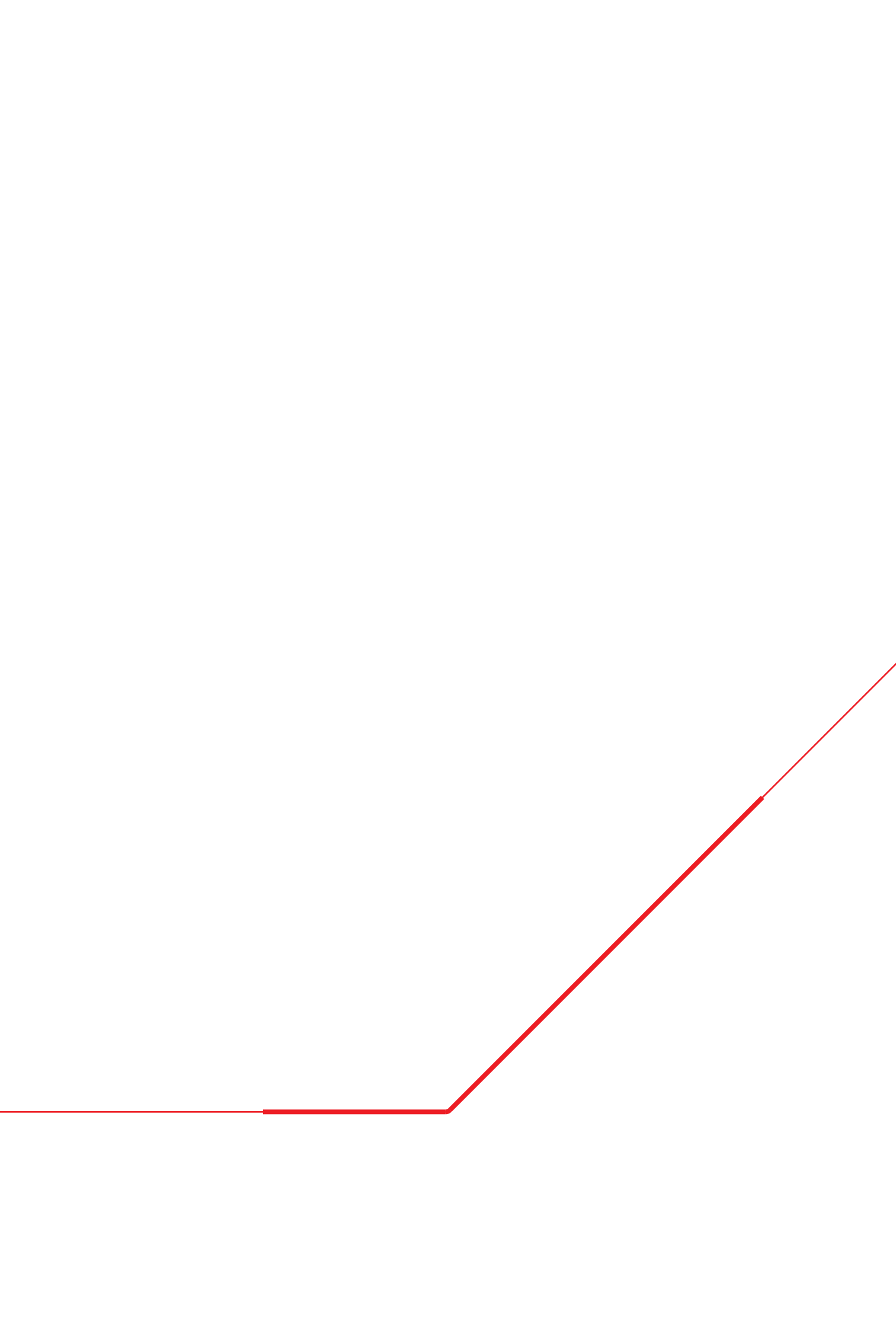


Annual Report
Consolidated Accounts

2012

**Ever more
present**



Ever more present

Today, CTT is much more than meets the eye. Today, CTT is ever more present. Beyond touching people and generations, today CTT is also part of companies, places and communities.

With the vast experience and know-how of almost 500 years of history in the postal world, CTT is today the national benchmark responsible for mail throughout the country. But there's more. It is also an important player in financial and nearby services, with solutions ranging from payments to savings solutions. Today CTT specialises in express mail, while at the same time opening up to the world of digital and integrated business solutions. With a more diversified, global and innovative offer, today CTT is ever more present in Portuguese companies.

The essence of CTT is its continuous improvement. Whether through the innovative and wide-ranging nature of its offer or through its commitment with its greatest investment capital: people.

All of this is materialized both now and in the future.

CTT is ever more present, much more than meets the eye.



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Message from the Chairman & Chief Executive Officer

The year of 2012 was a milestone in the history of CTT: the approval of the Postal Law by the Parliament introduced the full liberalisation of the Portuguese market and the company's preparation for its privatisation started.

The activity of mail operators in developed economies is being impacted by two long term trends: (i) electronic substitution, which is in fact the increase of the weight of digital communication and purchasing habits, resulting in the reduction of personal, transactional and advertising physical mail but also in the growth of parcel deliveries supporting e-commerce; (ii) and the liberalisation of the sector, opening up almost all the postal activities to competition.

In Portugal, 2012 was a year of strong economic contraction (3.2%), due to a significant and generalised decline in domestic demand (resulting from the necessary economic and financial adjustment, under the terms of the Economic and Financial Assistance Programme established between the Portuguese Government, the IMF, the European Commission and the ECB), as well as a lower than expected growth of foreign demand, mainly due to the 0.5% contraction in the euro zone, the main destination of our exports. In Spain, where CTT also operates in the parcels and express business, the economic situation is also characterised by significant economic contraction and adjustment.

This adverse economic reality has contributed to the significant increase in the speed of technological substitution, since in recessionary environments customers tendency to reduce costs with mail and parcels increases.

On 24 August a new Board of Directors came into office, with the mandate to manage CTT in this challenging market and macroeconomic framework and to prepare and steer the company in its privatisation to take place in 2013. We immediately conducted a strategic review, in which the robust capabilities of CTT

and its teams, as well as an important presence in the various markets where it operates, were confirmed. Based on this analysis, the following priorities were identified:

- Defend the mail activity and strengthen a regulatory framework that promotes the sustainability of the Universal Postal Service;
- Strongly develop the express and parcels activity;
- Strengthen and develop a comprehensive financial service platform.

In the defence of the Mail business, the following are particularly relevant: i) a proactive approach towards business customers (currently responsible for 97% of mail dispatching), ii) the development of integrated and innovative solutions for companies and Public Administration, iii) devoting particular attention to advertising mail customers, targeting to increase the levels of use of this tool in Portugal to the levels that can be seen in other European countries, demonstrating the advantages that this means of communication and advertising had to customers, iv) the restructuring and updating of the price structure, which had not been reviewed for about three years, v) the integration and optimisation of the handling, transport and delivery structures, vi) the optimisation of the Post Office Network, maintaining its capillarity and proximity and reinforcing services for citizens in an economically efficient manner, and vi) the clarification of the concession contract and the promotion and consolidation of a stable regulatory framework, adjusted to the reality of the sector and enabling a sustainable Universal Postal Service.

The Express and Parcels activities are a fundamental growth lever, where CTT clearly is reinforcing its capacities to become a reference operator in the Iberian Peninsula, based upon the relevant presence it already has in Portugal and Spain, i) growing in Portugal, ii) developing its presence in Spain, iii) enhancing solutions for traffic between the two countries, iv) attracting in a more determined and relevant manner the flows of parcels between Portugal and Spain and other countries, in particular the rest of Europe, Latin America and Portuguese-speaking African countries, which have close ties to Portugal. The future growth of the parcels and express business is closely linked to the development of e-commerce, where it is fundamental to develop clear and differentiated positioning for individuals and for companies and to dominate the chain of deliveries and returns, with convenient and efficient solutions that leverage the unique competences of CTT: large delivery network and proximity to the populations at an Iberian scale, enabling a strong position in this market. The operation that CTT has in Mozambique, in partnership with Correios de Moçambique, is already leader of the local market and consistently presents levels of significant growth.

The Financial Services platform is also a fundamental pillar of CTT, and the strategic review confirmed i) the advantage in reinforcing relations with partners suppliers of savings products and in repositioning and reinforcing the offer and its competitiveness, ii) the interest in reinforcing the range of products and services, iii) the need to develop new solutions to substitute traditional products (money orders) which are in decline, and iv) the need to analyse the more adequate scope of financial activity and the regulatory solution required by the latter.

After defining the strategy, a new structure, which entered into force on 1 January 2013 was approved, aiming to adjust the company's organisation to the strategic objectives and business evolution, with underlying principles such as efficiency and rationalisation of areas and services, the streamlining of departments and senior staff and to maximize the integration between the various units and subsidiaries of CTT. Subsequently, managers at various levels of responsibility of this optimised structure were appointed.

Having undertaken the strategic thinking and defined the priority actions and the new structure, their implementation was initiated, with a comprehensive Transformation Plan having been approved, within which action plans, projects, project teams and calendars were defined, taking into account the fact that the privatisation is to take place until the end of 2013, implying the involvement of the most important stakeholders and the optimisation of the organisation.

All these activities proceed at a good pace, aiming to reinforce the profitability and value of CTT, to ensure the maintenance and sustainability of the Universal Postal Service, to guarantee the maintenance of a high quality service and to develop the activities in order to promote quality jobs.

In 2012, and due to the reasons initially described, revenues fell 6.5% to 711.7 million Euros, having an impact across all businesses. Mail, whose revenues declined 34.5 million Euros (-6.7%), due to the reasons previously mentioned and because prices have not been updated since mid-2010, and Parcels and Express, where, in spite of a long term trend of volume growth, a reduction in revenues of 5.7 million Euros (-4.3%) was registered this year, together represented 85% of the consolidated revenues in 2012. Financial services also registered a decrease in revenues, although to a lesser extent (-1.6 million Euros, -2.9%), as a result of the combined positive evolution in postal financial services, due in particular to the introduction of the new toll collection service and the commercialisation of very competitive capitalisation insurance products, with a decline in the more traditional services such as money orders.

Consolidated operating costs (excluding impairments, provisions, depreciation and non-recurring costs) amounted to 619.3 million Euros, down 38.0

million Euros (5.8%) in relation to 2011, reflecting the slowdown in operating activity, the measures taken by CTT to reduce costs and the impacts of the changes resulting from the State Budget laws and the decision of the Constitutional Court. The cost reduction programme of CTT had a commitment to reduce costs (based on 2009) with external supplies and services and staff costs by 103 million Euros (-15%) until the end of 2012. This commitment was met and even exceeded, since the result obtained with the rules known in 2012 was a reduction of 110 million Euros (-16%). However, the decision of the Constitutional Court on the payment of the holiday bonus in 2013, only known in April 2013, required recording a further 17.8 million Euros of staff costs in the accounts of 2012, which brought the original savings down to 93 million Euros (-14%) in relation to 2009.

Consolidated EBITDA of 92.4 million Euros reflects a reduction of 11.4 million Euros (-11%) and consolidated operating results (EBIT) reached a total of 64.1 million Euros, registering a decline of 11.6 million Euros (-15%) relative to 2011. EBITDA and EBIT margins amounted to 13.0% and 9.0%, respectively, which compare positively to other European postal operators, much higher than the average for the sector in Europe. Consolidated net income amounted to 38.6 million Euros in 2012, representing a decrease in relation to the previous year of 17.3 million Euros, corresponding to net earnings per share of 2.20 Euros and a net consolidated revenues margin of 5.4%. The balance sheet of December 2012 will be the reference balance sheet for the privatisation. As a result, a much more in-depth evaluation of all the situations that could affect the assets and liabilities of CTT was undertaken, having resulted in the reinforcement of some situations leading to higher non-recurring costs, as explained in the Annual Report.

The management of human resources was based on three priorities:

- the maintenance of a sound social environment, reflected in the conclusion of a single Company Agreement in April 2013 following a long negotiation period, an important fact that guarantees the stability of labour relations and demonstrates the capacity to reach an agreement;
- the continuous investment in training and qualifications, valuing employees and giving them the tools to prepare for the future and the new challenges, reflected in the increase of 5.5% in the volume of training in relation to 2011;
- and the previously mentioned optimisation of structures, senior managers and staff, bearing in mind the need to respond to the evolution and challenges of the market that CTT faces, implementing the needed reduction based on the non-substitution of retired employees, the reduction of the number of fixed term employees and the negotiation of severance payments with employees that how availability to leave the company.

As a result of the policy of adjustment of human resources to the evolution of business, which required a strong focus on cost-cutting, at the end of 2012 the number of CTT employees (permanent and fixed term employees) came to 13 167, less 669 (-4.8%) than in 2011. The headcount at year end includes about 5 300 postmen and other staff from the postal delivery areas.

CTT continued to present high quality levels in 2012, with the OSQI - Overall Service Quality Indicator - registering 255.4 points (target of a minimum of 100), and reflects an improvement of more than 80 points relative to 2011. The performance of international mail compares well with that of other European partners, and the quality objectives defined by the Community Directive for the postal sector were largely exceeded in the Portuguese case. In comparison with other Universal Postal Service providers at a European level, CTT stands out for its quality service, in terms of customer service, operations and delivery.

The privatisation in 2013 represents an undeniable challenge and opportunity for CTT and all its stakeholders, because:

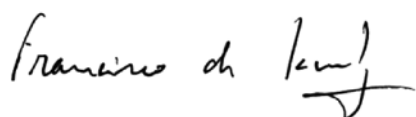
- It represents a cash payment to the State and contributes to the strengthening of a reference company in Portugal;
- It contributes to the transfer of value to consumers, through greater market efficiency;
- It drives efficiency gains, growth and profitability.

This stage is a natural evolution for a centennial company that today faces the liberalisation and transformation of the market with a strong positioning, but requires flexibility and speed to respond to future challenges.

I would like to express my gratitude to all those that work at CTT and its subsidiaries, as well as my strong confidence in the future. Our capacity and positioning in the market offer us good prospects, and I have no doubt that we are prepared for the challenges that lie ahead, which requires analysing the constantly changing markets, pursuing the defined strategy, acting with flexibility and focusing on the objectives outlined.

The public recognition of the Portuguese is clear from the award of the Trusted Brand and the value attributed by the population to the presence of CTT, not only due to the postal service but also due to the proximity services. We would also like to thank our other stakeholders, namely customers and shareholder, for all their trust and business.

Lisbon, 30th April 2013



Francisco de Lacerda
Chairman of the Board of Directors
Chief Executive Officer

Governing and managing bodies

GOVERNING BODIES

On 24 august 2012, by unanimous written decision, the members of the governing bodies for the three-year period 2012-2014 were elected.

BOARD OF THE GENERAL MEETING

Chairman:
Pedro Miguel Nascimento Ventura
Vice-Chairman:
Maria Onilda Sousa
Secretary:
Paula Alexandra Caetano da Silva

BOARD OF DIRECTORS

Chairman:
Francisco José Queiroz de Barros de Lacerda
Vice-Chairman:
Manuel Cabral de Abreu Castelo-Branco
Members:
André Manuel Pereira Gorjão de Andrade Costa
Dionízia Maria Ribeiro Farinha Ferreira
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

BOARD OF AUDITORS

Chairman:
Elsa Maria Roncon Santos
Members:
Maria Fernanda Joanaz Silva Martins
Maria de Lurdes Pereira Moreira Correia de Castro
Alternate Member:
Sara Alexandra Ribeiro Pereira Simões Duarte Ambrósio

STATUTORY AUDITOR (appointed on 24/10/12)

Pricewaterhousecoopers & Associados, SROC, Lda.,
Represented By
José Pereira Alves or João Rui Fernandes Ramos
Substitute Statutory
Auditor:
José Manuel Henriques Bernardo, ROC

CTT hires external audit services from an independent entity.

External Auditor (appointed On 20/12/12):
KPMG



Dionízia Ferreira
Member



Manuel Castelo-Branco
Vice-Chairman



Francisco de Lacerda
Chairman



André Gorjão Costa
Member



Ana Maria Jordão
Member

Board of Directors

MANAGING BODIES

The Board of Directors approved a new structure that entered into force on 1 January 2013, which (including some subsequent specific changes) is shown below:



a) Includes CTT Gest and Mailtec Processos
b) Includes PostContacto
c) Includes CTT Expresso, Tourline and CORRE
d) Includes PayShop
e) Includes Mailtec SGPS, Mailtec Comunicação and Mailtec Consultoria
f) Includes Integrated Solutions

Heading 1.1 of the Corporate Governance Report (Part III of this document) outlines the duties of the departments of CTT, SA and active committees; heading 2.2 outlines the allocation of responsibilities among members of the Board of Directors.

KEY FIGURES

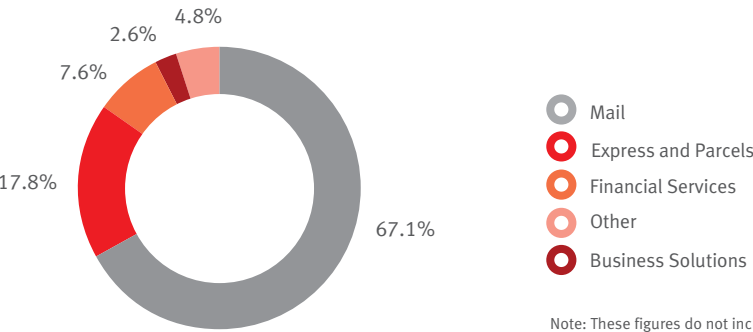
CTT GROUP FINANCIAL PERFORMANCE

Thousand Euros or %, unless otherwise indicated	2011 (*)	2012	Δ% 12/11
Revenues	761,074	711,691	-6.5
Operating costs excluding impairments, provisions, Depreciation/ Amortisation and non-recurring costs	657,329	619,325	-5.8
EBITDA**	103,745	92,366	-11.0
EBIT**	75,636	64,075	-15.3
Earnings before interest and taxes	59,180	42,310	-28.5
EBT	78,934	56,797	-28.0
Income before non-controlling interests	56,241	38,786	-31.0
Net income for the year	55,818	38,554	-30.9
Earnings per share (Euros)	3.19	2.20	-30.9
EBITDA margin	13.6%	13.0%	-0.6 p.p.
Operating margin (EBIT margin)	9.9%	9.0%	-0.9 p.p.
Net margin	7.3%	5.4%	-1.9 p.p.
Return on equity (ROE)	22.0%	14.1%	-7.9 p.p.
Return on invested capital (ROIC)	9.4%	7.4%	-2.0 p.p.
Return on capital employed (ROCE)	9.6%	6.9%	-2.7 p.p.
	31.12.2011	31.12.2012	Δ 12/11
Assets	1,052,557	1,063,425	1.0
Liabilities	780,949	789,944	1.2
Equity	271,607	273,481	0.7
Share capital	87,325	87,325	-
No. of Shares	17,500,000	17,500,000	-
Capex	27,122	14,247	-47.5
Current liquidity ratio	145.2%	146.3%	1.1 p.p.
Solvency ratio	34.8%	34.6%	-0.2 p.p.
Net debt	-167,382	-228,960	-61 578
Net debt/EBITDA	-1.6 x	-2.5 x	-0.9 x
Fixed assets coverage ratio	227.5%	235.7%	8.2 p.p.
Average payment period (days)	38	38	-

(*) Restated

(**) Excluding non-recurring items

CONSOLIDATED REVENUES
BY BUSINESS AREA 2012



Note: These figures do not include amounts relating to internal transactions.

Figure 1

OPERATIONAL FIGURES

	2011	2012	Δ% 12/11
POSTAL DEMAND			
Addressed mail (millions of items) (a)	1,052	959	-8.8
Unaddressed mail (millions of items)	541	516	-4.6
Postal financial services (millions of Euros) (b)	22,636	17,381	-23.2
STAFF (C)			
Number of employees on 31 December	13,836	13,167	-4.8
Average number of employees	14,371	13,756	-4.3
SALES AND DELIVERY NETWORK			
CTT Post Offices (d)	783	748	-4.5
Postal agencies	1,778	1,814	2.0
PayShop agents	3,994	3,966	-0.7
Postal delivery offices	341	326	-4.4
Postal delivery rounds	6,049	5,708	-5.6
Vehicles	3,159	3,054	-3.3

(a) Includes addressed mail, direct mail and parcels

(b) Amounts handled.

(c) Includes permanent and fixed term employees of CTT, SA and subsidiaries; does not include temporary employees.

(d) Includes mobile post offices (9 in 2011 and 8 in 2012), exterior postal counters (15 in 2011 and in 2012) and partner offices (8 in 2011 and 7 in 2012).

CORPORATE SUSTAINABILITY PERFORMANCE

	2011	2012	Δ% 12/11
CUSTOMERS			
Customer satisfaction (%)	66.8	70.9	4.1 p.p.
ISO 14 001 certifications in sorting centres (%)	95.1	95.1	-
ISO 9001 certifications in sorting centres (%)	98.6	98.6	-
Certifications of Counters and Delivery services (% of coverage)	88.5	92.0	3.5 p.p.
Overall Quality Index	173.3	255.4	82.1
EMPLOYEES			
Number of occupational accidents (a)	1,019	923	-9.4
Hours of training (a)	288,713	304,477	5.4
Women in senior management posts (%)	40.0	41.7	1.7 p.p.
COMMUNITY/ENVIRONMENT			
Value chain - contracts with environmental criteria %(a)	93	98	5.0 p.p.
Total CO2 emissions, scopes 1 and 2 (kton) (a)	27.2	25.4	-6.6
Energy consumption (GJ) (a)	402,116	381,360	-5.2
Weight of Eco brand on Direct Mail line (%)	14.0	17.6	3.6 p.p.
Sponsorship and engagement with community (thousand Euros)	1,001	968	-3.3

(a) - Indicators relative to CTT Group

**FINANCIAL PERFORMANCE AND OTHER DATA OF EACH GROUP COMPANIES
(SNC DATA)**

thousand Euros	2011	2012	Δ% 12/11
CTT, S.A. (Parent Company) (b)			
Revenues	644,973	590,634	-8.4
EBITDA	108,837	94,119	-13.5
EBITDA margin	16.9%	15.9%	-1.0 p.p.
Net income	55,818	38,554	-30.9
Capex	22,467	13,669	-39.2
Number of employees on 31December (a)	11,923	11,391	-4.5
Volume (millions of items)	1,052	959	-8.8
POSTCONTACTO			
Revenues	11,666	11,145	-4.5
EBITDA	2,524	2,444	-3.2
EBITDA margin	21.6%	21.9%	0.3 p.p.
Net income	1,836	1,757	-4.3
Capex	1	20	1,900.0
Number of employees on 31 December (a)	41	40	-2.4
Volume (millions of items)	550.3	523.5	-4.9
CTT EXPRESSO (B)			
Revenues	81,601	75,353	-7.7
EBITDA	10,085	7,732	-23.3
EBITDA margin	12.4%	10.3%	-2.1 p.p.
Net income	6,049	4,045	-33.1
Capex	2,165	2,751	27.1
Number of employees on 31 December (a)	677	658	-2.8
Volume (millions of items)	12.1	11.8	-2.5
TOURLINE EXPRESS			
Revenues	53,127	52,294	-1.6
EBITDA	2,082	-917	-144.1
EBITDA margin	3.9%	-1.8%	-5.7 p.p.
Net income	114	-2,247	-2,071.1
Capex	1,722	1,419	-17.6
Number of employees on 31 December (a)	443	480	8.4
Volume (millions of items)	9.4	9.3	-1.1

a) Includes permanent and fixed term employees; does not include temporary employees.

b) The amounts of 2011 were restated due to the adoption of IAS 19 and the inclusion of interest received (related to the operating activity) in revenues according to clarification no. 26 of the Sistema de Normalização Contabilística - SNC (Commission of Accounting Standards).

FINANCIAL PERFORMANCE AND OTHER DATA OF EACH GROUP COMPANIES (SNC DATA)

thousand Euros	2011	2012	Δ% 12/11
PAYSHOP (B)			
Revenues	16,175	15,288	-5.5
EBITDA	7,763	7,239	-6.7
EBITDA margin	48.0%	47.4%	-0.6 p.p.
Net income	5,296	4,916	-7.2
Capex	121	52	-57.0
Number of employees on 31 December (a)	32	32	0.0
Transactions (millions of operations)	56.1	54.7	-2.5
CTT GEST (B)			
Revenues	5,979	3,828	-36.0
EBITDA	1,483	1,226	-17.3
Net income	1,084	899	-17.1
Number of employees on 31 December (a)	23	23	0.0
MAILTEC (GROUP)			
Revenues	24,422	21,705	-11.1
EBITDA	3,603	2,222	-38.3
EBITDA margin	14.8%	10.2%	-4.5 p.p.
Net income	2,190	1,197	-45.3
Capex	220	154	-30.0
Number of employees on 31 December (a)	552	385	-30.3
EAD			
Revenues	5,507	4,556	-17.3
EBITDA	1,817	1,159	-36.2
EBITDA margin	33.0%	25.4%	-7.6 p.p.
Net income	904	373	-58.8
Capex	380	34	-91.1
Number of employees on 31 December (a)	101	95	-5.9
CORRE			
Revenues	1,275	1,812	42.1
EBITDA	-24	305	1 370.8
EBITDA margin	-1.9%	16.8%	18.7 p.p.
Net income	-46	99	315.0
Capex	106	73	-31.1
Number of employees on 31 December (a)	44	63	43.2

a) Includes permanent and fixed term employees; does not include temporary employees.

b) The amounts of 2011 were restated due to the adoption of IAS 19 and the inclusion of interest received (related to the operating activity) in revenues according to clarification no. 26 of the Sistema de Normalização Contabilística - SNC (Commission of Accounting Standards).

Summary of the year

JANUARY

- Beginning of actions to promote the sales of the book “Portugal Connosco – O Olhar dos Carteiros” (Portugal With Us – The Postmen’s View), with travelling exhibition and autograph session with postmen who are the authors of the photographs, which took place during the first half of 2012.
- Award ceremony of the “Exame” Prize for the “500 Maiores e Melhores Empresas Exame” (500 Largest and Best Companies, by Exame) to CTT Expresso in the business sector of Transport and Distribution.

FEBRUARY

- Launch of philatelic issues “Vultos da História e da Cultura” (Major Characters of Portuguese History and Culture) and “A Palavra e a Imagem” (The Word and the Image) and their theme book by Paulo Mendes Pinto.
- Launch of two new savings insurance products “Postal Mais Futuro” and “Postal Praemium”, under the partnership between CTT Correios de Portugal (Portuguese Postal Operator) and Mapfre Insurance Company, having in common a three-year term at very competitive rates.

MARCH

- Launch of the philatelic issue “Comunicar a Cores” (Communicating Colours), dedicated to the identification code of colours for the colour-blind.
- Signing of the addenda to the agreements with the API – Associação Portuguesa de Imprensa (Portuguese Press Association) and the GMCS – Gabinete para os Meios de Comunicação Social (Social Media Office), in order to ensure its extension until the end of 2012.
- Signing of an amendment to the partnership protocol with ANAFRE – Associação Nacional de Freguesias (National Association of Parishes), adapting it to the changing needs of the population and strengthening the role of local authorities in providing proximity postal services.
- Sponsorship of the “Prova de Deficientes Motores em Cadeiras de Rodas” (Race for Disabled People in a Wheelchair), integrated into the 22nd International Half-Marathon of Lisbon at the “Ponte 25 de Abril” bridge.

APRIL

- Refurbishment of the CTT Shop in Trancoso.
- Launch of the philatelic commemorative issues of the “ERASMUS - 25 Years” and “Guimarães 2012 - European Capital of Culture”.
- Sponsorship of the concert “A Primavera da Vida” (Spring of Life) - a fundraising show for APCL – Associação Portuguesa Contra a Leucemia” (Portuguese Association for Leukaemia).
- Participation in the 82nd edition of the Lisbon Book Fair.
- Entry into force of Law Nr. 17/2012 laying down the procedures for the provision of postal services in full competition, which transposes into the national law the Directive No. 2008/6/CE of the European Parliament and of the Council, abolishing areas within the universal service, which were still reserved for CTT – Correios de Portugal (Portuguese Postal Operator) only.

MAY

- Launch of the philatelic issue “50 Anos do Instituto de Ciências Sociais” (50 Years of the Social Sciences Institute), “Rota das Catedrais” (Route of the Portuguese Cathedrals), “Europa – Visite... um País, uma Região” (Europe - Visit ... A Country, a Region) and of the theme book “O Teatro em Portugal” (Theatre in Portugal) by Duarte Ivo Cruz.
- Opening of the new operational centre of CTT Expresso in Viseu.
- Presentation of the book “A Tradição do Pão em Portugal” (The Tradition of bread in Portugal), through an exhibition held at CTT post office Vasco da Gama (in Ponta Delgada) of the different types of bread made in traditional bakeries of the São Miguel Island, and of the stamps (meuselos) illustrating all the bakeries that joined the project.
- 21st edition of the Neurónio Awards, “The best in relationship marketing”, which aims to reward and publicize the best advertising work developed in Portugal.
- Sponsorship of the race “A Vida e a Mulher” (Life and the Woman).
- Participation in the 7th edition of the week of Social Responsibility organized by the “Associação Portuguesa de Ética Empresarial” (Portuguese Association of Business Ethics).

- Environmental volunteer action in partnership with Quercus in Azabuco (Leiria), to protect the Leuzea longifolia, a plant in danger of extinction.

- Annual General Meeting (AGM) of CTT – Correios de Portugal (Portuguese Postal Operator), where the Annual Report and Individual and Consolidated Accounts of CTT for 2011 were approved, as well as the distribution of results and vote of confidence for the work performed by the Board of Directors and the Supervisory Board and each of its members.

JUNE

Launch of the commemorative philatelic issues “European Cup”, “Fajãs of the Azores”, “Olympic Games”, “Paralympic Games” and “Venus’ Solar Transit 2012”.

- Participation in the Oporto Book Fair.
- Payment of dividends to the State (53.9 M€) following the approval at the AGM of May 30th, 2012.
- Rental payment to the State related to the reserved services rendered in 2011 (2.9 M€).

JULY

- Refurbishment of the CTT post offices in Quinta do Conde and Torres Vedras.

- Launch of philatelic issues “Festas Tradicionais Portuguesas” (Traditional Portuguese Festivities), “Viva Portugal” (Way to go Portugal) - European Football Championship 2012 - and “Rio Douro” (The Douro River).

- Launch of the toll card service, a prepaid card for payment of tolls associated to the vehicle, intended for exclusive use on motorways without manual toll and for vehicles registered abroad.

- Signing of the Protocol of cooperation between CTT – Correios de Portugal (Portuguese Postal Operator) and the DariAcordar Association for the Waste Recovery project.

- Award for “Best Annual Report and Accounts and Information on Governance among companies of the State Business Sector” for 2011, under the Investor Relations & Governance Awards 2012.

AUGUST

- Appointment of the new Board of Directors of CTT – Correios de Portugal (Portuguese Postal Operator), consisting of Francisco de Lacerda (Chairman), Manuel Castelo-Branco (Vice-Chairman), André Gorjão Costa (CFO), Dionízia Ferreira (member) and Ana Jordão (member).

- Launch of the philatelic commemorative issue of the Sagres and Creoula ships, aboard the Creoula Ship.

SEPTEMBER

- Launch of joint philatelic issues “Portugal - Brazil”, in the Year of Portugal in Brazil and Brazil in Portugal, and of commemorative issues “Levadas da Madeira” (Madeira Levadas) and “Sabores do Ar e do Fogo” (Flavours of Air and Fire).

- Participation at the 3rd Conference of urban mobility “From New Technologies to Efficiency in Systems”, in the panel on “Innovative Solutions” under Urban Logistics, at MUDE – Museu do Design e da Moda (Museum of Design and Fashion).

- Participation in the Annual BCSD (Business Council for Sustainable Development) conference in Portugal, “What can companies do for society?” at the Estoril Congress Centre.

- Participation at the Post-Expo 2012 in Brussels.

- Participation at the 25th Congress of the UPU (Universal Postal Union), in Doha (Qatar).

OCTOBER

- Launch of the philatelic commemorative issues “Palácios de Portugal” (Portuguese Palaces), “Fado”, “1st Humorists’ show - Centenary” and “Portuguese Engineering – Ordem dos Engenheiros.”

- Launch of “meuselo” (my stamp) products, depicting the theme “Produtos Regionais – Prova de Degustação” (Regional Products – a Tasting), whose images are of three regional companies that participated in this event: Gorreana, Celeiro da Terra and Quintal dos Azores.

- Launch of commemorative “meuselo” for best illustrative work on this theme, developed in the schools of the municipality of Ponta Delgada (6th grade) in partnership with the Municipal Library Ernesto do Canto, in Ponta Delgada, under the theme “The Post Office in the XXI Century”.

- Award ceremony for the contest “Onde te leva o selo? – Correio Escolar” (where does the stamp take you? – School Mail), under the program “Onde te leva a imaginação?” (Where does imagination take you?) at the JE João de Deus School in Torres Vedras, with the presence of the authors of the stamps and the Commissioner of the National Reading Plan.

- Presentation of the book: “Uma História da Arqueologia Portuguesa” (A History of Portuguese Archaeology), at the “Memória dos Exílios” space in Estoril.

- Celebration of World Post Day at the “Fundação Portuguesa das Comunicações” (Portuguese Communications Foundation), with the launch of the philatelic issue “Onde te leva o selo? – Correio Escolar” (Where does the stamp take you? – School Mail), the award ceremony for the contest “Best Letter 2012”, the launch of the project “Oferta de Edições CTT e da Fundação Portuguesa das Comunicações às Câmaras Municipais” (Offering of issues of CTT and the Portuguese Communications Foundation to Municipalities), and the opening of the exhibition “Portugal Connosco – O Olhar dos Carteiros” (Portugal With Us – The Postmen’s View”. Award ceremony of Gold and Silver Insignia to employees with 40 and 36 years careers, respectively, in Lisbon, Oporto, Azores and Madeira.

NOVEMBER

- Launch of the philatelic issue on “Traditional Portuguese Festivities”.

- Awards ceremony of the contest “Onde Te Leva o Selo – Correio escolar” (Where Does your stamp take you - Mail in School , under the program “Onde Te Leva a Imaginação?” (Where Does Imagination Take You?) at Colégio da Via Sacra, in Viseu, and at the João de Deus School in Coimbra.

- Launch of the books “Fado – Um Património Vivo” (Fado - A Living Heritage) by Rui Vieira Nery, at the Museu do Fado (Museum of Fado) and “O Meu Álbum de Selos 2012” (My Stamp Album 2012).

- Inauguration of the 21st Luso-Brazilian Philatelic Exhibition - LUBRAPEX 2012 in São Paulo (Brazil).

CTT is awarded a trophy at the 8th Superbrands - Brands of Excellence 2012 prize-giving Gala.

- Support in the campaign “Banco do Bebê” (Baby Bank) with the offering of solidarity packages to collect goods in all CTT post offices in the country.

- Participation in the 22nd APDC Communications Congress: “A Sea of Opportunities”, at the Lisbon Congress Centre, with the participation of the Chairman of the Board of Directors of CTT in the panel “The State of the Nation” and Vice-Chairman of the Board of Directors in the panel “The Transformation of the Postal Sector in Portugal”.

- Participation in the Meeting of Senior Officials of AICEP - International Association of Portuguese-Speaking Communications, under the theme “Communications 2020 - Customer Service”, in Guimarães.

- Action “Pai Natal Solidário” (Solidary Santa Claus) in which children in need from 50 institutions wrote letters to Santa Claus, of which 1362 letters were sponsored by anonymous citizens.

DECEMBER

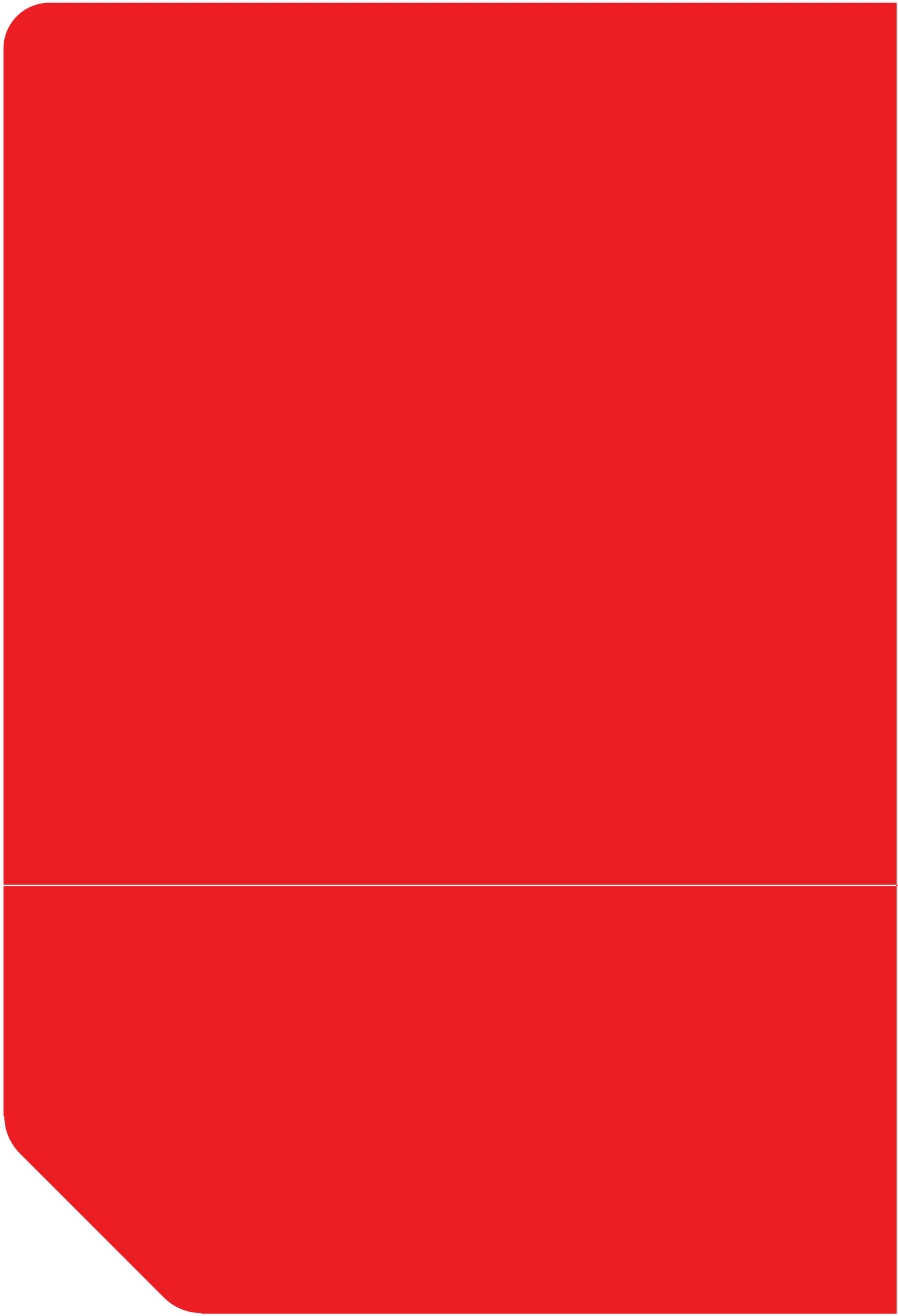
- Refurbishment of the CTT Shop in São João da Madeira.

- Celebration of Stamp Day in Portugal, on December 1st.

- Sales promotion of products from the Christmas campaign through an animation session of the children’s musical “Escola de Heróis 2” (School of Heroes 2), by Teatro Independente de Oeiras, for guest schools and the public, in CTT post offices in Porto Salvo and Paço d’Arcos - Tagus Park.

- Participation in the initiative “Pão de Todos Para Todos” (Bread from All to All), with Associação CAIS.

- Meeting of the PostEurop work group - “Livro Verde da UE – Comércio Eletrónico” (EU Green Paper - Electronic Commerce, in Brussels.





part I

Annual Management Report



Ever closer

This is where it started and this is the basis of trust in CTT.

Mail is something it knows well, in every format or characteristics. This is **its heritage**, something that **was constructed from the ground up** and in which it has always been present. And in which it shall continue to be present, **based on the trust of the Portuguese people.**

Ever more solid.

Ever more present.



**Economic and regulatory
environment**

1.1. ECONOMIC ENVIRONMENT

1.1.1. International

According to the latest update of the forecasts from the IMF, the world economy has experienced a slow-down in growth in 2012 (3.2%), with advanced economies experiencing positive growth (1.3% on average), while emerging and developing market economies have maintained a stronger growth (5.1% on average).

Among the major advanced economies, there has been an expansion of GDP in the U.S. (2.3%), a recovery in Japan (2.0%, associated with the reconstruction effort following the earthquake recorded in early 2011) and a stagnation in the EU (-0.2%), with very different developments between Member States (stronger economic growth in Poland and the Baltic countries vs strong recession in Greece).

The economy in the euro area contracted by 0.5% in annual average terms, compared with a growth of 1.5% in 2011. The weakening of the economic activity in the euro area during this period largely reflected the weakness of domestic demand, since external demand recorded a positive contribution to GDP growth. Private consumption continued to fall due to the uncertainty regarding the evolution of the economy and the austerity measures that induce lower consumption in some countries. Investment also contracted, reflecting the relatively low levels of business confidence and significant restrictions in accessing bank credit in some countries of the euro area.

In 2012, the inflation rate fell in most world economies. In advanced economies, inflation decreased to 2.0% in 2012 (2.7% in 2011) and in emerging and developing market economies it recorded values around 6.1% (7.2% in 2011). In 2012 oil prices remained at high levels, with continuing geopolitical tensions in the Middle East and the reduced supply of oil by some producing countries, against the increasing needs of fast-growing emerging markets.

Insofar as the persistence of the low level of capacity utilization in advanced economies contributed to the moderation in inflationary pressures, the monetary policy of most countries belonging to this group (namely the Euro Area, the UK, the U.S. and Japan) was characterized by an expansionary orientation. Indeed, the central banks of the UK, the U.S. and Japan kept interest rates at the same level as late 2010, i.e. close to zero, and in July the Governing Council of the European Central Bank decided to reduce official interest rates by 25 b.p., with the rate of the main refinancing operations of the European Central Bank at 0.75%.

1.1.2. National

In 2012, the Portuguese economy was under the terms of the economic and financial adjustment program (EFAP) agreed between the Portuguese government, the IMF, the European Commission and the ECB.

The Portuguese economic activity went down 3.2% in 2012 due to a significant and widespread drop in domestic demand. Private consumption has gone down by 5.5%, while gross fixed capital formation fell by about 14%, reflecting a reduction of all components, with particular emphasis on public and residential investment. Public consumption reduced by approximately 4.5% for the second consecutive year. The evolution of domestic demand components determined, to a large extent, the decline in imports by 6.9%; due to the deteriorating external environment, exports decelerated: from a growth rate of 7.2% in 2011 to 3.3% in 2012.

