
| Equity Assessment | 27,033,771 | 28,173,372 | 29,444,429 |
| Test: impairment (if negative) | 6,409,366 | 7,548,968 | 8,820,024 |
| | | | |
| Mailtec | -0.5% | 0.0% | 0.5% |
| g (Growth perpetuity rate) | 1.5% | 2.0% | 2.5% |
| Equity Assessment | 12,534,696 | 12,923,766 | 13,351,790 |
| Test: impairment (if negative) | -101,452 | 287,618 | 715,642 |
| | | | |
| EAD | -0.5% | 0.0% | 0.5% |
| g (Growth perpetuity rate) | 1.5% | 2.0% | 2.5% |
| Equity Assessment | 8,609,929 | 9,029,552 | 9,492,389 |
| Test: impairment (if negative) | 2,041,019 | 2,255,027 | 2,491,073 |
| | | | |
| Payshop | -0.5% | 0.0% | 0.5% |
| g (Growth perpetuity rate) | 1.5% | 2.0% | 2.5% |
| Equity Assessment | 51,632,517 | 52,994,358 | 54,482,704 |
| Test: impairment (if negative) | 46,484,320 | 47,846,161 | 49,334,508 |

| Variation of sovereign risk | | | |
|--------------------------------|------------|------------|------------|
| Tourline | -1% | 0% | 1% |
| WACC | 10.23% | 11.17% | 12.11% |
| Equity Assessment | 32,439,802 | 28,173,372 | 24,696,048 |
| Test: impairment (if negative) | 11,815,398 | 7,548,968 | 4,071,644 |
| Mailtec | | | |
| | -1% | 0% | 1% |
| WACC | 11.49% | 12.49% | 13.49% |
| Equity Assessment | 14,172,063 | 12,923,766 | 11,894,549 |
| Test: impairment (if negative) | 1,535,915 | 287,618 | -741,599 |
| EAD | | | |
| | -1% | 0% | 1% |
| WACC | 11.29% | 12.21% | 13.13% |
| Equity Assessment | 10,320,137 | 9,029,552 | 7,957,173 |
| Test: impairment (if negative) | 2,913,225 | 2,255,027 | 1,708,113 |
| Payshop | | | |
| | -1% | 0% | 1% |
| WACC | 12.27% | 13.27% | 14.27% |
| Equity Assessment | 57,507,236 | 52,994,358 | 49,216,238 |
| Test: impairment (if negative) | 52,359,039 | 47,846,161 | 44,068,042 |

10. INVESTMENTS IN ASSOCIATED COMPANIES

As at 30 September 2013 and 31 December 2012, the investments in associated companies were as follows:

| | 30.09.2013 | 31.12.2012 |
|-----------------|----------------|----------------|
| 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 periods ended on 30 September 2013 and 30 September 2012, the investments in associated companies had the following movement:

| | | 30.09.2013 | | | | | | | | |
|--|---------------------|-------------|-----------|-------------|-----------|------------|---------|-------------|------------|--------------------------|
| | | Head office | Assets | Liabilities | Equity | Net profit | % held | Investments | Provisions | Proportion of net profit |
| Associated companies: | | | | | | | | | | |
| Multicert - Serviços de Certificação Electrónica, S.A. (a) | Lisbon | 4,832,986 | 1,281,774 | 3,551,213 | 758,251 | 20% | 710,242 | - | - | 151,650 |
| Payshop Moçambique, S.A. (b) | Maputo - Mozambique | 271,930 | 953,017 | (722,374) | n.d. | 35% | - | 220,816 | - | n.d. |
| Mafelosa, SL (c) (d) | Castellon - Spain | n.d. | n.d. | (433,494) | n.d. | 25% | - | - | - | n.d. |
| Urpacsur (c) (d) | Spain | n.d. | n.d. | 1,603 | n.d. | 30% | 481 | - | - | n.d. |
| | | | | | | | 710,723 | 220,816 | - | 151,650 |
| | | | | | | | | | | |
| | | 30.09.2012 | | | | | | | | |
| | | Head office | Assets | Liabilities | Equity | Net profit | % held | Investments | Provisions | Proportion of net profit |
| Associated companies: | | | | | | | | | | |
| Multicert - Serviços de Certificação Electrónica, S.A.(e) | Lisbon | n.d. | n.d. | 3,841,894 | 1,080,176 | 20% | 768,379 | - | - | 216,035 |
| Payshop Moçambique, S.A. (b) | Maputo - Mozambique | n.d. | n.d. | (681,086) | n.d. | 35% | - | 220,816 | - | 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. | 1,924 | n.d. | 30% | 481 | - | - | n.d. |
| | | | | | | | 768,860 | 220,816 | - | 216,035 |

(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 proportion of net profit for the period ended on 30 September 2013 includes the amount of 131,142 Euro, which was recognised in the year ended on 31 December 2012.

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 30 September 2013 and 31 December 2012 were as follows:

| Company | Head office | 30.09.2013 | 31.12.2012 |
|--------------------------------------|----------------------|----------------|----------------|
| IPC - International Post Corporation | Brussels - Belgium | 6,157 | 6,157 |
| Eurogiro Network | Copenhagen - Denmark | 124,435 | 124,435 |
| CEPT | Copenhagen - Denmark | 237 | 237 |
| | | 130,829 | 130,829 |

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

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 30 September 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 30 September 2013 and 31 December 2012, the heading "Cash and cash equivalents" included cash term deposits investments amounted to 463,980,000 Euro and 444,947,000 Euro, 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:

| | 30.09.2013 | 31.12.2012 |
|---------------------------|--------------------|--------------------|
| Other non-current assets | 1,850,300 | 2,018,619 |
| Accounts receivable | 135,606,279 | 135,317,556 |
| Other current assets | 17,333,037 | 16,222,215 |
| Cash and cash equivalents | 524,124,124 | 477,164,527 |
| | <u>678,913,740</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 30 September 2013 and 30 September 2012, generated interest income of 6,643,560 Euro and 9,390,949 Euro, respectively (Note 40).

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 period ended on 30 September 2013, the earnings before taxes would have been lower by 2,970 thousand Euro (31 December 2012: lower by 3,852 thousand Euro).

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 Rates (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 30 September 2013 and 30 September 2012, the net exposure (assets minus liabilities) of the Group amounted to negative 47,236 SDR (53,658 Euro at the exchange rate €/SDR 1.13594), 1,857,295 SDR (2,215,233 Euro at the exchange rate €/SDR 1.19272), respectively.

Based in the sensitivity analysis performed for the balances of accounts receivable and payable to foreign Postal Operators, on 30 September 2013 and 30 September 2012, assuming an increase / decrease in the exchange rate € / SDR of 10%, the earnings before taxes would have been lower by 5,366 Euro and higher by 221,532 Euro, 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 30 September 2013 and 31 December 2012 do not reconcile with consolidated balance sheet:

| 30.09.2013 | | | | |
|--|--------------------|-----------------------------------|--------------|--------------------|
| | Due within 1 year | Over 1 year and less than 5 years | Over 5 years | Total |
| Financial liabilities | | | | |
| Debts | 2,918,834 | 3,769,377 | - | 6,688,211 |
| Accounts payable | 448,097,747 | - | - | 448,097,747 |
| Other current liabilities | 9,673,811 | - | - | 9,673,811 |
| Non-financial liabilities | | | | |
| Operating leases | 7,689,704 | 4,647,741 | - | 12,337,445 |
| Non-contingent financial commitments (1) | 866,158 | - | - | 866,158 |
| | <u>469,246,254</u> | <u>8,417,118</u> | <u>-</u> | <u>477,663,372</u> |
| 31.12.2012 | | | | |
| | Due within 1 year | Over 1 year and less than 5 years | Over 5 years | Total |
| 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 | 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 monitoring on the basis of the adjusted solvency ratio, calculated as: $\text{Equity} / (\text{Liabilities, less amounts of third parties in Cash and cash equivalents})$.