In the current process, special mention should be made to the adjustment of the Portuguese economy to the rapid reduction of external financing needs, as measured by the combined current and capital accounts, which have reduced from about 9.4% of GDP in 2010 to a value close to balance in 2012.

The inflation rate, as measured by the Harmonised Index of Consumer Prices, stood at 2.8% (3.6% in 2011), which largely reflects the increase in indirect taxes (VAT) and prices administered within the context of budgetary consolidation effort.

With regard to the labour market, it would appear that the reduction in employment in 2012 (-4.2%) was higher than that of economic activity. The average annual unemployment rate for 2012 stood at 15.7% (+2.9 pp than in 2011).

1.2. REGULATORY ENVIRONMENT

At the European Union Level

With the approval of the third Postal Directive (Directive 2008/6/EC) of the European Parliament and of the Council, on February 20th, 2008, the final timetable for full liberalization of the postal market was established (until December 31st, 2010), safeguarding a common level of universal service for all users of the Member States of the EU and the setting of harmonized principles for the regulation of postal services in an open market environment.

With regards to the liberalization of postal services at the EU level, the aforementioned Directive amending the 1997 Postal Directive (97/67/CE) established the full opening of the postal market no later than December 31st, 2010 for most Member States, including the possibility of some of these (recently-joined EU countries, Greece and Luxembourg), postponing the liberalization of the market for another two years at the most (until December 31st, 2012).

In terms of funding for the Universal Postal Service, and given that the provision of reserved postal services as a means of funding has been abolished, the new framework provides a set of mechanisms that Member States may adopt to safeguard and finance the universal service, with the new Directive still containing guidance on the calculation of the net cost of the Universal Postal Service.

At a national level

As regards the development of the new regulatory framework established by Directive 2008/6/EC, the **Postal Law (Law Nr. 17/2012 of April 26th)** was adopted in 2012, which established the legal regime for the provision of postal services in full competition within the national territory, as well as international services to and from the national territory, transposing into national law the aforementioned Directive of the European Parliament and of the Council, of February 20th, 2008.

This law implements the liberalization of the postal market, eliminating the areas within the universal service that were still reserved for their provider, CTT - Correios de Portugal, SA (Portuguese Postal Operator), through the concession contract signed with the State in 2006.

However, for reasons of public order and safety or general interest, some activities and services may be restricted to certain providers of postal services. In this context, CTT as the incumbent operator of the Universal Postal Service, remains an exclusive supplier of the following activities and services: placing mailboxes in public areas for collecting mail, issuing and selling postage stamps with the word Portugal written on them, and offering registered mail service used in legal or administrative proceedings.

This law, which marks the beginning of the full liberalization of the postal sector, along with the guarantee of the exercise of free competition in the postal market, also ensures the continuity of a quality universal service with full national coverage.

The following service provisions are included in the universal service, at the national and international levels:

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

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

The arrangements for the provision of postal services provides a system of licenses and permits in which the services covered by the universal service are subject to the individual license regime and the remaining services, which include courier/express mail services, are subject to the general authorization regime.

Concerning access to postal networks and postal infrastructure elements, the universal service operators are required to ensure non-discriminatory access to their networks by agreement to be signed with suppliers who request it, with the regulatory authority being assigned various responsibilities of intervention within this framework, in particular if the parties cannot reach an agreement or at the request of either one of them.

As a concessionaire of the Universal Postal Service, CTT remains the universal service provider until 2020, with the continuation of the bases of the concession of the Universal Postal Service, approved under the legislation repealed/revoked by the new Postal Law, except where there is incompatibility with the Law.

These bases provide the operation areas concessioned to CTT, in terms of postal infrastructure and services that the company is responsible for rendering, under which a concession contract was signed for the Universal Postal Service, between the State and CTT, in September 1st, 2000, with changes that were introduced in September 9th, 2003 and July 26th, 2006.

According to the new legal framework, the parameters of service quality and performance objectives associated with the provision of the universal service, as well as the criteria that pricing must follow, will now be fixed by the independent regulatory body. Until the setting of these criteria, the agreement regarding quality and pricing, signed between CTT and the regulatory body (ICP-ANACOM) on July 10th, 2008 - in force during the triennium 2008-2010 and renewable for successive periods of one year unless terminated by either party – shall remain provisionally in force with regards to the universal service regime.

In terms of pricing of the Universal Postal Service, the prices that came into force in June 2010, updated in accordance with the rules of the pricing agreement, still remained in force during the year 2012, thus amplifying the significant contraction of revenue due to the effect of the pronounced decrease in postal traffic.

In terms of quality of the Universal Postal Service, whose quantification of objectives and minimum levels of service quality is in the chapter on service quality, the agreement in force kept the high quality standards required for postal services in Portugal for the year 2012, which CTT has been exceeding. Having reached a level of service quality far above the minimum required in 2012, CTT showed high competence in fulfilling its obligations as the concessionaire of the Universal Postal Service.

As a result of the publication of the Postal Law, the Government shall amend the bases of the concession, with the subsequent review and renegotiation of the concession contract established with CTT, to reflect the regime in this law, namely the period of designation of US operator whose initial deadline was 2030, which has now been reduced to 2020. Given the implications of this reduction, the deadline is being reanalysed by both the grantor and the regulator.



Ever more in motion

Stronger, faster, farther.

The Olympic motto adapted to CEP services. And CTT has won gold medals **in all categories**. Deliveries are seen as challenges and, if they arrive everywhere on time, it **is** with a very clear objective in mind: that of **being ever more present** in the lives of its customers, wherever they may be.

Ever faster.

Ever more present.



Business Strategy

2.1. CHALLENGES AND TRENDS

CTT is currently at a key moment in its history, encountering very significant changes in its external environment, which constitute major challenges to be considered in the design of its strategy for future action:

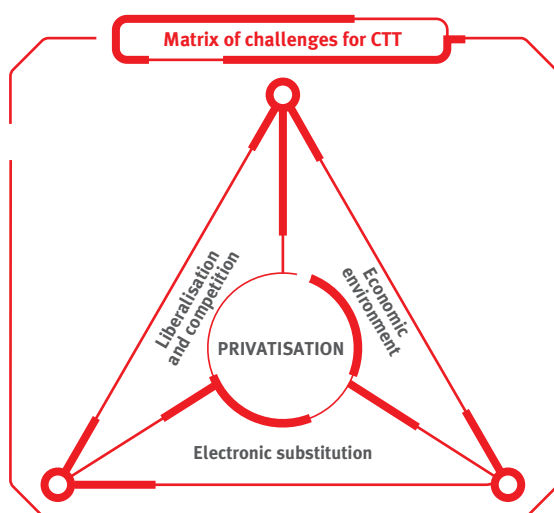


Figure 2

There are two trends of a structural nature that are worth highlighting, which can be observed throughout Europe, which are and will continue to decisively determine the evolution and development of the business and the postal activity:

- **The deepening of the process of full liberalization of the postal market**, following the European Directives and its full introduction in Portugal through the adoption of Law nr. 17/2012 of April 26th, with the consequent openness to the entry of new operators as an alternative to CTT;
- **and electronic replacement of physical mail**, which is an inexorable trend of a structural and systematic nature, accelerated by the economic and financial crisis that the country is facing.

The process of liberalization and the downfall in postal traffic has caused an urgency throughout Europe, to define a **regulatory framework** that secures the delivery of the Universal Postal Service but that is also consistent with the technological developments affecting the sector, being flexible and providing for the possible existence of costs in the provision of the universal service that will have to be compensated to ensure its sustainability.

Alongside these global structural trends of the Western world, a **recessionary economic environment**, strongly conditioned by the economic and financial adjustment program, aggravates and deepens the pace of evolution and depresses the main markets

where CTT operates, strongly increasing competitive pressure to reduce prices and margins.

The **privatization of CTT**, taking place in 2013, will no doubt be the main driver of its business activity. It is a commitment of the State as a shareholder and will become an unquestionable challenge and opportunity for CTT. The postal activity is highly likely to become privatized and the results thereof are positive, as evidenced by the successful cases in the Netherlands, Germany, Belgium and Austria, whose incumbent postal operators show levels of return on invested capital well above average when compared in international terms with a targeted strategy for the development of a company integrated in the obligations of the Universal Postal Service.

The benefits or capital gains that generally and economically result from the privatization processes lie on 3 levels: they provide a cash inflow to the State and contribute to the emergence of a reference business group; they accelerate the capture of significant efficiency gains, greater growth and financial profitability above the industry average; and through greater efficiency in the market they contribute to the transfer of value to consumers.

2.2. STRATEGY

CTT admittedly has a distinctive set of assets and skills:

- It is a reference in Europe in terms of profitability and service quality, well above the minimum indicators established;
- It holds and operates a chain of post offices and a delivery network with strong capillarity;
- It is the largest logistical operator in the country, reaching the homes of the entire population;
- It acts consistently with high proximity to citizens, in a wide range of activities;
- It is recognized as a brand of trust, and has a huge capital of credibility among the Portuguese population;
- It has technological and innovation skills and a wide range of services.

Given the challenges and opportunities that arise, taking into account its distinctive set of skills and assets and having as main objectives **the preparation for the transition of CTT to the private scenario, promoting the emergence of new core business in growth areas where CTT is the “natural owner” and protecting the value of its core-business (mail)**, the strategy for the areas of business mail, Express mail and Parcels, Financial Services and Business Solutions was formulated:

- Uphold the “core” business (mail)

CTT is developing integrated approaches to large mail senders, with programs to verify that the mail is an effective means of communication, and thus reduce the rate of electronic replacement.

It is also working on the price variable, to ensure a competitive positioning that also allows for a sustainable universal service. Striving for a balanced and flexible regulatory framework assumes here a significant importance.

The continuation and significant and more rapid deepening of continuous improvement of efficiency in the operational development of the business is a critical component in this aspect, because without it it will be impossible for CTT to be competitive and profitable, thereby ensuring its future.

- Establish a benchmark player in the Iberian Express Mail and Parcels

Focus on developing a new “core” with the parcels and express service, catapulted by the increase in e-commerce. This development is a result of leadership positions in Portugal and growing leadership in Spain, and has strong ambitions for growth in Spain, in the “cross-border” flow and also in Portugal, both through the growth that markets will have (likely to experience strong development in e-commerce, picking-up after the recession) and by gaining most significant market shares (organically or not) in an economic environment in which a company with a strong financial position such as CTT has obvious advantages. In the Parcels and Express Service, the domestic market of CTT already is the Iberian Peninsula.

CTT also has an efficient operation in Mozambique (in partnership with the Correios de Moçambique) and is actively working on other possibilities outside the Iberian Peninsula, including partnerships to capture flows from Europe with the countries with which Portugal and Spain have more activity and affinities.

- Develop a comprehensive financial services platform

The focus on activities with the greatest potential for growth and increased profitability of its retail network lies in the financial services, which is an area that fully matches the profile of the Company and where CTT has a long tradition, contributing to the populations’ access to financial services.

CTT is a large distributor of Savings Certificates of the Treasury and of insurance products, and also has a very important role in payments and collections, both through its post offices and through the PayShop network. To develop the offer, giving it a scope and consistency appropriate to customer preferences and modernizing the operation, are important goals to increase the contribution of this business area.

In this business area, CTT bets on deepening the partnerships that it now has with major companies in the insurance sector and also in urgent international transfers, as well as consolidating its relationship with the “Agência de Gestão da Tesouraria e da Dívida Pública” (Agency for the Management of Treasury and Public Debt) - IGCP, E.P.E., managing entity of the Portuguese public debt products. The goal is to grow with our partners, offering increasingly better products with a wide range of choice for CTT customers.

Develop business solutions and solutions for Public Administration (incorporating the physical and digital worlds)

CTT has been innovating in this area to build, on its core competencies, solutions that meet customer needs.

Solutions for convenience and proximity to the citizen, more integrated and complete solutions that combine the current physical mail platforms with the new digital platforms, end-to-end solutions that relieve companies and the Public Administration from activities that they do not consider key, are a world of activities that includes opportunities for CTT to work on, based on its skills and experience.

This is being done also to allow for intervening in the transition from physical to electronic mail (e.g. solutions for business process outsourcing, fulfilment, printing & finishing, etc.). The aim of this area is to continue to develop these opportunities, in an integrated and global manner, in close collaboration with the other CTT units.

Based on this strategy a **Transformation Program** has been defined and is being implemented, which incorporates various aspects and goals:

- Extra care with the various stakeholders, aiming to maintain high levels of service quality and customer satisfaction, motivating employees for this ambitious project and maximizing value creation, to benefit the current shareholder (in fact, the entire Portuguese population) and attract new shareholders in the privatization process;
- The reorganization of CTT, promoting clarity of the organization, greater integration of the various companies and departments that comprise CTT and the reduction and simplification of the top and middle management, as well as a full integration of the central and shared services of CTT, including the subsidiary companies;
- The launch of Strategic Action Programmes, initiatives that deepen the guidelines and whose execution is being accompanied by a project office that supports the work, monitors its progress and acts to facilitate interactions and promote information about the overall progress, allowing appropriate follow-up at different levels.

The strategic definition and the implementation of the Transformation Programme are fundamental to leverage the value development of CTT and important foundations for designing an “investment case” that could attract investors willing to invest at prices that reflect its important value. This Programme is a new step in the strategy that was being followed by CTT, but focused on generating revenue and results through the consolidation and development of the business areas that the company has created in recent years. And keeping focus on the continuous improvement of human capital, critical to the success of a company such as CTT.

2.3. STRATEGIC GUIDELINES FOR THE STATE OWNED ENTERPRISES SECTOR AND ITS IMPACT ON CTT

CTT is a company that integrates the State Owned Enterprise Sector. As such, it is subject to a set of strategic guidelines and rules that, given their importance, we hereby summarize.

The reform of the enterprise public sector assumes critical importance in the context of the commitments made by the Portuguese State under the Economic and Financial Adjustment Programme (EFAP), signed with the International Monetary Fund, the European Commission and the European Central Bank. In this context, measures in the areas of cost reduction, maximization of operational efficiency and optimization and reduction of cost structures were outlined for the State Owned Enterprise Sector (SEE).

On August 30th, 2012 the Council of Ministers approved law proposal nr. 106/XII, currently embodied in Law Nr. 18/2013, of February 18th, an important step towards the future definition of the rules that will meet the aforementioned concerns.

The measures for the restructuring of the State Owned Enterprise Sector, included in the Major Options of the Plan for 2013 and in accordance with the Economic and Financial Adjustment Programme (EFAP), are:

Make a sustainable cut of at least 15% in staff costs and external supplies and services, when compared to 2009.

A staff reduction programme is being actively pursued, based on retirements and non-renewal of fixed-term contracts, which includes voluntary terminations; also, significant reductions in contracts and in the management of external supplies and services have been implemented.

Apply to CTT the relevant aspects of the amendments to the Labour Law:

- Flexibilisation of the organization of working hours;
- Amendments to the regime of termination of employment for objective reasons;

– Extension of the regime of employment contract based on commission.

- Continue the liberalization of the postal sector and the implementation of a new concession agreement for the Universal Postal Service with CTT. The privatization model for CTT will also be determined, with the objective of completing the process by the end of 2013.

Companies of the State Owned Enterprise Sector must also implement the following measures of the State Budget for 2013 (Law Nr. 66-B/2012, December 31st):

- The initiatives taken by the Government, in conjunction with the social partners, enabling one of the benefits, either the holiday bonus or the Christmas bonus, of the workers with a work contract that is regulated by the Labour Law, to be paid on a monthly basis;
- Increase in salary and extra pay are forbidden, as well as bonus payments for public managers, director and managers, board members, or other governing bodies;
- Maintain the reduction of the total gross monthly remuneration established in the two previous years;
- During the year 2013, public companies and public entities of the State Owned Enterprise Sector, with the exception of public hospitals, will reduce overall, as a minimum, by 3% the number of workers compared to those existing on December 31st, 2012;
- Public companies cannot recruit workers for the establishment of undetermined, determined or determinable term work contracts, except in exceptional situations, based on the existence of relevant public interest and authorized by the member of Government responsible for the financial area;
- Public companies should pursue a policy of optimization of the structure of operating costs that promotes operational balance, ensuring the reduction of the weight of operating costs in turnover.

By Order Nr. 2349/12 SET of December 26th 2012 of the Secretary of the Treasury, the exception requested by CTT regarding the non-application of the Principle of Unity of Treasury published in Law nr. 12-A/2010, of June 30th, Article 17, which amended Article 63 of Law Nr. 3-B/2010, of April 28th (General State Budget for 2010) was authorized. Because CTT provides financial services, which are of significant importance in the operational plan and the prevailing value of its financial flows on behalf of clients and partners, it is characterized as a public financial enterprise and therefore is not included in the respective subjective scope of application of Law nr. 12-A/2010.



Ever more value

Early on we learned the concept of saving, that one must **save** for whatever the future may bring.

At CTT, **every day** customers place trust in our counters, signing up for and using the financial services. Customers know that CTT, in addition to being ever more present, is there **for whatever the future may bring.**

Ever more active.

Ever more present.



Business evolution



The business evolution of the CTT Group in 2012 (CTT, SA and its subsidiaries, hereinafter referred to as CTT) continued to be influenced by the structural trends already mentioned and by the sharp contraction in economic activity, with the resulting consequences on the demand for postal products.

As a result of the new structure and transformation project, business was broken down into four business units:

- **Mail** – includes the activity of CTT, SA (parent company), excluding financial services, third-party products and services, business solutions and the activities of PostContacto, CTT Gest and Mailtec Processos;
- **Express and Parcels** – activities of CTT Expresso (based in Portugal), Tourline Express (in Spain) and Corre (in Mozambique);
- **Financial services** – financial services of the parent company and activity of PayShop;
- **Business solutions** – business solutions of the parent company and activities of Mailtec (excluding Mailtec Processos) and EAD.

Revenues concerning third party products and services is incorporated in the Retail Network.

The CTT brand renewed its distinction as a **Brand of Excellence by Superbrands** in 2012. Superbrands Portugal is part of an international organisation dedicated to the identification and promotion of Brands of Excellence in 89 countries, distinguishing brands in the market every year, based on the opinion of Portuguese consumers and of the Superbrands Council, consisting of a group of specialists. This distinction strengthens the recognition of the CTT brand as a modern and dynamic brand, always capable of anticipating and meeting the needs of its customers.

3.1. MAIL

Revenues for the Mail Business Area reached 477.9 million Euros (67% of total consolidated revenues) in 2012.

In 2012, mail customers maintained similar consumption patterns as in 2011. However, mail sent by large customers (50% of total mail revenues) decreased by 33 million items in relation to 2011. This fact, combined with increased competition in the liberalised area, resulted in a significant contraction in postal activity.

Addressed mail (which includes letter mail, direct mail and parcels) decreased by 8.8%, to 958.9 million items. Letter mail decreased compared to the previous year (-7.9%), to which contributed the overall negative evolution of the various products: ordinary mail (-7.8%), priority mail (-19.6%), editorial mail (-13.6%),

green mail (-7.3%) and international mail (-6.9%), both inbound (-8.7%) and outbound (-5.3%). The only exception was registered mail, which increased by 3.0%.

The increasing development of new information technologies and their high levels of acceptance have resulted in electronic substitution, which has led to the progressive abandonment of physical mail as a means of communication. This structural trend was exacerbated by the marked contraction of the economy, with the value observed in 2012 (-8.8%) having represented a more significant decline than the average value observed for 2007-2011 (-5.2%).

In the international mail area, a greater number of bilateral agreements regarding terminal dues were negotiated with other postal operators, aimed at obtaining favourable rates for both inbound and outbound mail.

The availability of track & trace information regarding international parcels was extended to new postal operators, currently covering approximately 200 countries, which is very close to the universalisation objective set for this feature. It should be mentioned that CTT was a pioneer in joining the track & trace information exchange initiative undertaken by UPU in 2005.

In 2012, as a result of economic constraints, increased efforts were undertaken to rationalise, adapt and renew the offer, as well as develop more aggressive commercial policies, such as Happy Days at CTT post offices.

The price review proposal submitted to ANACOM on 16 November 2012, under the scope of the Price Agreement, was approved. The new prices came into effect on 1 April 2013.

3.1.1. Relational marketing

CTT's positioning as an integrator is due to the fact that successful mailing starts with a quality data base and continues with the creation and development of an innovative concept, which is subsequently implemented by the printing and finishing areas and brought to the postal circuit, in order to arrive at the final customer.

Development of these competences aims to increase the use of direct mail as a privileged means of relational marketing, through the development of differentiated proposals of value for large, medium and small advertisers.

CTT currently offers a broad range of solutions:

- Georeferencing, renting and sale of segmented databases (individuals and companies), as well as services aimed at improving quality and selectivity, with increased focus on promotional activities;

- Creative campaign design, production and mail preparation (including printing of materials, personalisation, placing into envelopes, addressing, etc.);
- Delivery of direct mail and sampling direct messages;
- Processing of replies and logistics.

In 2012, the relational marketing business decreased by 17.2% compared to the previous year. This was essentially due to the strong impact of the economic crisis on Portuguese customers, which were forced to use alternative communication channels (SMS, email and the Internet) to advertise their products and divulge their campaigns, in a larger percentage than usual, as these channels, although less effective, are less expensive and offer a wide range of solutions. Turnover totalled 28.5 million Euros, due to the aforementioned decrease in traffic and the use of ECO brand products, which are less expensive.

The direct marketing offer was consolidated by focusing on integrated communication solutions, based on the management and presentation of solution to promote the advantages of physical mail, sustainable communication solutions and their possible combination with digital channels in order to form a global, integrated range of communication and marketing products.

Within this scope, the following initiatives should be highlighted:

- Increased focus on promoting the e-Direct service, which uses digital channels (sending of personalised SMS and email messages by advertisers, with total autonomy) and allows physical and digital channel integration for marketing purposes;
- Launching of the *Fórum Direto* (Direct Forum), a direct marketing portal featuring new tools that can be used to increase campaign management efficiency and generate useful information (simulation of return on investment for specific campaigns, setting of objectives aimed at improving campaign dynamics, evaluation of returns, and preparation of surveys and inquiries within the field of direct marketing);
- Organisation of the 21st Edition of the Neuron – “*O melhor em marketing relacional*” (“The Best in Relational Marketing”), a highly recognised competition aimed at rewarding the best marketing projects developed in Portugal. The closing event included a Conference where Andrew Sharp, a specialist in marketing effectiveness, pricing and research studies, gave a talk on “Marketing effectiveness – an investment perspective”, with a view to showing how brands are effectively able to gain a true competitive advantage. This event, which contributed to a better knowledge of the most recent marketing trends, was attended by over 200 participants, agencies and customers.

3.1.2. Philately

Philately continued to focus the pursuit for high quality levels, conciling the traditional with the modern.

In 2012, Portuguese philately joined the digital era by introducing enhanced reality features in several stamp issues and printed products, including a QR code, image recognition and the widely known flip-book.

When read by a web or mobile phone camera, the «QR» symbol printed on a small page will direct users to a site containing information to issue stamps and the corresponding themes. For instance, the «QR» symbol printed on the stamp issues dedicated to the Sagres and Creoula ships directs users to a Portuguese Navy site containing additional information on these two ships; these features have also been used in the “*Fado*” issue and the joint Portugal-Brazil issue.

The next step in integrating interactive features was to create value added printed products. For instance, the “*Meu Álbum de Selos 2012*” book (“My Stamp Album 2012”) started being sold together with a DVD containing the book in digital format, which not only allows users to read and browse through the pages using a PC, but also includes links to sites containing additional information on the text and images shown. This technology also allows younger readers to access a version of the “My Stamp Album” in which only stamp outlines are printed, allowing them to use a paint tool to colour the images on the computer (or by hand, by printing the sheets).

The last step in this integration process consisted of including two-dimensional image recognition features through the development of a computer program that allows images to be recognised by a webcam or compatible mobile phone camera — after downloading an application or accessing it online. Following image recognition, the program immediately reproduces contents especially created for the images and occasions in question. For instance, a small film starts playing on a computer or smartphone screen as soon as the image on the 1 Euro stamp in the “*Fado*” issue is recognised.

CTT participated in the largest international cookbook competition, the Gourmand World Cookbook Awards, which took place in Paris, in March. A book published by CTT – “*Tradição do Pão em Portugal*” (“Bread Tradition in Portugal”), by French anthropologist Mouette Barboff – received the award for best book on “Bread” in the world in this prestigious competition where about 10 thousand books are entered every year.

A total of 25 commemorative stamp issues took place in 2012, as well as an ordinary stamp issue. Four prestigious books were published, including “*Portugal em Selos*” (“Portugal in Stamps”) and “*Meu Álbum de Selos 2012*” (“My Stamp Album 2012”) (aimed at

youngsters). Other occurrences in 2012 included the first issue of self-adhesive postage stamps sold at automatic stamp vending machines, dedicated to the “International Year of Cooperatives”, the second issue, dedicated to “2012-International Year of Sustainable Energy for All”, and 15 postcards featuring commemorative stamps.

A wide range of areas of human knowledge were selected to feature in stamp issues. Cultural events were widely celebrated (“*Guimarães Capital Europeia da Cultura*” (“Guimarães, European Capital of Culture”), “*Vultos da História e da Cultura*” (“Major Characters of Portuguese History and Culture”), “*Fado*”, “*A Palavra e a Imagem*” (“The Word and the Image”), as well as Portuguese masterpieces. A joint issue between Portugal and Brazil was dedicated to the literature of both countries, represented by Fernando Pessoa and Cruz e Sousa, respectively. Biblical texts and the anniversaries of prestigious institutions (“*175 Anos da Escola do Exército*” (“The Escola do Exército - 175 Years”), “*50 Anos do Instituto de Ciências Sociais*” (“The Institute de Ciências Sociais – 50 Years”) and “*25 anos do programa ERASMUS*” (“ERASMUS – 25 Years”), as well as the “*Centenário do 1º Salão dos Humoristas*” (“1st Humorists’ Show - Centenary”), were also featured.

Sustainability, a topic associated with modern tourism and the sharing of experiences with travelers, was also featured in a different group of stamp issues, including themes such as “*Visite...um País, uma Região*” (“Visit...a Country, a Region”), which was the motto of the 2012 Europe issue; “*Fajãs*”, an issue dedicated to the Azores; “*Levadas da Madeira*” (“Madeira Canal Trails”); and “*Flavours of Air and Fire*”, which represented the start of a survey of the best Portuguese sausages, awarded the status of protected designation of origin.

Sports were also featured in stamp issues dedicated to the “European Football Championship”, the “Olympic Games” and the “Paralympic Games”, in which Portuguese athletes participated.

Science was featured in the “*Trânsito Solar de Vénus 2013*” (“Venus’ Solar Transit 2013”) issue, which also featured Father Teodoro de Almeida, a great scientist of his time (1722-1804).

Issues were also dedicated to “*Palácios de Portugal*” (“Portuguese Palaces”), the “Sagres and Creoula” ships, “*Engenharia Portuguesa-Ordem dos Engenheiros*” (“Portuguese Engineering – Ordem dos Engenheiros”), and “*Rio Douro*” (“The Douro River”).

A few books were also published, namely “*A Palavra e a Imagem*” (“The Word and the Image”) by Paulo Mendes Pinto, showing 50 biblical stories featured in Portuguese masterpieces; “*O Teatro em Portugal*” (“Theatre in Portugal”) by Duarte Ivo Cruz, on the history of Portuguese theatre, following the stamp

issues dedicated to this theme, in 2010 and 2011; “*Douro-Um Rio de Patrimónios*” (“Douro - The Heritage River”) by José Salvador, on the Douro region, which is part of the World heritage; and “*Fado – A Living Heritage*”, by Rui Vieira Nery, on one of the most traditional elements of Portuguese culture.

A total of 8 Postcards was also launched, some of them dedicated to relevant events, namely the “50th Anniversary of the Students’ Day”, the “Europa Nostra Congress”, the “*150 Anos do Amor de Perdição*” (“150 Years since the first Edition of *Amor de Perdição*”), a book by Camilo Castelo Branco, and the work undertaken in Portugal by the “Fight Against AIDS” organisation.

Regarding the Chair of the World Association for the Development of Philately, CTT was responsible for coordinating the General Meeting of this association, which took place in Paris, in June. In September, CTT participated in the 25th UPU Congress at Doha (Qatar), where it presented the work undertaken by the World Association for the Development of Philately in 2008-2012, as well as the Association’s proposal for the next four years, which was approved unanimously by the General Meeting of this Congress.

The philatelic year ended with the usual issue dedicated to “*Correio Escolar*” (School Mail), in partnership with the National Reading Plan.

3.1.3. Operations

The activities developed in the operations area – which include processing, transport and delivery – were aimed at the quality of service and the increase of efficiency and productivity of resources, through the improvement of IT systems and the company’s productivity and equipment performance.

Processing

In 2012, approximately 2.7 million items were automatically sorted by delivery route on a daily basis (similar to the value recorded in 2011). Approximately 1.6 million items (+11.1%) were automatically sorted for delivery to individual addresses, served by 4,483 delivery routes operated by 199 postal delivery offices, which account for 90% of mail delivery.

The following initiatives should be highlighted:

- Upgrading of the address recognition software and hardware, which resulted in a significant increase in automatic reading rates, as well as in the recovery of about 30% of addresses previously not recognised and a reduction in the number of sorting errors;
- The upgrading of control hardware and software in older machines was concluded, which allowed the introduction of new features, namely reading of barcodes printed by customers.

Transport

In 2012, the fleet travelled approximately 10.6 million kilometres, with an average delay of 33 seconds. The transport network continued to be optimised, with transport capacity being adjusted to the various product flows. As a result, 1 million kilometres were saved compared to 2011, which lowered costs and environmental impact.

The following 2012 initiatives should be highlighted:

- Monitoring of new electric vehicles, energy-efficient heavy-duty vehicles and electric bicycles;
- Performance of an energy audit on the vehicle fleet and preparation of the 2011-2013 energy rationalisation plan, to be submitted to the DGEG – Direcção-Geral de Energia e Geologia (General Office for Energy and Geology);
- Organisation of eco-friendly and defensive driving courses, with a view to preventing accidents and increasing driver skills. CTT also continued with its efforts to join the 2010-2013 European Road Safety Charter. These measures resulted in an accident rate of 14 accidents per million kilometres, the lowest ever recorded;
- Strengthening of relationships with national airlines TAP, SATA and AGROAR/PORTWAY, aimed at optimising the use of all transport companies and airlines available. Efforts were also undertaken to consolidate the operational cooperation model agreed with LUFTHANSA, based on dematerialisation of physical supports.

Delivery

Increasing operating efficiency was the main objective set for the mail delivery area in 2012. Three different lines of action were defined for this purpose:

- Promotion of more efficient mail delivery systems, oriented towards service standards, through the implementation of a priority system;
- Infrastructure rationalisation, through the centralisation and merging of postal delivery offices;
- Removal of rarely used collection points (mail boxes) and provision of local alternatives to customers.

The efforts undertaken to promote the use of eco-friendly vehicles should also be highlighted, namely the acquisition of 150 electrical bicycles, which are being progressively used for mail delivery.

In addition to the greater operating efficiency, process reliability and commitment towards service quality and excellence witnessed in 2012, efforts were also undertaken to maximise the potential role of postmen

as preferential sales channels/networks for products and services, given their close proximity to customers.

The “*Portugal Connosco – O Olhar dos Carteiros*” (“Portugal With Us – The Postmen’s View”) project received three awards, namely the 2011 OCI Award – Excellence in Internal Communication, in the “Most Innovative Internal Communication Practice” category; a “Gold” award in the Creativity, Means & Advertising Awards, in the “Public Relations – Internal Communication” category; and the 1st 2012 APCE Award (*Associação Portuguesa de Comunicação de Empresa*) (Portuguese Association for Corporate Communication), in the Special Edition category. This project was based on a very simple idea: to show Portugal as seen through the eyes of postmen. Approximately 86,800 photographs were collected within the scope of this project, of which the best 200 were selected. This unassuming book shows the most special, genuine and valuable moments in the professional life of postmen.

Within the scope of mail sector liberalisation, attention remained focused on initiatives aimed at increasing strategic customer loyalty and ensuring high quality and service levels. A sole Commercial Department is responsible for managing a small number of strategic customers, which account for a significant percentage of CTT’s revenues.

Mailtec Processos was responsible in 2012 for the operational management of the mailmanager service (see 3.4.1 Business Solutions), as well as for processing and delivering mail from CTT’s business customers, namely large mail issuers.

With mail traffic often exceeding 3 million items per day, this operating centre, located in Pinheiro de Fora, focuses on large customers mail, which is prioritised and introduced into CTT’s operating chain more efficiently, thus addressing the need to process this mail according to its relevance for the company’s business. This centre operates carefully and efficiently, in order to meet strategic objectives. In this sense, special attention is paid to the quality of addressing, with daily tests being performed since the first day of the operation.

3.1.4. Unaddressed mail

PostContacto, a leading company in its market segment, with market shares of 45% and 40% in terms of value and volume, respectively, is responsible for managing CTT's unaddressed mail.

In the last two years, the unaddressed publicity market declined significantly, both in terms of value (-19%) and volume (-15%). General and specialist retailers account for 80% of the total volume, which is estimated at approximately 1,300 million leaflets per year, followed by the service sector and institutions, which account for approximately 5%.

The economic situation experienced in Portugal, allied to the commercial aggressiveness of competitors and increasing market concentration in the retail sector, has not only led to decrease in volume per campaign, but has also affected the prices practiced, forcing companies to decrease their profit margins. This situation has also led to stricter customer demands, in terms of service quality, response time and online campaign information. In order to meet these demands, the company has been implementing new technological solutions, with a view to improving operational control levels and providing information to customers in a timely manner.

PostContacto is the only universal operator in the unaddressed publicity market. PostContacto operates all over the country, according to an extremely flexible model. In coastal regions, more densely populated, where its competitors are based and business has experienced the greatest growth, PostContacto operates through its own delivery network, while resorting to the CTT network in interior regions. Although focusing mainly on the delivery of unaddressed publicity to residences and commercial establishments, the company has also diversified its services in terms of value added and new services (delivery of unaddressed mail, delivery of mail through address lists, delivery at convenient times, geocontact, hand delivery in pre-selected areas, logistics, border delivery).

In 2011, the company expanded its addressed mail delivery business, in cooperation with the CTT sales network, by starting to provide consultancy and addressed mail control and monitoring services to Mailtec Processos.

The company maintained its quality certification according to the ISO 9001:2008 standard in 2012.

PostContacto delivered 524 million items in 2012, within the scope of its various business operations.

3.2. EXPRESS AND PARCELS

Revenues for this business segment reached 126.6 million Euros (18% of the total consolidated revenues) in 2012.

In **Portugal**, CTT Expresso is the CTT company responsible for the CEP (Courier, Express and Parcels) business, providing express document and goods collection, processing, transport and delivery services, both national and international, to its customers (business and private), as well as integrated logistics solutions and courier services.

CTT Expresso maintained a leading position in the domestic market, with an average market share of 27% in the last quarter of 2012, concerning items weighing less than 20 kg.

The company received several awards and recognition in 2012, namely an Honourable Mention at the 21st edition of the Neuron Awards, in the business-to-business category; 1st place in the Transport & Delivery company ranking by the "Exame" magazine for the second consecutive year; and the Call Center Trophy, which was awarded to Customer Services in the category of Quality of Customer Services Provided Through Other Channels.

The good operating performance of CTT has been recognised by customers, who have rated service quality at 4.12 out of 5 in a customer satisfaction survey carried out by IMR, a market study specialist.

In 2012, CTT Expresso strengthened its position in the Iberian market by adopting a commercial strategy focused on attracting new business and customers, based on an Iberian service portfolio and increased cooperation, including closer cooperation with Tourline Express.

CTT Expresso is currently developing an e-commerce solution in order to meet market needs, particularly within priority segments (B2B and B2C). This solution will allow online business monitoring and the creation of solutions for SMEs that already market or intend to market their products online.

CTT Expresso is a partner in the Digital SME Programme, providing an e-commerce solution aimed at Portuguese SMEs. This programme, in course since November 2012, aims to enable companies to advertise and market their products and services on the Internet. The Digital SME Programme is an initiative developed by the Government, in partnership with the IAPMEI (*Instituto de Apoio às Pequenas e Médias Empresas e à Inovação*) (Institute for Supporting Small and Medium Enterprises and Innovation), ACEPI (*Associação do Comércio Eletrónico e da Publicidade Interativa*) (E-Commerce and Interactive Advertising Association) and several ITC service and solution providers.

The extension works undertaken at the MARL warehouse, involving an area equivalent to 3,000m², were completed in 2012. With this extension, storage capacity increased by 30%, currently corresponding to a total storage area of 13,000m², or 14,000 pallets, since the number of pallet locations doubled.

The new Operating Centre, located at the Viseu Industrial Park, was opened in May.

Regarding the range of products and services offered, broadening of geographical coverage for the services already available was one of the most important company achievements in 2012.

Concerning operations, a specific mail delivery network was installed in the Lisbon and Oporto Metropolitan Areas. Improvements include the installation of new automatic reading equipment for bulky items, increased sorting capacity and the replacement of barcode readers and of the video encoding system.

Regarding social responsibility, the company participated in “**Somar para Dividir**” (“Adding Up to Divide”), an initiative included within the scope of the “*Projeto de Luta contra a Pobreza e a Exclusão Social*” (“Fight Against Poverty and Social Exclusion”) project, and in the 4th National Collection of Batteries, an initiative organised by Ecopilhas whose proceeds are donated to the IPO (Portuguese Cancer Institute).

In **Spain**, CTT have operated through Tourline Express since 2005. This company’s mission is to ensure the collection, transportation and delivery of urgent items, in a safe and timely manner. For this purpose, the company owns a suitable logistics infrastructure, as well as a network of own and franchised agencies covering the entire Spanish territory.

In 2012, the company underwent a profound restructuring process, having replaced its regional structure with a national structure. These changes entailed the closing of seven departments and the creation of three new departments, in order to meet market challenges, increase proximity to customers, expedite decision-making processes, shorten response times, establish uniform procedures and, most importantly, reduce structural costs.

The most important achievement for Tourline Express in 2012 was the growth of its business in the Iberian market and in France, namely through the following:

- Launching of the Tourline Cargo service, a new business unit dedicated to the semi-urgent transport of general cargo in the Iberian market. This service is provided to businesses and private customers. The absence of weight limits per consignment and the high quality of this service, allied to its very competitive prices and delivery in 48 hours, make this service into an extremely attractive proposal;

- Provision of payment means and pre-paid services for circulation in Portuguese motorways through the Tourline Express site;

- Extension of the D+1 service to the Torres Novas and Guia areas, in Portugal;

- Inclusion of the track & trace service on the Tourline Express site, including rerouting of customers to the CTT Expresso site, in order to ensure that information is available for the entire delivery route;

- Renegotiation of the existing agreements with TNT and Chronopost for the purpose of creating a direct route between Barcelona and France.

The ClubLine Express (points programme), which has been operating for the past two and a half years, is the only customer club developed by an express transportation company in Spain. The ClubLine currently has approximately 4 thousand members. A total of 5,625 gifts have already been handed, of which 1,600 consisted of donations to solidarity programmes promoted by the NGO “Save the Children”. Tourline Express joined Twitter and Facebook in May in order to be able to reply to customer requests through all available channels.

The company has strengthened its commitment to social issues by participating in several events, namely the “**Pingüinos**” (“Penguins”) Bikers Meeting; “**Quermesses das Embaixadas**” (“Embassy Charity Sale”), an initiative organised by the International Association of Spanish Diplomats, the Kanzenze Mission (non-profit organisation managed by the Pureza de Maria Nuns in the Democratic Republic of Congo); “**En marcha por la parálisis cerebral**” (“Running for cerebral palsy”), a race organised by the NGO “**Coração sem Fronteiras**” (“Heart Without Frontiers”); and “**Kilómetros de Solidaridad**” (“Kilometres of Solidarity”), a race organised by the NGO “Save the Children”.

Tourline Express maintained its ISO 9001 certification (quality) and was granted the ISO 14001 Environmental Management certification by the “**Agencia Española de Normalización y Certificación**” (AENOR) (Spanish Standardisation and Certification Agency). This certification recognises the company as a reference within the transport sector in what concerns social and environmental commitments.

By the end of 2012, the Tourline Express network consisted of 242 shops (including 33 own shops), which represents a 6% decrease in the number of franchised shops. In order to compensate for this decrease, Tourline Express increased its own retail network from 25 shops, in 2011, to 33 shops, which caused own traffic to increase from 9% to 21%. The company has also expanded its business by establishing 22 new delivery/collection points, as well as

new sales points, totalling 36 business points at the end of 2012.

Also at the end of 2012, the company started an operational and commercial restructuring process particularly focused on global operation control and network efficiency maximisation.

The results achieved in 2012 were influenced by the adverse economic situation experienced in Spain, reflected by a GDP decrease of 1.5% and an inflation rate of 2.4%, and by the organisational, operational and commercial restructuring process.

The weak Spanish economy and the observed decreases in industrial activity and consumption, allied to the extremely competitive environment witnessed in a very mature, saturated sector, had a negative impact on prices and profit margins. Additionally, the economic crisis forced the company to replace several franchised shops that had no other option but to close.

The number of items transported by Tourline Express increased to 9.3 million, which corresponds to a stabilisation in relation to the previous year. However, the product mix has been continuously deteriorating, with less costly services accounting for an increasingly greater percentage of the services provided, a trend observed in the entire CEP market.

CTT have been operating in **Mozambique** since October 2010, through CORRE – *Correio Expresso de Moçambique* (Mozambique Express Mail), a company in which CTT has a shareholding of 50%, the remaining 50% of share capital being held by the Mozambican Postal Operator.

CORRE focuses on the collection, processing, transport and delivery of urgent documents and goods in the Mozambican and international markets. Additionally, the company provides courier, transport and logistics services.

The company intends to achieve a leading position in the Mozambican express mail market in the short term, whereas its objective in the medium term is to become one of the most important Mozambican players in the international express mail market.

CORRE has been expanding its business to all parts of Mozambique, owning an operating centre in Maputo, two own shops and a post office at the Maputo airport. The company also owns sorting centres and shops in the cities of Beira, Nampula, Tete, Pemba, Lichinga, Xai-Xai and Quelimane, having also started to collect and deliver products sent by transport operators in Maxixe, in the Inhambane Province.

CORRE products and services are available all across Mozambique, at all post shops, which has contributed to the fast expansion of its business.

During its participation in the first EMS Cooperative Symposium, which took place in Johannesburg, in June, CORRE had the opportunity to forge a closer relationship with SAPO-*Correios da África do Sul* (South African Postal Operator), which resulted in the company being allowed to use SAPO's traffic services through Johannesburg and to a series of destinations. In this sense, CORRE expects to implement an international delivery solution based on two operators, namely CTT-Correios de Portugal (Portuguese Postal Operator), to European destinations, and SAPO-Correios da África do Sul, to all other destinations.

It was also in 2012 that CORRE achieved excellence status as a provider of services to the various banking networks.

3.3. FINANCIAL SERVICES

Revenues for this segment reached 54.4 million Euros (8% of the total consolidated revenues) in 2012.

The **Financial Services** provided by the CTT shops generate revenues of amounting to 40.8 million Euros, which corresponds to a 2.5% decrease in relation to the previous year. The amounts handled decreased by 23.2%, to 17.4 billion Euros, while the number of transactions performed decreased by 5.1%, to 50.8 million transactions.

Taking the economic recession currently experienced into account, CTT's Financial Services remained fairly unaffected by the economic cycle, not only for providing essential services, but also due to the quality of the solutions offered and the strong relationships CTT has managed to forge with its customers, essentially based on trust. However, business was not particularly stable or uniform in 2012, when considering the various product types; in the Savings segment, business increased by approximately 8%, while it decreased by 2.3% and 6.7% in the Money Transfer and Service Payment segments, respectively.

Despite the adverse economic situation already described, the financial products and service portfolio was increased and revitalised, in accordance with CTT's strategy, which aims to strengthen the company's status as a reference financial operator in the Portuguese market, particularly through the following evolution and initiatives:

Savings and Insurance

- Financial insurance brokerage

The amount invested reached 360 million Euros, corresponding to capitalisation funds, unit-linked insurance plans and retirement savings plans, corresponding to a 38% increase in relation to 2011, which catapulted CTT into a leading position within the financial insurance market. Therefore, CTT achieved recognition as one of the most important brokers in

the financial insurance market, having surpassed some of the largest banking networks.

- Non-life insurance brokerage

CTT continued to increase its offer within this market segment, having launched Postal Proteção Viver + (Life Protection +), an innovative accident insurance policy aimed at senior citizens, which is the sixth in a range of new products launched in only 3 years. CTT also launched “Caçadores” (“Hunters”), which was very well received by the corresponding target market all over the country.

Service Payment

- Toll payment

Business in this new Service Payment market increased with the launching of new services that contributed to a 27% increase in revenue, namely payment through the ATM network, a service launched in May, and the Toll Card, a service launched in July, aimed at the international segment (vehicles with foreign licence plates).

- Payment of other services

Several initiatives were developed together with the Bank of Portugal and SIBS Forward Payment Solutions, with a view to materialising the competences defined in Decree-Law 317/2009, of 30 October, which established CTT as an authorised payment service provider. Within this scope, the aim of the aforementioned initiatives was to create a global payment service offer, both including payment at branches and remote payments, in order to promote CTT’s business within this segment.

International Money Orders and Transfers

- International money orders

With a view to achieving the strategic goals of expanding and modernising business within the international segment, contracts and agreements continued to be signed with foreign operators in 2012 for the processing of international money orders. As a result, the existing network already involves operators from more than 30 countries.

- International transfers

Close collaboration with Western Union, a world leader in the money transfer sector, was maintained, with special focus on the “Estique o seu dinheiro até quem mais gosta” (“Let your money reach your loved ones”) campaign, organised in July and August, which contributed to a 2% increase in the number of transactions and a 5% increase in revenue for this business segment, even in the adverse economic context experienced.

CTT’s financial services also include the services provided by **PayShop Portugal**, one of its subsidiaries. In 2012, the services provided by PayShop Portugal, such as mobile phone top-ups (national and

International), online sale of public transport tickets, pre-paid e-cards and integrated online payment solutions, also contributed to consolidating CTT’s position within the service payment market.

In 2012, 54.7 million payments were processed (-2.5%, relative to 2011), which corresponds to a 5.2% decrease in revenue, to 15.0 million Euros.

The decrease in mobile phone top-ups, with 2.1 million fewer transactions than in 2011 (-7%), can be explained as a result of the cost reduction measures adopted by operators and the decrease in consumer disposal income, which forced consumers to cut down on mobile communications.

Bill collection, online payment services and toll payment services showed a positive evolution, although not sufficient to offset the decrease in mobile phone top-ups, which remains the main service provided by PayShop.

At the end of the year, the PayShop network consisted of 3,966 sales points (28 fewer shops than at the end of 2011) and 541 entities were involved in the payment services provided (an additional 42 entities), with the PayShop network having reached its natural dimension.

The quality of the services provided to customers, agents and users remained high, which resulted in high confidence and satisfaction levels. PayShop continues to be a very popular option for paying utility bills, second only to the ATM service.

The company was registered with the Bank of Portugal as a Payment Institution in 2011, a step essential to its business, since the services provided fall under the scope of the Legal Regime Applicable to payment Institutions and Payment Services (Decree-Law 317/2009, of 30 October).

3.4. BUSINESS SOLUTIONS

Consolidated revenues for this business segment reached 19.5 million Euros in 2012 (3% of the total consolidated revenues). CTT continued to focus on hybrid communication solutions by developing offers that combine physical and digital communications. In terms of organisation, dispersed competences were brought together in order to achieve increased coordination, focus and value.

- Mailmanager and Integrated Solutions

In 2012, the mailmanager service renewed its quality certification according to the EN EP ISO 9001:2008 standard. Digitisation, cataloguing and information capture solutions, as well as integration of information in customer IT systems, are frequently sold together with physical or digital archiving solutions, or certified document destruction.

Integrated solutions were developed for strategic customers in 2012. This entailed a needs survey and the development of unique solutions, based on CTT products and services and taking advantage of CTT's unique competences and skills in the document management and production market. Internal and returned mail processing solutions, recorded delivery, invoice and questionnaire processing, integrated management of notifications and collections, development and management of marketing campaigns, and proximity solutions, all based on CTT's extensive service and delivery network, stand out amongst countless solutions developed for a wide variety of business sectors.

• Electronic Mail Box (ViaCTT)

ViaCTT consists of an electronic mail box running on a robust and safe technological platform, which allows users to receive electronic mail from a series of entities previously selected, at no charge. This service also allows users to make or schedule payments, as well as save any documents received. By the end of 2012, more than 1 million users and 50 entities were registered.

The number of registered ViaCTT users increased significantly as a result of the 2012 State Budget, which imposed the obligation of creating an electronic mail box, to be subsequently registered with the Tax Authority, to specific taxpayer groups, such as IRC (Corporate Income Tax) payers and VAT payers.

• Geographical Solutions

Simultaneously with the continuous improvement of its reference geographical databases, the Geographical & Postal Information area has been promoting a diversified geoservice offer, based on CTT's competitive advantage and its reputation as an active player in the geographical information and addressing market. In fact, this reputation has earned CTT nominations to the World Mail Awards and the 2012 Technology International Awards. Additionally, the "Geomail – Geographical Information Mail" project received a Highly Commended certificate. CTT continues to provide a series of geographical information solutions that allow companies to make informed decisions. By the end of 2012, the GEO10 project was already able to georeference 2.5 million doors (44% of the total) and approximately 4 million addresses, which corresponds to 18% of the geographical area and 66% of the population.

• Document Production

Mailtec Comunicação, a CTT subsidiary, is the market leader in document production in Portugal. In 2012, Mailtec Comunicação renewed agreements with some of its main strategic customers and started using a new continuous-mode colour printing technology. The company also improved its range of multi-channel communication solutions (physical and digital). In 2012, the company renewed its quality (NP EN ISO 9001) and environmental (NP EN ISO 14001) certifica-

tions and continued to use FSC (Forest Stewardship Council) (FSC-STD-40-004) materials.

Mailtec Consultoria obtained quality (NP EN ISO 9001) and information security (ISO 27001) certifications, having positioned itself as a reference supplier of IT solutions for managing business documents. The company provides a wide range of solutions covering the entire life cycle of business documents, including formatting of documents for printing or emailing, digitisation, optical recognition, digital archiving, document management, business process automation and online publishing. In 2012, the company continued to develop the Cyclos solution, which includes a basic billing solution for water operators, production of invoices for final consumers and integration with collection and payment management, meter reading and call center services. Based on the Easy Mail Notifications service, launched in 2011, Mailtec Consultoria developed an integrated infraction processing system – STICO – Sistema de Tratamento Integrado de Contra-Ordenações – in 2012, whose first version was implemented in March.

• Document Custody and Archiving

EAD is a CTT company whose core business is the custody and management of intermediate document archives in their original format, at specific premises equipped with suitable technological resources, and their subsequent destruction at the end of their useful life. The company also provides consultancy services in document sciences, digitisation services, images on ASP, custody services in high-security vaults and optical supports, disaster recovery plans, safe archive and document recycling services, and the implementation of workflow tools specifically designed for each customer/flow or process.

In 2012, digital document management decreased considerably; however, physical document management increased. Custody services increased, with a greater number of boxes in storage, despite a considerable reduction in margins, as a result of market pressures. Document recycling and current archives increased as a result of increasing environmental concerns and the need to resort to specialised professionals. Recently, EAD expanded its business to Spain, in partnership with Tourline Express, the CTT company that operates in the Spanish express mail market, and other local partners.



Ever more with the companies

Managing **companies** is about defining objectives to make them as efficient as possible. Thus, there is a **need to optimize procedures**, reduce all unnecessary costs and maximise profit. At this critical time, companies need above all integrated solutions which ensure the maximum efficiency and effectiveness of their structure. At this time, what companies need is for CTT solutions **to be ever more present.**

Ever broader.

Ever more present.

4



Customers

4.1. LARGE CUSTOMERS

The Large Customers unit is responsible for managing and coordinating all aspects of CTT's business involving large customers, both in terms of volume and product diversity, in order to ensure business continuity and integration.

Key Account Managers are responsible for offering global, integrated service solutions, based on the CTT value chain, with a view to achieving the following goals:

- increased business and profitability;
- increased sales efficiency and effectiveness, with special focus on credit risk management and control;
- increased customer loyalty through increased service value and the offer of new services;
- increase in product and solution cross-selling.

Key account managers are responsible for managing a customer portfolio including 56 strategic customers, divided into business sectors: remote sales, large-volume delivery, publishing, banking and insurance, telecommunications, utilities and the State.

The trend towards economic contraction and the consequent need, by businesses and State entities alike, to urgently adopt effective cost reduction measures have led to changes in business processes and administrative management procedures, in line with the measures defined in the economic and financial adjustment programme (PAEF). These circumstances have led to a decrease in the use of mail and associated services, and to the adoption of innovative solutions that replace physical communication technologies with digital solutions, which are less costly.

A considerable decrease in mail volume was observed for large customers (50% of total mail revenues), with decreases by business sectors reaching 8% for banking and insurance, 15% for publishing, 10% for telecommunications and 12% for remote sales. Total mail traffic for strategic customers decreased by 33 million items in relation to 2011.

Special emphasis must be given to the continuous efforts undertaken by CTT in order to provide global, differentiating solutions, based on CTT's value chain, to all customers, with special focus on integrated and digital solutions, as well as direct marketing strategies based on CTT's competences.

The quality of services provided to Large Customers is monitored through operational control procedures implemented throughout the entire value chain. These procedures are specifically designed for detecting non-compliance in operational processes, proposing corrective measures aimed at improving operational

performance, and ensuring compliance with all requirements agreed with this customer segment.

In this context, a series of indicators was defined and operational quality reports produced and divulged to the various operational management areas in 2012, namely the following:

Direct Mail campaign monitoring – monitoring of approximately 180 direct marketing campaigns and approximately 25 million direct mail items, and subsequent reporting to commercial and operational areas;

- Operational control of Global Solutions – weekly monitoring and evaluation of SLAs (Service Level Agreements), by assessing the quality of services provided to Global Solution customers, considering the following stages in the value chain: production (printing & finishing), acceptance and release, processing, delivery and mailmanager.

Finally, a review of payment conditions, such as credit and payment deadlines, was started in 2012, in order to establish clear rules and procedures, suitable to this customer segment.

4.2. RETAIL NETWORK

Offer and Business Strategy

The retail network, which represents the largest commercial network in Portugal, is responsible for providing customer services and managing direct sales. The company has sought to increase the value of this important asset by turning it into a convenient, multi-service network, and focusing on sales, while ensuring full observance of the obligations associated with universal services.

CTT's business strategy is based on three fundamental aspects:

- Promotion of the mail business, by focusing on excellence, service quality, proximity to customers and knowledge of customer needs, with a view to ensuring increased productivity levels;
- Focus on proximity as an important factor for increasing savings and investment product sales, as well as on a wide range of insurance and payment solutions, presenting itself as an alternative to the banking sector. The partnership with Western Union also provides the company with a unique, close channel for urgent money transfers to all destinations;
- Creation and development of convenient businesses and services, in addition to mail services, driven by proximity.

In 2012, the retail network was managed with the following goals in mind:

- To increase revenue per customer, by promoting value added products and services and launching promotional campaigns, as well as by enlivening the existing points of sale.

- To rationalise and reorganise the customer service network within the scope of the Cost Reduction/Transformation Programme, with a view to adjusting service offer to actual customer needs, through the following measures:

- transfer to third parties of low-traffic CTT post offices, as well as post offices with part-time opening hours and oversized post offices, considering the areas served;
- adjustment of CTT post offices opening hours to customer needs, including weekends;
- reassessment of existing post offices, with a view to eliminating low-traffic offices and redundant services;
- renegotiation of post office licensing conditions and rates.

At the end of 2012, the retail network consisted of 5060 establishments, including 741 CTT establishments (718 post offices, 15 outside post counters and 8 mobile post offices), 7 partner offices, 1814 postal agencies and 2498 stamp selling agencies. The two last categories usually operate under the responsibility of third parties, with Parish Councils being responsible for approximately 20% of these points, through service provision or resale agreements.

In order to complement the services provided at post offices, CTT has installed 406 automatic stamp vending machines and 21 automatic mail product vending machines, some of which are available 24 hours per day.

CTT received the Gold Award at the 14th edition of the Creativity Festival organised by the *Clube de Criativos de Portugal* (Portuguese Creativity Club), in the Design & Store Equipment category, for the CTT post office located at Parque das Nações, in Lisbon, an innovative project that allies concepts such as 24-hour service, process and service dematerialisation, self-service and eco-friendly materials.

In 2012, CTT post offices were visited by an average 141 thousand customers per day.

Approximately 550 post offices were involved in the service certification process, i.e., an additional 115 post offices compared to 2011, which corresponds to about 2/3 of customer services.

The operating model adopted for the retail network represents an investment in the competences and skills of local managers, focusing on their commitment to achieving operational and financial results in line with the goals set by CTT.

The Counter Service Recognition Programme continued to be implemented, with a view to rewarding the teams showing the greatest commitment to achieving the following goals: (i) quality, (ii) cost reduction, and (iii) revenue increase, by focusing on value added products and Universal Postal Services.

Regarding the range of products and services provided through this network, special attention was given to the following issues in 2012:

savings products, particularly capitalisation funds, for which demand has been high;

- online sales of savings certificates and treasury bills;

- sales of electronic registration devices;

- photocopy certification services;

- Western Union services for urgent money transfers;

- sales of stationery, books, cards for all occasions and merchandising;

- sales of tickets for events;

- water meter reading service;

- sales of lottery tickets, in partnership with Casa da Sorte.

Telecommunications

Telecommunications products are widely popular amongst retail products. Although the Phone-ix business decreased slightly compared to 2011, the extremely important role played by CTT in the migration to the Digital Terrestrial Television (DTT) service ensured an increase in the telecommunications business and allowed CTT to focus on its proximity to customers, which clearly increased company value and contributed to consolidating its reputation.

Following the efforts undertaken in 2011, CTT continued to play an active role in the migration to the Digital Terrestrial Television service in 2012, not only by selling the equipment required, but also by providing support and information to the population, in partnership with ANACOM, having actively contributed to the success of the final migration, on the past 26th April.

Regarding mobile communications and despite the difficulty in countering adverse trends, customer loyalty increased, as did migration from other operators and the exclusive use of the Phone-ix network. CTT's efforts to increase the communications business at its retail network resulted in increased cost-effectiveness and allowed the company to promote "*Família Poupa*" ("The Thrifty Family"), a regular feature in all Phone-ix products whose presence led to increases in brand value and customer loyalty.

New Products and Services

In order to increase product and service diversity, with a view to promoting and modernising the retail network, a few events were organised in the following areas: tourism and regional events, citizens' support services and new retail product ranges, including appliances and multimedia products.

The following initiatives aimed to promote CTT post offices as convenient, multi-service, attractive post offices, as well as attract younger customers:

- Organisation of the 6th edition of the "*Onde te leva a imaginação?*" ("Where does your imagination take you?") competition at schools, in partnership with the Plano Nacional de Leitura (PNL) (National Reading Plan). Under the motto "Imagina um Portugal melhor" ("Imagine a better Portugal"), this edition focused on social responsibility and CTT's initiatives within this scope, allowing children to become familiar with this concept. A total of 237 schools and 16,428 students participated in this competition, in which 6,558 projects were entered. As with other awards and previous editions, winners will have the opportunity to see their work reproduced on stamps, in the "*Correio Escolar*" ("School Mail") issue;
- Establishment of a partnership with Coca-Cola during the European Football Championship, where CTT were the exclusive point of exchange of tops for Euro 2012 stickers. A partnership was simultaneously established with Panini whereby CTT became a sales point for UEFA EURO 2012™ albums and stickers;
- Expansion of the ticket sales service, through partnerships with new promoters and exclusive sales agreements;
- Organisation of themed campaigns aimed at promoting postal and other products (Sales, Valentine's Day, Father's Day, Book Fair, Mother's Day, Euro 2012, Happy Days, Children's Day, Back to School and Christmas), as well as autograph sessions, reading of children's stories, indoor and outdoor events and "meuselo" ("mystamp") on time;

- Focus on the partnerships already established with UNICEF, concerning sales of Christmas cards and gifts; FENACERCI – *Federação Nacional de Cooperativas de Solidariedade Social* (National Federation of Social Solidarity Cooperatives), for selling "*Pirilampo Mágico*" ("Magical Firefly", a charitable initiative whose proceeds are donated to disabled and disadvantaged children); and *Cruz Vermelha Portuguesa* (Portuguese Red Cross) (Oporto delegation), for selling a kit launched with the "I Help with My T-Shirt, and You?" campaign.



Ever more innovative

Every day CTT makes a commitment to go one step higher, to go a bit further. This is how it positions in the market, surprising its customers and becoming ever more competitive. Its focus is on **innovation**, the main reason it is ever more present. This is the basis of its greatest presence **in the life of its customers.**

Ever more visionary.

Ever more present.

5



Quality, innovation
and sustainability

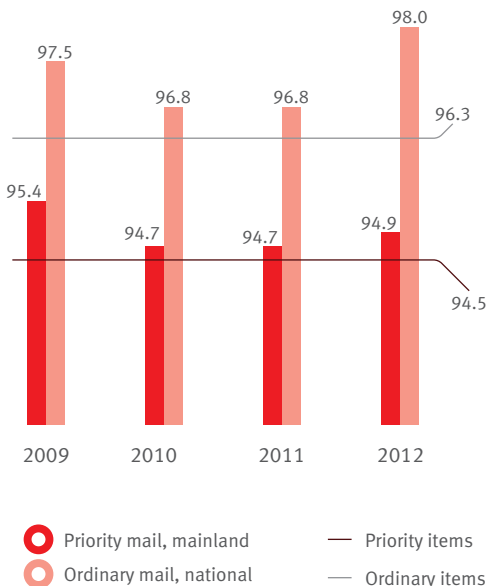
5.1. SERVICE QUALITY

In 2012, CTT’s operational performance levels continued to be high, with an Overall Quality Index of 255.4 points, which considerably exceeded the 100-point target and represents an 80-point improvement relative to 2011.

These results were achieved in an adverse context, marked by several labour disturbances, namely general strikes, on 22 March and 14 November, which somewhat affected service quality results.

SERVICE QUALITY

Domestic Mail Quality Standards



Overall Quality Index

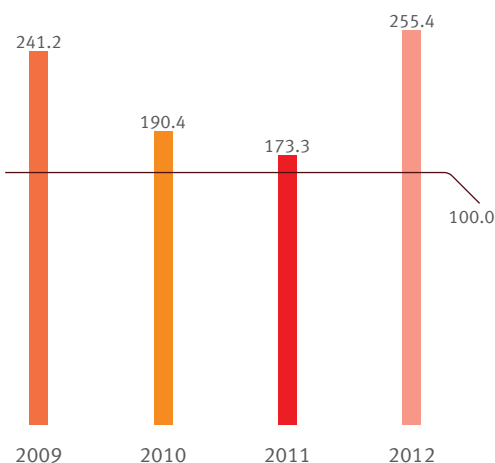


Figure 3

All targets were met, since the results achieved for all performance indicators exceeded the minimum levels required.

International mail performed well compared to European partners. The quality targets set according to the European Union Directive for the postal sector were largely exceeded. When compared with other European providers of the Universal Postal Service, CTT stands out for the superior services provided, in terms of customer service, operations and delivery.

Results are shown in the following table:

Quality Level	Minimum	Target	Score
PRIORITY MAIL			
% Delivered on the following day (Mainland)	93.50	94.50	94.90
% Delivered within two days (Azores and Madeira)	84.00	87.00	94.20
% Delivered within ten days	99.75	99.85	99.85
ORDINARY MAIL			
% Delivered within three days	95.50	96.30	98.00
% Delivered within fifteen days	99.77	99.86	99.86
Newspapers and Periodical Publications			
% Delivered within three days	95.50	96.30	97.30
INTERNATIONAL MAIL			
% Delivered within three days	85.00	88.00	94.80
% Delivered within five days	95.00	97.00	99.20
PARCELS			
% Delivered within three days	90.50	92.00	96.70
WAITING TIME AT POST OFFICES			
% Customers assisted within 10 minutes	75.00	85.00	90.90

Efforts continued to be undertaken in order to implement integrated management systems that, in addition to quality, also include environmental and safety measures, in the most relevant cases. All existing ISO certifications were maintained or renewed by Sorting Centres (quality and environment), CTT Expresso and EAD (quality, environment and safety), Tourline and PostContacto (quality) and Mailtec Comunicação (quality, environment and FSC chain of custody).

Concerning the COC – *Centro Operacional de Correio do Centro* (Central Sorting Centre), the three existing Management Systems (MS) were merged into a sole multi-site MS. Additionally the scope of the safety component was widened in order to include the COC Norte – *Centro Operacional de Correio do Norte* (Northern Sorting Centre).

Tourline completed its environmental certification process and Mailtec Consultoria completed its certification process concerning quality and information security. The test mail and mailmanager services maintained their quality certifications.

Finally, approximately 859 business establishments (309 postal delivery offices and 550 post offices) underwent the service certification process, i.e., an additional 155 establishments compared to 2011.

The Committed to Excellence level, set within the scope of the Excellence Model of the European Foundation for Quality Management (EFQM), was renewed

in 2012, for 2 years, by the Associação Portuguesa para a Qualidade (APQ) (Portuguese Association for Quality), for the entire mail delivery and retail network, both in the Mainland and in the Autonomous Regions (Azores and Madeira).

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

Contact Center

The telephone (75%) and email (25%) were the options preferred by customers for contacting CTT through the Contact Center; however, the trend is for email to progressively take over from telephone calls.

A total of 559,537 telephone calls were made in 2012, which represents a 4% decrease relative to the previous year. In general terms, a decrease was observed for most services, with the exception of Via CTT, complaints and the toll payment service.

Of all telephone calls made, 91% were answered in less than 60 seconds.

Approximately 189,018 emails were received, which represents a 43% increase relative to the previous year, with special focus on ViaCTT (+343%), the virtual store (+30%) and complaints (+8%).

The average reply time for the email channel was shorter than 48 hours.

Since all corporate taxpayers were required to register with the Tax Authority through the ViaCTT service, use of the contact channels dedicated to this service increased by over 1,000%, which forced CTT to mobilise additional resources and reorganise Contact Center operation.

New services were simultaneously implemented, which required additional efforts by the Contact Center in order to adjust to their specific characteristics and provide effective customer support:

Provision of support to customers and post offices concerning requests for exemption from paying the user fees charged by the National Health Service, a new service provided by the CTT retail network;

- Redefinition of toll payment procedures, as a result of the establishment of new toll points on motorways and the implementation of a payment service through the ATM network, which led to an increasing need for customer support and clarification.

5.2. INNOVATION AND DEVELOPMENT

CTT has been preparing to meet the challenges entailed by replacement, globalisation, liberalisation and, more recently, privatisation, processes, with a view to achieving excellence in all business areas and strengthening its positioning as the communications hub that best meets the physical and digital communication requirements of citizens, businesses and public entities.

In this sense, several projects were developed in 2012, namely the following:

- Design of an integrated, modular e-commerce solution, with a view to meeting corporate needs, starting with the needs of SMEs; this solution is already available within the scope of government initiative Digital SME, currently in course;
- Following up of the efforts undertaken by the PTC/AESUG – Postal Technology Center/Advanced Electronic Services User Group, a UPU working group;
- Addition of new services to the toll payment service portfolio, namely through the following initiatives:
 - Launching of a new toll payment service for vehicles with foreign licence plates, consisting of pre-paid toll cards, valid for a year. Cards can be subsequently topped up according to set amounts, at CTT post offices or online, at www.tollcard.pt, using a credit card;
 - Launching of a new toll payment service through the ATM network whereby SMS messages are used to send payment references to customers;

– Introduction of changes to the toll payment service in order to integrate the new EasyToll product developed by *Estradas de Portugal* (Portuguese Roads), which allows the owners of vehicles with foreign licence plates to make toll payments using their credit cards.

- Completion of the upgrading process concerning the MDDE – *Marca do Dia Eletrónica* (Electronic Post Mark) service, with a view to providing CTT with competitive email services, through the introduction of new features;
- Development of mechanisms aimed at promoting creativity and innovation, through the Permanent Innovation & Creativity Forum;
- Preparation of a CTT project involving a series of proposals concerning postal operations, corporate solutions and payment solutions, to be submitted to the SIFIDE – *Sistema de Incentivos Fiscais em Investigação e Desenvolvimento Empresarial* (Corporate Research & Development Tax Incentive System), which allows companies investing in R&D to deduct these expenses on Corporate Income Tax returns.
- In-house development of marketing solutions for products and services, namely the following:

- Personalised communications solution (Transpromo), which allows customers to insert personalised messages, promotional or other, in transaction-related documents;
- Physical communications solution (Easymail), operated remotely, which allows mail to be sent in a simple, integrated manner;
- Global solution (Cyclos), a customer management solution for water operators, including meter reading, billing, invoice printing, finishing, mailing and collection services;
- Improvement of the ViaCTT infrastructure, in order to meet the substantial increase in business and number of users.

The following IT projects assumed special relevance in 2012:

- Technological updating of the telecommunications network at post offices – 488 post offices where a communications solution based on RDIS technology was used underwent a migration process to a new VPN@ADSL 512/384Kbps solution, which resulted in increased availability and reliability, as well as allowing cost reductions.
- Updating of the CTT counter service network (Nave) installed at CTT post offices and postal agencies, which entailed the replacement of old equipment with modern equipment, with more advanced technical characteristics and significantly lower energy consumption. Additionally, this process allowed a reduction in the number of devices installed and the

updating of the Windows operating system and NAVE software.

Installation of the new solution (hardware and software) was initiated in April, at post offices, and May, at CTT post offices. Rollout was completed in November 2012, consisting of 1,486 installations, of which 738 were performed at CTT post offices and 748 at postal agencies.

- Extension of the scope of the new bank reconciliation and cash pooling platform, in order to include the bank accounts of CTT companies, namely CTT – Expresso, S.A. and the Mailtec Group.
- Implementation of a new Human Resources management platform whereby all available features were distributed by three different applications: HR-Access, CallPoint and TMS (Training Management System).
- Updating of the technological infrastructure, upgrading of the SAP R/3 system used in all CTT areas and upgrading of the operating system. Together with the SAP Archive project, this initiative resulted in a decrease of approximately 40% in the space occupied by the database.

It should also be highlighted that the IT infrastructure management agreement signed with IBM was renegotiated and a 14% lower price agreed, effective from January 2013.

5.3. SUSTAINABILITY

CTT published their Annual Sustainability Report for the eighth consecutive year in 2013, available online at www.ctt.pt. As in previous years, CTT reviewed the targets set for the previous year, in the chapter dedicated to commitments, having also set about 50 new targets, to be achieved in the short and medium term, concerning all three pillars of sustainability.

Following review of the Sustainability Report by an independent entity, according to the GRI methodology, the company maintained the A+ rate achieved for the first time in 2009. In the current year, this review focused for the second time on three CTT companies (CTT Expresso, EAD and Mailtec), having also focused on a greater number of indicators, with a view to increasing reporting rigour and transparency.

CTT continued to consolidate its eco-friendly positioning throughout 2012, as well as organise several initiatives within this scope. In this sense, it should be mentioned that traffic and revenues concerning eco-friendly Green Mail increased (6.2% and 9.5%, respectively), and that CTT was the first Portuguese company to test the new Renault Kangoo Z.E., a 100% electric vehicle with interesting features and great potential, within the scope of a protocol signed with Renault Portugal.

Regarding this pillar of sustainability, environmental management systems were extended to include new areas, with all existing areas having been maintained, namely energy efficiency and climate change, emissions inventory, carbon reporting, rationalisation of consumption, waste management, eco-friendly purchasing, sustainable marketing, biodiversity and environmental education and awareness. Positive results were achieved, with a reduction in consumption estimated at approximately 5% and a similar reduction in emissions.

In order to promote the company's eco-friendly attitude, the World Environment Day was celebrated on 5 June, in Lisbon and at other company premises, with a view to alerting employees to the need to preserve the planet, through the actions of each and all individuals, both as citizens and professionals.

Several initiatives were also developed by senior management with the various stakeholders in mind. Regarding customers, the company continued to focus on the direct management of large customers by Key Account Managers, with accounts being managed by market segment. The year ended with a record value of more than 70% customers satisfied with company services in general (and only 6% dissatisfied customers); the percentage of satisfied customers reached almost 80% for the mail delivery service and almost 90% for customer services.

Customer complaints continued to be a useful tool, both in terms of continuous improvement and monitoring of customer satisfaction, allowing the company to detect and correct any operation cycle failures. Similarly to the previous year, complaints by Portuguese customers were solved on average in 6.5 days, whereas complaints by foreign customers were solved on average in 31 days.

A total 91,940 information requests and complaints were received in 2012 (+15% relative to the previous year), of which 90,592 were solved (+14% relative to the previous year). This increase resulted from a greater number of requests for information concerning the status of particular items, failures in the Portugal-Brazil flow and changes to the company's operating model.

In order to increase customer satisfaction, the company launched new products, aimed at meeting market needs, with special focus on digital solutions (in order to promote customer business) and capitalisation funds. A market leader, second only to its business partner Fidelidade-Mundial, CTT launched three new saving plans – “*Postal Mais Futuro II*” (“Postal More Future II”), “*Postal Praemium*” and “*Postal Futuro Junho – 2014*” (“Postal Future June – 2014”), which offer very competitive rates within the current context. Nowadays, CTT is clearly recognised as an alternative to banks in terms of investment and savings.

Regarding employees, several focus group sessions were organised in 2012, involving representative employee groups.

Several events were also organised. A series of initiatives were especially aimed at postmen, namely the “Qualidade Acrescenta Valor” (“Quality Adds Value”) sales workshop and the internal launch of “Portugal Connosco – O Olhar dos Carteiros” (“Portugal with Us – The Postmen’s View”), at various points across the country. This pioneering initiative involved the participation of thousands of postmen, who were given a camera to capture images of their everyday life. This initiative proved to be very popular, with results exceeding expectations, both in terms of the dynamics involved and the awards and distinctions received.

Several initiatives were also organised for employees in general, namely two Innovation & Creativity Forums, a cardiovascular disease prevention campaign, in partnership with the *Fundação Portuguesa de Cardiologia* (Portuguese Heart Foundation), which took place in various points across the country, and two Occupational Health, Safety & Hygiene appointments. The latter revealed that satisfaction with working conditions increased by 5%, having reached 80.5%.

Amongst other initiatives aimed at employees and their children, CTT created the CTT School Library, with a view to promoting schoolbook exchange between employees with children in elementary or secondary school. A total of 90 families managed to obtain the schoolbooks they needed through this initiative.

Several competitions were also organised with a view to promoting employee interactions, both between themselves and with the company. An increasing number of employees are willing to participate in this type of initiative. Regarding work-life balance, the company offered enrolment fees for participation in the Women’s Race, family tickets to Kidzania, on Mother’s Day, and family tickets to the Zoo.

The company also undertook efforts in order to increase its involvement in social issues, of which the best example is its collaboration with “DariAcordar”, an organisation aimed at eliminating food waste, through a cooperation protocol whereby CTT loans two senior staff members to work full-time for this organisation for one year, in order to support coordination and operationalisation efforts.

An initiative in which disadvantaged children from 50 institutions wrote 2,059 letters to Santa Claus, “*Pai Natal Solidário*” (“Solidarity Santa”), was also organised in 2012.

Work continued on the “*Projeto de Luta contra a Pobreza e a Exclusão Social*” (“Project Against Poverty and Social Exclusion”), launched in 2008. Donations were handed to 25 institutions (33,450 packages) and several campaigns organised, namely “*Um Livro por um sorriso*” (“A Book for a Smile”), where 200 thousand books were collected at shops to be donated to East Timor; “*Vamos Abraçar a Saúde*” (“Let’s Embrace Health”), where medical and nursing supplies were collected to be donated to the Ayres de Menezes Hospital, in São Tomé and Príncipe; and an initiative where food and personal care items were collected to be donated to “*Banco do Bebê*” (“The Baby Bank”).

The “*Carteiro Solidário*” (“Postman Solidarity”) initiative was also organised, where surplus goods were donated to associations that distributed them by disadvantaged individuals.

The company also developed governance, economic, environmental and social actions, of which the following should be highlighted:

All existing certifications in CTT areas, as well as the mailmanager and Test Mail services, were maintained;

- Certified environmental management systems were maintained in the most sensitive areas, namely Sorting Centres in the North, Centre and South, and several subsidiaries (CTT Expresso, Mailtec and EAD); a new certification was also obtained (Tourline);
- The scope of service certification in post offices and postal delivery offices was extended, currently including 550 post offices, which represent 2/3 of customer services, and 309 postal delivery offices, which represent 95% of mail delivery;
- Governance rules were implemented within the scope of the financial product business, in compliance with the principles defined by the Bank of Portugal;
- The energy certification process was completed for the largest buildings owned by CTT, which amount to more than 50. The energy saving opportunities identified during this process will allow savings in excess of 700 thousand Euros per year. The corresponding measures will be implemented progressively within the scope of Energy Rationalisation Plans;
- Electric vehicles were tested and purchased (two new four-wheel vehicles for delivery in urban areas, with capacity of 2.2m³ and autonomy of 100 km), and the heavy-duty fleet, consisting of 26 vehicles, was renewed according to the EURO5+EEV standard, in compliance with the most stringent EU emission standards. Additionally, 150 electric bicycles were purchased and 185 light-duty vehicles were replaced with more efficient vehicles;

- More detailed, reliable information was included in the Management Commitments Scorecard, which sets targets and includes fuel, electricity and paper consumption data, itemised by business unit, with a view to ensuring that sustainability targets are met. This initiative contributed significantly to reducing energy consumption, which resulted in considerable savings;

- Regarding climate change and biodiversity, CTT joined EU initiative Business & Biodiversity and participated in an IPC study on the impact of the postal industry on biodiversity, in addition to continuing to actively participate in the initiatives organised by the Print Power Programme, which aims to promote sustainable use of paper in communications.

- CTT sponsors a cheetah (*Acinonyx jubatus*, an endangered species) at the Lisbon Zoo, which has been named Dakartas by company employees. This animal was symbolically chosen for being the fastest in the world, since CTT intends to achieve a leading position in the markets where it operates;

- Training hours increased by 5%, to 304,477 hours;

- More than 179 employees had their qualifications certified (9th and 12th grades) and 1,126 certification processes were completed. A total of 2,769 employees enrolled, which represents 20% of CTT's employees;

- Twelve technicians from 7 PALOP (Portuguese-Speaking African Countries) and UPAEP – *União Postal das Américas, Spain e Portugal* (Postal Union of the Americas, Spain and Portugal) countries received training within the scope of cooperation protocols with other postal operators;

- Seven newsletters focusing on Hygiene & Safety issues were circulated internally. The list of teams with no work or road accidents between 2010 and 2012 was divulged several times a year, as a motivational aid for business units;

- Work-related accidents decreased by 11% (792 accidents) and the number of days lost decreased by 22% (20,751 days);

- Absenteeism decreased from 7.2% to 6.7%;

- Regarding social responsibility, relevant EU projects were sponsored and new protocols signed, within whose scope 400 thousand Euros were allocated to more than 20 social responsibility initiatives and charitable organisations, namely "*Pirilampo Mágico*" ("Magical Firefly", a charitable initiative whose proceeds are donated to disabled and disadvantaged children), marathons for physically disabled individuals, the Women's Race, the "*Visão*" ("Vision") Magazine in Braille, *Liga Portuguesa Contra o Cancro* (Portuguese Cancer Society), *Abraço* (charitable organisation dedicated to fighting AIDS and helping

AIDS patients), CAIS (charitable organisation dedicated to helping homeless people), *Fundação Portuguesa de Cardiologia* (Portuguese Heart Foundation), *Associação Portuguesa Contra a Leucemia* (Portuguese Leukaemia Association), *Associação Salvador* (Salvador Association), *Refúgio Aboim Ascensão* (Aboim Ascensão Shelter) and Alzheimer Portugal, amongst others;

- Goods adding up to a total 7.2 tonnes were collected by the company within the scope of the "*Somar Para Dividir*" ("Adding Up to Divide") initiative; donated goods were processed and sorted by 44 CTT volunteers, to be donated to 23 institutions in the Mainland and Islands;

- CTT participated in the European Mobility Week with "*De bicicleta para o trabalho!*" ("Cycling to work!"), an initiative organised at the *Parque das Nações* and *Cabo Ruivo* (Lisbon) buildings, where free, safe bicycle parking areas are available. Employees from other locations across the country also joined this initiative;

- Regarding inclusion and accessibility, CTT created the "*Comunicar a Cores*" ("Communicating Colours") stamp issue, dedicated to the colour coding system designed for colour-blind individuals. Additionally, the company installed and remodelled access ramps in order to allow access to CTT post offices by physically disabled individuals;

In addition to organising temporary campaigns, Payshop signed 11 permanent agreements with several institutions for collection of donations at the Payshop network;

- The existing agreement between Tourline and the NGO Save the Children was renewed, with Tourline continuing to be the logistics provider and sponsor of the "*Quilómetros de Solidariedade*" ("Kilometres of Solidarity") Race;

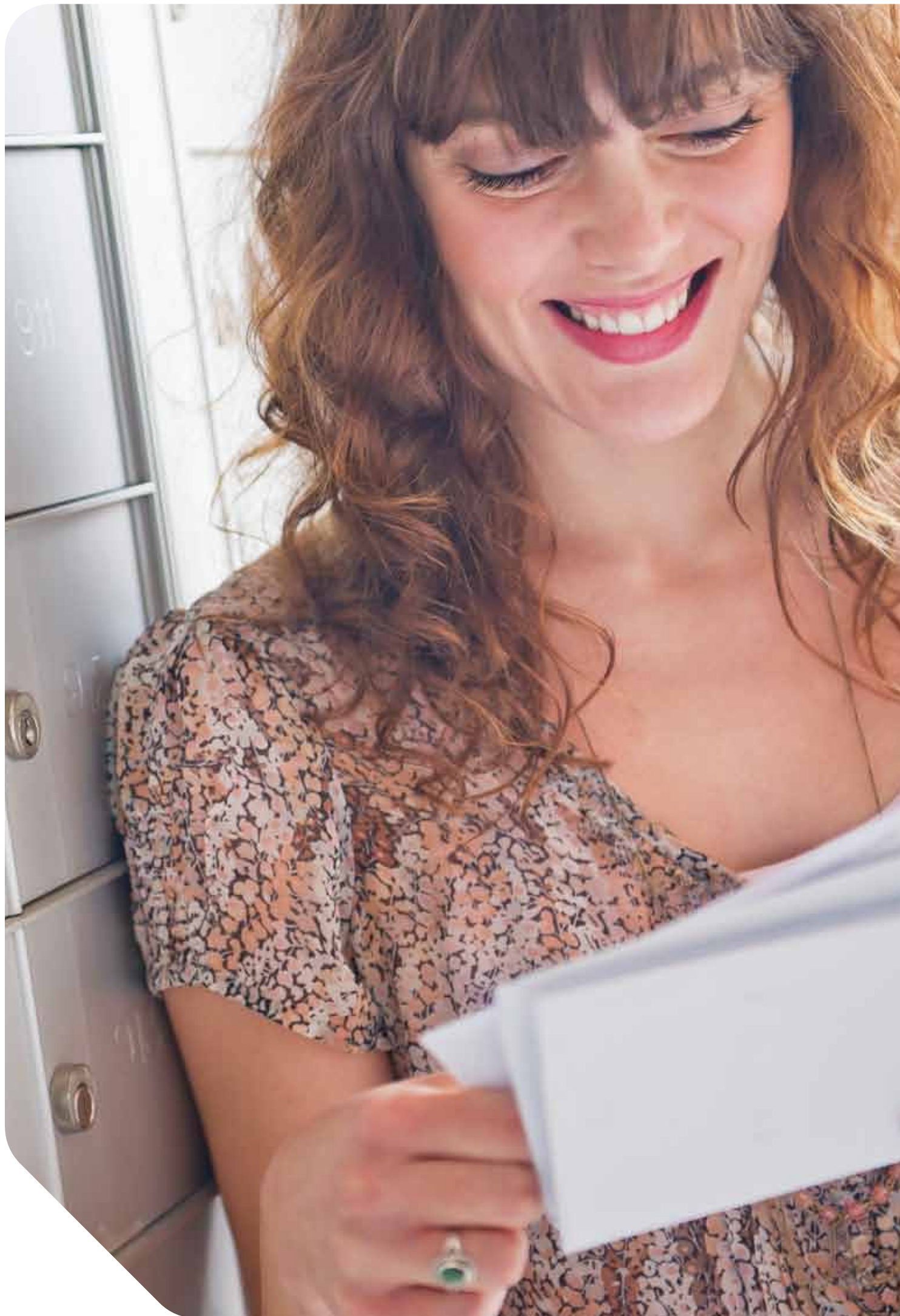
- An amendment to the existing Cooperation Protocol between CTT and API – *Associação Portuguesa de Imprensa* (Portuguese Press Association) was signed at the end of 2012, in order to officially approve the donation of newspapers and other periodical publications to the *Escola Portuguesa de Maputo* (Maputo Portuguese School), in Mozambique;

- A blood donation event was organised, in partnership with the *Centro de Histocompatibilidade do Sul* (Histocompatibility Centre of the South), with a view to screening and recruiting bone marrow donors;

- CTT participated in an environmental and social initiative organised by Ecopilhas where batteries were collected at large company buildings. The proceeds of this initiative are donated to the IPO (*Instituto Português de Oncologia*) (Portuguese Cancer Institute);

- The company organised several voluntary work projects. Three of these projects, organised in partnership with environmental organisation Quercus, aimed to promote biodiversity, namely a weeding out initiative at the Aires and Candeeiros Mountains Park, in order to allow the growth of indigenous species (namely the holly oak); protection of the *Leuzea longifolia*, an endemic species facing extinction, found near Leiria; and conservation of natural habitats in the Albufeira Lagoon. The remaining initiatives focused on social issues, ranging from a partnership with the *Fundação Portuguesa de Cardiologia* (Portuguese Heart Foundation), within the scope of the “*Desafio do Coração*” (“Challenge for the Heart”) campaign, to the “*Pão de Todos para Todos*” (“Bread from All to All”), an event organised together with CAIS (charitable organisation dedicated to helping homeless people) at the end of 2012.