During the period ended 30 September 2013 and 2012, the Group's strategy was to maintain the solvency ratio higher than 35%. The solvency ratio at 30 September 2013 and 31 December 2012 was as follows:

| | 30.09.2013 | 31.12.2012 |
|--|--------------|--------------|
| Equity | 264,733,377 | 273,481,153 |
| Liabilities | 906,630,455 | 789,699,096 |
| Amounts of third parties | 391,503,131 | 249,222,509 |
| Adjusted solvency ratio ⁽¹⁾ | 51.4% | 50.6% |

⁽¹⁾Equity / (Liabilities - amounts of third parties in Cash and cash equivalents)

13. INVENTORIES

As at 30 September 2013 and 31 December 2012, the Group's Inventories are detailed as follows:

| | 30.09.2013 | | | 31.12.2012 | | |
|--|------------------|-------------------|------------------|------------------|-------------------|------------------|
| | Gross amount | Impairment losses | Net amount | Gross amount | Impairment losses | Net amount |
| Merchandise | 4,999,611 | 2,014,278 | 2,985,333 | 5,687,910 | 1,903,511 | 3,784,399 |
| Raw, subsidiary and consumable materials | 4,165,653 | 707,084 | 3,458,569 | 3,583,586 | 715,248 | 2,868,338 |
| Advances on purchases | 99,700 | - | 99,700 | 58,002 | - | 58,002 |
| | <u>9,264,964</u> | <u>2,721,362</u> | <u>6,543,602</u> | <u>9,329,498</u> | <u>2,618,759</u> | <u>6,710,739</u> |

Cost of sales

During the periods ended on 30 September 2013 and 30 September 2012, the details of the "Cost of sales" were as follows:

| | 30.09.2013 | | |
|-----------------|-------------------|-------------------------------|-------------------|
| | Merchandise | Raw, materials and consumable | Total |
| Opening balance | 5,687,910 | 3,583,586 | 9,271,496 |
| Purchases | 8,044,681 | 361,788 | 11,662,569 |
| Offers | (20,172) | (11,133) | (31,305) |
| Adjustments | (293,904) | 11,071 | (282,833) |
| Closing balance | (4,999,611) | (4,165,653) | (9,165,264) |
| Cost of sales | <u>8,418,904</u> | <u>3,035,759</u> | <u>11,454,663</u> |
| | 30.09.2012 | | |
| | Merchandise | Raw, materials and consumable | Total |
| Opening balance | 7,148,328 | 3,966,757 | 11,115,085 |
| Purchases | 9,545,845 | 2,772,074 | 12,317,919 |
| Offers | (25,184) | (12,859) | (38,043) |
| Adjustments | (606) | (48,321) | (48,927) |
| Closing balance | (6,233,756) | (3,886,577) | (10,120,333) |
| Cost of sales | <u>10,434,627</u> | <u>2,791,073</u> | <u>13,225,700</u> |

Impairment

During the periods ended on 30 September 2013 and 30 September 2012, the movement in “Accumulated impairment losses” (Note 19) was as follows:

| | | 30.09.2013 | | | | |
|--------------------------------|--|------------------|----------------|-----------------|-----------------|------------------|
| | | Opening balance | Increases | Reversals | Utilization | Closing balance |
| Merchandise | | 1,903,511 | 189,254 | (78,487) | | 2,014,278 |
| Raw, subsidiary and consumable | | 715,248 | 49,940 | (14,004) | (44,100) | 707,084 |
| | | <u>2,618,759</u> | <u>239,194</u> | <u>(92,491)</u> | <u>(44,100)</u> | <u>2,721,362</u> |
| | | 30.09.2012 | | | | |
| | | Opening balance | Increases | Reversals | Utilization | Closing balance |
| Merchandise | | 3,275,093 | - | - | - | 3,275,093 |
| Raw, subsidiary and consumable | | 1,616,011 | 12,822 | - | (93,388) | 1,535,445 |
| | | <u>4,891,104</u> | <u>12,822</u> | <u>-</u> | <u>(93,388)</u> | <u>4,810,538</u> |

For the periods ended on 30 September 2013 and 30 September 2012, impairment losses of inventories were recorded net of reversals amounting to 146,703 Euro and 12,822 Euro, respectively, in the heading “Impairment of inventories and accounts receivable net” (Note 37).

14. ACCOUNTS RECEIVABLE

As at 30 September 2013 and 31 December 2012 the heading “Accounts receivable” showed the following composition:

| | 30.09.2013 | 31.12.2012 |
|----------------------|--------------------|--------------------|
| Customers | 135,606,087 | 135,317,364 |
| Associated companies | <u>192</u> | <u>192</u> |
| | <u>135,606,279</u> | <u>135,317,556</u> |

Customers

As at 30 September 2013 and 31 December 2012, the ageing of the balance of the heading “Customers” is detailed as follows:

| | 30.09.2013 | | | 31.12.2012 | | |
|--------------|--------------------|------------------------|--------------------|--------------------|------------------------|--------------------|
| | Gross amount | Accumulated impairment | Carrying amount | Gross amount | Accumulated impairment | Carrying amount |
| Current | | | | | | |
| Not due | 72,142,138 | 7,778 | 72,134,360 | 57,237,067 | 491 | 57,236,576 |
| Past due: | - | - | | | | |
| 0-30 days | 7,026,572 | 1,842 | 7,024,730 | 23,368,767 | 9,030 | 23,359,737 |
| 30-90 days | 13,986,143 | 14,690 | 13,971,453 | 14,407,624 | 5,692 | 14,401,932 |
| 90-180 days | 8,830,807 | 2,284 | 8,828,523 | 4,680,277 | 26,451 | 4,653,826 |
| 180-360 days | 9,611,901 | 550,032 | 9,061,869 | 9,718,075 | 1,660,503 | 8,057,572 |
| > 360 days | 46,857,883 | 22,272,731 | 24,585,152 | 48,218,580 | 20,610,859 | 27,607,721 |
| | <u>158,455,444</u> | <u>22,849,357</u> | <u>135,606,087</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:

| | 30.09.2013 | 31.12.2012 |
|------------------------------|---------------------|---------------------|
| National accounts receivable | 1,655,760 | 2,954,905 |
| Foreign operators | 22,929,392 | 24,652,816 |
| Total | <u>24,585,152</u> | <u>27,607,721</u> |
| Foreign operators - payable | <u>(23,440,170)</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.

In the periods ended 30 September 2013 and 31 December 2012, 107 and 88 new customer contracts, respectively, were signed, representing 1.8% and 1.5% of the total contract assets.

For the national customers, the banks guarantees and advance deposits coverage over the customers receivables decreased from 2.3% in 2012 and to 1.7% in 30 September 2013.

| | 30.09.2013 | 31.12.2012 |
|------------------|------------------|------------------|
| Advance deposits | 1,660,460 | 1,952,293 |
| Bank guarantees | 57,253 | 273,674 |
| Total | 1,717,714 | 2,225,967 |

Customer's impairment

During the periods ended on 30 September 2013 and 30 September 2012, the movement in "Accumulated impairment losses" (Note 19) was as follows:

| | | 30.09.2013 | | | | |
|-----------|-------------------|------------------|------------------|------------------|----------------|-------------------|
| Customers | Opening balance | Increases | Reversals | Reduction | Transfers | Closing balance |
| | 22,313,026 | 1,629,092 | (283,935) | (808,826) | - | 22,849,357 |
| | <u>22,313,026</u> | <u>1,629,092</u> | <u>(283,935)</u> | <u>(808,826)</u> | <u>-</u> | <u>22,849,357</u> |
| | | 30.09.2012 | | | | |
| Customers | Opening balance | Increases | Reversals | Reduction | Transfers | Closing balance |
| | 21,268,700 | 509,812 | (393,698) | (568,019) | 460,104 | 21,276,899 |
| | <u>21,268,700</u> | <u>509,812</u> | <u>(393,698)</u> | <u>(568,019)</u> | <u>460,104</u> | <u>21,276,899</u> |

For the periods ended on 30 September 2013 and 30 September 2012, impairment losses of accounts receivable were recorded (net of reversals) amounting to 1,345,156 Euro and 116,114 Euro, respectively in the heading "Impairment of inventories and accounts receivable, net" (Note 37).

15. DEFERRALS

As at 30 September 2013 and 31 December 2012, the Deferrals included in current assets and current and non-current liabilities showed the following composition:

| | 30.09.2013 | 31.12.2012 |
|------------------------|-------------------|-------------------|
| Assets deferrals | | |
| Current | | |
| Rents payable | 1,447,728 | 1,479,225 |
| Meal allowances | 1,737,890 | 1,772,639 |
| Other | 2,805,591 | 2,342,972 |
| | <u>5,991,209</u> | <u>5,594,836</u> |
| Liabilities deferrals | | |
| Non-current | | |
| Deferred capital gains | 9,075,097 | 10,874,369 |
| Tangible fixed assets | 371,849 | 372,832 |
| Other | - | 75,424 |
| | <u>9,446,945</u> | <u>11,322,625</u> |
| Current | | |
| Deferred capital gains | 2,399,029 | 2,399,029 |
| Phone-ix top ups | 521,299 | 572,687 |
| Tangible fixed assets | 7,000 | 11,267 |
| Other | 535,886 | 1,385,983 |
| | <u>3,463,214</u> | <u>4,368,966</u> |
| | <u>12,910,159</u> | <u>15,691,591</u> |

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 periods ended in 30 September 2013 and 30 September 2012, 1,757,895 Euro and 2,010,002 Euro, were recognised under the caption “Other operating income” in the consolidated income statement, respectively.

16. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

As at 30 September 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 30 September 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 is detailed as follows:

| | 30.09.2013 | 31.12.2012 | 30.09.2012 |
|---|--------------------|--------------------|--------------------|
| Cash | 85,957,922 | 12,138,936 | 111,519,901 |
| Sight deposits | 60,144,124 | 32,217,527 | 70,521,343 |
| Time deposits | 463,980,000 | 444,947,000 | 414,421,000 |
| Cash and cash equivalents (Consolidated balance sheet) | 610,082,046 | 489,303,463 | 596,462,244 |
| Bank overdrafts | - | - | - |
| Cash and cash equivalents (Consolidated cash flow statement) | 610,082,046 | 489,303,463 | 596,462,244 |

18. OTHER NON-CURRENT AND CURRENT ASSETS

As at 30 September 2013 and 31 December 2012, the headings “Other non-current assets” and “Other current assets” had the following composition:

| | 30.09.2013 | 31.12.2012 |
|----------------------------------|-------------------|-------------------|
| Non-current | | |
| Advances to staff | 373,589 | 312,243 |
| Other receivables from staff | 1,289,350 | 1,384,664 |
| Ministry of Health | 1,476,711 | 1,444,883 |
| INESC loan | 1,410,048 | 1,455,643 |
| Impairment | (2,699,398) | (2,578,814) |
| | 1,850,300 | 2,018,619 |
| Current | | |
| Advances to suppliers | 120,543 | 49,803 |
| Advances to staff | 3,679,629 | 2,900,773 |
| Ministry of Health | 1,520,363 | 1,487,594 |
| INESC loan | 49,740 | 49,740 |
| Postal financial services | 1,940,151 | 9,461,390 |
| State and other public entities | - | 330,546 |
| Debtors by accrued revenues | 10,326,400 | 3,284,201 |
| Amounts collected on our behalf | 4,102,394 | 1,969,894 |
| Pledges as collateral | 357,830 | 331,899 |
| CGA reimbursements | 85 | 296,524 |
| Advances to lawyers | 245,804 | 236,220 |
| Receivables from asset disposals | 171,330 | 201,540 |
| Other current assets | 10,326,858 | 9,230,614 |
| Impairment | (9,277,450) | (8,974,606) |
| | 23,563,677 | 20,856,132 |

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 subscription of saving products and the marketing of insurance.

Debtors by accrued revenues

As at 30 September 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 periods ended on 30 September 2013 and 30 September 2012, the movement in "Accumulated impairment losses" (Note 19) was as follows:

| | | 30.09.2013 | | | |
|---------------------------|--|-------------------|------------------|--------------------|-------------------|
| | | Opening balance | Increases | Reversals | Closing balance |
| Other accounts receivable | | 10,048,037 | 751,366 | (267,799) | 10,517,060 |
| INESC loan | | 1,505,383 | - | (45,595) | 1,459,788 |
| | | <u>11,553,420</u> | <u>751,366</u> | <u>(313,394)</u> | <u>11,976,848</u> |
| | | 30.09.2012 | | | |
| | | Opening balance | Increases | Reversals | Closing balance |
| Other accounts receivable | | 9,640,020 | 1,386,891 | (1,411,022) | 9,605,526 |
| INESC loan | | 1,546,833 | - | (33,160) | 1,513,673 |
| | | <u>11,186,853</u> | <u>1,386,891</u> | <u>(1,444,182)</u> | <u>11,119,199</u> |

For the periods ended on 30 September 2013 and 30 September 2012, impairment losses (net increases of reversals) of "Other current and non-current assets" amounted to 423,428 Euro and negative 57,291 Euro, respectively, and were booked under the heading "Impairment of inventories and accounts receivable, net" (Note 37).

19. ACCUMULATED IMPAIRMENT LOSSES

During the periods ended on 30 September 2013 and 30 September 2012, the following movements occurred in the impairment losses:

| 30.09.2013 | | | | | |
|--|-------------------|------------------|--------------------|------------------|-------------------|
| | Opening balance | Increases | Reversals | Utilization | Closing balance |
| Other non-current assets (Note 18) | | | | | |
| Other accounts receivable | 1,123,171 | 166,179 | - | - | 1,289,350 |
| INESC loan | 1,455,643 | - | (45,595) | - | 1,410,048 |
| | <u>2,578,814</u> | <u>166,179</u> | <u>(45,595)</u> | <u>-</u> | <u>2,699,398</u> |
| Other current assets (Notes 14 and 18) | | | | | |
| Customers | 22,313,026 | 1,629,092 | (283,935) | (808,826) | 22,849,357 |
| Other accounts receivable | 8,924,866 | 585,187 | (267,799) | (14,544) | 9,227,710 |
| INESC loan | 49,740 | - | - | - | 49,740 |
| | <u>31,287,632</u> | <u>2,214,279</u> | <u>(551,734)</u> | <u>(823,370)</u> | <u>32,126,807</u> |
| Inventories (Note 13) | | | | | |
| Merchandise | 1,903,511 | 189,254 | (78,487) | - | 2,014,278 |
| Raw, subsidiary and consumable materials | 715,248 | 49,940 | (14,004) | (44,100) | 707,084 |
| | <u>2,618,759</u> | <u>239,194</u> | <u>(92,491)</u> | <u>(44,100)</u> | <u>2,721,362</u> |
| | <u>36,485,205</u> | <u>2,619,652</u> | <u>(689,820)</u> | <u>(867,470)</u> | <u>37,547,567</u> |
| 30.09.2012 | | | | | |
| | Opening balance | Increases | Reversals | Utilization | Closing balance |
| Other non-current assets (Note 18) | | | | | |
| Other accounts receivable | 1,166,208 | - | (235,138) | - | 931,070 |
| INESC loan | 1,497,093 | - | (29,015) | - | 1,468,078 |
| | <u>2,663,301</u> | <u>-</u> | <u>(264,153)</u> | <u>-</u> | <u>2,399,148</u> |
| Other current assets (Notes 14 and 18) | | | | | |
| Customers | 21,268,700 | 509,812 | (393,698) | (568,019) | 21,276,898 |
| Other accounts receivable | 8,473,812 | 1,386,891 | (1,175,885) | (10,362) | 8,674,456 |
| INESC loan | 49,740 | - | (4,145) | - | 45,595 |
| | <u>29,792,252</u> | <u>1,896,703</u> | <u>(1,573,728)</u> | <u>(578,381)</u> | <u>29,996,949</u> |
| Inventories (Note 13) | | | | | |
| Merchandise | 3,275,093 | - | - | - | 3,275,093 |
| Raw, subsidiary and consumable | 1,616,011 | 12,822 | - | (93,388) | 1,535,445 |
| | <u>4,891,104</u> | <u>12,822</u> | <u>-</u> | <u>(93,388)</u> | <u>4,810,538</u> |
| | <u>37,346,657</u> | <u>1,909,525</u> | <u>(1,837,881)</u> | <u>(671,769)</u> | <u>37,206,635</u> |

20. EQUITY

As at 30 September 2013 and 31 December 2012, the Company's share capital is composed of 17,500,000 shares fully underwritten and paid-up shares of with a nominal value of 4.99 Euro per share.

On 31 December 2012 the capital was totally owned by the Portuguese State, however it was determined by the order n.º 2468/12 of 28 December SETF to transfer to Parpública the investment.

This transfer was concluded on 31 January 2013, therefore from this date Parpública become the sole shareholder.

21. RESERVES, OTHER CHANGES IN EQUITY AND RETAINED EARNINGS

Reserves

As at 30 September 2013 and 31 December 2012, the heading "Reserves" was detailed as follows:

| | 30.09.2013 | 31.12.2012 |
|----------------|-------------------|-------------------|
| Reserves | 18,072,559 | 18,072,559 |
| Other reserves | - | 10,555,949 |
| | <u>18,072,559</u> | <u>28,628,508</u> |

Legal reserves

The commercial legislation establishes that at least 5% of the annual net profit must be allocated to reinforce the legal reserve, until it represents at least 20% of the share capital. This reserve is not distributable except in the event of the liquidation of the Company, but may be used to absorb losses after 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 Euro was used for the payment of an extraordinary dividend (Note 22).

Retained earnings

During the periods ended on 30 September 2013, 31 December 2012 and 30 September 2012, the following movements were made in the heading "Retained earnings":

| | 30.09.2013 | 31.12.2012 | 30.09.2012 |
|---|-------------------|-------------------|-------------------|
| Opening balance | 87,105,292 | 88,568,765 | 88,568,765 |
| Application of net profit of the prior year | 35,735,268 | 52,424,781 | 52,424,781 |
| Distribution of dividends | (39,444,053) | (53,876,585) | (53,876,585) |
| Adjustments from the application of the equity method | - | (464,803) | (461,464) |
| Other movements | (23,148) | 453,134 | 461,467 |
| Closing balance | <u>83,373,359</u> | <u>87,105,292</u> | <u>87,116,963</u> |

Other changes in equity

The Actuarial gains/losses associated to post-employment benefits, as well as the corresponding deferred taxes, are recognised in this heading (Note 26).

Thus, for the periods ended on 30 September 2013, 31 December 2012 and 30 September 2012 the movements occurred in this heading were as follows:

| | 30.09.2013 | 31.12.2012 | 30.09.2012 |
|------------------------|-------------|-------------|------------|
| Opening balance | 33,079,577 | 15,850,935 | 15,850,935 |
| Actuarial gains/losses | (5,579,230) | 24,265,693 | 1,093,380 |
| Tax effect | 1,617,977 | (7,037,051) | (317,080) |
| Closing balance | 29,118,324 | 33,079,577 | 16,627,234 |

22. DIVIDENDS

At the General Assembly held on 30 May 2013, the Board approved the distribution of a dividend of about 2,20 Euro per share relative to 31 December 2012 and a total dividend of 38,554,129 Euro 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 Euro (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 Euro and "Retained earnings" in the amount of 889,922 Euro.

The General meeting held on 30 May 2012 approved the distribution of dividends of 53,876,585 Euro relative to 2011 net profit, which represented a dividend per share of 3.08 Euro. The payment was made to the shareholder on 30 June 2012.