In 2012, 100 volunteers participated in the initiatives organised by CTT, or in which the company participated, having contributed with more than 1,000 hours of work. The number of volunteers currently reaches approximately 500 employees.



Ever more satisfied

The service quality of a company is measured by various indicators, through the acronym SQI on a scale of 0 to 100%. And every month CTT is evaluated in different areas. However, there is a non-numeric parameter that **assures** that CTT is doing a quality work: **the smile of its customers**, ever more present.

Ever more committed.
Ever more present.



Human resources



Human Resources management focuses on three fundamental principles: training, recruitment and retention, taking all social security issues into account.

Professional values and qualities (Figure 4) are an essential part of CTT’s corporate culture.

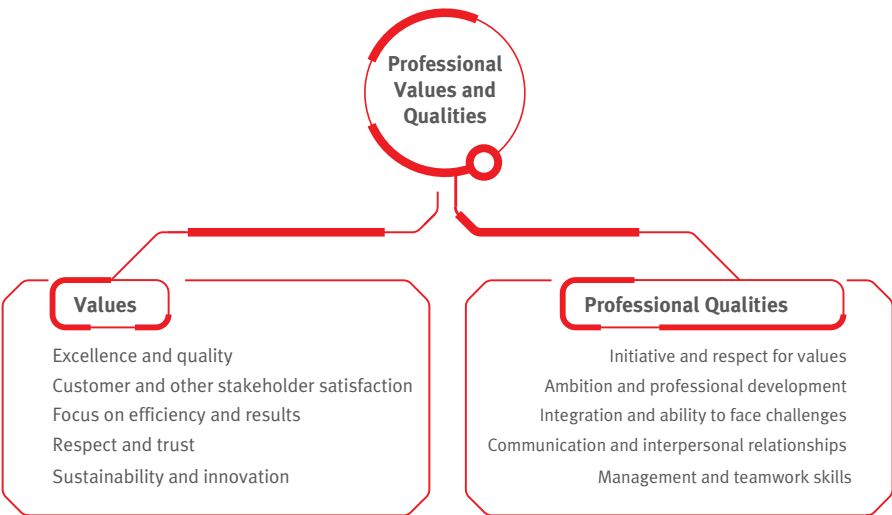


Figure 4

In 2012, human resources management was conditioned by the measures imposed by the 2011 State Budget (SB) and by Government Guidelines on remuneration policies and operating cost reductions, applicable to the State Sector (SE). In addition to including similar measures, such as salary reduction and the prohibition to increase salaries, as well as other provisions that remained in effect, the 2012 State Budget also determined the suspension of the holiday and Christmas bonuses (articles 20 and 21 of Law 64-A/2011, of 30 December).

CTT continued to follow the salary reduction policy determined according to article 19 of Law 55-A/2010, of 31 December, which approved the 2011 SB. This measure continues to apply to salaries exceeding 1,500 Euros and to be implemented through the application of progressive rates, ranging between 3.5% and 10%. Concerning the governing bodies, this measure was implemented in addition to the 5% reduction in fixed monthly salaries already effective since 1 June 2010, in compliance with Law 12-A/2010, of 30 June. All regulations concerning service provision agreements, prohibition to increase salaries and restrictions to lunch allowances were also observed (articles 22, 24 and 28 of Law 55-A/2010), as well as those concerning travel and other allowances, overtime and night work (article 31 of the aforementioned Law). Suspension of holiday and Christmas bonuses also applies to employees whose monthly salaries exceed 1,100 Euros; employees whose monthly salaries are between 600 and 1,100 Euros will continue to receive these bonuses, although the reductions determined by law shall apply.

The measures aimed at reducing staff costs included within the scope of the Cost Reduction Programme continued to be implemented, namely elimination of the quality bonus, non-replacement of employees, reduction in family allowances, elimination of subsidised landline telephone services, reduction in the number of vehicles and mobile phones not used in CTT operations, reduction in fuel and mobile telephone allowances, reduction in the number of managers and signature of employment termination agreements.

As a result of the adjustment of human resources to business evolution and a strong orientation towards cost reductions, CTT staff by the end of 2012 (permanent and fixed-term contracts) consisted of 13,167 employees, which corresponds to a 4.8% decrease in relation to 2011.

CTT STAFF

	31.12.2011	31.12.2012	Δ% 12/11
CTT, SA	11,923	11,391	-4.5%
PostContacto	41	40	-2.4%
CTT Gest	23	23	-
Mailtec Processos	318	166	-47.8
PayShop Portugal	32	32	-
CTT Expresso	677	658	-2.8%
Tourline Express	443	480	8.4%
CORRE	44	63	43.2%
Mailtec (except Mailtec Processos)	234	219	-6.4%
EAD	101	95	-5.9%
Total, of which:	13,836	13,167	-4.8%
Permanent employees	12,666	12,308	-2.8%
Fixed-term contracts	1,170	859	-26.6%
Total in Portugal	13,349	12,624	-5.4%

As a result of cost reduction measures, 81 employees were recruited, whereas 436 employees left the company. A total of 384 employees left CTT, SA, of which 306 retired, 66 left following termination of their employment contracts and 12 passed away.

Regarding recruitment and mobility, 100 positions were advertised internally, as well as 13 positions within the scope of UPU.

A total 34 apprenticeships were granted, corresponding to 14 professional apprenticeships and 20 academic apprenticeships. Two apprenticeships were also granted to students with special needs, in compliance with the social responsibility policy adopted by CTT.

1,741 fixed-term employment contracts were signed or renewed, and 102 temporary employment contracts were signed, in order to meet the needs of all CTT companies.

Approximately 24,000 applications were received; the majority of applications continued to be received through Facebook.

In order to increase the academic qualification level, with a view to increasing service quality, the 12th grade continued to be established as a minimum requirement, leading to a progressive increase in staff qualifications. The number of employees with academic qualifications below the 9th grade decreased from 17.6% to 16.7%, whereas the number of employees educated to secondary and university levels increased from 41.0% to 43.0%, and from 10.8% to 11.3%, respectively.

ACADEMIC QUALIFICATIONS

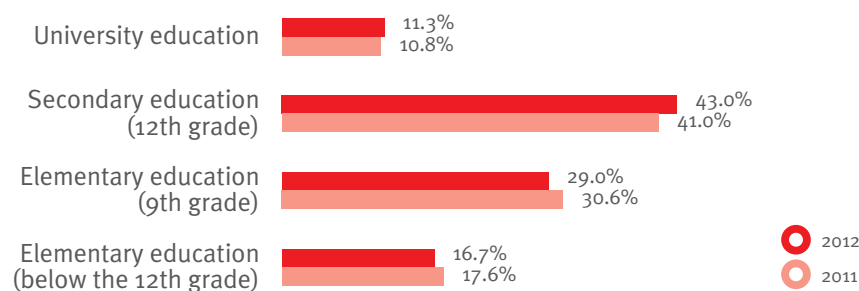


Figure 5

Performance assessments were carried out for all company employees in 2011, with a view to promoting management by objectives, employee-supervisor relationships, identification of training needs, joint responsibility of supervisors and employees for professional development, talent management and the merit and performance recognition policy.

Within the scope of the human resources development and talent management programme, work continued on the CTT staff competence and assessment directory, a project already in place for the Marketing & Sales and Operations & Production areas.

In order to modernise CTT and respond to social, economic and market evolution, as well as meet the challenges faced by the postal sector, the company initiated a review of the two existing Company Agreements, with a view to replacing them with a sole Company Agreement, having organised several meetings with the relevant Unions. In this sense, 32 official negotiation sessions took place in 2012, in addition to countless meetings where the issues involved were discussed. An agreement concerning the sole Company Agreement was finally reached with all Unions involved, in 2013.

Regarding social security issues, 10 meetings with the Workers’ Committee and 6 meetings with relevant Unions (SNTCT, SINDETELCO, SITIC, SICOMP and GCSI) took place in 2012.

Regarding labour issues, the number of strikes in 2012 decreased significantly in relation to 2011 (from 14 to 8, which represents a 42.9% decrease), which resulted in a decrease in the number of days lost for this reason (2,538 vs. 4,313, -41.2%). The number of workers’ meetings, of which 77.2% were organised by the Workers’ Committee, increased during this period (184 to 237, +28.8%).

Hygiene, Safety and Ergonomics

Working conditions and risks were assessed at CTT’s premises, corresponding to 341 preventive actions.

Regarding work-related accidents, 792 accidents were reported (-11% relative to 2011) and 20,751 days were lost to temporary sickness or injury (-22% relative to 2011); no fatalities occurred.

In what concerns occupational diseases, 12 occupational musculoskeletal disorders were recognised by the *Centro Nacional de Prevenção Contra os Riscos Profissionais* (Portuguese Centre for Occupational Risk Prevention).

With a view to reducing the number of work-related and road accidents, as well as raising awareness of these issues, an “accident board” was created and distributed to all mail processing, transport and delivery areas. The information available on this board includes a counter showing the number of accident-free days. It was observed that 15 postal delivery offices have not reported any accidents in the last 3 years.

Seven newsletters concerning safety at work were prepared and circulated in 2012.

Training

The CTT Training Forum, organised by the human resources department and whose goal is to continuously improve training quality, continued to be organised on a monthly basis. Large customers are also allowed to participate in this Forum.

10,453 training actions were organised in 2012 (+18.0% in relation to 2011), involving 73,912 participants (+4.3%) and totalling 304,477 training hours (+5.5%).

Training actions focused particularly on quality (17%), basic training, including the Centre for New Opportunities and training hours granted to working students (16%), products and services (15%), business environment (13%), behaviour (6%), IT systems (6%), health & safety at work, management & economics, and human resources (5% each).

The following training programmes are particularly relevant for their wide scope and impact on populations and key business areas, and for their important role in increasing competitiveness and promoting development: certification of integrated management systems (including environment and safety issues, in addition to quality issues), insurance agent qualification, management training in post offices, postal delivery offices and customer services, marketing & sales, production management and organisation, eco-friendly and defensive driving, safety & hygiene at work, IT systems, behavioural training and international cooperation.

Given the geographical dispersion of company employees, the vast company portfolio and the cost reduction efforts undertaken, the company continued to focus on on-site and remote training.

On-site training, which focused essentially on quality and certification processes, business environment, and products and services, accounted for 105,773 training hours, which represented 35% of all training actions.

Remote training focused on products (toll payment and digital terrestrial television), the new orthographic agreement and the “Employer’s representative kit”, which aims to provide all knowledge required for fast and effective implementation of Hygiene, Safety & Ergonomics at work. Remote training actions involved 4,096 employees and totalled 28,025 training hours, which represented 9.2% of all training actions.

Due to the budget restrictions imposed, the post-graduate training programme was limited to 14 post-graduates, who received training in management, IT, marketing and law. An intercompany edition of the General Management Course was also organised at the premises of Nova Executivos (Executive Training Institute of the Nova School of Business and Economics), involving 40 CTT executives and 146 training hours.

Finally, 179 employees completed academic courses (178 completed secondary and 1 completed elementary education) through the CTT Centre for New Opportunities, which also received 108 enrolment applications. Created in 2004 and self-financed from the start, the CTT Centre for New Opportunities has already received 2,769 enrolment applications and granted 1,126 academic certificates (41%), of which 486 corresponded to elementary education (4th, 6th and 9th grades) and 640 to secondary education (12th grade).



Ever more global

First, it started by being ever more present in its country, leaving its mark on the people in each region.

CTT earned their trust. Today, **the trust** that customers place in CTT has no bounds. Today, this trust is recognised **overseas**, in Mozambique and in Spain.

Ever more international.

Ever more present.



Financial review

This section summarises the consolidated results achieved by CTT for the financial year of 2012 and the consolidated net assets and financial position as at 31 December 2012.

This section should be read in conjunction with the corporate financial statement and the consolidated financial statements and accompanying notes. CTT has fully consolidated the financial statements of all controlled companies. Significant intra-group transactions and balances are eliminated in the consolidation process.

This analysis includes the consolidation of the activities of the parent company and of the following subsidiaries and joint-ventures:

CTT – CORREIOS DE PORTUGAL, SA (PARENT COMPANY)	
PostContacto – Correio Publicitário, Lda	100%
CTT Expresso – Serviços Postais e Logística, SA	100%
Tourline Express Mensajería, SU	100%
Payshop (Portugal), SA	100%
CORRE – Correio Expresso de Moçambique, SA	50%
CTT GEST – Gestão de Serviços e Equipamentos Postais, SA	100%
Grupo Mailtec	100%
EAD – Empresa de Arquivo de Documentação, SA	51%
Ti-Post – Prestação de serviços informáticos, ACE	49%
Postal Network – Prestação de Serviços de Gestão de Infraestruturas de Comunicações, ACE	49%

Consolidated income

CONSOLIDATED INCOME STATEMENT

thousand Euros	2011	2012	Δ% 12/11
Revenues	761,074	711,691	-6.5
Sales and services rendered	741,850	699,332	-5.7
Sales	24,523	24,300	-0.9
Services rendered	717,327	675,033	-5.9
Other operating revenues	19,223	12,359	-35.7
Own work capitalised	806	572	-29.1
Other operating income	18,417	11,787	-36.0
Operating costs excluding impairments, provisions, depreciation/ amortisations and non-recurring costs	657,329	619,325	-5.8
Cost of sales	18,353	18,543	1.0
External supplies and services	256,464	246,416	-3.9
Staff costs	363,570	342,758	-5.7
Current costs	341,912	323,340	-5.4
Employee benefits	21,658	19,418	-10.3
Other operating costs	18,942	11,608	-38.7
Earnings before non-recurring items, interest, taxes, depreciation and amortisation (EBITDA)	103,745	92,366	-11.0
Impairment of inventories and accounts receivable, net	3,119	798	-74.4
Provisions, net	795	2,857	259.6
Impairment of non-depreciable assets	1,942		-100.0
Depreciation/amortisation and impairment of assets, net	22,252	24,636	10.7
Earnings before non-recurring items, interest and taxes (EBIT)	75,636	64,075	-15.3
Restructurings costs	10,976	12,557	14.4
Non-recurring costs and revenues	5,480	9,208	68.0
Earnings before interest and taxes	59,180	42,310	-28.5
Interest income, net	19,670	14,247	-27.6
Gains/losses from associated companies	85	240	183.9
Earnings before taxes (EBT)	78,934	56,797	-28.0
Income tax for the year	- 22,693	- 18,011	20.6
Net income before non-controlling interests	56,241	38,786	-31.0
Attributable to non-controlling interests	- 423	- 232	45.1
Attributable to equity holders of parent company	55,818	38,554	-30.9

In the financial year ended on 31 December 2012, CTT achieved a consolidated net income of 38.6 million Euros, 17.3 million Euros below that recorded in 2011, due to the recognition of the effects of the decision to consider the suspension of the payment of the holiday bonus in 2013 as unconstitutional, which required its recording on an accruals basis, and of non-recurring costs in 2012 of 21.8 million Euros. This result corresponds to consolidated earnings per share of 2.20 Euros and a return on equity of 14.1%.

Net income for the year resulted primarily from the performance of the operating activity which generated earnings before non-recurring items, interest, taxes, depreciation/amortisation and impairment (adjusted EBITDA) of 92.4 million Euros, 11% below that recorded in 2011. However, prior to the decision of unconstitutionality, issued by the Constitutional Court, regarding the suspension of the payment of the holiday bonus in 2013 subsequent to the closure of the 2012 financial year, adjusted EBITDA had increased by 6.1% to 110.1 million Euros.

The impact of the measures, such as the maintenance of the cost reduction programme implemented in previous years, the significant reduction of the average number of employees and the non-payment of the 2012 Christmas bonus were insufficient to offset the recognition of the amounts of holiday bonus to be paid in 2013 (decision of unconstitutionality) and the effects of the current unfavourable economic climate, namely in terms of economic activity, which also affected businesses with potential future growth such as express and parcels.

Operating activity was conditioned by the reduction in revenues of 49.4 million Euros (-6.5%), through the operating costs having also fallen 5.8% (-38 million Euros), a cost reduction effort that exceeded the fall in revenues but which was negatively affected by the reintroduction of the holiday bonus, and which was not recognised in the 2011 financial statement resulted in a decrease of the EBIT (before non-recurring costs) to 64.1 million Euros.

In 2012, CTT recorded a non-recurring loss of 21.8 million Euros, recognising mainly costs associated to the process of conclusion of agreements involving the suspension of employment contracts, higher provisions to meet labour contingencies and any contractual liabilities, specifically related to leased vacant buildings with long term contracts. As a result, earnings before interest and taxes came to 42.3 million Euros, 16.9 million Euros below those recorded in 2011 and the EBIT margin fell to 5.9%.

The financial results of 14.5 million Euros fell about 5.3 million Euros in relation to the previous year due to the decline in the interest rates of the cash investments over the year, strongly influenced by the limits imposed by the Bank of Portugal. It is noteworthy, however, that part of the impact of declining interest rates was offset by a higher cash availability and a better management of the maturities of financial investments to maximise their return.

Earnings before taxes and non-controlling interests came to 56.8 million Euros, having declined 22.1 million Euros relative to 2011 as a result of the decrease in EBIT due to the measure of unconstitutionality, as mentioned above the increase in non-recurring costs of 5.3 million Euros and the decrease in financial results.

7.1. REVENUES

The operating activity of CTT, during 2012, continued to be profoundly affected by the current unfavourable economic climate and deepening of the sovereign debt crisis, which had a severe impact on turnover. The behaviour of the demand maintained the downward trend observed in 2011 and affected revenues negatively, which fell 6.5% (49.4 million Euros) in 2012 to 711.7 million Euros.

REVENUES

thousand Euros	2011	2012	Δ% 12/11
Sales and services rendered	741,850	699,332	-5.7
Sales	24,523	24,300	-0.9
Services rendered	717,327	675,033	-5.9
Other operating income	19,223	12,359	-35.7
Own work capitalised	806	572	-29.1
Other income	18,417	11,787	-36.0
Revenues	761,074	711,691	-6.5

Sales and services rendered, which represent 98.3% of consolidated revenues, include: (i) postal activity and unaddressed mail, which comprise the Mail business area; (ii) express and parcel services rendered, corresponding to the Express business area; (iii) postal financial services rendered and payment solutions via PayShop, which represent the Financial Services business area and; (iv) mail production activities for large customers, representing the printing & finishing areas and the archiving of documentation activity, comprising the Business Solutions business area. Sales and services rendered reached a total of 699.3 million Euros, corresponding to a decrease of 42.5 million Euros (-5.7%) in relation to 2011, mainly due to the decline in mail volumes.

Sales were slightly down in 2011 (-0.2 million Euros or -0.9%).

Services rendered declined 42.3 million Euros (-5.9%) to 675 million Euros, which impacted almost all the consolidated companies and, in particular, CTT SA, CTT Expresso and Mailtec.

In CTT SA, services rendered fell 6.6%, reflecting in particular the fall in mail and direct marketing volumes. Mail volumes fell 8.8% in relation to 2011, affecting all the various segments. Services rendered in CTT Expresso fell 6.7%, in spite of distributed volumes having only declined 2.5% in relation to 2011, as a result of increased demand for services of lower value.

In the other subsidiaries, with the exception of CORRE, which started its activity in the second half of 2010, the decline in demand continued, with services rendered by Mailtec and EAD decreasing 13.1% and 16%, respectively. In PostContacto, unaddressed mail also fell 4.9% in relation to the previous year, resulting in a decrease of 6% in services rendered.

With regards to PayShop, revenues from services rendered also decreased (-5.3%), influenced by the lower number of transactions carried out (-2.5%), mainly as a result of the option taken by a telecommunications operator to discontinue 5 Euros top ups.

Lastly, services rendered by Tourline remained fairly stable in relation to 2011, in spite of the decrease in volumes (-1.1%), with the revenues of own shops increasing and that of franchisees declining.

Other income, which includes own work capitalised and other revenues and gains, decreased 6.9 million Euros (-35.7%), mainly in CTT SA.

The Board of Directors approved, with effect from 1 January 2013, a new structure for CTT. As such, for reporting purposes, CTT changed, in relation to 2012, the methodology of reporting of information by operating segments, by using a business area logic instead

of the operating logic used until 2011. As a result, no comparative information is presented.

The business of CTT is segmented by Business Areas as follows:

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

In addition to the four business areas mentioned above, there are two sales channels, cutting across all businesses and products, the Retail Network and the Large Customers. The Retail Network, being associated to the obligations within the scope of the Universal Postal Service concession, is for this purposes incorporated in the Mail Business Area and includes the revenues related to its internal services rendered to other Business Areas, as well as the sale of products and services of third parties.

The information regarding the corporate and support areas is subject to allocation to the different CTT SA departments based on the number of employees in the service.

REVENUES BY BUSINESS AREA

thousand Euros	Mail	Express	Financial Services	Business Solutions	CTT Central Structure	Intragroup eliminations	Revenues/ costs
Sales and services rendered	500,178	126,788	54,326	21,175	1,122	- 4,257	699,332
Sales	23,008	1,305				- 14	24,300
Services rendered	477,170	125,483	54,326	21,175	1,122	- 4,244	675,033
Other operating revenue	36,997	1,344	4,660	1,837	61,313	- 93,792	12,359
Allocation CTT Central structure					72,374	- 72,374	
Revenues	537,175	128,132	58,985	23,012	134,809	- 170,423	711,691

The revenues are primarily concentrated in the Mail business area, included in the core revenues of CTT. The Express business area, the second in terms of importance, registered revenues of 128.1 million Euros in 2012, approximately 5.8 million Euros less than that recorded in 2011. This decrease was due to the performance of revenues of CTT Expresso and Tourline, which fell 7.3% and 1.2%, respectively, partially offset by the increase of 61.3% (+0.7 million Euros) registered in CORRE.

Regarding the other business areas, Financial Services and Business Solutions register revenues that represent 11% and 4.3%, respectively, of that of Mail. It should be pointed out that in the Financial Services business area, revenues result mainly from services rendered and paid through commissions, which excludes the revenues that result from the interest income originated by the application of the float generated by this activity, which is estimated to represent approximately 33% of interest income.

7.2. OPERATING COSTS¹

Consolidated operating costs amounted to 619.3 million Euros, decreasing 38 million Euros in relation to 2011. Despite the recognition of the holiday bonus payable in 2013 (approximately 17.7 million Euros), as a result of the decision of the Tribunal Constitucional (Portuguese Constitutional Court), the impact of the maintenance and enhancement of the actions aimed at reducing costs since 2010 (resulting from the commitments assumed) and the measures implemented during 2012 allowed reduced operating costs by 5.8% in relation to the previous year.

Staff costs and external supplies and services continued to represent a significant share (95.1%) of the Group's cost operation. In 2012, their relative importance within total operating costs came to 55.3% and 39.8% (against 55.3% and 39% at the end of 2011), respectively.

CONSOLIDATED OPERATING COSTS

thousand Euros	2011	2012	Δ% 12/11
Cost of sales	18,353	18,543	1.0
External supplies and services	256,464	246,416	-3.9
Staff costs, of which	363,570	342,758	-5.7
Current costs	341,912	323,340	-5.4
Employee benefits	21,658	19,418	-10.3
Other operating costs	18,942	11,608	-38.7
Consolidated operating costs (excluding non-recurring costs)	657,329	619,325	-5.8

¹ COGS + SES + Staff costs + other operating costs

The **cost of sales** reached a total of 18.5 million Euros, slightly up from 2011. The increase in this item in CTT SA was almost entirely offset by the declines in Mailtec and CTT Espresso.

The decrease of 10 million Euros in external supplies and services arises from the decrease in this item in CTT SA, CTT Gest, EAD and CTT Espresso, slightly offset by the increase recorded in Tourline, CORRE and Mailtec.

Group **staff costs** fell once again in 2012, decreasing by 20.8 million Euros in relation to 2011 (-5.7%) mainly due to current costs which decreased 18.6 million Euros as a result of the decrease in the number of employees and senior managers. This decrease includes the impact of the non-payment of the Christmas bonus relative to 2012 but, on the other hand, recognises the holiday bonus of 2012 to be paid in 2013, which amount to 17.7 million Euros, having an almost neutral effect.

The decrease in **staff costs** (adjusted for non-recurring items) originated primarily from the decreases recorded in CTT SA (-18 million Euros), in Mailtec (-1.3 million Euros), in CTT Gest (-0.6 million Euros) and in

CTT Espresso (-0.1 million Euros). PayShop and EAD also registered decreases but to a lesser extent. The current costs of Tourline increased by 0.5 million Euros (+3.8%).

Recurring costs associated with **employee benefits**, attributed almost entirely to CTT SA, reached 19.4 million Euros in 2012, representing a decrease of 2.2 million in relation to the previous year. They essentially comprise items associated to post-retirement health care and other long term benefits.

Health care costs fell by 1 million Euros (-5.2%), reaching a total of 17.6 million Euros. The liabilities estimated based on actuarial valuations at the end of 2012 decreased by 19.3 million Euros in relation to those registered at the end of 2011.

Recurring costs for the period associated to other long term benefits, as a whole, reached 1.8 million Euros.

Other operating costs of 11.6 million Euros fell by 7.3 million Euros. The decrease in CTT SA (-7.9 million Euros) was partially offset by the increase registered in Tourline (+0.5 million Euros).

OPERATING COSTS BY BUSINESS AREA

thousand Euros	Mail	Express	Financial Services	Business Solutions	CTT Central Structure	Intragroup eliminations	Operating income/costs
External supplies and services	108,680	92,298	8,203	9,927	55,727	- 28,420	246,416
Staff costs	235,048	23,927	3,190	7,969	72,623		342,758
Other costs	65,082	2,212	22,785	3,244	6,458	- 69,630	30,151
Allocation CTT Central Structure	71,493		583	298		- 72,374	
Operating costs	480,303	118,437	34,760	21,439	134,809	- 170,423	619,325

By including the functions of sorting, delivery, transport and retail network, areas of most significance within CTT SA, the Mail business area concentrates a significant volume of operating costs (480.3 million Euros).

The operating costs of the Express business area reached 118.4 million Euros, slightly lower than the previous year (-0.7%), also influenced by the cost reduction measures implemented in CTT.

With regards to the other business areas, it is important to mention that the operating costs of Financial Services and of Business Solutions declined, having reached 7.2% and 4.5% of those registered by Mail.

7.3. COST REDUCTION PROGRAM

CTT agreed with its shareholder to reduce consolidated costs with External Supplies and Services and Staff costs by 15% (103 million Euros) until the end of 2012.

The Cost Reduction Program defined and presented to the shareholder on 17 June 2011 identified a series of measures to achieve that target, summarised in the table below.

COST REDUCTION PROGRAMME 2011/2012 (Presented to the shareholder on 17 June 2011)

million Euros

Measures/actions	Reductions relative to 2009		
	2011	2012	Total
Review of operating cycle	5.0	8.6	13.6
Reduction of other operating costs	17.8	4.4	22.2
Reduction of staff costs and fringe benefits	18.7	6.0	24.7
Reduction of management structure and extraordinary human resource measures	3.3	12.2	15.5
Reduction of costs in subsidiaries	2.0	5.6	7.6
Effect of termination of VAT exemption in postal services		14.0	14.0
Adjustments	0.6	-2.4	-1.8
Reinforcement and bringing forward the extraordinary human resources measures, in accordance with the corporate restructuring plan		7.2	7.2
Total reduction	47.4	55.6	103.0

The proposed Cost Reduction Program 2011/2012 mentioned above underwent constant adjustments due to the 2012 Plan and Budget of CTT, through the withdraw of the effect on external supplies and services of the termination of the VAT exemption scope in postal services, following Law Proposal no. 35/XII, and the decision of the Board of Directors to not affect the net income of 2011 with the constitution of a provision of 56 million Euros for extraordinary human resource measures that would take place in 2012. These corrections led to the need to develop a series of additional measures, relative to those already presented, with a cost reduction impact of approximately 30 million Euros.

A decrease of 57.9 million Euros was achieved in 2011, with the remaining 45.1 million Euros to be achieved in 2012.

The following table shows the degree of execution of the Cost Reduction Program at the end of 2012 prior to the recording in the accounts, in April 2013, of the cost associated to the holiday bonus to be paid in 2013.

2012 COST REDUCTION PROGRAMME
Reductions relative to 2009

million Euros			
Measures/actions	Planned	Actual	Deviation Value
Review of operating cycle	17.1	17.8	0.7
Staff costs policy	23.6	23.7	0.1
Other staff cost reductions	2.2	1.8	-0.4
Reduction of management structures	0.4	0.3	-0.1
Extraordinary HR measures	4.4	3.7	-0.8
Effect of termination of the exemption from VAT on Universal Postal Service	0.4	0.8	0.4
Reduction of other operating costs	22.2	21.4	-0.8
Total measures CTT, SA	70.3	69.4	-0.9
Elimination of holiday and Christmas bonus	35.9	39.7	3.8
Change in other costs not included in measures	-6.6	-6.0	0.6
Total CTT, SA	99.6	103.1	3.5
Subsidiary companies	15.2	18.9	3.7
Intragroup transactions	-11.6	-11.9	-0.3
Total reduction	103.2	110.1	6.9
Change (%) relative to 2009	-15.0%	-16.0%	

The key conclusions are the following:

- The commitment undertaken was met and even exceeded, since a reduction of 110.1 million Euros (16%), 6.9 million Euros more than foreseen, was achieved.
- That reduction includes the impacts of the measures contained in the Orçamento Geral do Estado (Portuguese State Budget) regarding salary reductions (4.3 million Euros) and the elimination of holiday and Christmas bonuses which, in total, represent a decrease of 44 million Euros. It was the understanding of the Board of Directors that the non-payment of the bonuses was included in the Orçamento Geral do Estado (Portuguese State Budget) for 2012 as an alternative measure to a quicker reduction of the number of civil servants, such that its impact was included within the scope of the Cost Reduction Program.
- The cost savings achieved in subsidiary companies were mainly due to the contraction in business activity which is reflected in costs through the significant weight of variable costs in the total cost of those companies.

Costs with the suspension of employment contracts were included, even taking into account the extraordinary character of the latter resulting from the staff cost reduction program.

The accrual for holiday bonus to be paid in 2013 resulting from the decision of the Tribunal Constitucional (Portuguese Constitutional Court) on this aspect of the Orçamento Geral do Estado of 2013 (Portuguese State Budget), which led to the recording of a further 17.8 million Euros in staff costs, meant that the programme was not fulfilled, with a decrease of 93 million Euros in relation to 2009 having been achieved, lower than projected by 1.5 percentage points (-11 million Euros). The late knowledge of the need to record this amount in the accounts of 2012 prevented the implementation of additional measures to offset its impact. Also noteworthy is that staff costs include 6 million Euros of non-recurring costs relative to the combined effect of company restructuring costs (12.6 million Euros) and the decrease in costs associated with the support for cessation of professional activity (-6.6 million Euros).

2012 COST REDUCTION PROGRAMME

Reductions relative to 2009

million Euros

Measures/actions	Planned	Actual	Deviation Value
Review of operating cycle	17.1	17.8	0.7
Staff costs policy	23.6	23.7	0.1
Other staff cost reductions	2.2	1.8	-0.4
Reduction of management structures	0.4	0.3	-0.1
Extraordinary HR measures	4.4	3.7	-0.8
Effect of termination of the exemption from VAT on Universal Postal Service	0.4	0.8	0.4
Reduction of other operating costs	22.2	21.4	-0.8
Total measures CTT, SA	70.3	69.4	-0.9
Elimination of holiday and Christmas bonus	35.9	22.7	-13.2
Change in other costs not included in measures	-6.6	-5.9	0.7
Total CTT, SA	99.6	86.2	-13.4
Subsidiary companies	15.2	18.1	2.9
Intragroup transactions	-11.6	-11.8	-0.2
Total reduction	103.2	92.5	-10.7
Change relative to 2009	-15.0%	-13.5%	

7.4. EBITDA²

The operating activity of the Group generated an adjusted EBITDA of 92.4 million Euros in 2012, corresponding to a EBITDA margin of 13% and down 0.6 p.p. in relation to 2011. However, it is important to mention that prior to the re-establishment of the holiday bonus of 2013, accrued in 2012, the adjusted EBITDA had increased by 6.1% to 110.1 million Euros as follows:

IMPACT OF DECISION OF UNCONSTITUTIONALITY ON ADJUSTED EBITDA

thousand Euros	Mail	Express	Financial Services	Business Solutions	Total
Adjusted EBITDA					
Before the decision	73,575	10,063	24,466	1,969	110,074
After the decision	56,872	9,695	24,225	1,574	92,366
Impact	- 16,703	- 369	- 241	- 395	- 17,708

² Earnings before non-recurring items + Interest and taxes + Depreciation/amortisation + net change in provisions and impairment losses.

The performance of the EBITDA of CTT was supported by the Mail and Financial Services business areas, which collectively represented 87.8% of consolidated EBITDA in 2012. The EBITDA of the Express area reached 9.7 million Euros in 2012, down 4.9 million Euros in relation to 2011, essentially due to the decline in revenues in Portugal (CTT Expresso) and the strong increase of the weight of costs resulting from the restructuring process of the business model in Tourline.

EBITDA BY BUSINESS AREA

thousand Euros	Mail	Express	Financial services	Business Solutions
Revenues	537,175	128,132	58,985	23,012
Operating costs	480,303	118,437	34,760	21,439
EBITDA	56,872	9,695	24,225	1,574
EBITDA margin	10.6%	7.6%	41.1%	6.8%

The EBITDA margins of the Mail and Financial Services business areas achieved to 10.6% and 41.1%, respectively. Since it is a business whose remuneration is based on sales commissions, Financial Services has a very high EBITDA margin. The Business Solutions (6.8%) and Express (7.6%) areas achieved more modest EBITDA margins, due in part to the reorganisation process that these areas are undergoing but mainly due to the continuing economic crisis in Portugal.

7.5. AMORTISATION/DEPRECIATION, IMPAIRMENTS AND PROVISIONS

Depreciation, amortisation and investment impairments amounted to 24.6 million Euros, up 2.4 million Euros in relation to the previous year. Growth (10.7%) is mainly concentrated in CTT, SA, in CTT Expresso and Tourline. In CTT, SA, 0.5 million Euros were also recognised for real estate impairments.

The evolution of provisions results essentially from movements in the parent company, which recorded an increase of 2.7 million Euros. This increase is related to the net increase of provisions for lawsuits involving mostly labour disputes.

The amounts relative to the changes in impairment losses (net increase of 0.8 million Euros) correspond to the net amounts of the changes in impairments in inventories, accounts receivable and other accounts receivable: occurred mainly in CTT SA (reversals net of 1.6 million Euros) and in Tourline, in CTT Expresso and Payshop (increases of 1.8 million Euros, 0.4 million Euros and 0.1 million Euros, respectively).

7.6. NON-RECURRING RESULTS

In 2012, CTT recorded a non-recurring costs of 21.8 million Euros, which represents approximately 34% of EBIT. These non-recurring items are recorded in CTT SA and include 7.7 million Euros related with the increase of the provision to meet any contractual liabilities relating to onerous contracts of vacant buildings. Costs of 12.6 million Euros were also recognised, relative to company restructurings involving the continued process of conclusion of agreements relative to the suspension of employment contracts in the parent company, as well as a provision of 11.3 million Euros to meet labour contingencies, having nonetheless recorded -3.3 million Euros related with the reversal of the provision previously constituted for the termination of employment contracts by mutual agreement. A reduction of post-retirement liabilities of -6.6 million Euros was also recorded, associated to the decrease of the retirement benefit, attributed by the company unilaterally, whose liability had been recognised.

7.7. EBIT

Earnings before non-recurring items, interest and taxes - EBIT reached to 64.1 million Euros, having decreased by 11.6 million Euros in relation to 2011, since the decline in revenues (-49.4 million Euros) exceeded the decrease in operating costs (-37.8 million Euros).

7.8. FINANCIAL INCOME

Following the implementation of a Cash-Management process, within the scope of an increasingly enhanced centralised Treasury management and the creation of a Treasure Committee to monitor, analyse and manage

said process, there have been significant improvements in terms of the processing and integration of daily treasury information of Group companies, which has enabled an improved financial management of the liquidity levels of CTT, coinciding with an increase in the average cash funds available for financial investments.

The Treasury Committee, which meets on a quarterly basis, has as one of its core objectives the improvement of the cash forecast capability of all the CTT Group companies. This competency is important as a means of mitigating financial risk and as an instrument to maximise investment opportunities for available cash funds.

Progress in this area enabled increasing the combined financial investments of the subsidiaries and CTT SA, with obvious advantages for the former, which were able to benefit from more favourable interest rates. The interest rate differential obtained by CTT and its subsidiaries, initially positive by 1.96% for CTT due to the larger volumes of cash funds involved, is at present very reduced.

In 2012, the returns on financial investments were affected by the remuneration limits imposed by the Bank of Portugal in November 2011, reinforced in April 2012, and which had a direct impact on the rates offered by banks. The fall in returns was partially offset by the increase in the volume of financial investments, as a result of both the activity of the company and cash management efficiency.

However, in 2013 the returns obtained from short term financial investments will once again decrease due to the continuing fall in Euribor rates (the benchmark for the limits imposed by the Bank of Portugal) over 2012, with the 3-month Euribor having fallen from 1.36% in December 2011 to 0.19% in December 2012.

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

In 2012 the **consolidated financial results** came to 14.5 million Euros, down 5.3 million Euros in relation to 2011. The volume of **interest income** was directly influenced in 2012 by the decrease in interest rates registered during the year, falling 28.2% in relation to 2011.

Interest expenses incurred in 2012 reached to 0.7 million Euros, which includes interest associated to leasing operations and bank loans of Tourline, EAD, CTT Expresso and CTT SA.

7.9. INCOME TAX

Income tax amounted to 18 million Euros in 2012, 20.6% less than in 2011. The effective income tax rate was 31.7%, 3 p.p. above the rate for 2011, due to the combined effect of the decrease in current tax and the impact of the deferred tax asset relating to the increase in provisions.

7.10. NET INCOME, PROFITABILITY AND GVA (GROSS VALUE ADDED)

The CTT Group achieved a consolidated net income of 38.6 million Euros for the financial year ended on 31 December 2012, 30.9% less than in 2011, corresponding to consolidated earnings per share of 2.20 Euros, a net margin of 5.4% and a return on equity of 14.1%.

EBITDA and EBIT fell 11% (-11.4 million Euros) and 15.3% (-11.6 million Euros), respectively, reflecting the effects of the decrease in revenues and of the recognition of the amounts associated to the holiday bonus of 2012 to be paid in 2013, in spite of the cost reduction measures implemented. The effect of non-recurring costs annulled 34% of EBIT, having been nonetheless compensated by the reduction of post-retirement liabilities with a positive impact on this item, which led to earnings before interest and taxes of 42.3 million Euros, 19.9 million Euros less than in 2011.

Financial results fell 5.3 million Euros due to the reasons mentioned above.

CONSOLIDATED NET INCOME

thousand Euros	2011	2012	Δ% 12/11
Consolidated EBITDA	103,745	92,366	-11.0
Amortisation/Depreciation, impairment losses and provisions	28,109	28,291	0.6
Earnings before non-recurring items, interest and taxes (EBIT)	75,636	64,075	-15.3
Non-recurring costs	- 16,457	- 21,764	-32.3
Earnings before interest and taxes	59,180	42,310	-28.5
Financial income	19,754	14,487	-26.7
Earnings before taxes and non-controlling interests	78,934	56,797	-28.0
Income tax	- 22,693	- 18,011	20.6
Net income before non-controlling interests	56,241	38,786	-31.0
Net income attributable to non-controlling interests	- 423	- 232	45.1
Net income attributable to equity holders of parent company	55,818	38,554	-30.9
Earnings per share (Euros)	3.19	2.20	-30.9

The amendments introduced in the revision of June 2011 of IAS 19 – Employee Benefits, which establishes that actuarial gains and losses must be recognised under Equity and the level of actuarial gains observed in the assessment of the liabilities relative to health care, combined with the decline in net income for the period, resulted in an increase of 7.3% in average equity. Thus, and taking into consideration that net income for 2012 declined 30.9%, return on equity fell 7.9 p.p. to 14.1%.

RETURN ON CAPITAL

	2011	2012	Δ %12/11
Return on Equity (ROE) ⁽¹⁾	22.0%	14.1%	-7.9
Return on Invested Capital (ROIC) ⁽²⁾	9.4%	7.4%	-2.0
Return on Capital Employed (ROCE) ⁽³⁾	9.6%	6.9%	-2.7

(1) Net income/Average Equity

(3) EBIT/(Assets-Cash and cash equivalent)

(2) EBIT/(Assets-ST Liabilities)

The ROIC of 7.4% and the ROCE of 6.9% fell 2 p.p. and 2.7 p.p., respectively, in relation to 2011. This behaviour is essentially associated to the negative evolution of EBIT.

GVA

	2011	2012	Δ% 12/11
GVA - thousand Euros	422,411	385,076	-8.8%
Average no. of employees	14,371	13,756	-4.3%
GVA No. of employees (Euros)	29,393	27,993	-4.8%

7.11. CAPEX

The capex of CTT reached approximately 14.2 million Euros, 47.5% down from the previous year and was specifically directed towards the reinforcement of productive infrastructures (facilities, equipment associated to production), computer equipment and the development of projects concerning information systems and technologies.

CTT's investment efforts focused on CTT SA, CTT Expresso and Tourline, which collectively represented about 97.7% of total capex.

7.12. FINANCIAL POSITION AND CASH FLOW

The comparison of the consolidated statements of financial position on 31 December 2012 and 31 December 2011 reveals an increase in the net assets of CTT and its subsidiaries of 10.9 million Euros to 1,063.4 million Euros, as a result of:

- an increase in cash and cash equivalents (63.3 million Euros) influenced by the strong decline in customer debts (-29.2 million Euros), mainly in CTT SA due to an active collection policy implemented in the second half of the year and the definition of a clear credit policy;
- a decrease of tangible assets, real estate properties and intangible assets (-12.3 million Euros), since the capex effort was less than the amortisation/depreciation for the year;
- a decrease in other current and non-current assets (-10.2 million Euros) related to the amounts of postal financial services receivable and the payment of the debt to the Ministério da Saúde (Ministry of Health) at the end of the year.