23. EARNINGS PER SHARE

During the periods ended on 30 September 2013 and 30 September 2012, the earnings per share were calculated as follows:

| | 30.09.2013 | 30.09.2012 |
|-----------------------------------|------------|------------|
| Net profit for the period | 45,169,482 | 35,358,292 |
| Average number of ordinary shares | 17,500,000 | 17,500,000 |
| Earnings per share: | | |
| Basic | 2.58 | 2.02 |
| Diluted | 2.58 | 2.02 |

The basic earnings per share are calculated dividing the net profit attributable to equity holders of the parent company by the average ordinary shares.

There are no dilutive factors of earnings per share.

24. NON-CONTROLLING INTERESTS

During the periods ended on 30 September 2013 and 30 September 2012 and the year ended at 31 December 2012 the following movements occurred in non-controlling interests:

| | 30.09.2013 | 30.12.2012 | 30.09.2012 |
|---|------------------|------------------|------------------|
| Opening balance | 1,607,508 | 1,627,958 | 1,627,958 |
| Net profit for the period attributable to non-controlling interests | 81,910 | 232,002 | 175,790 |
| Distribution of dividends | (64,174) | (252,452) | (252,452) |
| Other movements | 49,408 | - | - |
| Closing balance | <u>1,674,652</u> | <u>1,607,508</u> | <u>1,551,296</u> |

As at 30 September 2013, 30 September 2012 and 31 December 2012, non-controlling interests related to the following companies:

| | 30.09.2013 | 31.12.2012 | 30.09.2012 |
|--|------------------|------------------|------------------|
| EAD - Empresa de Arquivo de Documentação, S.A. | 1,542,424 | 1,467,632 | 1,437,118 |
| Correio Expresso de Moçambique, S.A. | 132,228 | 139,876 | 114,178 |
| | <u>1,674,652</u> | <u>1,607,508</u> | <u>1,551,296</u> |

25. DEBT

As at 30 September 2013 and 31 December 2012, the debt was detailed as follows:

| | 30.09.2013 | 31.12.2012 |
|-------------------------|------------------|-------------------|
| Non-current liabilities | | |
| Bank loans | - | 45,785 |
| Leasing | 3,646,541 | 4,514,917 |
| | <u>3,646,541</u> | <u>4,560,702</u> |
| Current liabilities | | |
| Bank loans | 1,543,035 | 2,467,562 |
| Leasing | 1,278,037 | 1,310,451 |
| Other loans | 9,619 | 3,079,348 |
| | <u>2,830,691</u> | <u>6,857,361</u> |
| | <u>6,477,232</u> | <u>11,418,063</u> |

At 30 September 2013, the interest rates applied to finance leases were between 0.73% and 1.42% (31 December 2012: between 0.71% and 1.12%) and the interest rates applied to other loans were between 0.08% and 4.65% (31 December 2012: 0.81% and 5.24%).

Bank loans and other loans

As at 30 September 2013 and 31 December 2012, the details of the bank loans were as follows:

| Financing entity | 30.09.2013 | | | 31.12.2012 | | |
|---------------------------|-------------------|------------------|-------------|-------------------|------------------|---------------|
| | Limit | Amount used | | Limit | Amount used | |
| | | Current | Non-current | | Current | Non-current |
| Bank loans: | | | | | | |
| Millennium BCP (Portugal) | 5,000,000 | 1,543,035 | - | - | - | - |
| Banco Sabadell (Spain) | - | - | - | 300,000 | 231,292 | - |
| BBVA (Spain) | - | - | - | 450,000 | 182,888 | - |
| Millennium BCP (Spain) | - | - | - | 5,000,000 | 1,997,353 | - |
| BIM - (Mozambique) | 218,270 | - | - | 218,270 | 56,029 | 45,785 |
| Other loans: | | | | | | |
| Millennium BCP | 5,000,000 | 9,619 | - | 5,000,000 | 2,995,873 | - |
| Millennium BCP | 250,000 | - | - | 250,000 | 83,475 | - |
| | <u>10,668,270</u> | <u>1,552,654</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 30 September 2013 and 31 December 2012, the Group has the following assets under finance lease:

| | 30.09.2013 | | | 31.12.2012 | | |
|-----------------------------------|-------------------|--|-------------------|-------------------|--|-------------------|
| | 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 | 5,641,686 | 1,436,054 | 4,205,632 | 5,641,685 | 1,326,333 | 4,315,352 |
| Basic equipment | 1,287,126 | 683,119 | 604,007 | 1,914,855 | 1,193,080 | 721,775 |
| Transport equipment | 87,790 | 80,300 | 7,490 | 187,306 | 170,238 | 17,068 |
| | <u>16,668,497</u> | <u>3,015,463</u> | <u>13,653,034</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 30 September 2013 and 31 December 2012, Group's liabilities with financial lease contracts presented the following plan of due dates:

| | 30.09.2013 | | | 31.12.2012 | | |
|--------------------------|------------------|----------------|------------------|------------------|----------------|------------------|
| | Capital | Interest | Total | Capital | Interest | Total |
| Due within 1 year | 1,278,037 | 88,143 | 1,366,180 | 1,310,451 | 41,459 | 1,351,910 |
| Due between 1 to 5 years | 3,544,911 | 107,671 | 3,652,582 | 4,514,917 | 64,992 | 4,579,909 |
| Over 5 years | 101,630 | 15,165 | 116,795 | - | - | - |
| | <u>3,646,541</u> | <u>122,836</u> | <u>3,769,377</u> | <u>4,514,917</u> | <u>64,992</u> | <u>4,579,909</u> |
| Total | <u>4,924,578</u> | <u>210,979</u> | <u>5,135,557</u> | <u>5,825,368</u> | <u>106,451</u> | <u>5,931,819</u> |

In the period ended on 30 September 2013 and the year ended 31 December 2012, the values paid in relation to leasing interest amounted to 48,674 Euro and 106,193 Euro, 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 periods ended on 30 September 2013 and 30 September 2012, these liabilities presented the following movement:

| | 30.09.2013 | | |
|------------------------|--------------------|--------------------------|--------------------|
| | Health care | Other long term benefits | Total |
| Opening balance | 252,803,000 | 50,513,360 | 303,316,360 |
| Movement of the period | 5,564,000 | (14,366,227) | (8,802,227) |
| Closing balance | <u>258,367,000</u> | <u>36,147,133</u> | <u>294,514,133</u> |

| | 30.09.2012 | | |
|------------------------|--------------------|--------------------------|--------------------|
| | Health care | Other long term benefits | Total |
| Opening balance | 272,102,000 | 49,328,746 | 321,430,746 |
| Movement of the period | 3,390,000 | (7,852,306) | (4,462,306) |
| Closing balance | <u>275,492,000</u> | <u>41,476,440</u> | <u>316,968,440</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:

| | 30.09.2013 | 31.12.2012 |
|-------------------------|--------------------|--------------------|
| Non-current liabilities | 275,311,938 | 282,065,364 |
| Current liabilities | <u>19,202,195</u> | <u>21,250,996</u> |
| | <u>294,514,133</u> | <u>303,316,360</u> |

As at the periods ended on 30 September 2013 and 30 September 2012, the costs related to employee benefits recognised in the consolidated income statement were as follows:

| | 30.09.2013 | 30.09.2012 |
|--------------------------|--------------------|--------------------|
| Costs for the period | | |
| Health care | 10,310,250 | 13,206,000 |
| Other long term benefits | <u>(6,619,221)</u> | <u>(2,896,537)</u> |
| | <u>3,691,029</u> | <u>10,309,463</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.

As at 30 September 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:

| | 30.09.2013 | 31.12.2012 | 31.12.2011 |
|-------------------------------|--|--|-------------------|
| 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 \square GDP < 2%) | Law no. 53-B/2006 (with \square 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% in 2013 and 2014 2% from that date | 0% in 2013 and 2014 2% from that date | 3.00% |
| Demographic assumptions | | | |
| Mortality table | TV 88/90 | TV 88/90 | TV 88/90 |
| Disability table | Swiss RE | 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:

| | 30.09.2013 | 31.12.2012 | 31.12.2011 | 31.12.2010 | 31.12.2009 |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Liabilities at the end of the period | 258,367,000 | 252,803,000 | 272,102,000 | 272,123,000 | 299,454,000 |

For the periods ended on 30 September 2013 and 30 September 2012, the movement which occurred in the present value of the defined benefits liability regarding the health care plan was as follows:

| | 30.09.2013 | 30.09.2012 |
|-----------------------------|--------------|--------------|
| Opening balance | 252,803,000 | 272,102,000 |
| Service costs of the period | 2,911,500 | 3,247,500 |
| Interest cost of the period | 7,398,750 | 9,958,500 |
| Pensioners contributions | 2,556,921 | 2,557,852 |
| (Payment of benefits) | (12,045,852) | (10,478,723) |
| (Other costs) | (836,549) | (801,750) |
| Actuarial (gains)/losses | 5,579,230 | (1,093,380) |
| Closing balance | 258,367,000 | 275,492,000 |

During the periods ended on 30 September 2013 and 30 September 2012, the total costs for the period are recognised as follows:

| | 30.09.2013 | 30.09.2012 |
|---|-------------------|-------------------|
| Staff costs/employee benefits (Note 36) | 2,911,500 | 3,247,500 |
| Interest expenses (Note 40) | 7,398,750 | 9,958,500 |
| | <u>10,310,250</u> | <u>13,206,000</u> |

The actuarial gains / (losses) amounting to 5,579,230 Euro (1,093,380 Euro as at 30 September 2012) were recognised in the equity under the caption “Retained earnings”, net of deferred taxes amounting to 1,616,977 Euro (317,080 Euro as at 30 September 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 the remaining variables constant, the liabilities of the health care plan would be 302,203 thousand Euro, increasing by approximately 17%.