CONSOLIDATED BALANCE SHEET

thousand Euros	31.12.2011	31.12.2012	Δ% 12/11
Non-current assets	422,887	405,398	-4.1
Current assets	629,670	658,026	4.5
Total assets	1,052,557	1,063,425	1.0
Equity	271,607	273,481	0.7
Non-current liabilities	347,231	340,290	-2.0
Current liabilities	433,719	449,654	3.7
Total liabilities	780,949	789,944	1.2
Total equity and liabilities	1,052,557	1,063,425	1.0

In relation to **liabilities** of 790 million Euros (+9 million Euros than in December 2011), it is important to highlight that the increase in accounts payable (+2.4 million Euros) results primarily from the combined effect of the increase in creditors of the postal financial services of the parent company (+10.8 million Euros in relation to the end of 2011) and the decrease in the balance of suppliers (-7.7 million Euros). The increase in other current liabilities (+17.9 million Euros relative to December 2011) resulting from the recognition of the amounts relative to the holiday bonus of 2012 to be paid in 2013 and the decrease in corporate income tax payable (-6.5 million Euros).

LIABILITIES WITH LONG TERM BENEFITS TO EMPLOYEES

thousand Euros	31.12.2011	31.12.2012	Δ% 12/11
Liabilities with long term benefits to employees	321,431	303,316	-5.6
Health care	272,102	252,803	-7.1
Staff (suspension agreements)	17,010	24,084	41.6
Other long term benefits	32,319	26,429	-18.2

Liabilities with employee benefits on 31 December 2012 amounted to 303.3 million Euros (-18.1 million Euros in relation to December 2011) and include the global liabilities of CTT with future expenses associated to post-retirement health benefits in the amount of 252,8 million Euros (19.3 million Euros less than in December 2011) and the long term liabilities with other employee benefits that amount to 50.5 million Euros at the end of 2012, which include liabilities associated to employment contract suspension agreements (24.1 million Euros), and other benefits (26.4 million Euros).

At the end of 2012, equity amounted to 273.5 million Euros, remaining at almost the same level as on 31 December 2011, having increased very slightly (1.9 million Euros) and incorporating the positive impact of the recognition of actuarial gains and the respective deferred tax for the year (17.2 million Euros), resulting in a net income for 2012 (38.6 million Euros) which fell short of the distributed profits for 2011 (53.9 million Euros).

The reduction of the investment effort, arising from a more rational management of projects and, above all, the decrease in working capital, approximately 64 million Euros below that of 2011, increased operating cash flow to approximately 138.1 million Euros, 86.7% above that of the previous year. The credit policy and shorter payment deadlines (active collection) led to a decrease in operating working capital, enabling an increase in liquidity.

The free cash flow of 106.7 million Euros also increased significantly (+58 million Euros) in spite of the decline in interest rates on short term financial investments, which enabled the value to more than double in 2012.

CASH FLOW

thousand Euros	2011	2012	Δ% 12/11
Earnings before interest and taxes	59,180	42,310	-28.5%
CAPEX	- 27,122	- 14,247	47.5%
Depreciation, amortisation	22,252	24,636	10.7%
Change in provisions and impairment losses	11,337	19,426	71.4%
Costs with employee benefits	32,634	26,002	-20.3%
Change in working capital	- 24,278	40,009	264.8%
OPERATING CASH FLOW	74,002	138,136	86.7%
Net financial investment	- 46	41	189.9%
Net interest	20,375	11,535	-43.4%
Payments - employee benefits	- 17,442	- 16,230	6.9%
Dividends received		117	
Income tax	- 28,154	- 26,889	4.5%
FREE CASH FLOW	48,735	106,710	119.0%

7.13. NON-CURRENT ASSETS

Non-current assets of the Group amounted to 405.4 million Euros at the end of 2012, 17.5 million Euros less than on 31 December 2011, broken down as follows:

NON-CURRENT ASSETS

thousand Euros	31.12.2011	31.12.2012	Δ% 12/11
Tangible assets, investment property and intangible assets	287,055	274,802	-4.3
Goodwill	25,529	25,529	0.0
Investments in associated companies	553	690	24.9
Deferred tax assets	103,614	102,229	-1.3
Other non-current assets	6,136	2,149	-65.0
Total non-current assets	422,887	405,398	-4.1

The decrease in non-current assets for the year is primarily related to the fact that the depreciation for the period fell short of the investment undertaken in 2012 and to the collection of debt owed to CTT SA.

7.14. FINANCING

The funding of the Group is focused on financial leasing operations related to the construction of operating facilities and the acquisition of basic equipment (in CTT SA, CTT Espresso, EAD, CORRE and Tourline) and on short term bank loans in Tourline, the parent company, EAD and CORRE.

thousand Euros	31.12.2008	31.12.2009	31.12.2010	31.12.2011	31.12.2012
Financial Leasing	10,957	8,993	8,581	7,239	5,830
Short term	2,004	1,304	1,327	1,410	1,310
Long term	8,953	7,689	7,254	5,829	4,520
Bank loans	2,533	5,264	5,699	3,870	5,593
Short term	2,324	5,264	5,699	3,756	5,547
Long term	208			115	46
Total	13,490	14,256	14,279	11,109	11,423
Interest expenses	781	404	241	280	294
Average interest rate	5.34%	2.91%	1.69%	2.20%	2.56%

The financial debt of CTT SA amounted to 5.6 million Euros on 31 December 2012 (2.6 million Euros of financial leases and 3 million Euros of short term bank loans).

FINANCING OF CTT (CORPORATE FINANCIAL STATEMENTS)

thousand, Euros	31.12.2008	31.12.2009	31.12.2010	31.12.2011	31.12.2012
Financial Leasing	4,281	3,867	3,434	3,002	2,557
Bank loans	0	0	699	0	2,996
Interest expenses	228	84	41	56	32
Average interest rate	5.1%	2.0%	1.1%	1.7%	1.1%

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

LIQUIDITY

thousand Euros	31.12.2011	31.12.2012	Δ% 12/11
Liquidity	178,491	240,383	34.7
(+) Cash and cash equivalents	426,259	489,510	14.8
(-) Creditors of Postal Financial Services	(247,768)	(249,127)	-0.5

The decrease in accounts receivable from customers and the consequent improvement in working capital, in addition to other factors described in detail in the free cash flow map above, led to an increase of about 34.7% in net liquid assets in 2012, corresponding to approximately 61.9 million Euros.

The net financial debt of the Group on 31 December 2012 and 31 December 2011 is thus broken down as follows:

NET FINANCIAL DEBT

thousand Euros	31.12.2011	31.12.2012	Δ% 12/11
Interest-bearing financial debt	11,109	11,423	2.8
Bank loans	3,870	5,593	44.5
Financial leasing	7,239	5,830	-19.5
Net liquid assets	178,491	240,383	34.7
Net (Liquid assets) debt	(167,382)	(228,960)	-36.8

The net financial debt of the Group on 31 December 2012 is negative, which effectively comprises net liquid assets after financial debt. Net available funds amounted to 229 million Euros, up 61.6 million Euros relative to the end of 2011.

In previous years, liabilities with long term benefits were deducted to obtain the net debt, in spite of not constituting financial debt.

7.15. FINANCIAL RATIOS

In 2012, the various financial ratios of CTT registered an improvement, further consolidating the solid position of the company's balance sheet.

FINANCIAL RATIOS

	2011	2012	Δ p.p. 12/11
Current liquidity ratio ⁽¹⁾	145.2%	146.3%	1.1 p.p.
Solvency ⁽²⁾	34.8%	34.6%	-0.2 p.p.
Net debt (million Euros)	-167,382	-228,960	-61,579
Net debt/EBITDA ⁽³⁾	-1.6 x	-2.5 x	-0.9 x
Coverage ratio fixed assets ⁽⁴⁾	227.5%	235.7%	8.2 p.p.

(1)Current assets/Current liabilities

(2)Equity/Total liabilities

(3)If negative it means a positive cash position

(4)(Non-current liabilities + Equity)/Tangible fixed assets



Ever closer to customers

Having a wide-ranging presence throughout the country and being everywhere is a great challenge. But this is the only way to create **a long-term relationship** with customers, maintaining it daily, **based on trust and on proximity**. This is also why CTT feels that it is ever more present in the life of its customers.

Ever closer.

Ever more present.



**Subsequent events
and future perspectives**

After a long and demanding negotiation process, which started in December 2011, the company formalised a new Company Agreement (CA2013) with 12 trade unions on 22 March 2013. The new CA2013 outlines a framework of labour relations that adjusts the new legal regime to the specific characteristics of the activity of CTT and improves the current collective labour regulation in force at the company. The conclusion of a single CA will have a positive impact on the simplification of management and on the company's social climate, as well as reinforce the stability of the collective labour relations in CTT, key elements for facing the new challenges of the company in a context of adverse market trends, full liberalisation and the start of the privatisation process.

Following Ruling no. 187/2013, in which the suspension of holiday bonus provided for in articles 29 and 77 of the Orçamento Geral do Estado of 2013 (Portuguese State Budget Law) was declared unconstitutional, CTT decided to recognise in the accounts of this financial year the corresponding liability estimated at approximately 18 million Euros.

The year of 2013 shall be a key year in the history of CTT.

Following the commitments undertaken by the Portuguese State within the context of the Economic and Financial Adjustment Programme concluded with the International Monetary Fund, the European Commission and the European Central Bank, significant changes are expected within the institutional and regulatory framework of the company, among which the following are of particular relevance:

- The continued liberalisation of the postal sector, under the scope of Law no. 17/2012, and the conclusion of a new Universal Postal Service concession agreement with CTT;
- The determination of the privatisation model of CTT, with the objective of concluding its process by the end of 2013.

The decrease in postal demand, heavily affected by the technological substitution of physical mail which has become a systematic and structural trend, will continue at an accelerated pace, amplified by the recessionary environment of the Portuguese economy.

The primary objective of CTT in 2013, within the context of this adverse economic climate and based on the need to successfully privatise the company is to continue to focus on maximising its shareholder value in a sustainable manner.

In this regard, a corporate strategy and a Transformation Plan have been launched, based on three main lines of action:

- i. The completion of a regulatory framework that is both stable and adequately defines the conditions of the Public Service and competitive activity, with particular emphasis given to the clarification of the following critical issues: greater pricing flexibility in the Universal Service, the redefinition of service quality according to the effective needs of the communications market and the determination of the cost of the obligations of the Universal Service and its financing.
- ii. Maximising business with large customers, the Iberian express and parcels business and the financial business. In other words, transforming the current business portfolio of CTT, making it less dependent on mail by focusing on activities with higher growth potential, capable of enhancing its retail network and offering more complete and integrated solutions that combine current physical mail and parcels platforms with new digital platforms.
- iii. The continued optimisation and rationalisation of the operating networks (counters, delivery and commercial) and central services of the core mail area, in order to make up for the inevitable revenue decrease and enhance competitiveness.

The combination of efficiency-enhancing measures, which will enable compensating for the cost of bringing salaries back up to the levels before the cuts in 2011 and 2012, due to the measures applied to public companies, and a revenue growth strategy based on the consolidation of new businesses and geographic markets in expansion, will enable the sustained growth of CTT's profitability in the medium term. All this shall only be possible under the new regulatory framework, allowing the company to be compensated for the costs of the Universal Postal Service which cannot be absorbed in an increasingly competitive market.

This Transformation Plan will be implemented, with dedication, rigour and professionalism, by employees and teams, within the framework of a new organisation approved by the Board of Directors in December 2012, which aims to make the company more effective, dynamic and efficient.



Ever more balanced

Balance is something that every person and every company needs. It is **vital for the future of the planet** and can only be achieved if all companies follow an environmental, human and business sustainability policy. And every day, CTT does its part.

**Ever more sustainable.
Ever more present.**



**Proposal for the application
of results**



Under the terms of article 25 of the Company's by-laws, the annual net income, duly approved, will be appropriated as follows:

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

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

With a share capital of 87,325,000.00 Euros, 20% corresponds to 17,465,000 Euros, hence the legal reserve as at 31 December 2012 is above the minimum value required by the Company's by-laws and Commercial Companies Code.

Pursuant to article 294, number 1 of the CSC, half of the distributable profit must be distributed to the shareholders. Distributable profit corresponds to the net income for the year after reinforcement of the legal reserve and coverage of negative retained earnings, should they exist. As at 31 December 2012, the legal reserve is fully constituted and the retained earnings are positive.

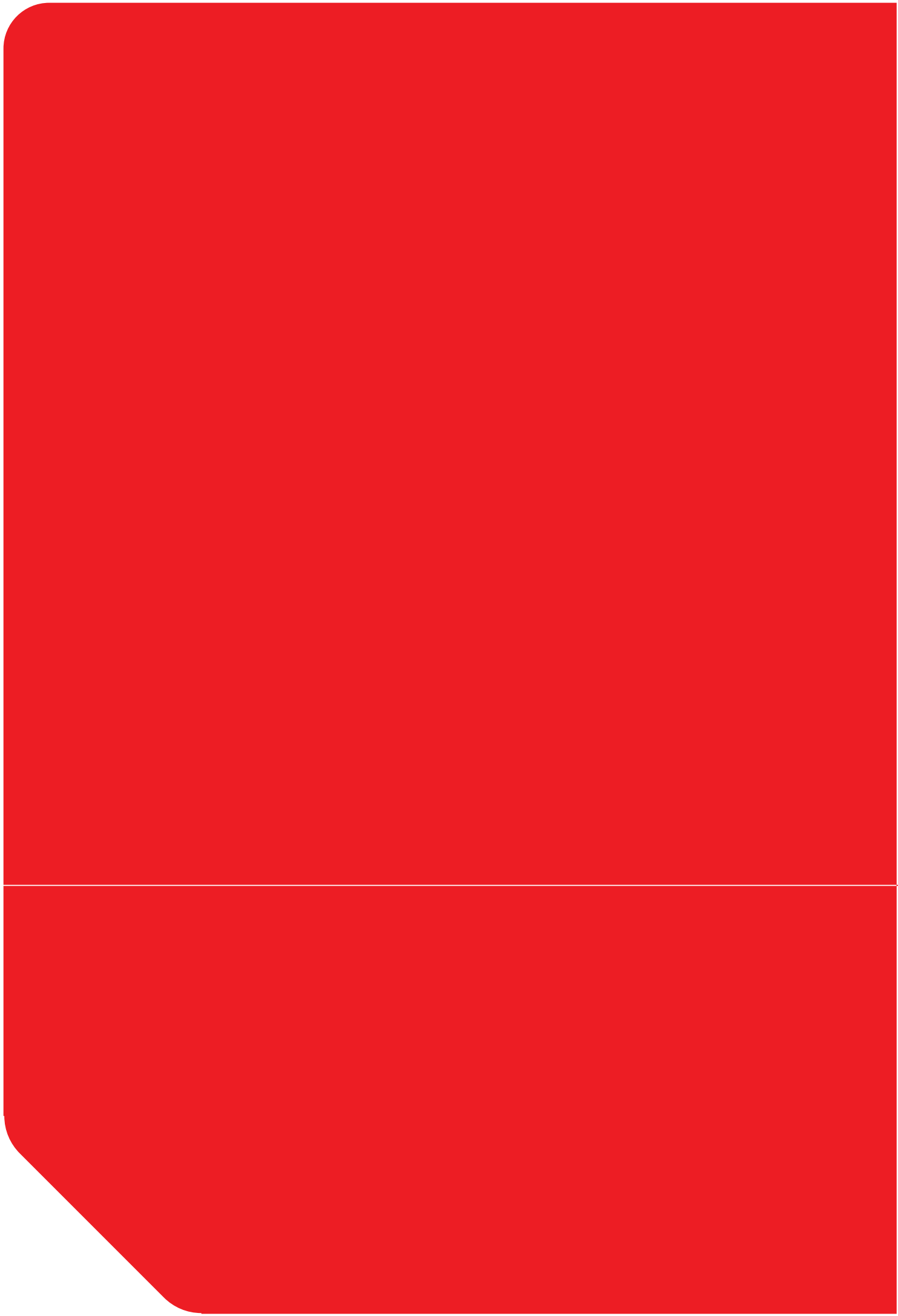
Accordingly, under the terms of the legal and statutory provisions, the Board of Directors proposes the following application of results (amounts in Euros):

- to dividends 38,554,129 Euros
- subparagraph b) of article 25 of the Company's by-laws

Lisbon, 30 April 2013

The Board of Directors

Francisco José Queiroz de Barros de Lacerda
Manuel Cabral de Abreu Castelo-Branco
André Manuel Pereira Gorjão de Andrade Costa
Dionízia Maria Ribeiro Farinha Ferreira
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo





part II

Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012 AND 31 DECEMBER 2011

Euro	NOTES	31.12.2012	31.12.2011 Restated	01.01.2011 Restated
ASSETS				
NON-CURRENT ASSETS				
Tangible fixed assets	5	259,077,634	269,246,885	265,484,227
Investment property	7	1,368,943	2,728,373	3,562,552
Intangible assets	6	14,355,060	15,080,232	14,097,499
Goodwill	9	25,528,608	25,528,608	27,471,058
Investments in associated companies	10	690,215	552,824	585,645
Financial assets held for sale	11	130,829	130,829	130,829
Other non-current assets	18	2,018,619	6,004,988	851,723
Deferred tax assets	41	102,228,537	103,614,097	100,819,205
TOTAL NON-CURRENT ASSETS		405,398,445	422,886,836	413,002,738
CURRENT ASSETS				
Inventories	13	6,710,739	6,305,998	6,512,659
Accounts receivable	14	135,212,754	164,395,448	166,489,760
Income tax receivable	29	-	3	2,121,797
Deferrals	15	5,600,261	5,494,827	5,977,849
Other current assets	18	20,992,404	27,214,044	21,907,679
Cash and cash equivalents	17	489,510,078	426,259,362	480,073,674
TOTAL CURRENT ASSETS		658,026,236	629,669,682	683,083,418
TOTAL ASSETS		1,063,424,681	1,052,556,518	1,096,086,156
EQUITY AND LIABILITIES				
EQUITY				
Share capital	20	87,325,000	87,325,000	87,325,000
Reserves	21	53,946,165	50,657,421	47,593,690
Retained earnings	21	3,586,704	2,408,870	(17,432,756)
Other changes in equity	21	32,372,942	15,144,300	11,605,660
Revaluation reserve	21	56,088,705	58,625,232	61,266,929
Net profit attributable to equity holders of parent company		38,554,129	55,818,305	56,304,948
Non-controlling interests	24	1,607,508	1,627,958	1,406,989
TOTAL EQUITY		273,481,153	271,607,086	248,070,459
LIABILITIES				
NON-CURRENT LIABILITIES				
Medium and long term debt	25	4,565,411	5,943,942	7,253,904
Employee benefits	26	282,065,364	300,975,316	285,190,208
Provisions	27	36,596,189	20,440,943	20,180,460
Deferrals	15	11,322,625	13,704,951	19,570,206
Deferred tax liabilities	41	5,740,233	6,165,433	6,365,777
TOTAL NON-CURRENT LIABILITIES		340,289,822	347,230,585	338,560,555
CURRENT LIABILITIES				
Accounts payable	28	349,292,545	346,905,448	403,880,097
Employee benefits	26	21,250,996	20,455,430	23,065,599
Income tax payable	29	864,909	7,381,234	-
Short term debt	25	6,857,361	5,165,248	7,025,423
Deferrals	15	4,368,966	4,675,943	6,140,690
Other current liabilities	30	67,018,928	49,135,544	69,343,333
TOTAL CURRENT LIABILITIES		449,653,706	433,718,847	509,455,142
TOTAL LIABILITIES		789,943,527	780,949,432	848,015,697
TOTAL EQUITY AND LIABILITIES		1,063,424,681	1,052,556,518	1,096,086,156

The attached notes are an integral part of these financial statements

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS 2012 AND 2011

Euro	NOTES	2012	2011 Restated
REVENUES		711,690,865,	761,073,616
Sales and services rendered	4	699,332,226	741,850,362
Other operating income	33	12,358,639	19,223,254
OPERATING COSTS		(669,380,383)	(701,894,100)
Cost of sales	13	(18,543,381)	(18,352,702)
External supplies and services	34	(246,416,229)	(256,463,997)
Staff costs	36	(348,751,126)	(374,546,289)
Impairment of inventories and accounts receivable, net	37	(798,308)	(3,119,386)
Impairment of non-depreciable assets	9	-	(1,942,450)
Provisions, net	27	(18,627,833)	(6,274,919)
Depreciation/amortisation and impairment of investments, net	38	(24,635,814)	(22,252,306)
Other operating costs	39	(11,607,693)	(18,942,051)
EARNINGS BEFORE FINANCIAL INCOME AND TAXES		42,310,482	59,179,516
Financial results		14,486,891	19,754,268
Interest expenses	40	(669,459)	(1,118,935)
Interest income	40	14,916,210	20,788,608
Gains/losses from associated companies	10	240,140	84,595
EARNINGS BEFORE TAXES		56,797,373	78,933,784
Income tax for the year	41	(18,011,242)	(22,692,636)
NET INCOME FOR THE YEAR		38,786,131	56,241,148
NET INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of CTT Group		38,554,129	55,818,305
Non-controlling interests	24	(232,002)	(422,843)
Earnings per share of the parent company	23	2.20	3.19

The attached notes are an integral part of these financial statements

THE DIRECTOR OF ACCOUNTING AND TREASURY

THE BOARD OF DIRECTORS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR 2012 AND 2011

Euro	NOTES	2012	2011 Restated
NET INCOME FOR THE PERIOD		38,786,131	56,241,148
Adjustments from application of the equity method	11	(8,332)	(232,826)
Employee benefits		17,228,642	3,538,640
Other changes in equity	21	(3,338)	248,485
OTHER COMPREHENSIVE INCOME FOR THE YEAR AFTER TAXES		17,216,972	3,554,299
COMPREHENSIVE INCOME FOR THE YEAR		56,003,104	59,795,447
Attributable to non-controlling interests	24	(232,002)	(422,843)
Attributable to CTT equity holder		55,771,102	59,372,604

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

THE DIRECTOR OF ACCOUNTING AND TREASURY

THE BOARD OF DIRECTORS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2012 AND 2011

		Equity attributed to CTT equity holders									
NOTES		Share capital	Legal reserves	Other reserves	Adjustments in investments	Re-valuation reserve	Other changes in equity	Retained earnings	Net profit for the year	Non-controlling interests	Total
Euro											
BALANCE ON 1 JANUARY 2011 (REPORTED)		87,325,000	12,421,702	10,555,948	24,616,040	61,266,929	-	(17,432,756)	56,304,948	1,406,989	236,464,799
Anticipated adoption IAS 19R							11,605,660				11,605,660
BALANCE ON 1 JANUARY 2011 (RESTATED)		87,325,000	12,421,702	10,555,948	24,616,040	61,266,929	11,605,660	(17,432,756)	56,304,948	1,406,989	248,070,459
Appropriation of net income for the year of 2010		-	2,815,247	-	-	-	-	53,489,700	(56,304,948)	-	-
Dividends	22/24	-	-	-	-	-	-	(36,056,944)	-	(201,874)	(36,258,818)
Change in the consolidation perimeter		-	-	-	-	-	-	-	-	-	-
		-	2,815,247	-	-	-	-	17,432,756	(56,304,948)	(201,874)	(36,258,818)
Realisation of revaluation reserve net of tax effect	21	-	-	-	-	(2,641,697)	-	2,641,697	-	-	(0)
Undistributed earnings of associated companies	21	-	-	-	248,485	-	-	-	-	-	248,485
Actuarial gains/losses - Health Care	21	-	-	-	-	-	3,538,640	-	-	-	3,538,640
Adjustments from the application of the equity method	21	-	-	-	-	-	-	(232,826)	-	-	(232,826)
Net income for the year 2011		-	-	-	-	-	-	-	55,818,305	422,843	56,241,148
COMPREHENSIVE INCOME FOR THE YEAR 2011		-	-	-	248,485	(2,641,697)	3,538,640	2,408,870	55,818,305	422,843	59,795,447
BALANCE ON 31 DECEMBER2011 (RESTATED)		87,325,000	15,236,949	10,555,948	24,864,525	58,625,232	15,144,300	2,408,870	55,818,305	1,627,958	271,607,086
BALANCE ON 1 JANUARY 2012		87,325,000	15,236,949	10,555,948	24,864,525	58,625,232	15,144,300	2,408,870	55,818,305	1,627,958	271,607,086
Appropriation of net income for the year 2011		-	2,835,610	-	-	-	-	52,982,695	(55,818,305)	-	-
Dividends	22/24	-	-	-	-	-	-	(53,876,585)	-	(252,452)	(54,129,037)
		-	2,835,610	-	-	-	-	(893,890)	(55,818,305)	(252,452)	(54,129,037)
Realisation of revaluation reserve net of tax effect	21	-	-	-	-	(2,536,527)	-	2,536,527	-	-	-
Undistributed earnings of associated companies	21	-	-	-	461,465	-	-	(464,803)	-	-	(3,338)
Actuarial gains/losses - Health Care	21	-	-	-	-	-	17,228,642	-	-	-	17,228,642
Adjustments from the application of the equity method		-	-	-	(8,332)	-	-	-	-	-	(8,332)
Net income for the year 2012		-	-	-	-	-	-	-	38,554,129	232,002	38,786,131
COMPREHENSIVE INCOME FOR THE YEAR 2012		-	-	-	453,133	(2,536,527)	17,228,642	2,071,724	38,554,129	232,002	56,003,104
BALANCE ON 31 DECEMBER2012		87,325,000	18,072,559	10,555,948	25,317,658	56,088,705	32,372,942	3,586,704	38,554,129	1,607,508	273,481,153

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

THE DIRECTOR OF ACCOUNTING AND TREASURY

THE BOARD OF DIRECTORS

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS 2012 AND 2011

Euro	NOTES	2012	2011
OPERATING ACTIVITIES			
Collections from customers		713,094,163	717,247,085
Payments to suppliers		(259,915,782)	(292,997,906)
Payments to employees		(294,639,233)	(346,787,463)
CASH FLOW GENERATED BY OPERATIONS		158,539,148	77,461,716
Payments/receivables of income taxes		(26,889,403)	(28,865,533)
Other receivables/payments		(3,373,810)	(59,256,628)
CASH FLOW FROM OPERATING ACTIVITIES (1)		128,275,935	(10,660,445)
INVESTMENT ACTIVITIES			
Receivables resulting from:			
Tangible fixed assets		790,275	394,851
Financial investments		41,450	53,885
Interest income		12,767,611	21,484,749
Dividends		117,200	-
Payments resulting from:			
Intangible assets		(3,822,505)	(2,611,690)
Tangible fixed assets		(20,105,520)	(23,566,398)
Loans granted		-	(100,000)
CASH FLOW FROM INVESTMENT ACTIVITIES (2)		(10,211,488)	(4,344,603)
FINANCING ACTIVITIES			
Receivables resulting from:			
Loans obtained		6,344,810	-
Payments resulting from:			
Loans repaid		(4,747,278)	(738,603)
Interest expenses		(1,051,759)	(595,025)
Finance leases		(1,482,919)	(1,418,693)
Dividends		(53,876,585)	(36,056,944)
CASH FLOW FROM FINANCING ACTIVITIES (3)		(54,813,731)	(38,809,265)
Net change in cash and cash equivalents (1+2+3)		63,250,716	(53,814,313)
		-	-
Cash and equivalents at the beginning of the year		426,259,362	480,073,674
Cash and cash equivalents at the end of the year	17	489,510,078	426,259,362

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

THE DIRECTOR OF ACCOUNTING AND TREASURY

THE BOARD OF DIRECTORS

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1. INTRODUCTION

1.1. CTT – Correios de Portugal, SA (parent company)

CTT – Correios de Portugal, S. A. (“CTT, SA”, “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 reorganization carried out by the Portuguese State in the Communications area.

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 a legal person governed by private law with the status of a state-owned public limited company. Finally, with the foundation of the former Telecom Portugal, S.A. by spin-off from Correios e Telecomunicações de Portugal, S.A. under Decree-Law no. 277/92 of 15 December, the Company’s name was changed to the current CTT – Correios de Portugal, S.A., which is fully owned by the Portuguese State.

The consolidated financial statements attached herewith are expressed in Euros, as this is the currency mainly used by the Group.

The consolidated financial statements for the period ending on 31 December 2012 were approved by the Board of Directors and authorised for issue on 30 April 2013. They are subject to the approval of the shareholders’ General Meeting, under the terms of the commercial legislation in force.

1.2. Business

The business of 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., is to establish, manage and operate the Universal Postal Service infrastructure and to render financial services, which include the transfer of funds through current accounts, which can also be operated by a financial operator or a para-banking entity to be established within the Group. In addition, CTT provides services that are complementary, subsidiary or related to these services 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 convenient or compatible with the normal operation of the public postal network, namely, the provision of

information society services, networks and electronic communications services, including related resources and services and a mobile virtual operator (MVNO), with the trade description of “Phone-ix” supported by TMN - Telecomunicações Móveis Nacionais, S. A.’s network.

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 and resulted in the signing of a concession contract, on 1 September 2000, between the State and CTT - Correios de Portugal, S.A.. 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 the level of the EU, the scope of the reserved services is subject to periodic reviews.

Hence, the scope of the services reserved to CTT was once more limited in 2006 to include, until the end of 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 act referred to 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. 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 second semester of 2012, 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 Act (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) alteration of the basis of the concession (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 basis 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 Member-States of the European Union weighting up to 20Kg; a service for registered items and for insured items.

Once the concession ends, in the event that it is not granted to CTT, CTT may provide, together with any other operators, all the postal services they want, 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 mentioning Portugal, the registered mail service used in judicial or administrative procedures, as well as the service of issue of money orders), which account for less than 10% of the Group revenues.

In summary, in view of the legal and regulatory framework in force, namely the ongoing process of amendment of the concession contract, CTT considers that there are no grounds for the introduction of any relevant alteration 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 of accounting and are based on the historical cost of the records of the Company and companies included in the consolidation (Note 8), in accordance with the International Financial Reporting Standards, as adopted by the European Union as at 31 December 2012. These standards include the IFRS issued by the International Accounting Standards Board ("IASB"), or the IAS issued by the International Accounting Standards Committee ("IASC"), as well as the respective interpretations – IFRIC and SIC, issued, respectively, by the International Financial Reporting Interpretation Committee ("IFRIC") and by the Standing Interpretation Committee ("SIC"). Hereinafter, these standards and interpretations are generally referred to as "IFRS".

In addition to the standards that became effective as of 1 January 2012 and which are set out in the accounting policies adopted in the preparation of the consolidated financial statements as at 31 December 2012 and described in Note 2.2 and following, during the period between 1 January and 31 December 2012, the standards and interpretations issued and approved by the European Union and described in Note 2.1.2 became mandatory.

2.1.1. New standards and interpretations adopted by the Group

In 2012, CTT Group decided on the early adoption of the IAS 19 – Employee benefits (revised), issued by the IASB in June 2011, and endorsed by the European Union through Regulation no. 475/2011 of the European Commission. This amendment introduces significant differences in the recognition and measurement of the expenses related to defined benefits and employment termination benefits, as well as in disclosures concerning all employment benefits. An actuarial gain and loss will be immediately recognised under "Other comprehensive income", eliminating the option of the corridor method. Employment termination benefits shall only qualify as such if there is no obligation on the part of the employee to provide services in the future. The impact of this alteration is disclosed in Note 3.

In 2012, the Group also adopted the amendments to IFRS 7 – Financial Instruments: Disclosures issued by the IASB in October 2010, and endorsed by the European Union through Regulation no. 1205/2011 of the European Commission. These amendments are intended to clarify the requirements for disclosure in the transfer of financial assets and their application

is mandatory for years starting on or after 1 July 2011, and they have no impact on the Group's consolidated financial statements.

2.1.2. New standards, amendments and interpretations issued, but without effective application to years starting on 1 January 2012 and not early adopted

In 2012, the European Union endorsed a series of standards and amendments to the International Accounting Standards issued by the IASB and the interpretations issued by the IFRIC:

Description	Change	Effective date
EFFECTIVE STANDARDS AFTER 1 JULY 2012		
IAS 1 - Presentation of financial statements	Presentation of other	1-Jul-12
IAS 12 - Taxes	Deferred tax	1-Jan-13
IFRS 1 - First time adoption of IFRS	Hyperinflationary and	1-Jan-13
IFRS 10 - Consolidated financial statements	New standard	Latest 1 January 2014
IFRS 11 - Joint agreements	New standard	Latest 1 January 2014
IFRS 12 - Disclosure of interests in entities	New standard	Latest 1 January 2014
IAS 27 - Separate financial statements	Consolidation removed	Latest 1 January 2014
IAS 28 - Investments in associated companies and joint-ventures	Application to	Latest 1 January 2014
IFRS 13 - Fair value	New standard	1-Jan-13
IAS 32 - Financial instruments: presentation	Offsetting assets	1-Jan-14
IFRS 7 - Financial instruments: disclosure	Presentation of	1-Jan-13
EFFECTIVE STANDARDS AFTER 1 JULY 2012 NOT ADOPTED BY EU		
IFRS 1 - First time adoption of IFRS	Subsidised loans	1-Jan-13
IFRS 9 - Financial instruments	Phase 1 - classification	1-Jan-15
Improvement of standards 2009 - 2011	Clarifications	1-Jan-13
Changes IFRS 10, 11 and 12	Transition regime	1-Jan-13
Changes IFRS 10, 11 and 12	Exemption application to SGPS	1-Jan-14
EFFECTIVE INTERPRETATIONS IN EU AFTER 1 JULY 2012		
IFRIC 20 - Discovery costs in the production phase of an open-cast mine	New interpretation	1-Jan-13

These new standards and amendments to the standards and interpretations are effective for years starting on or after 1 July 2012, and were not applied during the preparation of these consolidated financial statements. With the exception of IFRS 11, it is not expected that any of the remaining standards will have a significant impact on the Group's consolidated financial statements.

IAS 1 (amendment), "Presentation of financial statements" (to be applied to years starting on or after 1 July 2012). This amendment requires that entities individually present the items recorded as "Other comprehensive income", depending on whether or not they can be re-classifiable in the future to profit or loss for the year and the respective tax impact, if the items are presented before taxes.

IAS 12 (amendment), "Income Tax" (to be applied in the EU in years starting, at the latest, on or after 1 January 2013). This amendment requires an Entity to measure deferred taxes related to the assets, depending on whether the entity expects to recover the net value of the asset through use or sale, except for investment properties measured in accordance with the fair value model. This amendment incorporates in IAS 12 the principles included in SIC 21, which is revoked.

Improvements introduced to the standards of 2009-2011, applicable mainly to years starting on or after 1 January 2013. This amendment is also subject to an adoption procedure by the European Union. The process of annual improvement of 2009-2011 affects the following standards: IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. These improvements will be adopted, if applicable, except in what concerns the improvements to IFRS 1, which have already been considered.

IFRS 1 (amendment), “First-time adoption of the IFRS” (to be applied in the EU in years starting, at the latest, on or after 1 January 2013). This amendment is intended to include a specific exemption for entities that previously operated in hyperinflationary economies and adopt the IFRS for the first time. The exemption allows the Entity to decide to measure certain assets and liabilities and use the fair value as “deemed cost” in the opening financial position statement for the IFRS. Another amendment, which was introduced, refers to the replacement of the reference to specific dates by the expression “IFRS transition date”, in the exceptions to the retrospective application of the IFRS.

IFRS 1 (amendment) “Adoption of the IFRS – Government loans” for the first time (to be applied to years starting on or after 1 January 2013). This amendment shall also be subject to the adoption procedure by the European Union. This amendment is intended to clarify how the entities that adopt the IFRS for the first time must record a government loan with an interest rate below the market rate. It also introduces an exemption to the retrospective application, which is similar to the one attributed to the entities that, in 2009, already reported in accordance with IFRS.

IFRS 10 (new), “Consolidated financial statements” (to be applied in the EU in years starting, at the latest, on or after 1 January 2014). IFRS 10 will replace all the principles associated to control and consolidation included in IAS 27 and SIC 12, and will modify the definition of control, as well as the criteria applied to determine control. The basic principle consisting of the consolidated financial statements presenting the parent company and its subsidiaries as a sole entity remains unchanged. The CTT Group will apply this standard to the period when it becomes effective.

IFRS 11 (new), “Joint agreements” (to be applied in the EU, in years starting, at the latest, on or after 1 January 2014). IFRS 11 focuses on the rights and obligations associated with the joint agreements rather than on the legal form. Joint arrangements can be Joint operations (rights to assets and liabilities) or Joint ventures (rights to the net assets under the equity method). Proportional consolidation is no longer permitted in the measurement of jointly controlled Entities. The CTT Group will apply this standard to the period when it becomes effective.

IFRS 12 (new) – “Disclosure of interests in other entities” (to be applied in EU in years starting on or after 1 January 2014). This standard establishes the requirements of disclosure for all types of interests in other entities, including joint ventures, associated companies and special purpose entities, in order to evaluate the nature, risk and financial impact associated with the interest of the Entity. The CTT Group will apply this standard to the period when it becomes effective.

Amendment to IFRS 10, IFRS 11 and IFRS 12 – “Transition regime” (effective for years starting on or after 1 January 2013). This amendment will be also subject to the process of endorsement by the European Union. This amendment clarifies that when the application of IFRS 10 results in an accounting treatment of a financial investment different than the one that was previously followed, according to IAS 12 27/SIC, the comparatives must be restated, but only in what concerns the previous comparative period, and the differences found at the beginning of the comparative period are recognised in the equity. IFRS 12 requires specific disclosures. The CTT Group will apply this standard to the period when it becomes effective.

Amendment to IFRS 10, IFRS 12 and IAS 27 – “Entities managing the shareholdings” (to be applied to years starting on or after 1 January 2014). This amendment will be also subject to the process of endorsement by the European Union. This amendment includes the definition of investment entity and introduces the regime of exception in what concerns the obligation to consolidate, for the Investment Entities that qualify as such, since all investments are measured at the fair value. The IFRS 12 requires specific disclosures. These amendments will not have any impact on the Group, since CTT does not meet the definition of an Investment Entity.

IFRS 13 (new) – “Fair value: measurement and disclosure” (to be applied to years starting on or after 1 January 2013). The objective of IFRS 13 is to increase the consistency in establishing a definition of fair value and creating a base for the fair value measurement and disclosure requirements to be applied transversally to all IFRS. The CTT Group will apply this standard to the period when it becomes effective.

IAS 27 (amendment 2011) “Separate financial statements” (to be applied in the EU in years starting, at the latest, on or after 1 January 2014). IAS 27 was amended after the issuance of IFRS 10 and includes the accounting and disclosure requirements for the investments in subsidiaries, joint ventures and associates, whenever an entity prepares separate financial statements. The CTT Group will apply this standard to the period when it becomes effective.

IAS 28 (amendment 2011) “Investments in associates and joint ventures” (to be applied in the EU in years starting, at the latest, on or after 1 January 2014). IAS 28 has been amended after the issue of the IFRS 11

and it shall include the accounting treatment of the investments in associates and joint ventures and stipulate the requirements for the application of the equity method. The CTT Group will apply this standard to the period when it becomes effective.

IFRS 7 (amendment), “Disclosures – offsetting of financial assets and financial liabilities” (to be applied to years starting, on or after 1 January 2013). This amendment is part of the IASB’s “offsetting of assets and liabilities” project and introduces new requirements for the disclosure of not recorded offsetting rights (concerning assets and liabilities), the offset assets and liabilities, as well as the effect that this offsetting has on the exposure to the credit risk. The CTT Group will apply this standard to the period when it becomes effective.

IAS 32 (amendment) “Offsetting of financial assets and liabilities” (to be applied to years starting on or after 1 January 2014). This amendment is part of the IASB’s “offsetting of assets and liabilities” project, which clarifies the expression “currently holding the legal right to offset” and clarifies the fact that some settlement systems by the gross amounts (clearing houses) may be equivalent to offsetting by net amounts. The CTT Group will apply this standard to the period when it becomes effective.

IFRS 9 (new), “Financial instruments – classification and measurement” (to be applied to years starting on or after 1 January 2015). This standard will be also subject to the process of endorsement by the European Union. This is the first phase of IFRS 9, which provides for the existence of two measurements categories: 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 is holding it for the purpose of receiving the contractual cash flows and the cash flows, which represent the principal and interest. Otherwise, the financial instruments are stated at their fair value through profit or loss. The CTT Group will apply this standard to the period when it becomes effective.

2.2. Consolidation principles

Business combinations are recorded by the application of the purchase method. On the acquisition date, the acquisition is measured at the fair value of the acquired assets, assumed liabilities and equity interests issued for this purpose. The transaction costs incurred are recorded as costs in the periods when they are incurred, with the exception of debt securities or equity issue costs, which are recorded in accordance with IAS 32 and IAS 39. Identifiable assets and liabilities assumed by the acquisition are measured by the fair value stipulated on the acquisition date.

Goodwill will be recognised whenever an excess in the aggregate amount established in relation to: (i) the acquisition cost in accordance with the definition

referred to above, the amount of any non-controlling interest held in the acquired entity and the fair value of any interest previously held in the acquired entity; and (ii) the fair value of the identifiable acquired assets and the assumed liabilities and contingent liabilities (Note 2.9).

If any insufficiency is determined between the aggregate amount (i) hereinabove and in (ii) hereinabove, the difference will be recognised as a gain for the year.

Regarding the application of the purchase method, non-controlling interests are measured at fair value or in proportion to the percentage held in the net assets of the acquired entity, whenever they represent the effective rights of the entity. Whenever control is acquired through potential rights, the non-controlling interests are measured at fair value.

Subsidiary companies

CTT fully consolidates the financial statements of the subsidiary companies in which the Group has control. Control is presumed to exist when the Group owns more than half the voting rights. There is also a situation of control whenever the Group has, directly or indirectly, the power to manage the financial and operating policy of the company, even when the percentage held of its equity is less than 50%. Subsidiary companies are also referred to as Group companies.

The participation of third parties in the equity and net income of the companies included in the consolidation is presented in the heading “Non-controlling interests” in the consolidated statement of comprehensive income, in the consolidated income statement, in the consolidated statement of financial position, and in the consolidated statement of changes in equity (Note 8).

The profit or loss of the subsidiaries, which have been acquired or disposed of during the year are included in the consolidated income statement, from the acquisition date until the respective disposal date.

In accordance with the full consolidation method, the assets, liabilities, revenues, costs and cash flows of Group companies are consolidated, and any significant transactions, balances and flows between these companies are eliminated in the consolidation process. Gains and losses arising from transactions between Group companies are also eliminated. Whenever necessary, adjustments are made to the financial statements of the subsidiary companies, with a view to the standardisation of the respective accounting policies in relation to the Group’s policies.

Joint ventures

Investment in joint ventures is consolidated through the proportional consolidation method, as of the date on which the joint control is acquired. In accordance with this method, the assets, liabilities, revenues and costs incurred by these companies are included in the consolidated financial statements, item by item, in proportion to the control attributable to the Group (Note 8).

Transactions, balances and dividends to be distributed between the parties are eliminated, in proportion to the control attributable to the Group.

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.

Associated companies

Investments in associated companies are recorded in the consolidated statement of financial position 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 “gains/losses from associated companies”, and by other changes in equity in “Adjustments in investments”. 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 costs in the consolidated income statements.

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”.

2.3. Business Areas

Business Areas are reported consistently with the internal reporting, which is produced and provided to the Group’s management bodies, in accordance with the new organisation chart approved in December 2012 (Note 4). The form of allocation used corresponds to the nature of the services provided: mail (including digital mail), financial services, express mail services and parcels and Business Solutions.

There are also two sales channels, which are transversal to CTT, the retail Network and key accounts . The Retail Network also manages the products offered by third parties in its network, such as telecommunications, tickets and books, among others.

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 fair value in foreign currency are updated at the exchange rates on the dates the corresponding fair values were determined. The carrying values of non-monetary items recorded at historical cost in foreign currency are not updated.

The exchange rates used in the conversion of the financial statements expressed in foreign currency are the closing exchange rates of that period, in the case of conversion of the assets and liabilities, and the average exchange rate, in the case of profit or loss.

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

	2012		2011	
	Close	Average	Close	Average
Mozambiquian Metical (MZM)	39.24000	36.56000	34.96000	40.27833
United States Dollar (USD)	1.31940	1.31190	1.29390	1.39200
Special Drawing Right (SDR)	1.16583	1.17373	1.18654	1.13408

Favourable and unfavourable currency conversion 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 under 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 2.15 and 27). Under the exception of IFRS1 – First-time Adoption of the International Finan-

cial Reporting Standards, the revaluation of tangible assets made , according with the Portuguese legislation applying monetary indices, for the years prior to 1 January 2009, was maintained, and the revalued amounts were referred to as “deemed cost” for IFRS purposes .

The depreciation of tangible assets, minus their residual estimated value, is calculated in accordance with the straight line method, as of the month when they are available for use, during the useful life of the assets, which is determined according to their expected 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 tangible fixed assets	5 – 10

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 satatement.

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

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

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

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 is situated in a period varying between 3 and 20 years. 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 the 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.

2.7. Investment Properties

Investment Properties mainly include land owned by the Group for undetermined future use and from which it has no revenue and that it is not intended for any activities developed by the Group, or to be sold in the normal course of business.

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 coincide with those of the 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 respective 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 refer. Improvements which are expected to generate additional future economic benefits are capitalised.

2.8. Impairment of tangible 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 updating of 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 identifiable fair value of the assets, liabilities and contingent liabilities of each entity that is acquired and included in the consolidation by the full consolidation method, or subsidiary, joint ventures or associated entity, on the respective acquisition date, according to provisions set out in IFRS 3 – Business Combinations. Under the exception provided for in IFRS 1 – First-time Adoption of the International Financial Reporting Standards, the Group has applied the provisions of IFRS 3 only to 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 added 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 in the updating of the discounted 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 will be carried out on the date of each financial report.

Impairment losses are not reversible.

2.10. Financial assets and liabilities

Financial assets and liabilities are recognised in the Consolidated statement of financial position, when the Group becomes part of the corresponding contractual provisions. A financial asset can be defined as cash or a contractual right to receive cash. A financial liability is any liability which is embodied in a contractual obligation to deliver cash.

The Group's financial assets are basically the Accounts receivable, Cash and Cash equivalents and equity. The financial liabilities are fundamentally the funding obtained and the Accounts payable.

Accounts receivable

The balances of customers and other debtors constitute the accounts receivable derived from services rendered by the Group during its normal business activity. When it is expected that their collection will occur within one year or less, they are classified as current assets. Otherwise, they are classified as non-current assets.

Accounts receivable that are classified as current assets have no implicit interest and are stated at their respective nominal value, net of any allowances for impairment losses calculated based on the estimated receivable cash flows, discounted at the effective interest rate. Impairment losses identified are charged in Consolidated income statement and subsequently the charge is reversed if there is a reduction of the estimated impairment loss, in a subsequent period.

Accounts receivable classified as non-current assets are measured at their respective amortised cost, determined in accordance with the effective interest rate method. When there is evidence that they are impaired, the corresponding loss is recorded in Consolidated income statement.

Cash and cash equivalents

The amounts included under the heading of cash and cash equivalents correspond to the values of cash, sight deposits, time deposits and cash investments which are repayable on demand with insignificant risk of change of value.

For purposes of the cash flows statement, the heading "Cash and cash equivalents" is recorded minus any bank overdrafts included under the item "Debt" in the Consolidated financial position statement.

Financial assets held for sale

Financial assets, which are held for sale, are initially measured at their transaction value and, subsequently, at fair value with the changes recorded in the Equity, except when their fair value cannot be determined reliably.

Equity

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

Debt

Loans are recorded as liabilities at the nominal value received, net of issue expenses, corresponding to the respective fair value on that date. Subsequently, they are measured in accordance with the amortised cost method, and the corresponding financial charges are calculated in accordance with the effective interest rate method, and are recorded in the income statement following the accrual basis principle.

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 the discount 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.

2.11. Inventories

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

Whenever the inventory age is significant, the recorded amount is reduced by the recognition of an impairment loss.

2.12. Non-current assets held for sale and discontinued operations

Non-currents assets are classified as held for sale, if the respective carrying value is realisable 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 has made a commitment to sell, and (iii) the sale is expected to be completed within a 12-month period.

Non-current assets, which are classified as 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 specific line, in the item of the Consolidated Financial Position Statement.

Non-current assets are not, under any circumstances, subject to depreciation or amortisation.

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

2.13. Distribution of dividends

The distribution of dividends, when approved at the General Meeting of the Company, and until the shareholders are paid, is recognised as a liability.

2.14. Employee benefits

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

In order to obtain an estimate of the value of the liabilities (Present value of the defined benefit obligation) and the cost to be recognised in each period, an annual actuarial study is prepared by an independent entity under the assumptions considered appropriate and reasonable. The “Present value of defined benefit obligation” is recorded as a liability in the item “Employee benefits”. As at 31 December 2012, CTT, S.A. chose an early adoption of the amendments set out in IAS 19, and, as a result, the actuarial gains and losses are recognised in full in the Consolidated Statement of Comprehensive Income.

Retirement pensions of the staff integrated in “Caixa Geral de Aposentações” (“CGA”)

Decree-Law no. 246/2003 of 8 October transferred to Caixa Geral de Aposentações (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 security system, (recruited as permanent staff of the Company after 19 May 1992 and up to 31 December 2009) are entitled to the health care benefits established in the CTT Social Work Regulation. These benefits are extended to all permanent workers of the company, whether they are still working, or if they are pensioners, or in a situation of pre-retirement or retirement.

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

Health care benefits include contributions to the cost of medication, medical 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 adhesion 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 plane is ensured by the IOS – Instituto das Obras Sociais, which in turn, hired Portugal Telecom – Associação de Cuidados de Saúde (“PT-ACS”) to provide health care services.

Other long term benefits

The Group also assumed, relative to certain groups of workers, a series of constructive 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 pass to these conditions.

- Telephone subscription charge

CTT has assumed the obligation of the life-long payment, to a closed group of retired workers and surviving spouses (8,117 beneficiaries as at 31 December 2012, and 8,471 beneficiaries as at 31 December 2011), of the telephone subscription charge, to a monthly amount of 15.30 Euros.

- 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 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 justified, no insurance policy has been taken out to meet these liabilities. As at 31 December 2012, there were 66 beneficiaries receiving this type of pension (67 as at 31 December 2011).

- Monthly life annuity

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

Beneficiaries are workers, still working or retired, who have descendants over 24 years old, with physical, organic, sensorial, motor or mental disabilities, who are in a situation that prevents them from normally providing for their subsistence through the exercise of professional activity. In the case of beneficiaries integrated in the CGA, the cost of the monthly life annuity is the responsibility of CTT SA. As at 31 December 2012 there were 51 beneficiaries under these conditions, (49 beneficiaries as at 31 December 2011),

receiving a monthly amount of Euro 176.76, 12 months a year. This value is updated by Order of the Ministério das Finanças and Ministério do Trabalho e Segurança Social.

- Support for cessation of professional activity

This benefit is granted to employees who retire with at least 5 years of seniority at the company. Its amount depends on the seniority on the retirement date. As at 31 December 2012, the table in force provided for a maximum of 1,847.16 Euros for 36 or more years of seniority. In 2012, the Board of Directors decided to discontinue the compensation awarded to the workers who have reached the end of their active 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.

2.15. 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 updating being recorded as a financial cost under the heading “Interest and similar costs paid” (Note 40).

The provisions are revised 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 and it is possible to reliably estimate the respective obligation, or when there is a contractual commitment to restore the spaces rented by third parties. A provision is recorded for ongoing 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.

2.16. 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.

Fees from collections made and from the selling of financial products are recognised on the date that the client is charged.

Revenue from PO Boxes and the custody of archives is recognised for the period of the respective contracts.

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

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

Revenue from royalties is recognised on an accrual basis according to the substance of the respective contracts, provided that it is probable that economic

benefits will flow to the Group and their costs may be measured reliably.

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

2.17. 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, for the periods necessary to balance them with the expenses incurred, to the extent that these subsidies are not refundable.

2.18. Leases

The classification of leases is done according to the substance of the transition 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 to be used should be the rate implicit in the lease. If this rate is not known, then the Group's funding rate for this type of investment should be 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 amortisation of fixed tangible assets are recognised in the Consolidated Income Statement for the period to which they refer.

For operating leases, the instalments that are owed are recognised as a cost in the Consolidated Income Statement over the lease period (Note 24).

2.19. Borrowing costs

Financial charges related to loans are recognised in net income, when incurred. Exception: interests 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.

2.20. 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 stated directly under equity. In these cases, current and deferred taxes are also recorded under equity.

Tax currently payable is based on the taxable income for the period of the different 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 issued, 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.

2.21. Principle of accruals

Revenues and costs are recorded according to principle of accruals, and therefore, are recognised as they are generated, regardless of the moment 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”, respectively under “Debtors, by accrued revenues” or “Creditors, by accrued costs”. Deferred revenues and costs paid in advance are recorded under the heading “Deferals”, respectively, in the liabilities and in the assets.

2.22. 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 income 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 liabilities carrying amount of the employees benefits. CTT has a policy of periodically reviewing the major actuarial assumptions, in case its impact is relevant for the financial statements.

(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 constituted when the Group expects that the lawsuits underway 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 assess-

ment, real losses might be different from those originally estimated in the provision. These estimates are subject to alterations as new information becomes available. Reviews to the estimates of these losses might affect future results.

2.23. 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.

2.24. 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

During the year, there were no changes in the accounting policies in relation to those considered in the preparation of the financial information concerning the previous period, which was presented for comparative purposes, except for the early adoption of IAS 19 - Employee benefits (amended), according to the amendment published by the IASB (International Accounting Standards Board) in June 2011. According to this, any actuarial gains and losses previously deferred and amortised over the estimated average period concerning future services provided by the employees until their retirement age, are immediately and only recognised in "Consolidated statement of comprehensive income".

Taking into account the amendment to IAS 19 referred to above, the CTT Group decided, in 2012, to change its accounting policy, based on IAS 19 in force, regarding the recognition of the actuarial gains and losses of defined benefit plans, restating the comparative figures for 2011. Therefore, the Group has fully recognised all the actuarial gains and losses in the consolidated statement of comprehensive income.

Due to the change in the accounting policy concerning the recognition of the actuarial gains and losses of the employee benefit plans, the comparative figures of the financial statements were as at 31 December 2011, where the effects on the consolidated statement of financial position, the consolidated income statement and the comprehensive income statement are represented in the following tables:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1 January 2011

	Reported	Adjustments	Restated
ASSETS			
NON-CURRENT ASSETS:			
Tangible fixed assets	265,484,227	-	265,484,227
Investment property	3,562,552	-	3,562,552
Intangible assets	14,097,499	-	14,097,499
Goodwill	27,471,058	-	27,471,058
Investments in associated companies	585,645	-	585,645
Financial assets held for sale	130,829	-	130,829
Other non-current assets	851,723	-	851,723
Deferred tax assets	105,559,545	(4,740,340)	100,819,205
TOTAL NON-CURRENT ASSETS	417,743,078	(4,740,340)	413,002,738
CURRENT ASSETS:			
Inventories	6,512,659	-	6,512,659
Accounts receivable	166,489,760	-	166,489,760
Income tax receivable	2,121,797	-	2,121,797
Deferrals	5,977,849	-	5,977,849
Other current assets	21,907,679	-	21,907,679
Cash and cash equivalents	480,073,674	-	480,073,674
TOTAL CURRENT ASSETS	683,083,418	-	683,083,418
TOTAL ASSETS	1,100,826,496	(4,740,340)	1,096,086,156
TANGIBLE FIXED ASSETS			
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	47,593,690	-	47,593,690
Reserves	(17,432,756)	-	(17,432,756)
Retained earnings	-	11,605,660	11,605,660
Other changes in equity	61,266,929	-	61,266,929
Revaluation reserve	56,304,948	-	56,304,948
Net income attributable to equity holders of parent company	235,057,810	11,605,660	246,663,470
Non-controlling interests	1,406,989	-	1,406,989
SHARE CAPITAL	236,464,799	11,605,660	248,070,459
LIABILITIES:			
NON-CURRENT LIABILITIES:			
Loans received	7,253,904	-	7,253,904
Employee benefits	285,190,208	-	285,190,208
Provisions	20,180,460	-	20,180,460
Deferrals	35,075,206	(15,505,000)	19,570,206
Deferred tax liabilities	6,365,777	-	6,365,777
TOTAL NON-CURRENT LIABILITIES	354,065,555	(15,505,000)	338,560,555
CURRENT LIABILITIES:			
Accounts payable	403,880,097	-	403,880,097
Employee benefits	23,065,599	-	23,065,599
Income tax	-	-	-
Loans received	7,025,423	-	7,025,423
Deferrals	6,981,690	(841,000)	6,140,690
Other current liabilities	69,343,333	-	69,343,333
Total current liabilities	510,296,142	(841,000)	509,455,142
TOTAL LIABILITIES	864,361,697	(16,346,000)	848,015,697
TOTAL EQUITY AND LIABILITIES	1,100,826,496	(4,740,340)	1,096,086,156

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2011		
	Reported	Adjustments	Restated
ASSETS			
NON-CURRENT ASSETS:			
Tangible fixed assets	269,246,885	-	269,246,885
Investment property	2,728,373	-	2,728,373
Intangible assets	15,080,232	-	15,080,232
Goodwill	25,528,608	-	25,528,608
Investments in associated companies	552,824	-	552,824
Financial assets held for sale	130,829	-	130,829
Other non-current assets	6,004,988	-	6,004,988
Deferred tax assets	109,434,687	(5,820,590)	103,614,097
TOTAL NON-CURRENT ASSETS	428,707,426	(5,820,590)	422,886,836
CURRENT ASSETS:			
Inventories	6,305,998	-	6,305,998
Accounts receivable	164,395,448	-	164,395,448
Income tax receivable	3	-	3
Deferrals	5,494,827	-	5,494,827
Other current assets	27,214,044	-	27,214,044
Cash and cash equivalents	426,259,362	-	426,259,362
TOTAL CURRENT ASSETS	629,669,682	-	629,669,682
TOTAL ASSETS	1,058,377,108	(5,820,590)	1,052,556,518
TANGIBLE FIXED ASSETS			
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	87,325,000	-	87,325,000
Reserves	50,657,421	-	50,657,421
Retained earnings	2,408,870	-	2,408,870
Other changes in equity	-	15,144,300	15,144,300
Other changes in equity	58,625,232	-	58,625,232
Revaluation reserve	56,712,195	(893,890)	55,818,305
Net income attributable to equity holders of parent company	255,728,718	14,250,410	269,979,128
Non-controlling interests	1,627,958	-	1,627,958
SHARE CAPITAL	257,356,676	14,250,410	271,607,086
LIABILITIES:			
NON-CURRENT LIABILITIES:			
Loans received	5,943,942	-	5,943,942
Employee benefits	300,975,316	-	300,975,316
Provisions	20,440,943	-	20,440,943
Deferrals	32,516,951	(18,812,000)	13,704,951
Deferred tax liabilities	6,165,433	-	6,165,433
TOTAL NON-CURRENT LIABILITIES	366,042,585	(18,812,000)	347,230,585
CURRENT LIABILITIES:			
Accounts payable	346,905,448	-	346,905,448
Employee benefits	20,455,430	-	20,455,430
Income tax	7,381,234	-	7,381,234
Loans received	5,165,248	-	5,165,248
Deferrals	5,934,943	(1,259,000)	4,675,943
Other current liabilities	49,135,544	-	49,135,544
Total current liabilities	434,977,847	(1,259,000)	433,718,847
TOTAL LIABILITIES	801,020,432	(20,071,000)	780,949,432
TOTAL EQUITY AND LIABILITIES	1,058,377,108	(5,820,590)	1,052,556,518

CONSOLIDATED INCOME STATEMENT

31 December 2011

	Reported	Adjustments	Restated
REVENUES:	761,073,616		761,073,616
Sales and services rendered	741,850,362	-	741,850,362
Other operating income	19,223,254	-	19,223,254
TOTAL OPERATING REVENUES	761,073,616	-	761,073,616
OPERATING COSTS:	(700,635,100)	(1,259,000)	(701,894,100)
Cost of sales	(18,352,702)	-	(18,352,702)
External supplies and services	(256,463,997)	-	(256,463,997)
Staff costs	(373,287,289)	(1,259,000)	(374,546,289)
Impairment of inventories and accounts receivable, net	(3,119,386)	-	(3,119,386)
Impairment of non-depreciable assets	(1,942,450)	-	(1,942,450)
Provisions, net	(6,274,919)	-	(6,274,919)
Depreciation/amortisation and impairment of investments net	(22,252,306)	-	(22,252,306)
Other operating costs	(18,942,051)	-	(18,942,051)
EARNINGS BEFORE INTEREST AND TAXES	60,438,516	(1,259,000)	59,179,516
FINANCIAL RESULTS	19,754,268	-	19,754,268
Finance costs	(1,118,935)	-	(1,118,935)
Finance income	20,788,608	-	20,788,608
Gains/(losses) from associated companies	84,595	-	84,595
INCOME BEFORE TAXES	80,192,784	(1,259,000)	78,933,784
Income tax for the year	(23,057,746)	365,110	(22,692,636)
NET INCOME FOR THE PERIOD	57,135,038	(893,890)	56,241,148
NET INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of CTT Group	56,712,195	(893,890)	55,818,305
Non-controlling interests	(422,843)	-	(422,843)
Earnings per share of the parent company	3.24	(893,890)	3.19

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

31 December 2011

	Reported	Adjustments	Restated
NET INCOME FOR THE PERIOD	57,135,038	(893,890)	56,241,148
Adjustments in financial assets arising from application of the equity method	(232,826)	-	(232,826)
Actuarial gains and losses	-	3,538,640	3,538,640
Other changes in equity	248,485	-	248,485
OTHER COMPREHENSIVE INCOME FOR THE PERIOD AFTER TAXES	15,659	3,538,640	3,554,299
COMPREHENSIVE INCOME FOR THE PERIOD	57,150,697	2,644,750	59,795,447
Attributable to non-controlling interests	(422,843)	-	(422,843)
Attributable to CTT equity holders	56,727,854	2,644,750	59,372,604

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

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

4. BUSINESS AREAS

According to the new macrostructure of CTT, which has been approved by the Board of Directors, taking effect as of 1 January 2013, CTT has changed, for 2012, the construction of information methodology by Business Areas, and it started to use business, instead of the operating logic used until 2011. Therefore, comparative information is not presented.

The business of CTT is organized, as follows:

- Mail - CTT S.A. without financial services, retail network, key accounts, business solutions area and corporate and support areas, but including PostContacto, Mailtec Processos and CTT Gest;
- Expresso –includes CTT Expresso, Tourline and CORRE;

- Financial services – PayShop and CTT S.A. financial services;

- Business Solutions - includes Mailtec Consultoria, Mailtec Comunicação, EAD and also the CTT S.A. business solutions area.

In addition to the business areas, there are two sales channels, which are transversal to all businesses and products: the Retail Network and the Key Accounts. For the purposes of this analysis and being the Retail Network associated to the obligations of the Universal Postal Service, this Network, together with the Key Accounts, are incorporated into the Mail Business Area, both of them integrating their domestic revenues related to their internal provision of services into the Business Areas, as well as the income arising from the sale of third parties' products in the postal branches. The structural costs and the inactivity of the Retail Network are integrated into the Mail Business Area.

At an early stage, in this analysis, only part of the costs incurred in the corporate and support areas are allocated to the business areas, through the allocation by provision of services and so, in order to allocate the global costs to the business areas, the information relating to the corporate and support areas, which previously were not allocated by internal provision of services or to subsidiaries, is the object of allocation to the different departments of CTT S.A., according to the number of employees in the service.

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

	Mail	Express	Financial	Business Solutions	Central CTT Structure	Intragroup Eliminations	Revenues /Costs
REVENUES	537,175,329	128,131,687	58,985,452	23,012,390	140,802,587	(176,416,580)	711,690,865
Sales and services rendered	500,178,319	126,787,812	54,325,550	21,175,354	1,122,455	(4,257,264)	699,332,226
Sales	23,008,136	1,304,978	-	-	-	(13,524)	24,299,590
Services rendered	477,170,183	125,482,834	54,325,550	21,175,354	1,122,455	(4,243,740)	675,032,636
Other operating income	15,493,972	1,343,875	207,432	1,654,738	17,842,876	(24,184,254)	12,358,639
Internal services rendered	21,503,038	-	4,452,470	182,298	43,470,147	(69,607,953)	-
Allocation central CTT structure	-	-	-	-	78,367,109	(78,367,109)	-
OPERATING COSTS	486,223,767	118,436,783	34,808,672	21,463,199	140,802,587	(176,416,580)	625,318,428
External supplies and services	108,680,278	92,298,109	8,202,791	9,927,284	55,727,312	(28,419,546)	246,416,229
Staff Costs	235,047,840	23,926,575	3,190,371	7,969,438	78,616,902	-	348,751,126
Other costs	20,571,806	2,212,099	413,663	1,875,082	5,100,396	(21,973)	30,151,074
Internal services rendered	44,510,462	-	22,370,918	1,368,595	1,357,977	(69,607,953)	-
Allocation to central CTT structure	77,413,380	-	630,928	322,800	-	(78,367,109)	-
EBITDA ⁽¹⁾	50,951,562	9,694,904	24,176,780	1,549,191	-	-	86,372,437

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

5. TANGIBLE FIXED ASSETS

During the periods ended on 31 December 2012 and 31 December 2011, the movement which occurred in the carrying value of the “Tangible fixed assets”, as well as the respective accumulated depreciation, was as follows:

	2012								Total
	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	
TANGIBLE FIXED ASSETS									
Opening balance	44,611,520	375,183,725	147,698,948	3,558,117	116,129,241	30,216,949	2,089,368	1,885,722	721,373,590
Acquisitions	-	3,810,255	4,163,091	54,889	914,871	1,522,788	328,466	542,194	11,336,554
Disposals	(162,109)	(498,500)	(4,473,864)	-	(321,114)	(4,213)	-	-	(5,459,800)
Transfers and write-offs	-	1,047,890	1,499,396	(228)	(35,406,106)	(8,085,039)	(1,952,374)	(2,277,742)	(45,174,203)
Adjustments	(3,448)	(4,014)	-	(11,222)	(1,509)	(209,831)	-	-	(230,024)
Other changes	-	-	(646)	2,399	(420,134)	(6,853)	(235,352)	-	(660,586)
CLOSING BALANCE	44,445,963	379,539,356	148,886,925	3,603,955	80,895,249	23,433,801	230,108	150,174	681,185,531
ACCUMULATED AND DEPRECIATION IMPAIRMENT LOSSES									
Opening balance	4,200,150	184,602,605	128,326,275	3,028,654	108,528,398	23,440,622	-	-	452,126,704
Depreciation for the period	-	9,853,138	5,345,507	224,617	3,259,221	1,253,583	-	-	19,936,066
Disposals	-	(149,375)	(4,473,864)	-	(321,114)	(4,213)	-	-	(4,948,566)
Transfers and write-offs	-	-	(425,138)	(228)	(37,557,142)	(7,115,902)	-	-	(45,098,410)
Impairment losses	-	502,113	-	-	-	-	-	-	502,113
Adjustments	-	-	-	-	-	-	-	-	-
Other changes	-	-	(168,881)	(9,640)	(238,553)	7,064	-	-	(410,010)
CLOSING BALANCE	4,200,150	194,808,481	128,603,899	3,243,403	73,670,810	17,581,154	-	-	422,107,897
NET TANGIBLE FIXED ASSETS	40,245,813	184,730,875	20,283,026	360,552	7,224,439	5,852,647	230,108	150,174	259,077,634

2011

	Land and natural resources	Buildings and other construc- tions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in pro- gress	Advance payments to suppliers	Total
TANGIBLE FIXED ASSETS									
Opening balance	43,644,908	369,425,567	140,661,107	3,527,403	111,613,642	29,089,313	3,072,549	1,912,079	702,946,568
Acquisitions	-	5,699,434	8,343,439	197,595	1,537,902	4,616,294	1,196,277	1,375,782	22,966,723
Disposals	(2,632)	(172,629)	(1,547,839)	(1,115)	(126,236)	(10,943)	-	-	(1,861,394)
Transfers and write-offs	779,701	(973,011)	217,431	(146,602)	2,779,057	(3,016,445)	(2,408,839)	(1,448,639)	(4,217,347)
Adjustments	189,543	1,204,364	25,271	(19,164)	323,054	(459,909)	229,381	46,500	1,539,040
Other changes	-	-	(461)	-	1,822	(1,361)	-	-	-
CLOSING 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
ACCUMULATED AND DEPRECIATION									
Opening balance	3,970,789	176,123,383	126,195,264	2,931,996	105,906,989	22,333,919	-	-	437,462,341
Depreciation for the period	-	9,532,490	4,754,844	234,700	3,091,360	1,270,748	-	-	18,884,142
Disposals	(134)	(113,028)	(1,546,506)	(1,115)	(121,784)	(10,921)	-	-	(1,793,488)
Transfers and write-offs	229,495	(1,503,322)	(1,077,096)	(136,927)	(349,606)	(151,916)	-	-	(2,989,372)
Adjustments	-	563,082	-	-	-	-	-	-	563,082
Other changes	-	-	(231)	-	1,439	(1,208)	-	-	-
CLOSING BALANCE	4,200,150	184,602,605	128,326,275	3,028,654	108,528,398	23,440,622	-	-	452,126,705
NET TANGIBLE FIXED ASSETS	40,411,370	190,581,120	19,372,673	529,463	7,600,843	6,776,327	2,089,368	1,885,722	269,246,885

The balances of the headings “Land” and “Buildings and other constructions” include 6,668,577 Euros related to land and property in co-ownership with PT Communications, S.A..

As a result of the change in the Concession agreement in July 2006 (Introduction), at the end of the concession the assets included in the public and private domain of the State revert automatically, at no cost, to the conceding entity, while under the previous concession agreement, 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 the 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 31 December 2012, the most significant movements in the headings of Tangible Fixed Assets are the following:

Land:

The disposals recorded in this heading (162,109 Euros) refer to the sale by CTT of a property located in Lisbon (Rua das Pedras Negras).

Buildings and other constructions:

The movements associated to additions refer entirely to the preservation and maintenance works executed on properties owned by CTT (1,363,408 Euros) and properties where they are tenants (670,207 Euros). On the other hand, note should be made of the investment made by CTT Expresso, especially the Logistics expansion works (1,348 million Euros) and the works executed in the Operating Centres of Prior Velho and Viseu, for a total of approximately 204,000 Euros. On a final note, we refer to the investment made in works in various facilities of Tourline, which amounted to approximately 154,000 Euros.

On the other hand, the disposals refer to the recording of the sale of the building already described in the heading “Land”, whose accumulated depreciation is stated in the second part of the table relative to this Note (149,374 Euros). It should be noted that this sale generated approximately 43 thousand Euros of capital gains for CTT.

The transfers recorded, and relative to this type of asset (1,047,890 Euros), refer to works that were in progress in CTT companies and CTT Expresso, which were, during the period in question, transferred to fixed assets.

The Group has some properties that are vacant, so they are not allocated to the activity. Any evidence that these assets might be impaired would require determination of their recoverable amount (fair value minus costs to sell). Accordingly, the Group decided to evaluate these properties, where the valuation was conducted by an external entity, which concluded in relation to eight of them, that there was impairment of the amount of 502,113 Euros.

Basic equipment:

The amount concerning acquisitions and transfers (5,812 million Euros) refers to direct purchases or warehouse outputs, of the following types of assets:

- Stamp-cancelling machines (3): 46,141 Euros
- Upgrades to indexing machines (optical readers): 580,771 Euros
- Upgrades to sorting machines: 1,276,137 Euros (CTT) and 905,000 Euros in CTT Expresso;
- Telephone booths installed in Retail Network (31): 14,320 Euros
- Bicycles and Motorcycles: 150 electric bicycles (244,094 Euros) and 117 motorcycles (224,904 Euros);
- Heavy goods vehicles: 26 vehicles and 4 trailers at CTT (2,255,340 Euros) plus the investment made of CTT Expresso in 5 heavy goods vehicles, worth approximately 218 thousand Euros;
- Dock tractors, electric (2): 24,612 Euros

The recorded disposals, amounting to 4,473,864 Euros, refer to the sale of several assets of CTT, which were fully depreciated as follows:

- A variety of postal equipment (156,608 Euros), in particular the sale of 21 strapping machines;
- Bicycles (4) and motorcycles (43) with the acquisition price of 86,242 Euros, which generated approximately 62 thousand Euros of capital gains;
- Vehicles (3,979,151 Euros), being 1 mixed passenger vehicle (7,939 Euros), 65 goods vehicles (681,066 Euros) and 47 heavy goods vehicles (3,290,146 Euros), which generated capital gains in the amount of 137 000 Euros;

- Tractors (12) and stackers (4), in the amount of 236,707 Euros;
- One vehicle as itinerary station (15.156 Euros).

Some write-offs were recorded due to the disabling/ destruction of several categories of goods, such as obliterating machines, optical recording machines, recording and tying machines, franking machines, postal receptacles and other fixtures, equipment for the internal handling of loads and scales, to the total amount of 224,047 Euros.

Office equipment:

The amount related to acquisitions and transfers (4,836,471 Euros) refers to direct acquisitions or warehouse outputs, which are mainly composed of computer equipment (2,348 thousand Euros), postal furniture (about 158,000 Euros), miscellaneous furniture (48,000 Euros) and about 20 thousand Euros in security boxes. We must also point out the acquisition of 3,000 automatic payment terminals (APT), to be installed in the CTT Stores network, in the amount of approximately 422,000 Euros, as well as the expenditure of 289 thousand Euros relative to the roll-out of NAVE. We also point out the investment made by Tourline in the acquisition of computer equipment allocated to the SGC, in the amount of approximately 1 million Euros. We call the attention the acquisition of shelving for the Logistics by CTT Expresso (42 000 Euros), as well as the acquisition of 210 labelling machines in a total amount of 48,000 Euros.

The amount recorded in disposals concerns the sale of different types of CTT assets, fully depreciated, namely the following: postal furniture and other furniture (283,868 Euros) and computer equipment (16,657 Euros), which generated about 11,000 Euros of capital gains.

Other tangible fixed assets:

The value corresponding to the acquisition of this type of assets (1,522,788 Euros), mainly refers to the acquisition of prevention and safety equipment (714,425 Euros), communication equipment (60 thousand Euros), as well as the acquisition of a variety of warehouse equipment (referred to as assets not allocated to the operations), whose value, during the year, was of approximately 681,000 Euros.

Under the heading of regularisation, whose recorded value amounts to 209,000 Euros, note should be made of the exit of warehouse goods to the expense account, whose acquisition value is less than 200 Euros, the minimum value capable of being capitalised as fixed assets in the company. The amount involved in this situation amounted to about 173 thousand Euros.

Tangible fixed assets in progress:

The figures in this heading concern the recording of costs relative to maintenance and preservation works on own property, where the value of the transfers made is due to the conclusion of these works, capitalised in assets related to the Group's properties (buildings and other constructions).

The increases recorded in this heading refer to the advances granted to suppliers relating to the roll-out of NAVE (289 mil Euros), as well as about 224 thousand Euros paid to foreign suppliers in relation to upgrades to the parcel separating machines. The transfers concern the final invoicing of jobs / deliveries made by the suppliers.

The high amounts recorded under write-offs of Office Equipment and other tangible assets, are mainly due to the write-off at CTT, of approximately 150,000 assets that were fully depreciated and which were acquired up to 1992. The reasons for these write-offs were related to their physical deterioration, arising from their age.

The depreciation recorded during the period of these Notes, to the amount of 19,936,066 Euros (18,884,142 Euros in 2011), were stated in the heading "Depreciation/amortisation and investment impairment net of the consolidated income statement (Note 38).

Contractual commitments relative to Tangible Fixed Assets are as follows:

(i) Buildings and other constructions

The acquisition of a unit to install the Corroios Post Office , under a promissory contract of purchase and sale concluded with the Municipio do Seixal (Seixal Municipality), on 26 December 1985.

The deed of acquisition of this property was made after the closure of the year 2012, on 22 March 2013.

(ii) Basic equipment

Acquisition of trays holdres from Caddie Portugal of the value of 120,000 Euros, of a lift-truck from Manitou of the value of 18 thousand Euros, of labelling machines from Burótica of the value of 17,200 Euros and a firewall from PT Prime of the value of 10,8 thousand Euros.

6. INTANGIBLE ASSETS

During the periods ended on 31 December 2012 and 31 December 2011, the movement which occurred in the main categories of intangible assets, as well as the respective accumulated amortisation, was as follows:

	2012					
	Development projects	Software	Industrial property	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	17,986	48,941,825
Acquisitions	-	567,922	24,971	2,114,193	4,380	2,711,466
Transfers and write-offs	-	3,513,452	-	(3,517,602)	-	(4,150)
Adjustments	-	-	799,449	-	-	799,449
Other changes	-	(55,519)	(42,860)	157,237	-	58,858
CLOSING BALANCE	4,325,692	33,546,260	11,687,619	2,925,511	22,366	52,507,448
ACCUMULATED AMORTISATION						
Opening balance	4,325,692	23,294,861	6,241,040	-	-	33,861,593
Amortisation for the period	-	3,530,961	662,623	-	-	4,193,584
Transfers and write-offs	-	(4,150)	-	-	-	(4,150)
Other variations	-	(26,048)	127,409	-	-	101,361
CLOSING BALANCE	4,325,692	26,795,624	7,031,072	-	-	38,152,388
NET INTANGIBLE ASSETS	-	6,750,636	4,656,547	2,925,511	22,366	14,355,060

2011

	Development projects	Software	Industrial property	Intangible assets in progress	Advance payments to suppliers	Total
INTANGIBLE ASSETS						
Opening balance	4,325,692	26,889,908	10,750,693	2,719,859	-	44,686,152
Acquisitions	-	1,830,489	155,366	2,112,529	-	4,098,384
Transfers and write-offs	-	800,008	-	(669,348)	-	130,660
Adjustments	-	-	-	8,643	17,986	26,629
CLOSING BALANCE	4,325,692	29,520,405	10,906,059	4,171,683	17,986	48,941,825
ACCUMULATED AMORTISATION						
Opening balance	4,325,679	20,221,320	6,041,654	-	-	30,588,653
Amortisation for the period	13	3,106,921	199,386	-	-	3,306,320
Transfers and write-offs	-	(33,380)	-	-	-	(33,380)
CLOSING BALANCE	4,325,692	23,294,861	6,241,040	-	-	33,861,593
NET INTANGIBLE ASSETS	-	6,225,544	4,665,019	4,171,683	17,986	15,080,232

The increases recorded in the heading of Software and in progress intangible assets, essentially concern the costs (internal and external) of the implementation of computer projects, namely, the following: “Bank Reconciliation” (78,500 Euros), “Internal Information System” (39 thousand Euros), “Reference Information” (33,5 thousand Euros); “Geo10” (300 thousand Euros), “Reformulation of Money Orders “(23,5 thousand Euros);” Sigest “(80 thousand Euros),” Corporate Portal “(127 thousand Euros) and” E-Procurement “(59 thousand Euros).

The transfers occurred in the period in question relative to Intangible Assets in progress for Computer Programs Training refer to computer projects, which were completed during the year in question.

Intangible assets in progress refer to computer projects which are under development, of which the following are the most relevant:

New GRH application	707,575
SGC Tourline	595,761
Technological migrations	425,958
Renewal NAVE equipment	338,727
Dynamic plan changing system	197,309
	2,265,330

In the heading Industrial Property, the value indicated in adjustments includes the amount of 726,526 Euros concerning the recognition, in the entity CORRE - Correio Expresso Moçambique, S.A., of the trade name EMS. In Intangible Assets in progress, in other variations, the recorded value of approximately 157 thousand Euros primarily arises from the adjustments made to the balances of previous years.

The amortisation for the period in question, amounting to 4,196,322 Euros (3,306,320 Euros in 2011) was recorded in the heading “Depreciation / amortisation and impairment of investments, net” (Note 38).

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

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

R & D projects

During the financial year ended on 31 December 2012 no expenses were recorded relative to research and development.

7. INVESTMENT PROPERTIES

As at 31 December 2012 and 31 December 2011, the Group has the following assets classified as investment properties:

			2012
	Land and natural resources	Buildings and other constructions	Total
INVESTMENT PROPERTIES			
Opening balance	2,692,616	97,602	2,790,218
Additions	-	-	-
Write-offs	(1,361,565)	-	(1,361,565)
Transfers/Adjustments	3,448	(31,949)	(28,501)
CLOSING BALANCE	1,334,499	65,653	1,400,152
ACCUMULATED DEPRECIATION			
Opening balance	-	61,845	61,845
Depreciation for the period	-	1,313	1,313
Transfers/Adjustments	-	(31,949)	(31,949)
CLOSING BALANCE	-	31,209	31,209
NET INVESTMENT PROPERTIES	1,334,499	34,444	1,368,943

			2011
	Land and natural resources	Buildings and other constructions	Total
INVESTMENT PROPERTIES			
Opening balance	2,889,672	1,218,675	4,108,347
Additions	-	97,602	97,602
Transfers/Adjustments	(197,056)	(1,218,675)	(1,415,731)
CLOSING BALANCE	2,692,616	97,602	2,790,218
ACCUMULATED DEPRECIATION			
Opening balance	-	545,795	545,795
Depreciation for the period	-	61,845	61,845
Transfers/Adjustments	-	(545,795)	(545,795)
CLOSING BALANCE	-	61,845	61,845
NET INVESTMENT PROPERTIES	2,692,616	35,757	2,728,373

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

The market value of these assets, which are classified as investment properties, in accordance with the valuation recorded as at the end of fiscal year of 2012 conducted by independent entities, amounts to 2,937 thousand Euros and 170 thousand Euros, for land and buildings, respectively.

The objective of this valuation was to estimate the market value for the sublease (rent value) and the current market value for purchase / sale. The valuation criteria were based on the comparative/market method, based primarily on knowledge of the local market and on the basis of comparison with identical

values collected in the market covering the goods in question. The objective of this method is to determine the estimated value for the transaction of those properties between entities, which are not related, at market conditions. The method enables the valuation of income generating assets, properties that already generate or may generate an income.

The depreciation for the period, amounting to 1,313 Euros (61,845 Euros in 2011) was recorded in the heading “Depreciation / amortisation and impairment of investments, net”. (Note 38).

Note should also be made of the recognition of a cost caused by the breach of contract concerning the land of “Campo 24 de Agosto”, in the amount of 1,361,565 Euros.

For the years ended on 31 December 2012 and on December 2011, there were no records concerning impairment losses on investment properties.

8. COMPANIES INCLUDED IN THE CONSOLIDATION

Subsidiary companies

As at 31 December 2012 and 31 December 2011, the parent company, CTT - Postal de Portugal, SA and the following subsidiaries in which it holds a majority of the voting rights (control) were included in the consolidation through the full method:

Company name	Head office	2011 Percentage of ownership			2012 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 Quintanilha 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 exercises effective control on its operating and financial business.

Joint ventures

As at 31 December 2012 and on 31 December 2011, the Group held the following interests in joint ventures, included in the consolidation through the proportional method:

Company name	Head office	2011 Percentage of share capital held			2012 Percentage of share capital held		
		Direct	Indirect	Total	Direct	Indirect	Total
Ti-Post Prestação de Serviços informáticos, ACE ("Ti-Post")	R. do Mar da China, Lote 1.07.2.3 Lisbon	49	-	49	49	-	49
Postal Network – Prestação de Serviços de Gestão de Infra-Estruturas de Comunicações, ACE	Av. Fontes Pereira de Melo, 40 Lisbon	49	-	49	49	-	49
PTP & F, ACE	Estrada Casal do Canas Amadora	-	51	51	-	51	51

Associated companies

As at 31 December 2012 and on 31 December 2011, the Group held the following interests in associated companies consolidated through the equity method:

Company name	Head office	2011 Percentage of share capital held			2012 Percentage of share capital held		
		Direct	Indirect	Total	Direct	Indirect	Total
Multicert – Serviços de Certificação Eletrónica, 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
AB ADA Courier, SL (b)	Granada Spain	-	-	-	-	50	50
Mafelosa, SL (b)	Castellon Spain	-	25	25	-	25	25
Mensajería Ugente Rioja Portalada, SL (b)	Logoroño Spain	-	-	-	-	25	25
Urpacksur, SL (b)	Málaga 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 that ended on 31 December 2012, there were no changes in the consolidation perimeter, in relation to the same period of the previous year.

9. GOODWILL

As at 31 December 2012 and 31 December 2011, the composition of Goodwill was as follows:

Company	Year of acquisition	2012	2011
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 (customer portfolio)	2005	444,739	444,739
EAD - Empresa de Arquivo de Documentação, S.A.	2006	786,164	786,164
		25,528,608	25,528,608

During the years ended on 31 December 2012 and 2011, the movements occurred in Goodwill were as follows:

	2012	2011
Opening,balance,of,the,period	25,528,608	27,471,058
Impairment	-	(1,942,450)
CLOSING,BALANCE,OF,THE,PERIOD	25,528,608	25,528,608

Impairment of Goodwill

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 though a discounted cash flow methodology, considering the market conditions, the time value and business risks.

For the purpose of these tests, the CTT Group has defined a set of assumptions so as to determine the recoverable amount of the investments made, in particular of the following:

2012					
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Growth perpetuity rate
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%

2011					
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Growth perpetuity rate
Tourline Express Mensajería, SLU	CEP and Logistics	Equity Value/DCF	5 years	13.00%	2.0%
EAD - Empresa de Arquivo de Documentação, S.A.	Custody and archive management	Equity Value/DCF	5 years	16.40%	2.0%
Mailtec Group	Documental services	Equity Value/DCF	5 years	14.58%	2.0%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	16.09%	2.0%

The cash flow projections were based on the historical performance and the medium and long term business plans, approved by the Board of Directors, and were prolonged in perpetuity. As a consequence of this impairment analysis, the Group concluded that as at 31 December 2012 there were no impairment losses and as at 31 December 2011 the impairment losses in goodwill were as follows:

2012						2011
Company	Year of acquisition	Initial value	Impairment losses for the period	Accumulated impairment losses	Carrying value	Carrying value
Tourline Express Mensajería, SLU	2005	20,671,985	-	4,079,737	16,592,248	16,592,248
EAD - Empresa de Arquivo de Documentação, S.A.	2006	1,082,015	-	295,851	786,164	786,164
Payshop Moçambique, S.A. (a)	2008	235,946	-	235,946	-	-
		21,989,946	-	4,611,534	17,378,412	17,378,412

(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 variables: (i) growth perpetuity rate and (ii) discount rates.