(ii) If the discount rate was reduced 0.5 per cent and keeping all the remaining variables constant, the liabilities would increase by approximately 6.5%, amounting to 275,062 thousand Euro.

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 will be 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 30 September 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:

| | 30.09.2013 | 31.12.2012 | 31.12.2011 |
|-------------------------|--|--|-------------------|
| Financial assumptions | | | |
| Discount rate | 4.00% | 4.00% | 5.00% |
| 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 (with \square GDP < 2%) | Law no. 53-B/2006 (with \square GDP < 2%) | Law no. 53-B/2006 |
| Inflation rate | 2.00% | 2.00% | 2.00% |
| 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 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" for which no value update was considered.

For the periods ended on 30 September 2013 and 30 September 2012, the movement of liabilities with other employee long-term benefits was as follows:

| | 30.09.2013 | 30.09.2012 |
|---|-------------|-------------|
| Suspension of contracts, redeployment and release of employment | | |
| Opening balance | 24,084,448 | 17,010,161 |
| Interest cost of the period | 624,776 | 555,833 |
| Liabilities relative to new beneficiaries | 1,434,377 | 1,987,929 |
| (Payment of benefits) | (5,477,150) | (3,144,863) |
| Actuarial (gains)/losses | (410,043) | (377,742) |
| Closing balance | 20,256,408 | 16,031,318 |
| Telephone subscription charge | | |
| Opening balance | 14,242,125 | 14,296,771 |
| Interest cost of the period | 405,277 | 507,452 |
| Curtailment | (8,211,129) | - |
| (Payment of benefits) | (1,091,004) | (1,139,293) |
| Actuarial (gains)/losses | (237,218) | (7,803) |
| Closing balance | 5,108,051 | 13,657,127 |
| Pension for accidents at work | | |
| Opening balance | 7,563,939 | 7,166,624 |
| Interest cost of the period | 220,461 | 260,726 |
| (Payment of benefits) | (304,262) | (305,922) |
| Actuarial (gains)/losses | (430,809) | (14,968) |
| Closing balance | 7,049,329 | 7,106,460 |
| Monthly life annuity | | |
| Opening balance | 3,691,640 | 3,047,431 |
| Interest cost of the period | 109,127 | 112,304 |
| (Payment of benefits) | (78,482) | (86,209) |
| Actuarial (gains)/losses | (184,239) | 7,225 |
| Closing balance | 3,538,046 | 3,080,751 |
| Support for cessation of professional activity | | |
| Opening balance | 931,208 | 7,807,759 |
| Service costs of in the period | - | 258,883 |
| Interest cost of the period | 13,968 | 288,023 |
| Curtailment | - | (6,563,175) |
| (Payment of benefits) | (796,108) | (279,482) |
| Actuarial (gains)/losses | 46,231 | 88,776 |
| | 195,299 | 1,600,784 |
| Total closing balances | 36,147,133 | 41,476,440 |

During the periods ended on 30 September 2013 and 30 September 2012, the total costs for the period were recognised as follows:

| | 30.09.2013 | 30.09.2012 |
|---|-------------|-------------|
| Staff costs/employee benefits (Note 36) | | |
| Suspension of contracts, redeployment and release of employment | 1,024,334 | 1,610,187 |
| Telephone subscription charge | (8,448,347) | (7,803) |
| Pension for accidents at work | (430,809) | (14,968) |
| Monthly life annuity | (184,239) | 7,225 |
| Support for cessation of professional activity | 46,231 | (6,215,516) |
| Subtotal | (7,992,830) | (4,620,875) |
| Interest expenses (Note 40) | 1,373,609 | 1,724,339 |
| | (6,619,221) | (2,896,537) |

The decrease in the telephone subscription liability is mainly due to the decision taken by CTT in 2013, to reformulate the form of payment of this benefit.

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 Euro.

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

For the periods ended on 30 September 2013 and 30 September 2012, in order to face legal proceedings and other liabilities arising from past events, the Group recognised provisions, which showed the following movement:

| 30.09.2013 | | | | | |
|-------------------------------------|--------------------|-------------------|--------------------|-------------------------|--------------------|
| | Opening balance | Increases | Reversals | Reduction /Transfers | Closing balance |
| Non-current provisions | | | | | |
| Litigations | 9,268,429 | 2,676,930 | (2,350,865) | 1,461,269 | 11,055,763 |
| Investments in associated companies | 220,816 | - | - | - | 220,816 |
| Onerous contracts | 13,212,379 | 525,870 | - | (1,809,753) | 11,928,496 |
| Other provisions | 13,894,565 | 3,962,967 | (61,327) | (2,561,097) | 15,235,108 |
| | <u>36,596,189</u> | <u>7,165,767</u> | <u>(2,412,192)</u> | <u>(2,909,581)</u> | <u>38,440,183</u> |
| 30.09.2012 | | | | | |
| | Opening balance | Increases | Reversals | Reduction /Transfers | Closing balance |
| Non-current provisions | | | | | |
| Litigations | 8,504,958 | 943,774 | - | - | 9,448,732 |
| Investments in associated companies | 222,205 | - | - | (297) | 221,908 |
| Onerous contracts | 5,480,419 | - | - | - | 5,480,419 |
| Other provisions | 2,268,160 | 11,355,608 | (3,840) | (515,768) | 13,104,160 |
| | <u>16,475,742</u> | <u>12,299,382</u> | <u>(3,840)</u> | <u>(516,065)</u> | <u>28,255,219</u> |

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.

In 30 September 2013 the Group increased the “Other provisions” in 3,9 million Euro, 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 period ended 30 September 2013 the provision to cover the estimated of the net present value of the expenditure associated with onerous contracts was increased by 525,870 Euro. 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;
- 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;
- A provision was created in 2011 for the 3 leased vacant properties with the assumption that CTT could terminate the leases under conditions similar to those negotiated for the property located in Praça. D. Luís; and
- In 2012, due to unexpected unfavourable market conditions, CTT had to review the previous expectations on lease contracts termination timing and conditions.

As at 30 September 2013 and 31 December 2012 the provisioned amount for contracts is 11,928,496 and 13,212,379 Euro, respectively.

As at 30 September 2013, in addition to the previously mentioned situation, this heading also included:

- the amount of 263,791 Euro for coverage of costs of dismantlement of tangible fixed assets and/or removal of facilities and restoration of the location; and
- the amount of 1,390,000 Euro, 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 4,753,575 Euro and 12,295,540 Euro as at 30 September 2013 and 2012, respectively.

Guarantees provided

As at 30 September 2013 and 31 December 2012 the Group had provided bank guarantees to third parties to the amounts as follows:

| Description | 30.09.2013 | 31.12.2012 |
|---|------------------|------------------|
| Courts | 982,523 | 1,030,991 |
| Lisboagás, S.A. | 190,000 | 190,000 |
| Municipal Councils | 140,424 | 140,423 |
| Authority for Working Conditions (ACT) | 45,733 | 146,210 |
| Sofinsa | 91,618 | 91,618 |
| Solred | 80,000 | 80,000 |
| Parc Logistics Zona Franca | 77,969 | 77,969 |
| Porto Customs | 74,820 | 74,820 |
| General Secretariat of MAI | 48,000 | 48,000 |
| National Road Safety Authority | - | 43,223 |
| PT PRO - Serv. Adm Gestão Part., S.A. | 50,000 | 50,000 |
| Regional Office of Administrative Litigation Lisbon | 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, E.P. | 29,000 | 29,000 |
| Santa Casa da Misericórdia de Lisboa | 86,917 | 86,917 |
| TIP - Transportes Intermodais do Porto, ACE | 50,000 | 50,000 |
| Ministry of Education | 38,700 | 38,700 |
| EPAL - Empresa Portuguesa de Águas Livres | 21,433 | 21,433 |
| Nature Import | 18,096 | 18,096 |
| Albert Vilella | 16,800 | 16,800 |
| Portugal Telecom, S.A. | 16,657 | 16,657 |
| Services of the Ministry Health | 16,091 | - |
| General Secretariat of the Ministry of Internal Affairs | 14,000 | 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 |
| Institute of employment and professional training | 3,718 | 3,718 |
| Controlplan, S.L | 3,400 | 3,400 |
| Government of Extremadura | - | 1,335 |
| Immobiliaria E derkin | 7,800 | 7,800 |
| Motorway Infrastructures Institute | 3,725 | 3,725 |
| Estradas de Portugal, EP | 5,000 | 5,000 |
| ARM - Águas e Resíduos da Madeira , S.A. | 4,752 | - |
| REN Serviços, S.A. | 9,818 | 9,818 |
| EMEL, S.A | 19,384 | 19,384 |
| IFADAP | 1,746 | 1,746 |
| Martinez Estevez | 3,000 | 3,000 |
| Jose Luis Sanz Gomez | - | 5,400 |
| Gexploma | 3,000 | 3,000 |
| Consejeria Salud | 2,318 | 6,433 |
| Universidad Sevilla | 4,237 | 4,237 |
| Fonavi, Nave Hospitalet | 40,477 | - |
| Other entities | 14,712 | 4,597 |
| | <u>2,371,911</u> | <u>2,503,494</u> |

Guarantees for Contracts

According to the determinations in the lease contracts of the properties in Praça dos Restauradores, Rua do Conde Redondo, and Av. Casal Ribeiro, in the event that the Portuguese State loses the majority of the share capital of CTT- Correios de Portugal, S.A., bank guarantees on first demand must be provided, for the amount corresponding to 24 months of rent, which is in effect at the date of request.

Additionally, there is also another group of 6 buildings whose leasing contracts contain requirements similar to the ones described previously, hence, in the event that the Portuguese State loses the majority of the share capital of CTT- Correios de Portugal, S.A., bank guarantees must also be provided, for the amount corresponding to 24 months of the rent in effect at the date of request, except for the leasing contract of Building CTT, with a guarantee of 6 months of the rent in effect at the date of request.

Contingent liabilities

As at 30 September 2013 and 31 December 2012 the Group does not have contingent liabilities.

Commitments

As at 30 September 2013 and 31 December 2012 the Group has subscribed promissory notes amounting to approximately 749 thousand Euro and 1,012 thousand Euro, respectively, for various rental companies intended to secure complete and timely compliance with the corresponding lease contracts.

28. ACCOUNTS PAYABLE

As at 30 September 2013 and 31 December 2012, the heading “Accounts payable” showed the following composition:

| | 30.09.2013 | 31.12.2012 |
|--|--------------------|--------------------|
| Advances from customers | 2,862,322 | 3,079,145 |
| CNP money orders | 202,940,256 | 186,169,916 |
| Suppliers c/a | 59,113,150 | 75,722,601 |
| Invoices pending confirmation | 6,852,259 | 2,350,705 |
| Fixed assets suppliers | 948,060 | 2,220,531 |
| Invoices pending confirmation (fixed assets) | 330,094 | 49,274 |
| Rent of Concessions | 5,184 | 1,101,323 |
| Values collected on behalf of third parties | 5,150,387 | 3,566,227 |
| Postal financial services | 190,503,026 | 72,417,788 |
| Other accounts payable | 2,907,305 | 2,537,648 |
| | <u>471,612,043</u> | <u>349,215,159</u> |

CNP money orders

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

Postal financial services

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 30 September 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:

| | 30.09.2013 | 31.12.2012 |
|------------------------|-------------------|-------------------|
| Suppliers c/a | | |
| Not due | 16,220,178 | 27,128,387 |
| 0-30 days | 7,553,750 | 3,585,391 |
| 30-90 days | 2,412,096 | 5,918,453 |
| 90-180 days | 3,627,723 | 2,959,006 |
| 180-360 days | 5,812,362 | 7,591,006 |
| > 360 days | 23,487,041 | 28,540,358 |
| | <u>59,113,150</u> | <u>75,722,601</u> |
| | 30.09.2013 | 31.12.2012 |
| Fixed assets suppliers | | |
| Not due | 817,070 | 1,555,840 |
| 0-30 days | 4,176 | 277,472 |
| 30-90 days | 42,710 | 177,096 |
| 90-180 days | 1,619 | 8,240 |
| 180-360 days | 12,425 | 129,148 |
| > 360 days | 70,060 | 72,735 |
| | <u>948,060</u> | <u>2,220,531</u> |

The current amount of Accounts payable overdue over 360 days is as follows:

| | 30.09.2013 | 31.12.2012 |
|---------------------------------|---------------------|---------------------|
| National account payable | 46,871 | 2,269,360 |
| Foreign operators | 23,440,170 | 26,270,998 |
| Total | <u>23,487,041</u> | <u>28,540,358</u> |
| Foreign operators - receivables | <u>(22,929,392)</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 30 September 2013 and 31 December 2012 the heading “Income taxes payable” showed the following composition:

| | 30.09.2013 | 31.12.2012 |
|----------------------|------------------|----------------|
| Current liabilities | | |
| Corporate income tax | 2,666,850 | 862,444 |
| | <u>2,666,850</u> | <u>862,444</u> |

30. OTHER CURRENT LIABILITIES

As at the period ended on 30 September 2013 and the year ended 31 December 2012, the heading “Other current liabilities” showed the following composition:

| | 30.09.2013 | 31.12.2012 |
|--|-------------------|-------------------|
| Current | | |
| Estimated holiday salary and holiday bonus | 47,905,698 | 41,749,350 |
| Estimated supplies and external services | 9,673,811 | 10,220,456 |
| State and other public entities | | |
| Value added tax | 2,960,540 | 3,002,406 |
| Personal income tax with holdings | 3,171,599 | 2,356,632 |
| Social Security contributions | 5,131,480 | 4,808,195 |
| Caixa Geral de Aposentações | 859,710 | 794,990 |
| Local Authority taxes | 714,785 | 638,169 |
| Other taxes | 75 | - |
| Other | 4,110,056 | 3,288,859 |
| | <u>74,527,754</u> | <u>66,859,057</u> |

31. FINANCIAL ASSETS AND LIABILITIES

As at 30 September 2013 and 31 December 2012, the categories of financial assets and liabilities were as follows:

| | 30.09.2013 | | | | |
|-------------------------------------|-----------------------|-------------------------------------|-----------------------------|----------------------------------|--------------------|
| | Loans and receivables | Available-for-sale financial assets | Other financial liabilities | Non-financial assets/liabilities | Total |
| Assets | | | | | |
| Available-for-sale financial assets | - | 130,829 | - | - | 130,829 |
| Other non-current assets | 1,850,300 | - | - | - | 1,850,300 |
| Accounts receivable | 135,606,279 | - | - | - | 135,606,279 |
| Other current assets | 17,333,037 | - | - | 6,230,640 | 23,563,677 |
| Cash and cash equivalents | 610,082,046 | - | - | - | 610,082,046 |
| Total Assets | 764,871,662 | 130,829 | - | 6,230,640 | 771,233,131 |
| Liabilities | | | | | |
| Medium and long term debt | - | - | 3,646,541 | - | 3,646,541 |
| Accounts payable | - | - | 448,097,748 | 23,514,296 | 471,612,043 |
| Short term debt | - | - | 2,830,691 | - | 2,830,691 |
| Other current liabilities | - | - | 13,783,867 | 60,743,887 | 74,527,754 |
| Total Liabilities | - | - | 468,358,847 | 84,258,182 | 552,617,029 |

| | 31.12.2012 | | | | |
|-------------------------------------|-----------------------|-------------------------------------|-----------------------------|----------------------------------|--------------------|
| | Loans and receivables | Available-for-sale financial assets | Other financial liabilities | Non-financial assets/liabilities | Total |
| Assets | | | | | |
| Available-for-sale financial assets | - | 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 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 |
| Other current liabilities | - | - | 13,509,315 | 53,349,742 | 66,859,057 |
| Total 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 period ended on 30 September 2013 and the year ended at 31 December 2012, the information regarding European Union subsidies or grants (Note 2.21) was as follows:

| Subsidy | 30.09.2013 | | | | | 31.12.2012 | | | | |
|---------|------------------|------------------|----------------------|--------------------|------------------|------------------|------------------|----------------------|--------------------|------------------|
| | 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 | 9,436,773 | 378,849 | 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>9,436,773</u> | <u>378,849</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 periods ended on 30 September 2013 and 30 September 2012, the composition of the heading "Other operating income" was as follows:

| | 30.09.2013 | 30.09.2012 |
|--|-------------------|------------------|
| Own work capitalised | 237,358 | 423,142 |
| Amortisation of investments subsidies | 5,250 | 5,250 |
| Supplementary revenues | 2,501,067 | 3,456,137 |
| Prompt-payment discounts obtained | 120,822 | 158,136 |
| Gains in inventories | 8,964 | 24,416 |
| Favourable exchange rate differences of assets and liabilities different from financing | 2,239,546 | 1,043,620 |
| Income from financial investments | 389,403 | - |
| Income from non-financial investments | 1,794,715 | 494,336 |
| Interests income and expenses - financial services | 2,197,608 | 1,649,259 |
| Other | 738,033 | 1,819,720 |
| | <u>10,232,767</u> | <u>9,074,016</u> |

34. EXTERNAL SUPPLIES AND SERVICES

For the periods ended on 30 September 2013 and 30 September 2012, the composition of the heading "External supplies and services" was as follows:

| | 30.09.2013 | 30.09.2012 |
|----------------------------------|--------------------|--------------------|
| Transportation of goods | 48,742,103 | 49,945,369 |
| Specialised services | 42,839,873 | 45,350,988 |
| Rents | 27,494,095 | 28,894,106 |
| Energy and liquids | 11,866,279 | 11,954,533 |
| Remuneration to postal operators | 11,465,911 | 12,346,692 |
| Other services | 10,341,100 | 10,582,092 |
| Communication | 4,617,769 | 5,096,457 |
| Agencing | 4,462,365 | 5,383,736 |
| Subcontracts | 4,150,197 | 3,723,304 |
| Cleaning, hygiene and comfort | 3,233,950 | 3,274,275 |
| Remuneration to postal Agencies | 3,181,892 | 3,146,245 |
| Insurance | 2,018,846 | 2,026,111 |
| Materials | 1,201,963 | 1,113,509 |
| Litigation and notary | 238,737 | 146,362 |
| Staff transportation | 202,877 | 206,402 |
| Royalties | 161,576 | 225,247 |
| | <u>176,219,532</u> | <u>183,415,429</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.