The results of the sensitivity analyses for PayShop, EAD and Mailtec Group do not determine that there are indications of impairment. Regarding Tourline, the results of the sensitivity analyses conclude that a 1% increase in the discount rate would determine

the recognition of an impairment loss amounting to 1,460,824 Euros, according to the following tables:

VARIATION OF PERPETUITY GROWTH

	-0.5%	0.0%	0.5%
TOURLINE			
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	21,794,050	22,630,972	23,554,689
Test: impairment (if negative)	561,344	1,398,266	2,321,983
MAILTEC			
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	23,686,948	24,246,247	24,856,480
Test: impairment (if negative)	9,747,053	10,306,352	10,916,585
EAD			
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	7,105,222	7,423,782	7,772,163
Test: impairment (if negative)	1,309,964	1,472,430	1,650,104
PAYSHOP			
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	49,546,076	50,580,533	51,702,500
Test: impairment (if negative)	42,422,883	43,457,340	44,579,307

VARIATION OF SOVEREIGN RISK

	-1%	0%	+1%
TOURLINE			
WACC	11.20%	12.14%	13.08%
Equity Assessment	26,066,769	22,630,972	19,771,882
Test: impairment (if negative)	4,834,063	1,398,266	-1,460,824
MAILTEC			
WACC	12.48%	13.48%	14.48%
Equity Assessment	26,416,441	24,246,247	22,430,269
Test: impairment (if negative)	12,476,546	10,306,352	8,490,374
EAD			
WACC	12.26%	13.18%	14.10%
Equity Assessment	8,467,831	7,423,782	6,543,482
Test: impairment (if negative)	2,004,894	1,472,430	1,023,477
PAYSHOP			
WACC	13.32%	14.32%	15.32%
Equity Assessment	54,303,132	50,580,533	47,413,672
Test: impairment (if negative)	47,179,939	43,457,340	40,290,479

10. INVESTMENTS IN ASSOCIATED COMPANIES

As at 31 December 2012 and 31 December 2011, the detail of heading investments in associated companies was as follows:

	2012	2011
Investments	690,215	552,824
	690,215	552,824

For the periods ended on 31 December 2012 and 31 December 2011, the investments in associated companies had the following movement:

	2012	2011
Multicert, S.A.	689,734	552,343
Urpacsur, SL	481	481
	690,215	552,824

INVESTMENTS IN ASSOCIATED COMPANIES

2012									
	Head office	Assets	Liabilities	Equity	Net income	% held	Investments	Provisions	Proportion of net income
ASSOCIATED COMPANIES									
Multicert - Serviços de Certificação Electrónica, S.A. (f)	Lisbon	5,003,269	1,284,270	4,732,941	655,710	20%	689,734	-	254,591
Payshop Mozambique, S.A. (b)	Maputo – Mozambique	271,930	953,017	(681,086)	(41,288)	35%	-	220,816	(14,451)
Mafelosa, SL (c) (d)	Castellon – Spain	n.d.	n.d.	(340,333)	(93,161)	25%	-	-	n.d.
Urpacsur (c) (e)	Spain	n.d.	n.d.	1,924	n.d.	30%	481	-	n.d.
							690,215	220,816	240,140

2011									
	Head office	Assets	Liabilities	Equity	Net income	% held	Investments	Provisions	Proportion of net income
ASSOCIATED COMPANIES									
Multicert - Serviços de Certificação Electrónica, S.A. (f)	Lisbon	4,167,165	2,013,746	2,761,718	258,618	20%	552,343	-	51,724
Payshop Mozambique, S.A. (b)	Maputo – Mozambique	300,938	1,013,717	(712,779)	93,918	35%	-	222,205	32,870
Mafelosa, SL (c) (d)	Castellon – Spain	n.d.	n.d.	(340,333)	(93,161)	25%	-	-	n.d.
Urpacsur (c) (e)	Spain	n.d.	n.d.	1,924	n.d.	30%	481	-	n.d.
							552,824	222,205	84,594

(a) Data reported on December 2010 (last available)
(b) Participation by Payshop Portugal. Data reported on March 2012
(c) Participation by Tourline Express Mensajería
(d) Data reported on 2008
(e) Data reported on 2007
(f) Provisional data from 2012. The proportion of net income includes profits from 2011.

11. FINANCIAL ASSETS HELD FOR SALE

As at 31 December 2012 and 31 December 2011, the detail of financial assets held for sale which are stated at cost, was as follows:

	2012	2011
Financial assets held for sale	130,829	130,829
	130,829	130,829

As at 31 December 2012 and 31 December 2011, there were no movements, and the financial assets held for sale were as follows:

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

The holdings mentioned above are measured at acquisition cost since the entities are not listed and it is not possible to estimate their fair value reliably.

12. FINANCIAL RISK MANAGEMENT

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

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

The movement of impairment losses of accounts receivable is disclosed in Notes 19 and 37. As at 31 December2012, the Group believes that impairment losses in accounts receivable are adequately estimated and recorded in the consolidated financial statements.

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

As at 31 December 2012 and 31 December 2011, the heading “Cash and cash equivalents” included

cash deposits investments which reached a total of 444,947,000 Euros and 386,391,158 Euros, respectively (Note 17).

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 hence alterations 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 on the one hand and the risk/yield relationship on the other hand.

The investment of surplus liquidity, for the years ended on 31 December 2012 and 31 December 2011, received a interest income of 14,916,210 Euros and 20,788,608 Euros, respectively (Note 40).

If the interest rates had been lower by 1%, during the period ended on 31 December 2012, the interest received would be less by 3,894 thousand Euros.

Foreign currency exchange rate risk

Exchange rate risk is related to the existence of balances in currencies other than the Euro, in particular balances arising from transactions with foreign Postal Operators recorded in Special Drawing 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 31 December 2012 and 31 December 2011, the net exposure (assets minus liabilities) of the Group ascended, respectively, to -1,192,621 SDR (1,390,394 Euros at the exchange rate €/SDR 1.16583) and 1,145,356 SDR (1,359,011 Euros at the exchange rate €/SDR of 1.18654). In the sensitivity analysis of the balances of accounts receivable and payable to foreign Postal Operators, on 31 December 2012 and 31 December 2011, assuming a appreciation / depreciation in the exchange rate €/SDR of 10%, the impact on the results would be (139,039) Euros and 135,901 Euros, respectively.

Liquidity risk

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

The principal contractual obligations of the Group are related to the funding received (essentially financial leases) and respective interest, the employees' benefits, the operating leases and other non-contingent financial commitments. The following table sums up the expected contractual obligations and financial commitments as at 31 December 2012:

2012	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Debts (Note 25)	6,857,361	4,565,411	-	11,422,772
Interest debts (Note 25)	41,459	64,992	-	106,451
Payment of employee benefits ⁽¹⁾	21,377,638	74,449,683	645,447,746	741,275,067
Operating leases (Note 35)	9,100,531	8,509,807	-	17,610,338
Non-contingent financial commitments ⁽²⁾	166,026	-	-	166,026
	37,543,015	87,589,893	645,447,746	770,580,654

(1) The presented amounts correspond to undiscounted payments. This amount differs from the liabilities recognised on the consolidated statement of financial position due to the effect of the discount on the liabilities with past services and because it also includes the component of future services with the population currently covered by these benefits.

(2) The non-contingent financial commitments are essentially related with contracts signed with fixed costs suppliers.

13. INVENTORIES

As at 31 December 2012 and 31 December 2011, the Groups' "Inventories" are detailed as follows:

	2012			2011		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Goods	5,687,910	1,903,511	3,784,399	7,148,329	3,275,093	3,873,236
Raw, subsidiary and consumable materials	3,583,586	715,248	2,868,338	3,966,757	1,616,011	2,350,746
Advances on purchases	58,002	-	58,002	82,016	-	82,016
	9,329,498	2,618,759	6,710,739	11,197,103	4,891,104	6,305,998

Cost of sales

During the periods ended on 31 December 2012 and 2011, the details of the "Cost of sales" were as follows:

	2012		
	Merchandise	Raw materials and consumables	Total
Opening balance	7,148,328	3,966,757	11,115,085
Purchases	13,767,171	3,623,185	17,390,356
Offers	(105,661)	(20,691)	(126,352)
Adjustments	(377,409)	(186,804)	(564,212)
Closing balance	(5,687,910)	(3,583,586)	(9,271,496)
COST OF PRODUCTS SOLD	14,744,519	3,798,862	18,543,381

	2011		
	Merchandise	Raw materials and consumables	Total
Opening balance	6,447,860	4,072,866	10,520,726
Purchases	15,465,256	3,758,388	19,223,644
Offers	(50,058)	(21,908)	(71,966)
Adjustments	(169,218)	(35,398)	(204,616)
Closing balance	(7,148,329)	(3,966,757)	(11,115,086)
COST OF PRODUCTS SOLD	14,545,511	3,807,191	18,352,702

Impairment

For the periods ended on 31 December 2012 and 31 December 2011, the movement occurred in “Accumulated impairment losses of inventories” (Note 19) was as follows: For the periods ended on 31 December 2012 and 31 December 2011, impairment losses of inventories were recorded net of reversals amounting to 2,128,110 Euros and 697,155 Euros, respectively, in the heading “Impairment of inventories and accounts receivable net (Note 37).

2012					
	Opening balance	Increases	Reversals	Reduction	Closing balance
Merchandise	3,275,093	-	(1,371,582)	-	1,903,511
Raw materials and consumables	1,616,011	83,575	(840,103)	(144,235)	715,248
	4,891,104	83,575	(2,211,685)	(144,235)	2,618,759

2011					
	Opening balance	Increases	Reversals	Reduction	Closing balance
Merchandise	2,854,170	420,923	-	-	3,275,093
Raw materials and consumables	1,339,779	276,232	-	-	1,616,011
	4,193,949	697,155	-	-	4,891,104

14. ACCOUNTS RECEIVABLE

As at 31 December 2012 and 31 December 2011 the heading “Accounts receivable” showed the following composition:

	2012	2011
Customers	135,212,562	164,395,256
Associated companies	192	192
	135,212,754	164,395,448

Customers

As at 31 December 2012 and 31 December 2011, the age structure of the balance of the heading “Customers” is detailed as follows:

	2012			2011		
	Gross amount	Accumulated impairment	Carrying value	Gross amount	Accumulated impairment	Carrying value
CURRENT						
Not due	57,132,265	491	57,131,774	65,652,014	-	65,652,014
Past due:						
0-30 days	23,368,767	9,030	23,359,737	24,978,505	2,983	24,975,522
30-90 days	14,407,624	5,692	14,401,932	13,271,817	47,232	13,224,585
90-180 days	4,680,277	26,451	4,653,826	10,766,446	86,058	10,680,388
180-360 days	9,718,075	1,660,503	8,057,572	24,971,589	1,005,569	23,966,020
› 360 days	48,218,580	20,610,859	27,607,721	46,023,585	20,126,858	25,896,727
	157,525,588	22,313,026	135,212,562	185,663,956	21,268,700	164,395,256

Customers impairments

For the years ended on 31 December 2012 and 31 December 2011, the movement occurred in “Accumulated impairment losses” (Note 19) was as follows:

	2012					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Customers	21,268,700	2,888,988	(398,421)	(1,961,257)	515,016	22,313,026
	21,268,700	2,888,988	(398,421)	(1,961,257)	515,016	22,313,026

	2011					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Customers	22,711,915	2,721,703	(765,154)	(4,501,298)	1,101,534	21,268,700
	22,711,915	2,721,703	(765,154)	(4,501,298)	1,101,534	21,268,700

For the periods ended on 31 December 2012 and 31 December 2011, impairment losses were recorded (net increases of reversals) of accounts receivable amounting to, 2,490,567 Euros and 1,956,549 Euros, respectively in the heading “Impairment of inventories and accounts receivable , net (Note 37).

The amount of 515,016 Euros recorded under “Transfers”, refers to an impairment loss of “Other debtors” of the Tourline subsidiary.

15. DEFERRALS

As at 31 December 2012 and 31 December 2011, the “Deferrals” heading of the current assets and current and non-current liabilities showed the following composition:

	2012	2011 Restated
ASSETS DEFERRALS		
Current		
Rents payable	1,479,225	1,170,713
Meal allowances	1,772,639	1,865,875
Other	2,348,397	2,458,239
	5,600,261	5,494,827
LIABILITIES DEFERRALS		
Non-current		
Deferred capital gains	10,874,369	13,273,398
Tangible fixed assets subsidies	372,832	387,956
Other	75,424	43,597
	11,322,625	13,704,951
Current		
Deferred capital gains	2,399,029	2,399,029
Phone-ix top ups	572,687	680,860
Tangible fixed assets subsidies	11,267	7,410
Other	1,385,983	1,588,644
	4,368,966	4,675,943
	15,691,591	18,380,894

In prior years the Company sold certain property, which it subsequently leased. The gains on the sales was deferred and is being recognised over the period of the lease contracts.

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

As at 31 December 2012 and 31 December 2011, the Group did not have non-current assets classified as held for sale, nor were there operations classified as discontinued operations.

17. CASH AND CASH EQUIVALENTS

As at 31 December 2012 and 31 December 2011, cash and cash equivalents correspond to the value of cash, sight deposits, time deposits and cash investments on the monetary market, net bank overdrafts and other equivalent short term financing, and is detailed as follows:

	2012	2011
Cash	12,138,936	22,556,735
Sight deposits	32,424,142	17,311,469
Time deposits	444,947,000	386,391,158
CASH AND CASH EQUIVALENTS (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)	489,510,078	426,259,362
Bank overdrafts	-	-
CASH AND CASH EQUIVALENTS (CONSOLIDATED CASH FLOW STATEMENT)	489,510,078	426,259,362

18. OTHER NON-CURRENT AND CURRENT ASSETS

As at 31 December 2012 and 31 December 2011, the headings “Other non-current assets” and “Other current assets” had the following composition:

	2012	2011
NON-CURRENT		
Advances to staff	312,243	282,300
Other receivables from staff	1,384,664	1,354,099
Ministry of Health	1,444,883	5,534,797
INESC loan	1,455,643	1,497,093
Impairment	(2,578,814)	(2,663,301)
	2,018,619	6,004,988
CURRENT		
Advances to suppliers	49,803	57,170
Advances to staff	2,900,773	3,123,524
Ministry of Health	1,487,594	1,487,594
INESC loan	49,740	49,740
Postal financial services	9,461,390	13,838,233
State and other public entities	330,546	638,971
Debtors by accrued revenues	3,418,976	2,805,370
Other current assets	12,268,188	13,736,994
Impairment	(8,974,606)	(8,523,552)
	20,992,404	27,214,044

The account receivable from the Ministry of Health refers 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 change in this heading arises from the payment of 4,594,703 Euros made by the Central Administration of the Health System (ACSS), according to a payment plan defined previously. The debt is recorded at its present value and classified based on its phased payment.

The amounts recorded in the heading “Postal financial services” refer to values receivable from subscription of savings products and the marketing of insurance.

Debtors by accrued revenues

As at 31 December 2012 and 31 December 2011, the debtors by accrued revenues refer to accrued interest (1,287,162 Euros), values not invoiced (1,173,172 Euros), philatelic products (24,030 Euros), philatelic agents and other values not invoiced (673,519 Euros).

Impairment

For the years ended on 31 December 2012 and 31 December 2011, the movement occurred in “Accumulated impairment losses (Note 19)” was as follows:

	2012					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Other accounts receivable	9,640,020	913,120	(435,819)	-	(69,284)	10,048,037
INESC loan	1,546,833	-	(41,450)	-	-	1,505,383
	11,186,853	913,120	(477,269)	-	(69,284)	11,553,420
	2011					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Other accounts receivable	10,271,913	974,939	(455,372)	(264,451)	(887,009)	9,640,020
INESC loan	1,600,718	-	(53,885)	-	-	1,546,833
	11,872,631	974,939	(509,257)	(264,451)	(887,009)	11,186,853

For the periods ended on 31 December 2012 and 31 December 2011, impairment losses (net increases of reversals) of “Other current and non-current assets” were recorded amounting to 435,851 Euros and 465,682 Euros, respectively, in the heading “Impairment of inventories and accounts receivable, net”. (Note 37).

19. ACCUMULATED IMPAIRMENT LOSSES

During the years ended on 31 December 2012 and 31 December 2011, the following movements occurred in the impairment items:

2012						
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
OTHER NON-CURRENT ASSETS (NOTE 18)						
Other accounts receivable	1,166,208		(43,037)	-	-	1,123,171
INESC loan	1,497,093	-	(41,450)	-	-	1,455,643
	2,663,301	-	(84,487)	-	-	2,578,814
OTHER CURRENT ASSETS (NOTES 14 AND 18)						
Customers	21,268,700	2,888,988	(398,421)	(1,961,257)	515,016	22,313,026
Other accounts receivable	8,473,812	913,120	(392,782)	-	(69,284)	8,924,866
INESC loan	49,740	-	-	-	-	49,740
	29,792,252	3,802,108	(791,203)	(1,961,257)	445,732	31,287,632
INVENTORIES (NOTE 13)						
Merchandise	3,275,093	-	(1,371,582)	-	-	1,903,511
Raw, subsidiary and consumable materials	1,616,011	83,575	(840,103)	(144,235)	-	715,248
	4,891,104	83,575	(2,211,685)	(144,235)	-	2,618,759
	37,346,657	3,885,683	(3,087,375)	(2,105,492)	445,732	36,485,205
2011						
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
OTHER NON-CURRENT ASSETS (NOTE 18)						
Other accounts receivable	971,076	195,132	-	-	-	1,166,208
INESC loan	1,550,978	-	(53,885)	-	-	1,497,093
	2,522,054	195,132	(53,885)	-	-	2,663,301
OTHER CURRENT ASSETS (NOTES 14 AND 18)						
Customers	22,711,915	2,721,703	(765,154)	(4,501,298)	1,101,534	21,268,700
Other accounts receivable	9,300,837	779,807	(455,372)	(264,451)	(887,009)	8,473,812
INESC loan	49,740	-	-	-	-	49,740
	32,062,492	3,501,510	(1,220,526)	(4,765,749)	214,525	29,792,252
INVENTORIES (NOTE 13)						
Merchandise	2,854,170	420,923	-	-	-	3,275,093
Raw, subsidiary and consumable materials	1,339,779	276,232	-	-	-	1,616,011
	4,193,949	697,155	-	-	-	4,891,104
	38,778,495	4,393,797	(1,274,411)	(4,765,749)	214,525	37,346,657

20. EQUITY

As at 31 December 2012 and 31 December 2011, the Company’s share capital is composed of 17,500,000 shares fully underwritten and paid-up shares of 4.99 Euros nominal value each, entirely owned by the Portuguese state.

21. RESERVES, ADJUSTMENTS IN INVESTMENTS AND RETAINED EARNINGS

Reserves

As at 31 December 2012 and 31 December 2011, the heading “Reserves” was detailed as follows

	2012	2011
Legal reserves	18,072,559	15,236,949
Other reserves	10,555,948	10,555,948
Adjustments in investments	25,317,658	24,864,524
	53,946,165	50,657,421

Legal reserves

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

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.

Adjustments in investments

This heading reflects the adjustments arising from the application of the equity method on equity items other than the net income for the period. Its distribution can only occur when the subsidiary is sold.

Revaluation reserve

Revaluations reserve resulted from the revaluation of tangible fixed assets (“TFA”) carried out up to 31 December1998 in accordance with the Official Chart of Accounts (POC). This reserve was transferred to “Retained earnings” under the adoption of the IFRS, since the CTT Group assumed the revalued amount of “Land and natural resources”, ”Buildings and other constructions”, and “Basic equipment”, as “deemed cost” as at the transition date. According to the law in force and the accounting practices in Portugal, this reserve cannot be distributed, and can only be used in future share capital increases or for covering accumulated losses, when carried out.

The reduction in the “Revaluation Reserve” essentially arises from the transfer of the amount of reserve revaluation carried out during the period to “Results of previous years”.

	2012	2011
Opening balance	58,625,232	61,266,929
Revaluation reserve available	(2,536,527)	(2,641,697)
CLOSING BALANCE	56,088,705	58,625,232

Retained earnings

For the periods ended on 31 December 2012 and 31 December 2011, the following movements were made in the heading “Retained earnings”:

	2012	2011
Opening balance	2,408,870	(17,432,756)
Application of net profit of the prior year	52,982,695	53,489,700
Distribution of dividends	(53,876,585)	(36,056,944)
Realisation of revaluation reserve	2,536,527	2,641,697
Profit not attributed by subsidiaries and associated companies	(464,803)	(232,826)
CLOSING BALANCE	3,586,704	2,408,870

Other changes in equity

With the early adoption, in 2012, of the changes to IAS 19, the Actuarial gains/losses associated to Health benefits, as well as the corresponding deferred taxes, are recognised in this heading.

Thus, for the years ended on 31 December 2012 and 31 December 2011 (restated) the movements occurred in this heading were as follows:

	2012	2011 Restated
Opening balance	15,144,300	11,605,660
Actuarial gains/losses - Health	24,265,693	4,984,000
Tax effect	(7,037,051)	(1,445,360)
CLOSING BALANCE	32,372,942	15,144,300

22. DIVIDENDS

The General meeting held on 30 May 2012 approved the distribution of dividends of 53,876,585 Euros relative to 2011. The payment was made to the shareholder on 30 June 2012, and subject to tax withholding of 25%

The General meeting held on 31 May 2011 approved the distribution of dividends of 36,056,944 Euros relative to 2010 was approved. The payment was made to the shareholder on 30 June 2011, subject to tax withholding of 21.5%

23. EARNINGS PER SHARE

During the periods ended on 31 December 2012 and 31 December 2011, the earnings per share were calculated as follows:

	2012	2011 Restated
Net profit for the period	38,554,129	55,818,305
Average number of ordinary shares	17,500,000	17,500,000
EARNINGS PER SHARE:		
Basic	2.20	3.19
Diluted	2.20	3.19

24. NON-CONTROLLING INTERESTS

During the periods ended on 31 December 2012 and 31 December 2011 the following movements occurred in non-controlling interests:

	2012	2011
Opening balance	1,627,958	1,406,989
Net income for the period attributable to non-controlling interests	232,002	422,843
Distribution of dividends	(252,452)	(201,874)
CLOSING BALANCE	1,607,508	1,627,958

As at 31 December 2012 and 31 December 2011, non-controlling interests refer to the following companies:

	2012	2011
EAD - Empresa de Arquivo de Documentação, S.A.	1,467,632	1,537,513
Correio Expresso de Moçambique, S.A.	139,876	90,445
	1,607,508	1,627,958

25. DEBT

As at 31 December 2012 and 31 December 2011,
the heading debt was detailed as follows:

	2012	2011
NON-CURRENT LIABILITIES		
Bank loans	45,785	114,747
Leasing	4,519,626	5,829,195
	4,565,411	5,943,942
CURRENT LIABILITIES		
Bank loans	2,467,562	3,494,551
Leasing	1,310,451	1,409,656
Other loans	3,079,348	261,041
	6,857,361	5,165,248
	11,422,772	11,109,190

Bank loans and other loans

As at 31 December 2012 and 31 December 2011,
the details of the bank loans were as follows:

	2012			2011				
	Amount used			Amount used				
Financing entity	Limit	Current	Non-current	Limit	Current	Non-current	Maturity	Type of amortisation
BANK LOANS:								
Banco Sabadell (Spain)	300,000	231,292	-	300,000	176,316	-	-	-
BBVA (Spain)	450,000	182,888	-	450,000	84,725	-	-	-
Millennium BCP (Spain)	5,000,000	1,997,353	-	5,000,000	3,182,063	-	-	-
BIM - (Mozambique)	218,270	56,029	45,785	218,270	51,447	114,747	8/24/14	-
Millennium BCP	5,000,000	2,995,873	-	-	-	-	1/2/13	Única
Millennium BCP	250,000	83,475	-	-	-	-	1/2/13	Única
	11,218,270	5,546,910	45,785	5,968,270	3,494,551	114,747		-

The financing receive from Spanish banks is destined to finance the operating activity of the Tourline subsidiary, and the interest rates refer to Eonia.

The financing received from BIM (Mozambique) is intended to finance the transport equipment for distribution under the operating activity of the subsidiary Corre.

Leasings

The balance sheets as of 31 December 2012 and 31 December 2011 include the following assets held under finance lease contracts:

			2012	2011
	Gross amount	Depreciation/ accumulated impairment losses	Carrying value	Carrying value
Land	9,651,895	815,990	8,835,905	8,835,905
Buildings and other construction	5,641,685	1,326,333	4,315,352	4,506,847
Basic equipment	1,914,855	1,193,080	721,775	1,162,693
Transport equipment	187,306	170,238	17,068	74,461
	17,395,741	3,505,641	13,890,100	14,579,906

The more significant contracts are the following:

CTT, S.A. is the lessee, under a leasing contract signed with IMOLEASING – Sociedade de locação financeira imobiliária, S.A., relative to 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. There are no contingent rents payable, nor the imposition of any restrictions. There is an option to buy the asset for a residual value of approximately 6% of the contract.

The subsidiary EAD is the lessee in:

(i) Contracts referring to the acquisition of two properties located in the Autonomous Region of Madeira and on property located in Vilar do Pinheiro;

(ii) Contracts referring to the acquisition of metal shelves for stowing client's archives;

(iii) Contracts referring to the acquisition of vehicles for use in operating activity.

The subsidiary CTT Expresso is the lessee of a property located in Perafita (Matosinhos) destined to accommodate the Operating Centre of the Northern Region.

The monthly rents are calculated based on the initial contract value, and it is possible to exercise the purchase option by paying a residual value.

There are no other imposed provisions/restrictions in the contracts that have been signed.

As at 31 December 2012 and 31 December 2011, Group's liabilities with leasing contracts presented the following plan of due dates:

	2012			2011		
	Capital	Interest	Total	Capital	Interest	Total
Due within 1 year	1,310,451	41,459	1,351,910	1,409,656	166,024	1,575,680
Due between 1 to 5 years	4,519,626	64,992	4,584,618	4,710,383	325,042	5,035,425
Over 5 years	-	-	-	1,118,812	31,924	1,150,736
	4,519,626	64,992	4,584,618	5,829,195	356,966	6,186,161
TOTAL	5,830,077	106,451	5,936,528	7,238,851	522,990	7,761,841

For the periods ended on 31 December 2012 and 2011, the values paid in relation to leasing interest amounted to 155,196 Euros and 167,782 Euros, respectively (Note 40).

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 31 December 2012 and 31 December 2011, these liabilities showed the following movement:

	2012		
	Health care	Other long term benefits	Total
Opening balance	272,102,000	49,328,746	321,430,746
Movement of the period	(19,299,000)	1,184,614	(18,114,386)
CLOSING BALANCE	252,803,000	50,513,360	303,316,360

	2011		
	Health care	Other long term benefits	Total
Opening balance	272,123,000	36,132,807	308,255,807
Movement of the period	(21,000)	13,195,939	13,174,939
CLOSING BALANCE	272,102,000	49,328,746	321,430,746

The details of liabilities related to employee benefits, considering their chargeability, are as follows:

	2012	2011
Non-current liabilities	282,065,364	300,975,316
Current liabilities	21,250,996	20,455,430
	303,316,360	321,430,746

For the periods ended on 31 December 2012 and 31 December 2011, the costs related to employee benefits recognised in the consolidated income statement were as follows:

	2012	2011 Restated
COSTS FOR THE PERIOD		
Health care	17,608,000	18,576,000
Other long term benefits	7,803,116	14,057,944
	25,411,116	32,633,944

The costs relative to the heading “Other benefits” essential refer to the liabilities arising from the on-going staff reduction programme. The liabilities with this programme relative to the suspension of work contracts reached the total of 12,556,711Euros for the current year ended on 31 December 2012, with the value of 11,147,551 Euros being recognised in staff costs.

Health care

As mentioned in Note 2.14, 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.

The main assumptions followed in the actuarial assessment were:

	2012	2011	2010
FINANCIAL ASSUMPTIONS			
Discount rate	4.00%	5.00%	5.50%
Salaries expected growth rate	0% and 2013 and 2014 2.75% from that date	2.75%	2.75%
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP < 2%)	Law no. 53-B/2006	Law no. 53-B/2006
Inflation rate	2.00%	2.00%	2.00%
Health costs growth rate	0% and 2013 and 2014 2% from that date	3.00%	3.00%
DEMOGRAPHIC ASSUMPTIONS			
Mortality table	TV 88/90	TV 88/90	TV 88/90
Invalidity table	Swiss RE	Swiss RE	Swiss RE

The discount rate is estimated based on interest rates of private debt bonds with high credit rating (“AA” or equivalent) at the date of the financial position and with a duration equivalent to that of the liabilities with health care.

The reduction 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:

	2012	2011	2010	2009	2008
Liabilities at the end of the period	252,803,000	272,102,000	272,123,000	299,454,000	313,807,000

For the periods ended on 31 December 2012 and 31 December 2011, the movement which occurred in the present value of the defined benefits liability regarding the health care plan was as follows:

	2012	2011
Opening balance	272,102,000	272,123,000
Service costs of the period	4,330,000	4,002,000
Interest cost of the period	13,278,000	14,574,000
Quotas of pensioners	3,409,494	3,422,000
(Payment of benefits)	(14,877,637)	(15,995,000)
(Structure costs)	(1,173,164)	(1,040,000)
Actuarial (gains)/losses	(24,265,693)	(4,984,000)
CLOSING BALANCE	252,803,000	272,102,000

For the periods ended on 31 December 2012 and 31 December 2011, the composition of costs related to health care recognised in the heading was as follows:

	2012	2011 Restated
Service costs of the period	4,330,000	4,002,000
Interest costs of the period	13,278,000	14,574,000
	17,608,000	18,576,000

The total costs for the period are recognised as follows:

	2012	2011 Restated
Staff costs/employee benefits (Note 36)	16,434,836	17,536,596
Other operating costs	1,173,164	1,039,404
TOTAL COSTS FOR THE PERIOD	17,608,000	18,576,000

The best estimate the Group has at this date for costs related to the health care plan, which it expects to recognise in the next annual period of 2013 is 13,747 thousand Euros

The sensitivity analysis performed for the health care plan leads to the following conclusions:

(i) If there was an increase of 1 per cent in the growth rate of medical costs, keeping all the remaining variables constant, the liabilities of the health care plan would be 299,158 thousand Euros, increasing by approximately 18.3%.

(ii) If the discount rate was reduced 0.5 per cent and keeping all the remaining variables constant, the liabilities would increase by approximately 6.9%, amounting to 270,246 thousand Euros.

Other long term benefits

As mentioned in Note 2.14, 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.

The main assumptions followed in the assessment of these liabilities were:

	2012	2011	2010
FINANCIAL ASSUMPTIONS			
Discount rate	4.00%	5.00%	5.50%
Salaries growth rate	0% and 2013 and 2014; 2.75% from that date	2.75%	2.75%
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP < 2%)	Law no. 53-B/2006	Law no. 53-B/2006
Inflation rate	2.00%	2.00%	2.00%
Growth rate of health costs	0% and 2013 and 2014 2% from that date	3.00%	3.00%
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 31 December 2012 and 31 December 2011, the movement of liabilities with other employee long-term benefits was as follows:

	2012	2011
SUSPENSION OF CONTRACTS, REDEPLOYMENT AND RELEASE OF EMPLOYMENT		
Opening balance	17,010,161	4,131,151
Interest cost of the period	1,255,368	966,283
Liabilities relative to new beneficiaries	12,556,711	10,976,099
Liabilities relative to new beneficiaries (provisioned in previous years)	-	3,997,001
(Payment of benefits)	(4,073,264)	(2,036,534)
Actuarial (gains)/losses	(2,664,528)	(1,023,839)
CLOSING BALANCE	24,084,448	17,010,161
TELEPHONE RENTAL CHARGES		
Opening balance	14,296,771	14,841,007
Interest cost of the period	676,602	772,281
(Payment of benefits)	(1,512,475)	(1,581,133)
Actuarial (gains)/losses	781,227	264,616
CLOSING BALANCE	14,242,125	14,296,771
PENSION FOR ACCIDENTS AT WORK		
Opening balance	7,166,624	6,936,757
Interest cost of the period	347,635	369,869
(Payment of benefits)	(425,297)	(425,343)
Actuarial (gains)/losses	474,977	285,341
CLOSING BALANCE	7,563,939	7,166,624
MONTHLY LIFE ANNUITY		
Opening balance	3,047,431	2,855,189
Interest cost of the period	149,739	154,080
Liabilities relative to new beneficiaries	-	-
(Payment of benefits)	(112,719)	(105,526)
Actuarial (gains)/losses	607,189	143,688
CLOSING BALANCE	3,691,640	3,047,431
SUPPORT FOR CESSATION OF PROFESSIONAL ACTIVITY		
Opening balance	7,807,759	7,368,703
Service costs of in the period	345,177	328,867
Interest cost of the period	384,031	398,923
Cut off	(6,563,175)	-
(Payment of benefits)	(494,746)	(710,470)
Actuarial (gains)/losses	(547,837)	421,736
CLOSING BALANCE	931,209	7,807,759
TOTAL CLOSING BALANCES	50,513,361	49,328,746

During the periods ended on 31 December 2012 and 31 December 2011, the composition of expenditure related to other long term benefits, recognised under the heading “Staff costs”, was as follows:

	2012	2011
Suspension of contracts, redeployment and release of employment		
Current costs	(1,409,160)	(57,556)
Staff reduction programme	12,556,711	10,976,099
Telephone rental charges	1,457,829	1,036,897
Pension for accidents at work	822,612	655,210
Monthly life annuity	756,928	297,768
Support for cessation of professional activity		
Current costs	181,371	1,149,526
Cut off	(6,563,175)	-
TOTAL COSTS FOR THE PERIOD	7,803,116	14,057,944

The best estimate that Group has at this date for costs with other long-term benefits, which it expects to recognise in the next annual period of 2013 is 1,813 thousand Euros

The sensitivity analysis done for the “Other long term benefits” plans leads to the conclusion that, if the discount rate was reduced by 50 b.p. compared to the final discount rate on 31 December 2012, keeping everything else constant, this would give rise to an increase of liabilities for past services of approximately 3.2%, increasing to 50,852 thousand Euros.

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

For the periods ended on 31 December 2012 and 31 December 2011, in order to meet the requirements of court cases and other liabilities arising from past events, the Group created “Provisions” with the following movement:

	Opening balance	Increases	Reversals	Reduction / Transfers	2012 Closing balance
NON-CURRENT PROVISIONS					
Litigations	8,504,959	4,809,960	(2,785,699)	(1,260,791)	9,268,429
Investments in associated companies	222,205	173,130	-	(1,389)	393,946
Other provisions	11,713,779	19,810,486	(3,380,044)	(1,210,407)	26,933,814
	20,440,943	24,793,576	(6,165,743)	(2,472,587)	36,596,189

	Opening balance	Increases	Reversals	Reduction / Transfers	2011 Closing balance
NON-CURRENT PROVISIONS					
Litigations	7,409,988	1,157,265	(62,294)	-	8,504,959
Investments in associated companies	226,164	28,913	(32,872)	-	222,205
Other provisions	12,544,308	5,925,419	(741,512)	(6,014,436)	11,713,779
	20,180,460	7,111,597	(836,678)	(6,014,436)	20,440,943

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 reduction refers to the amounts used during the period due to the occurrence of the provisioned events. The reversals refer to annulments due to the provisioned amounts proving to be unnecessary.

The provisions for legal actions court cases are intended to meet the requirements arising from cases brought against the Group, estimated based on information from its lawyers.

During the year ended on 31 December 2012 a provision was made, amounting to 11,344,569 Euros, for eventual contingencies that could lead to labour proceedings. This amount was determined taking into account the evolution of the legal processes referring to remuneration differences in holiday salaries, holiday and Christmas bonuses, as well as the trend of a significant number of court cases of this nature. For this calculation, technical analysis were made of the time horizons and criteria to consider for the purposes of determining the scope and type of the remuneration supplements susceptible of being included in holiday salaries, holiday and Christmas bonuses.

In the current year, the provision for covering the estimate of the current value for net expenditure associated to contracts was reinforced with 7,731,960 Euros. This value was obtained taking the following into consideration:

- 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;

- It was decided in 2011 to create a provision for the 3 leased vacant properties assuming that CTT could terminate the leases under conditions similar to those negotiated for the property located in Praça. D. Luís;

- The Board of Directors approved the reinforcement of the provisions for lease payments of the properties referred to above so as to consider a higher cost for the early termination of the lease contracts.

As at 31 December 2012 the provisioned amount for contracts is 13,212,379 Euros (5,480,419 Euros in 2011).

As at 31 December 2012, in addition to the previously mentioned situation, this heading also included:

- the amount of 406,222 Euros for coverage of costs of dismantlement of tangible fixed assets and/or removal of facilities and restoration of the location.
- the amount of 1,390,000 Euros, which arises from the assessment made by the management regarding the possibility of the enforcement of tax contingencies.

The net amount between increases and reversals of provisions was recorded in the Consolidated income statement under the headings "Provisions, net" as 18,627,833 Euros (6,274,919 Euros in 2011).

Guarantees provided

As at 31 December 2012 and 31 December 2011, the Group had provided bank guarantees to third parties to the amount of, respectively, 2,503,494 and 1,893,160 Euros.

The details of these guarantees were as follows:

	2012	2011
Courts	1,030,991	721,733
Lisboagás, S.A.	190,000	190,000
Municipal Councils	140,423	123,887
Authority for Working Conditions (ACT)	146,210	34,046
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	-
Civil Government of Lisbon	-	25,000
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	49,817
TIP - Transportes Intermodais do Porto, ACE	50,000	-
Ministry of Education	38,700	38,700
EPAL - Empresa Portuguesa de Águas Livres	21,433	-
Nature Import	18,096	18,096
Albert Vilella	16,800	16,800
Portugal Telecom, S.A.	16,657	16,657
Ana M. Alcaina Sanchez	-	14,400
General Secretariat of the Ministry of Internal Affairs	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	4,002	4,002
Infarmed IP	8,223	3,856
Institute of employment and professional training	3,718	3,720
Controlplan, S.L	3,400	3,400
ANACOM		20,919
Government of Extremadura	1,335	1,335
Immobiliaria Ederkin	7,800	7,800
Motorway Infrastructures Institute	3,725	3,725
Estradas de Portugal, EP	5,000	5,000
REN Serviços, S.A.	9,818	9,818
EMEL, S.A	19,384	15,000
IFADAP	1,746	1,746
Other entities	26,667	16,477
	2,503,494	1,893,160

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 case the Portuguese State loses the majority of the capital of CTT, 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.

Contingent liabilities

As at 31 December 2012, the Group does not have contingent liabilities.

Commitments

As at 31 December 2012, the Group has subscribed promissory notes reaching the total of approximately 1,012 thousand Euros for various rental companies intended to secure complete and timely compliance with the corresponding lease contracts.

28. ACCOUNTS PAYABLE

As at 31 December 2012 and 31 December 2011 the heading “Accounts payable” showed the following composition:

	2012	2011
Advances from customers	3,079,145	2,865,955
CNP money orders	186,169,916	186,484,578
Suppliers c/a	75,799,904	76,906,006
Invoices pending confirmation	2,350,705	3,617,294
Fixed assets suppliers	2,220,531	7,075,314
Invoices pending confirmation (fixed assets)	49,274	473,245
Rent of Concessions	1,101,323	2,883,384
Values collected on behalf of third parties	3,566,227	2,665,104
Postal financial services	72,417,788	61,283,690
Other accounts payable	2,537,731	2,650,879
	349,292,545	346,905,448

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.

Suppliers, fixed assets suppliers

As at 31 December 2012 and 31 December 2011, the age of the balance of the headings “Suppliers, current c/a” and “fixed assets suppliers” is detailed as follows:

Postal financial services

The decrease in this heading arises from divestment in “Savings Certificates” by the savers.

	2012	2011
SUPPLIERS C/A		
Not due	27,205,690	28,503,482
0-30 days	3,585,391	2,544,121
30-90 days	5,918,454	12,546,787
90-180 days	2,959,006	2,490,721
180-360 days	7,591,006	9,230,404
> 360 days	28,540,358	21,590,491
	75,799,904	76,906,006

	2012	2011
FIXED ASSETS SUPPLIERS		
Not due	1,555,840	5,606,515
0-30 days	277,472	1,116,305
30-90 days	177,096	151,377
90-180 days	8,240	25,309
180-360 days	129,148	3,454
> 360 days	72,735	172,354
	2,220,531	7,075,314

29. INCOME TAX RECEIVABLE AND INCOME TAX PAYABLE

As at 31 December 2012 and 31 December 2011 the heading “Income tax receivable and income tax payable” showed the following composition:

	2012	2011
CURRENT ASSETS		
Corporate income tax	-	3
	-	3
CURRENT LIABILITIES		
Corporate income tax	864,909	7,381,234
	864,909	7,381,234

30. OTHER NON-CURRENT AND CURRENT LIABILITIES

As at 31 December 2012 and 31 December 2011 the heading “Other current liabilities” showed the following composition:

	2012	2011
CURRENT		
Estimated holiday and holiday pay	41,749,350	25,901,736
Estimated supplies and external services	10,220,456	8,497,806
State and other public entities		
Value added tax	3,056,898	3,969,277
Personal income tax withholdings	2,366,451	2,446,948
Social Security contributions	4,808,195	4,961,356
Caixa Geral de Aposentações	794,990	849,025
Local Authority taxes	638,169	526,011
Other taxes	-	202
Other	3,384,419	1,983,183
	67,018,928	49,135,544

31. FINANCIAL ASSETS AND LIABILITIES

As at 31 December 2012 and 31 December 2011, the categories of financial assets and liabilities were as follows:

	2012			2011		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
FINANCIAL ASSETS						
Accounts receivable	135,212,754	135,212,754	-	164,395,448	164,395,448	-
Other current and non-current assets	23,324,102	23,011,023	313,079	34,107,529	33,219,032	888,497
Portugueses State	-	-	-	3	3	-
	158,536,856	158,223,777	313,079	198,502,980	197,614,483	888,497
Cash and cash equivalents	489,510,078	489,510,078	-	426,259,362	426,259,362	-
	648,046,934	647,733,855	313,079	624,762,342	623,873,845	888,497
FINANCIAL LIABILITIES						
Debt	11,422,772	11,422,772	-	11,109,190	11,109,190	-
Accounts payable	349,292,545	349,292,545	-	346,905,448	346,905,448	-
Portugueses State	864,909	864,909	-	7,381,234	7,381,234	-
Other current liabilities	67,018,928	67,018,928	-	49,135,544	49,135,544	-
	428,599,154	428,599,154	-	414,531,416	414,531,416	-

Except for bank loans and leasing, the remaining financial assets and liabilities fundamentally refer to current assets and liabilities, hence it is believed that their fair value does not differ significantly from the carrying amount.