35. OPERATING LEASES

As at the periods ended on 30 September 2013 and 30 September 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:

| | 30.09.2013 | 30.09.2012 |
|--------------------------|-------------------|-------------------|
| Due within 1 year | 7,689,704 | 10,050,635 |
| Due between 1 to 5 years | 4,647,741 | 8,289,507 |
| Over 5 years | - | - |
| | <u>12,337,445</u> | <u>18,340,142</u> |

During the periods ended on 30 September 2013 and 30 September 2012, the costs incurred with operating lease contracts of 5,460,935 Euro and 5,455,571 Euro, 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 periods ended on 30 September 2013 and 30 September 2012, the composition of the heading "Staff Costs" was as follows:

| | 30.09.2013 | 30.09.2012 |
|---|--------------------|--------------------|
| Board of Directors and Audit Board remuneration (Note 42) | 957,994 | 519,803 |
| Staff remuneration | 183,873,440 | 192,278,472 |
| Employee benefits | (5,917,879) | (2,175,126) |
| Indemnities | 1,374,647 | 1,818,931 |
| Social security charges | 40,842,333 | 40,129,951 |
| Occupational accident and disease insurance | 1,308,728 | 1,453,102 |
| Social welfare costs | 9,083,196 | 8,827,212 |
| Other staff costs | 84,110 | 253,690 |
| | <u>231,606,569</u> | <u>243,106,035</u> |

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.

For the periods ended on 30 September 2013 and 30 September 2012, the average number of staff of the Group was 13,030 and 13,870 employees, respectively.

Remuneration of the statutory bodies

As at the periods ended on 30 September 2013 and 30 September 2012, the fixed and variable remunerations attributed to the members of the Statutory bodies of the different companies of the Group were as follows:

| | | 30.09.2013 | | | |
|-----------------------|--|-----------------------|---|------------------------------------|-----------------------|
| | | Board of Directors | Audit Board /Chartered Accountant | General Meeting of Shareholders | Executive officers |
| Fixed remuneration | | 804,769 | 153,225 | - | 2,461,880 |
| Variable remuneration | | - | - | - | - |
| | | <u>804,769</u> | <u>153,225</u> | <u>-</u> | <u>2,461,880</u> |
| | | | | | <u>3,419,874</u> |
| | | 30.09.2012 | | | |
| | | Board of Directors | Audit Board /Chartered Accountant | General Meeting of Shareholders | Executive officers |
| Fixed remuneration | | 409,184 | 110,619 | - | 2,794,581 |
| Variable remuneration | | - | - | - | - |
| | | <u>409,184</u> | <u>110,619</u> | <u>-</u> | <u>2,794,581</u> |
| | | | | | <u>3,314,384</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 periods ended on 30 September 2013 and 30 September 2012, the detail of “Impairment of inventories and accounts receivable, net” was as follows:

| | 30.09.2013 | 30.09.2012 |
|-------------------------------------|------------------|------------------|
| Impairment losses | | |
| Customers (Note 14) | 1,629,092 | 509,812 |
| Other accounts receivable (Note 18) | 751,366 | 1,386,891 |
| Inventories (Note 13) | 239,194 | 12,822 |
| | <u>2,619,652</u> | <u>1,909,525</u> |
| Reversals of impairment losses | | |
| Customers (Note 14) | 283,935 | 393,698 |
| Other accounts receivable (Note 18) | 267,799 | 1,411,022 |
| INESC loan (Note 18) | 45,595 | 33,160 |
| Inventories (Note 13) | 92,491 | - |
| | <u>689,820</u> | <u>1,837,881</u> |
| Net movement of the period | <u>1,929,832</u> | <u>71,644</u> |

38. DEPRECIATION/ AMORTISATION (LOSSES/REVERSALS)

For the periods ended on 30 September 2013 and 30 September 2012, the detail of “Depreciations/ amortisation and impairment losses, net” was as follows:

| | 30.09.2013 | 30.09.2012 |
|------------------------------|-------------------|-------------------|
| Tangible fixed assets | | |
| Depreciation (Note 5) | 14,365,263 | 14,677,315 |
| Intangible assets | | |
| Amortisation (Note 6) | 3,442,166 | 2,790,009 |
| Investment properties | | |
| Depreciation (Note 7) | 682,800 | 985 |
| Impairment losses (Note 7) | 1,031,267 | - |
| | <u>19,521,496</u> | <u>17,468,309</u> |

39. OTHER OPERATING COSTS

For the periods ended on 30 September 2013 and 30 September 2012, the breakdown of the heading “Other operating costs” was as follows:

| | 30.09.2013 | 30.09.2012 |
|---|------------------|------------------|
| Taxes | 647,408 | 821,160 |
| Bad debts | 73,505 | 617,998 |
| Losses in inventories | 3,183 | 74,818 |
| Cost and losses from non-financial investments | 341,911 | 9,197 |
| Concession rent | 168,373 | 961,741 |
| Unfavourable exchange rate differences of assets and liabilities different from financing | 2,401,594 | 981,289 |
| Donations | 517,133 | 751,603 |
| Banking services | 720,776 | 792,575 |
| Default interest | 498,174 | 281,209 |
| Subscriptions | 622,926 | 604,347 |
| Contractual penalties | 670,954 | 190,452 |
| Other costs | 773,878 | 644,859 |
| | <u>7,439,814</u> | <u>6,731,248</u> |

40. INTEREST EXPENSES AND INTEREST INCOME

For the periods ended on 30 September 2013 and 30 September 2012, the heading “Interest Expenses” had the following detail:

| | <u>30.09.2013</u> | <u>30.09.2012</u> |
|---|-------------------|-------------------|
| Interest expenses | | |
| Bank loans | 126,143 | 338,853 |
| Other interest | 48,653 | 105,716 |
| Unfavourable exchange rate differences of financing liabilities | 1,623 | - |
| Interest costs from employee benefits | 8,772,359 | 11,682,839 |
| Other interest costs | <u>2,809</u> | <u>592</u> |
| | <u>8,951,587</u> | <u>12,127,999</u> |

During the periods ended on 30 September 2013 and 30 September 2012, the heading “Interest income” was detailed as follows:

| | <u>30.09.2013</u> | <u>30.09.2012</u> |
|---------------------------------|-------------------|-------------------|
| Interest income | | |
| Deposits in credit institutions | 6,643,560 | 9,390,949 |
| Other supplementary income | <u>97,554</u> | <u>218,587</u> |
| | <u>6,741,114</u> | <u>9,609,536</u> |

41. INCOME TAX FOR THE PERIOD

Companies with head office in Portugal are subject to tax on their profit through Corporate Income Tax (“IRC”) at the normal tax rate of 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 Euro and 5% of taxable profit above 10,000,000 Euro. 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 periods ended on 30 September 2013 and 30 September 2012, the reconciliation between the nominal rate and the effective income tax rate was conducted as follows:

| | 30.09.2013 | 30.09.2012 |
|--|-------------------|-------------------|
| Earnings before taxes | 64,859,035 | 50,644,597 |
| Nominal tax rate | 25.0% | 25.0% |
| | 16,214,759 | 12,661,149 |
| Tax Benefits | (269,184) | (284,751) |
| Accounting capital gains | (76,766) | (52,683) |
| Tax capital gains | 38,383 | 26,341 |
| Equity method | (5,127) | (54,009) |
| Provisions not considered in the calculation of deferred tax | 46,765 | 1,799 |
| Impairment losses and reversals | 110,560 | (13,979) |
| Other situations, net | 392,302 | (925,233) |
| Adjustments related with - autonomous taxation | 523,667 | 490,266 |
| Adjustments related with - Municipal Surcharge | 784,345 | 1,049,806 |
| Adjustments related with - State Surcharge | 1,964,199 | 2,728,461 |
| Excess estimated income tax | (116,261) | (516,652) |
| Income taxes for the period | 19,607,642 | 15,110,515 |
| Effective tax rate | 30.23% | 29.84% |
| Income taxes for the period | | |
| Current tax | 15,910,768 | 18,066,937 |
| Deferred tax | 3,813,135 | (2,439,770) |
| Excess estimated income tax | (116,261) | (516,652) |
| | 19,607,642 | 15,110,515 |

As at 30 September 2012, the heading “Excess estimated income tax” includes the amount of 439,432 Euro relative to the deferral of the claim regarding Corporate Income Tax 2008.

Deferred taxes

As at the periods ended on 30 September 2013 and 31 December 2012, the balance of deferred tax assets and liabilities was composed as follows:

| | 30.09.2013 | 31.12.2012 |
|--|-------------------|--------------------|
| Deferred tax assets | | |
| Employee benefits - health care | 74,926,430 | 73,312,870 |
| Employee benefits - other long term benefits | 10,626,447 | 14,789,263 |
| Deferred accounting capital gains | 3,339,492 | 3,897,266 |
| Impairment losses and provisions | 8,871,070 | 8,549,846 |
| Conversion adjustments - derecognition of inventories | 96,295 | 157,216 |
| Conversion adjustments - value deducted from staff debts | 23,128 | 37,761 |
| Tax losses carried forward | 1,410,597 | 1,335,932 |
| Impairment losses in tangible fixed assets | 424,177 | 145,613 |
| Other | 57,611 | 2,770 |
| | <u>99,775,247</u> | <u>102,228,537</u> |
| Deferred tax liabilities | | |
| Revaluation of tangible fixed assets before IFRS | 4,318,608 | 4,529,436 |
| Suspended capital gains | 1,049,218 | 1,096,522 |
| Other | 114,275 | 114,275 |
| | <u>5,482,101</u> | <u>5,740,233</u> |

As at 30 September 2013, expected deferred tax assets and liabilities to be settled within 12 months amounts to 3.927.788 Euro and 344.176 Euro, respectively.

During the periods ended on 30 September 2013, 30 September 2012 and 31 December 2012, the movements which occurred under the deferred tax headings were as follows:

| | 30.09.2013 | 31.12.2012 | 30.09.2012 |
|--|-------------------|--------------------|--------------------|
| Deferred tax assets | | | |
| Opening balances | 102,228,537 | 102,467,758 | 102,467,758 |
| Effect on net profit | | | |
| Employee benefits - health care | (11,422) | 1,440,341 | 1,300,180 |
| Employee benefits - other long term benefits | (4,155,811) | 371,714 | (2,298,482) |
| Deferred accounting gains | (557,774) | (743,699) | (557,774) |
| Impairment losses and provisions | 113,965 | 4,831,056 | 3,318,898 |
| Impairment losses in tangible fixed assets | 278,565 | 145,613 | - |
| Derecognition of inventories | (60,921) | (81,228) | (10,153) |
| Value deducted from debts | (14,633) | (19,510) | (14,493) |
| Tax losses carried forward | 336,764 | 853,543 | 436,655 |
| Effect on equity | | | |
| Employee benefits - health care | 1,617,977 | (7,037,051) | (317,080) |
| Closing balance | <u>99,775,247</u> | <u>102,228,537</u> | <u>104,325,508</u> |

| | 30.09.2013 | 31.12.2012 | 30.09.2012 |
|--|------------|------------|------------|
| Deferred tax liabilities | | | |
| Opening balances | 5,740,233 | 6,165,433 | 6,165,432 |
| Effect on net profit | | | |
| Revaluation of tangible fixed asset before IFRS adoption | (210,828) | (282,320) | (238,927) |
| Suspended capital gains | (47,304) | (59,408) | (26,013) |
| Other | - | (83,472) | - |
| Closing balance | 5,482,101 | 5,740,233 | 5,900,492 |

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, which may be carried forward in the next 18 years.

SIFIDE

During the periods of 2006 and 2008, the Group paid research and development (“R&D”) costs, eligible for inclusion in the Tax Incentive System for Corporate Research and Development (SIFIDE), foreseen in Law no. 40/2005, 3 August, amounting to approximately 20,394,000 Euro.

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 will have the possibility of benefiting from a tax deduction estimated to be 2,553,349 Euro, pending confirmation from the Certification Commission.

Regarding the expenses incurred with R&D during 2012, approximately amounting to 97,792 Euro, the Group will have the possibility of benefiting from a tax deduction estimated on 8,913 Euro.

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 30 September 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 periods ended on 30 September 2013 and 30 September 2012, the following transactions took place and the following balances existed with related parties:

| | 30.09.2013 | | | | |
|------------------------------------|---------------------|------------------|----------------|-------------------|------------------|
| | Accounts receivable | Accounts payable | Revenues | Dividends | Costs |
| Ministry of Finance (a) | - | - | - | 50,000,000 | - |
| Other shareholders Group companies | | | | | |
| Associated companies | 2,915 | 51,142 | 14,911 | - | 53,789 |
| Jointly controlled | 38,377 | 15,043 | 179,476 | - | 145,425 |
| Members of the | | | | | |
| Board of Directors | - | - | - | - | 803,509 |
| General Meeting of Shareholders | - | - | - | - | 1,260 |
| Audit Board | - | - | - | - | 153,225 |
| Executive officers | - | - | - | - | 2,461,880 |
| | <u>41,292</u> | <u>66,185</u> | <u>194,387</u> | <u>50,000,000</u> | <u>3,619,088</u> |
| | 31.12.2012 | | 30.09.2012 | | |
| | Accounts receivable | Accounts payable | Revenues | Dividends | Costs |
| Ministry of Finance (a) | - | - | - | 53,876,585 | - |
| Other shareholders Group companies | | | | | |
| Associated companies | 2,894 | 34,198 | 16,996 | - | 74,323 |
| Jointly controlled | 40,654 | 14,920 | 182,807 | - | 132,830 |
| Members of the | | | | | |
| Board of Directors | - | - | - | - | 409,184 |
| General Meeting of Shareholders | - | - | - | - | - |
| Audit Board | - | - | - | - | 110,619 |
| Executive officers | - | - | - | - | 2,794,581 |
| | <u>43,548</u> | <u>49,118</u> | <u>199,803</u> | <u>53,876,585</u> | <u>3,521,538</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 its related entities.
- 2- CTT collects 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 employees'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 periods ended on 30 September 2013 and 30 September 2012, the fees and services provided by the Group's external auditors were as follows:

| | 30.09.2013 | 30.09.2012 |
|------------------------------------|----------------|----------------|
| Parent Company | | |
| Statutory accounts review services | 53,343 | 60,961 |
| External audit services | 185,900 | 51,206 |
| | <u>239,243</u> | <u>112,167</u> |
| Subsidiary companies | | |
| Statutory accounts review services | 34,901 | 52,469 |
| External audit services | 20,400 | 12,627 |
| | <u>55,301</u> | <u>65,096</u> |
| | <u>294,544</u> | <u>177,263</u> |

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 will imply 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 centers and neighbourhood supermarkets.

CITIZEN STORES

CTT signed an agreement with the Government to set up Citizen Stores in the retail network, with a pilot project to start on December 1 in the metropolitan area of Lisbon, and is set to extend to all branches of the CTT in 2014. The Government intends to create 1,000 Citizen stores, and 625 will be in the CTT retail network.

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 Euro 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.

SNCTCT

In 17 September 2012, CTT was summoned in a court case brought to the Labour Court of Lisbon by SNCTCT (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.

CONCESSION AGREEMENT

Law no. 17/2012, 26 April, transposed to the internal legal system, Directive no. 2008/6/EC, of the European Parliament and Council, of 20 February 2008 (also called 3rd Postal Directive), establishing the legal regime applicable to the provision of postal services, in full competition, on national territory, and in the provision of international services with origin or destination on national territory. In the chapter regarding the final and temporary provisions of this Law, it is stated that CTT - Correios de Portugal, SA (CTT) is the provider of the Universal Postal Service until 31 December 2020.

The concession contract of Universal Postal Service signed between the Portuguese State and CTT on 1 September 2000 established a period of enforcement of 30 years, i.e., until 1 September 2030.

In the past 3 October the Council of Ministers approved changes to the Postal Law (Law n.º 17/2012 of 26 April) and concession contract, not yet promulgated by the President. The company believes that the current accounting practices remained valid in this framework.

Shareholder

Order 2468/12 – SETF, 28 December determines the transfer of the investment owned by the Portuguese State in CTT to Parpública. This transfer took effect on 31 January 2013, and from this date Parpública is the sole shareholder.

Under the court case that took place in the 2ª 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, annulled the request for civil indemnities that CTT 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 court fees to be charged to CTT – Correios de Portugal, which should be between 207,570 Euro and 311,355 Euro, will be determined by the Judges in accordance with their view of the complexity of the process. The estimates cost amounting has been fully provided.

However, the Group informed its shareholders of this decision, if they want to give different instruction.

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 process is currently under analysis by the Central Bank and so far there

hasn't been any formal response. The proposal foresees the creation of a postal bank supported by the current branches network and with a low level of investment.

Privatization Process

On the 25th July 2013 the Council of Ministers approved the privatization process of CTT Correios de Portugal, S.A., through the sale of shares representing up to 100% of the respective share capital.

The decision states the approval of the sale of the share capital of CTT through a direct sale to one or more institutional investors or through an Initial Public Offer, which can be combined with a direct sale. One or more financial institutions will be mandated to disperse these shares through national or foreign investors offering. Additionally, it was decided that up to 5% of CTT's share capital shall be sold to CTT and other Group companies' employees.

The Council of Minister held on 10th October 2013 approved the conditions of the Initial Public Offer and the contractual provisions of the direct sale to institutional investors, as well as the special acquisition conditions that benefit CTT – Correios de Portugal, S.A. and other subsidiaries and Group companies' employees. Thus, Parpública was authorized to sell a number of shares that represent up to 70% of the share capital of CTT, S.A., through the following procedures: Initial Public Offer (IPO) in the national market; direct sale to a number of financial institutions, which will be mandated to subsequently sell the shares in the stock market. From the shares allotment allocated to the IPO, up to 5% of the share capital will be set aside for the direct sale to CTT's employees. The sale price of these reserved shares will benefit of a 5% discount to the IPO sale price that will be fixed in the Council of Ministers.

45. SUBSEQUENT EVENTS

Health Care

The State Budget for 2014, on October 15th, consider 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.