Regarding bank loans leases, and other loans in the non-current component, it is considered that the carrying amount corresponds to their fair value.

32. SUBSIDIES OBTAINED

As at 31 December 2012 and 31 December 2011, the information regarding European Union subsidies or grants (Note 2.17) was as follows:

				2012	2011
Subsidy	Attributed value	Value received	Value to be received	Value to be used	Value to be used
Feder	9,815,622	9,662,306	153,316	384,099	395,366
	9,815,622	9,662,306	153,316	384,099	395,366

The values received are recognised in the Consolidated income statement, in the heading “Other operating income”, as the subsidised assets are amortized.

33. OTHER OPERATING INCOME

For the years ended on 31 December 2012 and 31 December 2011, the composition of the heading “Other operating income” was as follows:

	2012	2011
Own work capitalised	571,540	805,896
Supplementary revenues	3,447,161	4,528,733
Prompt-payment discounts obtained	233,016	232,464
Gains in inventories	91,211	50,038
Favourable exchange rate differences of assets and liabilities different from financing	2,392,451	2,724,851
Income from financial investments	668,924	1,981,542
Income from non-financial investments (a)	2,700,837	7,087,133
Other	2,253,499	1,812,597
	12,358,639	19,223,254

(a) In 2011, includes the value of recognition of the deferred capital gain regarding the building in Praça D. Luís I in Lisbon

34. EXTERNAL SUPPLIES AND SERVICES

During the years ended on 31 December 2012 and 31 December 2011, the composition of the heading “External supplies and services” was as follows:

	2012	2011
Subcontracts	5,132,955	5,222,698
Specialised services	62,282,158	68,476,500
Materials	1,569,255	1,944,798
Energy and liquids	15,972,445	15,475,601
Staff transportation	1,390,773	1,457,604
Transportation of goods	67,173,532	66,247,680
Remuneration to postal operators	15,573,666	16,078,174
Rents	38,866,377	40,114,032
Communication	6,549,251	7,332,462
Insurance	2,665,587	2,391,867
Cleaning, hygiene and comfort	4,370,399	5,134,625
Royalties	201,370	276,501
Litigation and notary	244,754	137,877
Remuneration to postal Agencies	4,215,330	4,032,734
Agencing	7,054,046	7,626,072
Other services	13,154,331	14,514,772
	246,416,229	256,463,997

(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 operator.

(v) “Energy and liquids” refers fundamentally to diesel for goods vehicles used in the operating process.

35. OPERATING LEASES

As at 31 December 2012 and 31 December 2011, the Group maintained medium and long term liabilities in operating lease contracts of vehicles, with penalty clause in the case of cancellation. The total amount of the future payments relative to operating leases is as follows:

	2012	2011
Due within 1 year	9,100,531	10,448,851
Due between 1 to 5 years	8,509,807	14,553,876
Over 5 years	-	420,000
	17,610,338	25,422,727

During the periods ended on 31 December 2012 and 31 December 2011, the costs incurred with operating lease contracts of 7,563,379 Euros and 7,947,241 Euros, respectively, are recognised under “Rents” in the heading “External supplies and services” of the Consolidated income statement.

36. STAFF COSTS

During the periods ended on 31 December 2012 and 31 December 2011, the composition of the heading “Staff Costs” was as follows:

	2012	2011 Restated
Remuneration of corporate governance (Note 42)	866,964	829,147
Staff remuneration	254,675,120	269,402,775
Employee benefits	24,237,949	31,594,540
Indemnities	22,380	2,182
Social security charges	53,301,325	55,421,329
Occupational accident and disease insurance	2,117,496	2,309,799
Social welfare costs	12,063,295	13,313,014
Other staff costs	1,466,596	1,673,503
	348,751,126	374,546,289

For the years ended on 31 December 2012 and 31 December 2011, the average number of staff of the Group was, respectively, 13,756 and 14,371 employees.

The heading “Staff remunerations” includes the liability related to the payment of holiday pay, because the regulation that suspended it on the 2013 Portuguese State Budget Law was declared unconstitutional by the corresponding court.

Remuneration of the statutory bodies

For the periods ended on 31 December 2012 and 31 December 2011, the fixed and variable remunerations attributed to the members of the Board of Directors of the different companies of the Group were as follows:

	2012				
	Board of Directors	Audit Board / Chartered Accountant	General Meeting of Shareholders	Executive officers	Total 2012
Fixed remuneration	648,156	217,838	-	3,916,196	4,782,190
Variable remuneration	-	-	970	-	970
	648,156	217,838	970	3,916,196	4,783,160
	2011				
	Board of Directors	Audit Board / Chartered Accountant	General Meeting of Shareholders	Executive officers	Total 2011
Fixed remuneration	585,373	242,804	-	4,832,403	5,660,580
Variable remuneration	-	-	970	-	970
	585,373	242,804	970	4,832,403	5,661,550

Regarding the period ended 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, 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 31 December 2012 and 31 December 2011, the detail of “Impairment of inventories and accounts receivable, net was as follows:

	2012	2011
IMPAIRMENT LOSSES		
Customers (Note 14)	2,888,988	2,721,703
Other accounts receivable (Note 18)	913,120	974,939
Inventories (Note 13)	83,575	697,155
	3,885,683	4,393,797
REVERSALS OF IMPAIRMENT LOSSES		
Customers (Note 14)	398,421	765,154
Other accounts receivable (Note 18)	435,819	455,372
INESC loan (Note 18)	41,450	53,885
Inventories (Note 13)	2,211,685	-
	3,087,375	1,274,411
NET MOVEMENT OF THE PERIOD	798,308	3,119,386

38. DEPRECIATION/ AMORTISATION (LOSSES/ REVERSALS)

For the periods ended on 31 December 2012 and 31 December 2011, the detail of “Depreciations/ amortisation and impairment losses, net” was as follows:

	2012	2011
TANGIBLE FIXED ASSETS		
Depreciation (Note 5)	19,936,066	18,884,142
Impairment losses (Note 5)	502,113	-
INTANGIBLE ASSETS		
Amortisation (Note 6)	4,196,322	3,306,319
INVESTMENT PROPERTIES		
Depreciation (Note 7)	1,313	61,845
	24,635,814	22,252,306

39. OTHER OPERATING COSTS

For the periods ended on 31 December 2012 and 31 December 2011, the breakdown of the heading “Other operating costs” was as follows:

	2012	2011
Taxes	1,121,873	1,421,115
Bad debts	115,956	480,069
Losses in inventories	669,968	220,564
Cost and losses from non-financial investments	9,180	1,055,435
Concession rent	1,101,936	2,882,309
Unfavourable exchange rate differences of assets and liabilities different from financing	2,358,136	2,723,115
Donations	972,906	1,005,505
Banking services	863,527	818,186
Default interest	634,784	511,472
Annulled invoices	-	637,647
Subscriptions	643,110	654,264
Insufficient estimated income tax	4,156	-
Contractual penalties	1,361,938	4,970,069
Other costs	1,750,223	1,562,301
	11,607,693	18,942,051

The change on “Losses in inventories” arises from the destruction of suport related to the “Novo Portfólio” project.

Also, the change in the heading “Concession rent” is caused by the issue of Law no. 17/2012, 26 April, which transposed the 3rd Postal Directive to national law, and introduced significant changes in the scope of the universal service.

The contractual penalties occurred, respectively, as at 31 December 2012 and 31 December 2011 were caused by (i) derecognition of a investment property because CTT, S.A. did not activate the safeguard clause that would allow to keep it in the company sphere, and (ii) termination of a lease contract that had an established limit which, if breached, would imply the repayment of the lessor (property in Praça D. Luís I in Lisbon).

40. INTEREST EXPENSES AND INTEREST INCOME

During the periods ended on 31 December 2012 and 2011, the heading “Interest Expenses” had the following detail:

	2012	2011
Interest expenses		
Bank loans	484,839	302,719
Other interest	155,196	167,782
Unfavourable exchange rate differences of financing liabilities	-	2,051
Other interest costs	29,424	646,383
	669,459	1,118,935

During the periods ended on 31 December 2012 and 2011, the heading “Interest income” was detailed as follows:

	2012	2011
Interest income		
Deposits in credit institutions	14,340,792	20,750,136
Other supplementary income	575,418	38,472
	14,916,210	20,788,608

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 rate of 25%, whilst the municipal tax is established at a maximum rate of 1.5% of taxable profit, and state surcharge is 3% of taxable profit above 1,500,000 Euros. 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

For the periods ended on 31 December 2012 and 31 December 2011, the reconciliation between the nominal rate and the effective income tax rate was conducted as follows:

	2012	2011 Restated
Earnings before taxes	56,797,373	78,933,784
Nominal tax rate up to € 12,500	-	12.5%
Nominal tax rate above € 12,500	25.0%	25.0%
	14,199,343	19,731,884
PERMANENT DIFFERENCES		
Tax Benefits	(401,224)	(417,003)
Accounting capital gains	(65,807)	(30,276)
Tax capital gains	4,511	12,358
Equity method	(63,648)	(12,931)
Provisions not considered in the calculation of deferred taxes	138,707	(75,118)
Impairment losses and reversals	67,647	592,309
Other situations, net	452,994	675,722
TEMPORARY DIFFERENCES:		
Accounting capital gains	(599,757)	(1,726,984)
Provisions considered in the calculation of deferred taxes	4,008,391	1,336,055
Impairment losses and reversals	(525,947)	167,405
Non tax deductible depreciation	176,392	27,972
Derecognition of inventory	(81,240)	(81,240)
Other situations, net	1,565,010	3,203,322
Adjustments related with - autonomous taxation	627,563	684,966
Adjustments related with - Municipal Surcharge	1,110,401	1,385,086
Adjustments related with - State Surcharge	2,975,184	1,994,056
Change of the tax rate	-	(193,559)
Excess estimated income tax	(539,131)	(675,160)
Other effects, net	(5,038,147)	(3,906,228)
INCOME TAXES FOR THE PERIOD	18,011,242	22,692,636
Effective tax rate	31.71%	28.75%
INCOME TAXES FOR THE PERIOD		
Current tax	23,693,389	27,815,953
Deferred tax	(5,143,016)	(4,448,157)
Excess estimated income tax	(539,131)	(675,160)
	18,011,242	22,692,636

As at 31 December 2012 and 31 December 2011, the heading “Excess estimated for income tax” includes, respectively, the amount of 439,432 Euros relative to the deferral of the claim regarding IRC 2008 and the SIFIDE values paid amounting to 4,214,287 Euros.

Deferred taxes

As at 31 December 2012 and 31 December 2011, the balance of deferred tax assets and liabilities was composed as follows:

	2012	2011 Restated
DEFERRED TAX ASSETS		
Employee benefits - health care	73,312,870	78,909,580
Employee benefits - other long term benefits	14,789,263	14,417,549
Deferred accounting capital gains	3,897,266	4,640,965
Impairment losses and provisions	8,549,846	4,865,130
Conversion adjustments - derecognition of inventories	157,216	238,444
Conversion adjustments - value deducted from staff debts	37,761	57,271
Tax losses carried forward	1,335,932	482,388
Impairment losses in tangible fixed assets	145,613	-
Other	2,770	2,770
	102,228,537	103,614,097

	2012	2011
DEFERRED TAX LIABILITIES		
Revaluation of tangible fixed assets before IFRS	4,529,436	4,811,756
Suspended capital gains	1,096,522	1,155,930
Other	114,275	197,747
	5,740,233	6,165,433

During the periods ended on 31 December 2012 and 31 December 2011, the movements which occurred under the deferred tax headings were as follows:

	2012	2011 Restated
DEFERRED TAX ASSETS		
Balances on 1 January 2012 and 2011	103,614,097	100,819,205
Effect on net profit		
Employee benefits - health care	651,168	1,074,160
Employee benefits - other long term benefits	371,714	3,939,035
Deferred accounting gains	(743,699)	(1,907,341)
Impairment losses and provisions	3,684,717	810,976
Impairment losses in tangible fixed assets	145,613	-
Derecognition of inventories	(81,228)	(65,506)
Value deducted from debts	(19,510)	(15,734)
Tax losses carried forward	853,543	39,552
Effect on equity		
Employee benefits - health care	(6,247,878)	(1,080,250)
CLOSING BALANCE	102,228,537	103,614,097

	2012	2011
DEFERRED TAX LIABILITIES		
Balances on 1 January 2012 and 2011	6,165,433	6,365,777
Effect on net profit		
Revaluation of tangible fixed asset before IFRS	(282,320)	(281,079)
Suspended capital gains	(59,408)	(27,972)
Other	(83,472)	108,707
CLOSING BALANCE	5,740,233	6,165,433

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, totalling approximately 20,394,000 Euros.

The applications for the Certification Commission for Tax Incentives for Corporate R&D ("Certification Commission") were prepared and submitted, which resulted in a tax credit of 4,214,286 Euros, recognised on the tax of the year 2010. Regarding the period of 2009, the submitted application totalled 6,126,128 Euros, which resulted in a tax credit of 576,914 Euros, recognised in tax for the year 2011.

Regarding the year of 2010, the submitted application totalled 12,856,864 Euros, which was dismissed by the Certification Commission for the Tax Incentives for Corporate R&D, after analysing the Group's opinion in

a prior hearing, in which disagreement regarding the non-eligibility of the presented projects was shown. Through notification on 3 December 2012 of the Certification Commission, the non-eligibility of the presented projects was confirmed.

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 in estimated as 2,553,349 Euros, pending confirmation from the Certification Commission.

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

Other information

Pursuant to the legislation in force, income tax returns are subject to review and correction by the tax authorities for a period of four years (five for Social Security),

except when there have been tax losses, tax benefits have been received, or when inspections, claims or objections are underway, in which cases, depending on the circumstances, these periods are extended or suspended. Therefore, the Group's income tax returns after 2010 may still be reviewed and corrected, since the income tax returns prior to this date have already been inspected.

The Board of Directors of the Company believes that any corrections arising from reviews/inspections by the tax authorities of these income tax returns will not have a significant effect on the consolidated financial statements as at 31 December 2012.

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 Ministério das Finanças e da Administração Pública ("Ministry of Finance"), and other shareholders of companies in which the Group has a stake, the associated companies, joint ventures, and the members of the Board of Directors, the General Meeting, and the Statutory Audit Board.

The terms or conditions applied between the Group's companies and the related parties are, as a rule, substantially identical to those which are normally contracted, accepted and applied between independent entities in comparable operations.

During the years ended on 31 December 2012 and 2011, the following transactions took place and the following balances existed with related parties:

	2012				
	Current accounts receivable	Current accounts payable	Revenues	Dividends	Costs
Ministry of Finance					
Other shareholders Group companies		-	-	53,876,585	-
Associated companies		34,198	9,923	-	126,775
Jointly controlled		14,920	246,672	-	183,662
Members of the					
Board of Directors		-	-	-	648,156
General Meeting of Shareholders		-	-	-	970
Audit Board		-	-	-	217,838
Executive officers		-	-	-	3,916,196
	43,548	49,118	256,595	53,876,585	5,093,597

	2011				
	Current accounts receivable	Current accounts payable	Revenues	Dividends	Costs
Ministry of Finance					
Dividends	-	-	-	36,056,944	-
Other shareholders Group companies					
Associated companies	1,729	18,923	23,958	-	102,283
Jointly controlled	89,002	33,004	266,882	-	161,804
Members of the					
Board of Directors	-	-	-	-	585,373
General Meeting of Shareholders	-	-	-	-	970
Audit Board	-	-	-	-	242,804
Executive officers	-	-	-	-	4,832,403
	90,731	51,927	290,840	36,056,944	5,925,637

The transactions and balances between the companies consolidated by the full consolidation method, 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 31 December 2012 and 31 December 2011, the fees and services provided by the Group's external auditors were as follows:

	2012	2011
PARENT COMPANY		
Legal accounts review services	81,320	93,470
External audit services	110,772	92,159
Other services	2,349	-
	194,441	185,629
SUBSIDIARY COMPANIES		
Legal accounts review services	59,180	54,739
External audit services	39,165	51,330
Other services	-	-
	98,345	106,069
	292,786	291,698

44. OTHER INFORMATION

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.

BANIF

On 7 April 2006, Banco Internacional do Funchal (BANIF) brought an ordinary action against CTT – Correios de Portugal, which was personally cited on 27 June 2006, demanding the execution of the MoU (agreement principles) for the incorporation of Banco Postal and subsidiarily, if this condemnation is deemed non-enforceable, the obligation to indemnify BANIF for emerging damage and loss of profits, with the application amounting to 100,000,000 Euros plus accrued interest. As the 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.

Sindetelco

After termination of the year ended on 31 December 2011, CTT was notified of the sentence issued by the 4th Court of the 2nd Section of the Labour Court of Lisbon in the case filed by SINDETELCO (Democratic Syndicate of Communications and Media Workers) against CTT, based on the unduly reduction of remunerations and freezing of career progression of their members, applied under the government measures for all public companies. The Group has decided to appeal against this decision, which condemns CTT in the claim, to the Constitutional Court, so as to obtain its suspension, for which a bank guarantee of 500 thousand Euros was provided.

Through decision of 26 April 2012, the Constitutional Court decided to allow the appeal to go forward, considering that the reductions and the freezing of career progression were constitutional, and the case was returned to the appealed Court so as to dictate the decision in accordance with the constitutionality issued judgement. The bank guarantee was returned.

SNTCT

In 17 September 2012, CTT was summoned in a court case brought to the Labour Court of Lisbon by SNTCT (National Syndicate of Postal and Telecommunications Workers), demanding the Group to be sentenced to pay the amounts that, regarding its members, it had deducted or would deduct from the corresponding remunerations, holiday and Christmas bonuses for 2012 under articles 20 and 21 of Law no. 64-B/2011 (LOE 2012).

Through the sentence of 22 January 2013, CTT was acquitted from the application, and SNTCT appealed against this decision at the Appeals Court of Lisbon, which is still pending.

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.

Any change to the period of enforcement of the concession contract requires the agreement of both parties. Since the process for changing the concession contract is still ongoing, the Group believes that there are no grounds for changing the accounting policies that were adopted in the preparation of its financial statements. Furthermore, the end of the concession contract does not prevent the provision of postal services arising from the abovementioned liberalisation of the market.

45. SUBSEQUENT EVENTS

Following Judgment 187/2013, in which the suspension of holiday bonus provided for in article 29 and 77 of the 2013 State Budget Law was declared unconstitutional, the Group decided to acknowledge the corresponding liability in the accounts for this financial year, estimated at approximately 18 million Euros.

After the end of the year and until the present date, it was verified that 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 since then this entity assumes the corresponding position as shareholder.

46. NOTE ADDED FOR TRANSLATION

The accompanying financial statements are a translation of financial statements originally issued in Portuguese. In the event of any discrepancies the Portuguese version prevails.

CORPORATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012 AND 31 DECEMBER 2011

Euro	NOTES	2012	2011 Restated
ASSETS			
NON-CURRENT ASSETS			
Tangible fixed assets	7	238,883,879	248,373,699
Investment property	8	1,368,943	2,728,373
Goodwill	9	25,083,869	25,083,869
Intangible assets	10	9,178,107	6,782,171
Investment in subsidiaries and associated companies	11	50,069,477	57,912,073
Investment in other companies	12	130,829	130,829
Accounts receivable from Group companies	6	13,477,473	9,482,456
Other accounts receivable	15	2,018,619	6,004,988
Deferred tax assets	38	100,673,390	102,860,551
TOTAL NON-CURRENT ASSETS		440,884,586	459,359,008
CURRENT ASSETS			
Inventories	14	5,669,967	5,077,343
Accounts receivable	15	99,128,893	125,976,551
Accounts receivable from Group companies	6	384,147	1,047,104
Other accounts receivable	15	17,685,147	22,278,286
Deferrals	16	4,054,112	4,010,046
Cash and cash equivalents	4	471,348,513	402,780,271
TOTAL CURRENT ASSETS		598,270,778	561,169,601
TOTAL ASSETS		1,039,155,364	1,020,528,608
EQUITY AND LIABILITIES			
EQUITY			
Share capital	19	87,325,000	87,325,000
Legal reserves	20	18,072,559	15,236,949
Other reserves	20	10,555,947	10,555,947
Retained earnings	20	3,586,704	2,408,871
Adjustments in investments	20	25,317,659	24,864,524
Revaluation reserve	20	56,088,705	58,625,232
Other changes in equity	20	32,645,427	15,424,714
Net income for the year		38,554,129	55,818,305
TOTAL EQUITY		272,146,130	270,259,542
LIABILITIES			
NON-CURRENT LIABILITIES			
Provisions	23	35,868,024	19,807,651
Medium and long term debt	25	2,104,100	2,564,578
Employee benefits	26	281,919,352	300,669,522
Deferrals	16	10,874,369	13,273,398
Deferred tax liabilities	38	5,737,572	6,082,638
TOTAL NON-CURRENT LIABILITIES		336,503,417	342,397,787
CURRENT LIABILITIES			
Accounts payable	27	66,833,187	68,214,015
Portuguese State and other public entities	28	10,916,154	17,938,446
Accounts payable to Group companies	6	549,952	58,617
Short term debt	25	3,449,018	437,686
Employee benefits	26	21,089,780	20,252,295
Other accounts payable	27	323,470,614	296,530,835
Deferrals	16	4,197,112	4,439,384
TOTAL CURRENT LIABILITIES		430,505,817	407,871,278
TOTAL LIABILITIES		767,009,234	750,269,066
TOTAL EQUITY AND LIABILITIES		1,039,155,364	1,020,528,608

The attached notes are an integral part of these financial statements

CORPORATE INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011

Euro	NOTES	2012	2011 Restated
Sales and services rendered	30	532,213,596	565,378,416
Gains/losses from subsidiaries and associated companies	11	11,181,197	17,305,921
Own work capitalised		339,584	328,148
Cost of sales	14	(15,879,844)	(15,353,944)
Supplies and external services	32	(165,540,674)	(178,549,897)
Staff costs	33	(311,148,476)	(334,869,047)
Impairment of inventories, net	14 e 18	2,211,685	(686,163)
Impairment of accounts receivable, net	15 e 18	(610,418)	245,634
Impairment of other assets, net	9 e 18		(1,942,450)
Provisions, net	23	(18,505,731)	(6,307,212)
Other operating income	31	46,899,659	61,960,506
Other operating costs	35	(9,939,763)	(17,830,536)
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTISATION		71,220,815	89,679,377
Depreciation and amortisation, net	34	(19,325,766)	(17,851,648)
Impairment of depreciable/amortisable assets, net	7	(502,113)	
OPERATING INCOME (EARNINGS BEFORE INTEREST AND TAXES)		51,392,936	71,827,729
Interest and similar income received	36	644,978	421,073
Interest and similar expenses	36	(108,549)	(764,984)
INCOME BEFORE TAXES		51,929,364	71,483,818
Income tax	38	(13,375,235)	(15,665,513)
NET INCOME FOR THE YEAR		38,554,129	55,818,305
Earnings per share	22	2.20	3.19

The attached notes are an integral part of these financial statements

THE DIRECTOR OF ACCOUNTING AND TREASURY

THE BOARD OF DIRECTORS

CORPORATE STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS ENDED ON 31 DECEMBER 2012 AND 2011

	NOTES	Share capital	Legal reserves	Other reserves	Retained earnings	Adjustments in investments	Revaluations reserve	Other changes in equity	Net income for the year	Total equity
Euro										
BALANCE ON 1 JANUARY 2011 (REPORTED)		87,325,000	12,421,702	10,555,947	(17,432,756)	24,616,040	61,266,929	402,776	56,304,948	235,460,586
Anticipated adoption of IAS 19R	5	-	-	-	-	-	-	11,605,660		11,605,660
BALANCE ON 1 JANUARY 2011 (RESTATED)		87,325,000	12,421,702	10,555,947	(17,432,756)	24,616,040	61,266,929	12,008,436	56,304,948	247,066,246
CHANGES DURING THE PERIOD										
Realisation of revaluation reserve	20	-	-	-	2,641,697	-	(2,641,697)	-	-	-
Actuarial gains/losses - health care	20	-	-	-	-	-	-	3,538,640		3,538,640
Appropriation of net income for the year of 2010	20	-	2,815,247	-	17,432,756	-	-	-	(20,248,003)	-
Other changes in equity	20	-	-	-	(232,826)	248,484	-	(122,362)	-	(106,704)
		-	2,815,247	-	19,841,627	248,484	(2,641,697)	3,416,278	(20,248,003)	3,431,936
NET INCOME FOR THE PERIOD									55,818,305	55,818,305
COMPREHENSIVE INCOME		-	-	-	(232,826)	248,484	-	3,416,278	55,818,305	59,250,241
TRANSACTIONS WITH STAKEHOLDERS IN THE YEAR										
Distribution of dividends	21	-	-	-	-	-	-	-	(36,056,944)	(36,056,944)
		-	-	-	-	-	-	-	(36,056,944)	(36,056,944)
BALANCE ON 31 DECEMBER 2011		87,325,000	15,236,949	10,555,947	2,408,871	24,864,524	58,625,232	15,424,714	55,818,305	270,259,542
CHANGES DURING THE PERIOD										
Realisation of revaluation reserve	20	-	-	-	2,536,527	-	(2,536,527)	-	-	-
Actuarial gains/losses - health care	20	-	-	-	-	-	-	17,228,642	-	17,228,642
Appropriation of net income for the year of 2011	20	-	2,835,610	-	(893,890)	-	-	-	(1,941,720)	-
Other changes in equity	20	-	-	-	(464,804)	453,135	-	(7,929)	-	(19,598)
		-	2,835,610	-	1,177,833	453,135	(2,536,527)	17,220,713	(1,941,720)	17,209,044
NET INCOME FOR THE PERIOD									38,554,129	38,554,129
COMPREHENSIVE INCOME		-	-	-	(464,804)	453,135	-	17,220,713	38,554,129	55,763,173
TRANSACTIONS WITH STAKEHOLDERS IN THE YEAR										
Distribution of dividends	21	-	-	-	-	-	-	-	(53,876,585)	(53,876,585)
		-	-	-	-	-	-	-	(53,876,585)	(53,876,585)
BALANCE ON 31 DECEMBER 2012		87,325,000	18,072,559	10,555,947	3,586,704	25,317,659	56,088,705	32,645,427	38,554,129	272,146,130

The attached notes are an integral part of these financial statements

THE DIRECTOR OF ACCOUNTING AND TREASURY

THE BOARD OF DIRECTORS

CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011

Euro	NOTES	31.12.2012	31.12.2011 Restated
OPERATING ACTIVITIES:			
Collection from customers		543,974,681	540,702,713
Payments to suppliers		(163,613,263)	(199,206,818)
Payments to staff		(261,353,094)	(307,397,121)
CASH FLOW GENERATED BY OPERATIONS		119,008,324	34,098,774
Payment of income tax		(24,121,004)	(12,753,523)
Payment of other taxes		(8,712,189)	(6,211,280)
Other receivables/payments		24,653,306	(48,061,943)
		(8,179,887)	(67,026,746)
CASH FLOW FROM OPERATING ACTIVITIES (1)		110,828,436	(32,927,972)
INVESTING ACTIVITIES:			
Receivables from:			
Tangible fixed assets		787,162	422,956
Financial investments		41,450	53,885
Loans granted		56,219	-
Interest and related income		12,674,120	20,314,107
Dividends		19,015,461	17,839,850
		32,574,412	38,630,798
Payments from:			
Tangible fixed assets		(15,837,647)	(18,858,997)
Intangible assets		(2,929,969)	(567,453)
Loans granted		(4,000,000)	-
		(22,767,616)	(19,426,450)
CASH FLOW FROM INVESTMENT ACTIVITIES (2)		9,806,796	19,204,348
FINANCING ACTIVITIES:			
Receivables from:			
Loans obtained		2,995,872	-
		2,995,872	-
Payments from:			
Loans repaid		-	(699,438)
Finance leases - repayment of principal		(445,018)	(431,295)
Interest and related expenses		(741,260)	(124,593)
Dividends	20	(53,876,585)	(36,056,944)
		(55,062,863)	(37,312,270)
CASH FLOW FROM FINANCING ACTIVITIES (3)		(52,066,991)	(37,312,270)
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		68,568,242	(51,035,894)
Cash and cash equivalents at the beginning of the year	4	402,780,271	453,816,165
Cash and cash equivalents at the end of the year	4	471,348,513	402,780,271

The attached notes are an integral part of these statements

THE DIRECTOR OF ACCOUNTING AND TREASURY

THE BOARD OF DIRECTORS

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1. INTRODUCTION

CTT – Correios de Portugal, S. A. (“CTT, SA”, “Parent Company” or “Company”), with head Office at Rua de São José, no. 20, in Lisbon, had its origin in the “Administração Geral dos Correios Telégrafos e Telefones” government department designated and its legal form is the result of successive re-organizations carried out by the Portuguese state business sector in the Communications area.

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

The main activity of CTT is to establish, manage and operate the infrastructures of the Universal Postal Service in Portugal, and to render financial services, which include the transfer of funds by means of current accounts that can be operated by a financial operator or para-banking entity to be founded under the Company. In addition, the corporate object includes any activities that are complementary, subsidiary or related to these services, 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 convenient or compatible with the normal operation of public postal network, namely, the provision of information society services, networks and electronic communications services, including related resources and services and a mobile virtual operator (MVNO), with the trade name of “Phone-ix” supported by TMN - Telecomunicações Móveis Nacionais, S. A.’s network.

Law no. 102/99 of 26 July defined the general basis for the establishment, management and operation of postal 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 and resulted in the signing of a concession agreement, on 1 September 2000, between the Portuguese state and CTT - Correios de Portugal, S.A. (CTT). In accordance with this contract, the purposes of the concession are the establishment, management and operation of the public postal network and provision of various reserved and unreserved postal services defined in the agreement. The provision of

concessionary postal services included, either on a domestic or international basis, a postal service for letter mail, books, catalogues, newspapers and periodicals up to 2Kg, the service for parcels up to 20Kg, registered items and insured items. Within the framework of the progressive liberalisation of the sector defined at the level of the EU, the scope of the services reserved is subject to periodic reviews. So, the scope of the services reserved to CTT was once more limited in 2006, including, until the end of 2011, letter mail 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 act referred to above, as payment for the concession, CTT must annually pay to the Portuguese State a rent corresponding to 1% of the gross income related to the concession of services on an exclusive basis. 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 agreement 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 agreement 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 second semester of 2012, 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 Act (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) alteration of the basis of the concession (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 basis of the Universal Postal Service.

As the Universal Postal Service incumbent operator, CTT continues the 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 agreement 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; for postal parcels up to 10 Kg, as well, on national territory, for postal parcels received from other Member States of the European Union weighing up to 20Kg; a delivery service for registered items and for insured items.

Once the concession ends, in the event that it is not granted to CTT, CTT may provide, together with any other operators, all the postal services they want, 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 mentioning Portugal, the registered mail service used in judicial or administrative procedures, as well as the service of issue of money orders), which account for less than 10% of the Group revenue.

In summary, in view of the legal and regulatory framework in force, namely the ongoing process of amendment of the concession agreement, CTT considers that there are no grounds for the introduction of any relevant alteration to the accounting policies of the company.

The consolidated financial statements attached herewith are expressed in Euros, as this is the currency mainly used by the Company.

2. ACCOUNTING STANDARDS USED TO PREPARE THE FINANCIAL STATEMENTS

The present financial statements were drawn up on a going concern basis from the Company's ledgers and accounting records kept in conformity with the standards of the Sistema de Contabilização Contabilística ("SNC"), regulated by the following legal diplomas:

- Decree-Law number 158/2009, of 13 July, as rectified by Declaration of Rectification number 67-B/2009, of 11 September, and as amended by Law number 20/2010, of 23 August;
- Implementing Order number 986/2009, of 7 September (Financial Statement Models);

- Notice number 15652/2009, of 7 September (Conceptual Structure);

- Notice number 15655/2009, of 7 September (Accounting and Financial Reporting Standards);

- Notice number 15654/2009, of 7 September (Interpretative Standards);

- Implementing Order number 1011/2009, of 9 September (Code of Accounts).

The Accounting and Financial Reporting Standards ("NCRF") which are an integral part of the SNC were used for all aspects relative to recognition, measurement and disclosure. The financial statements were prepared using the financial statement models established in article 1 of Implementing Order number 986/2009, of 7 September, namely the balance sheet, income statement, statement of changes in equity, cash flow statement and notes.

The SNC standards were used to prepare the financial statements for the first time in 2010, and became the reference basis for subsequent periods.

Pursuant to the Annex to Decree-Law number 158/2009, the Company supplementarily applies the International Accounting Standards (IAS) adopted under Regulation (EC) No. 1606/2002 of the European Parliament and Council, the International Accounting and Financial Reporting Standards ("IAS/IFRS") and their respective interpretations ("SIC/IFRIC") of the IASB, in order to address any gaps or omissions relative to aspects of some transactions or particular situations that are not covered by the SNC.

During the periods of 2012 and 2011, to which the present financial statements refer, there was no derogation of any provisions of the SNC which might have produced materially relevant effects and place in question the true and appropriate image of the information that was disclosed.

3. SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies adopted by the Company in the preparation of these financial statements are described below and were applied consistently.

3.1. Tangible fixed assets

Tangible fixed assets (Note 7) are initially recorded at acquisition or production cost. The acquisition cost includes: (i) the purchase price of the asset, (ii) the expenses directly imputable to the purchase, and (iii) the estimated costs of dismantlement or removal of the assets and restoration of the location (Notes 3.13 and 23). After their initial recognition, tangible fixed assets are measured at cost minus any accumulated depreciation and accumulated impairment losses, when applicable. Under the exception of NCRF3 – First-

time Adoption of the Accounting Financial Reporting Standards, the reassessment of the tangible assets made, according with Portuguese legislation applying monetary indices, in the years prior to 1 January 2009, were kept, for the purposes of the NCRF, and the revalued amounts were referred to as “deemed cost”.

Depreciation of tangible assets, minus their residual estimated value, is calculated in accordance with the straight line method, as of the month when they are available for use, during the useful life of the assets, which is determined according to their expected 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 tangible fixed assets	5 – 10

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

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

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

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

Gains or losses arising from the divestment of tangible fixed assets, determined by the difference between the sales proceeds and the respective carrying value on the date of the divestment, are stated in corporate

income statement under the heading “Other operating income” or “Other operating costs”.

3.2. Investment Property

The investment property(Note 8) mainly include land owned by the Company for undetermined future use, and that it is not intended for use in production, for administrative purposes or for sale in the normal course of the Company’s activity.

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, the tangible fixed assets are measured at cost minus any accumulated depreciation and accumulated impairment losses, when applicable.

The depreciation policy and rates coincide with those of the tangible fixed assets.

The Company ensures the annual assessment of assets qualified as investment properties, in order to determine any impairment.

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

3.3. Concentration of corporate activities and Goodwill

Investments in subsidiaries, joint ventures and associates are recorded at acquisition cost and subsequently measured by the equity method. In accordance with the equity method, the investments are initially recorded by its cost and subsequently, adjusted considering the changes occurred, after the acquisition, by the Company's percentage of ownership in the net assets of the corresponding entities. The Company's net income includes its corresponding share in the net incomes of these companies.

Acquisitions of subsidiaries are recorded using the purchase method. The corresponding cost is determined as the aggregate, on the acquisition date, of the (a) fair value of the assets delivered or to deliver; (b) fair value of liabilities incurred or assumed; and (c) fair value of equity instruments issued by the Company in exchange for control over the subsidiary.

Any excess of the acquisition cost compared with the identifiable fair value of the assets, liabilities and contingent liabilities of each acquired entity is considered goodwill (Note 9), in accordance with NCRF 14 – Business Combinations. Under the exception provided by NCRF 3 – First-time Adoption of the Accounting Financial Reporting Standards, the Company applied the provisions of NCRF 14 only to acquisitions occurred after 1 January 2009. The goodwill values corresponding to acquisitions before 1 January 2009 were kept, at the net amounts presented on that date.

Goodwill is not amortised, and its recoverable amount is assessed annually or whenever there is indication of an eventual loss of value. Impairment losses are recognised in the costs for the period. The recoverable amount is determined based on the value in use of the assets, and is calculated by using assessment methods based on cash flow discounting, considering market conditions, the time value and business risks. Impairment losses are not reversible.

In cases where the acquisition cost is less than the fair value of the acquired assets and liabilities, the difference is recorded as a financial gain in the corporate Income Statement for the period when the acquisition takes place.

In the sale of a subsidiary, joint ventures or associated company, the corresponding goodwill is included in the determination of the capital gain or loss.

3.4. Intangible assets

Intangible assets (Note 10) are initially recorded at acquisition cost. After their initial recognition, intangible assets are measured at cost minus any accumulated amortisation and impairment losses, when applicable. Intangible assets are only recognised when it is probable that they will result in future

economic benefits for the Company, and which 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 is situated in a period varying between 3 and 5 years. The exceptions to the above are assets relative to industrial property which are amortised over the period of time during which their exclusive use takes place, and intangible assets with undefined useful life, which are not amortised, but, rather, are subject to impairment tests on an annual basis or whenever there is indication that they might be impaired.

Gains or losses arising from the divestment of intangible assets are determined by the difference between the sales value and their carrying value on the date of the divestment, and are stated in the Corporate Income Statement as "Other operating income" or "Other operating costs".

3.5. Investments in subsidiaries, associates and other companies

Investments in which the Company holds control, usually represented by more than half the voting rights (subsidiary companies), in which it exercises a significant influence, usually where the investment represents between 20% and 50% of the voting rights (associated companies), or those it controls jointly with other entities, are recorded on the corporate statement of financial position in Investment in subsidiaries and associates companies, at acquisition cost and are measured subsequently by the equity method (Note 11).

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 income statement of the subsidiary, joint ventures or associated companies, against "Gains/losses from subsidiaries and associated companies", and through other changes in equity against "Adjustments to financial assets in investments". Additionally, the investments may also be adjusted through the recognition of impairment losses. Annually or

whenever there are indications that the assets may be impaired, assessments are carried out and the existing impaired losses are recorded as costs in the Corporate Income Statement.

The net income of subsidiaries, which have been acquired or disposed of during the period, are included in the income statement, from the acquisition date until their respective disposal date.

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

Dividends received from subsidiary and associated companies are recorded as a decrease in value of the Investment in subsidiaries and associates companies.

Financial investments are recorded in Investment in subsidiaries and associates companies at acquisition cost (Note 12). Whenever there are indications that assets may be impaired, an assessment is carried out to these investments, and if there is an impairment loss, this is recorded as “Impairment of others assets, net”. Dividends received from companies thus classified are recorded in the income statement

for the period when their distribution is decided and announced.

3.6. Foreign currency transactions and balances

Transactions in foreign currency (a currency different from the Company’s functional currency) are recorded at the exchange rates in force on the transaction date. Assets and liabilities in foreign currency for which there is no agreement on the determination of the exchange rate are converted to Euros at the exchange rates in effect at the reporting date.

Favourable and unfavourable currency conversion differences arising from differences between the exchange rates in force on the transaction dates and those in force on the collection, payment or reporting date are recorded as “Other operating income” or “Other operating costs” in the Corporate Income Statement for the period (Notes 31, 35, and 37).

Positive currency conversion differences regarding financing activities are recorded in the corporate income statement as “Interest and similar income” and negative differences as “Interest and similar expenses” (Notes 36 and 37).

The following exchange rates were used in the conversion of the financial statements in foreign currency (X foreign currency for 1 Euro):

	2012		2011	
	Close	Average	Close	Average
Mozambican Metical (MZM)	39.24000	36.56000	34.96000	40.27833
United States Dollar (USD)	1.31940	1.31990	1.29390	1.39200
Special Drawing Right (SDR)	1.16583	1.17373	1.18654	1.13482

3.7. Impairment of tangible and intangible assets, except goodwill

The Company carries out impairment tests to its tangible and intangible fixed assets, whenever any event or situation occurs, which may indicate that the amount by which the asset is recorded might not be recovered. In case there is any indication of the existence of such evidence, the Company estimates the recoverable amount of the asset, in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, then the recoverable amount of the cash generating unit to which 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 updating of 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 corporate 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 corporate income statement. However, the reversal of the impairment loss is made up to the amount that would have been recognised (net of amortisation or depreciation) if the impairment loss had not been recorded in the

previous years, and is recognised as revenues in the income statement.

3.8. Financial instruments

A financial instrument is an agreement which leads to a financial asset at an entity or a financial liability or equity instrument at another entity.

Financial assets and liabilities are recognised in the corporate statement of financial position when the Company becomes a party in the corresponding contractual provisions. A financial asset is any asset, whether money or a contractual right to receive money. A financial liability is any liability which is embodied in a contractual obligation to deliver money.

The Company's financial assets and equity instruments are basically its Customers and other accounts receivable, Cash, and Cash equivalents. The financial liabilities are fundamentally its Debt and suppliers and other accounts payable. The financial assets and liabilities are measured on the reporting date at cost or amortised cost minus any impairment loss, where amortised cost is determined through the effective interest rate method. The effective interest is calculated through the rate that exactly discounts the estimated future cash flows over the expected life of the financial instrument to the net carrying value of the financial asset or financial liability.

An equity instrument is defined as any agreement which provides evidence of an interest in the Company's assets after subtraction of all the liabilities. Equity instruments are basically company shares, supplementary and additional capital payments, whenever they comply with the concept of an equity instrument.

Accounts receivable

The balances of customers and other debtors constitute the accounts receivable derived from services rendered by the Company during normal business activity (Note 15). When it is expected that their collection will occur within one year or less, they are classified as current assets. Otherwise, they are classified as non-current assets.

Accounts receivable that are classified as current assets have no implicit interest and are stated at their respective nominal value, net of any allowances for impairment losses, calculated essentially based on the age of the accounts receivable. Impairment losses identified are charged in income statement and subsequently the charge is reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

Accounts receivable classified as non-current assets are measured at their respective amortised cost, determined in accordance with the effective interest

rate method. When there is evidence that they are impaired, the corresponding loss is recorded in income statement. .

Their de-recognition only occurs when the contractual rights expire.

Cash and cash equivalents

The amounts included under the heading of cash and cash equivalents correspond to cash, sight deposits, time deposits and other cash investments which are repayable on demand with insignificant risk of change of value. If their maturity is less than 12 months, they are recognised under current assets; otherwise, and even where there are restrictions to their availability or withdrawability, they are recognised under non-current assets. These assets are measured at the amortised cost. Usually, their amortised cost does not differ from the nominal value.

For the purposes of the cash flow statement, the heading "Cash and cash equivalents" does not include the bank overdrafts reported in the corporate statement of financial position under "Debt" (Note 4).

Debt

Debt (Note 25) is recorded at cost or at amortised cost. The amortised cost is determined by the effective interest rate method. They are expressed in current or non-current liabilities, depending on whether their maturity is less or more than a year, respectively. Their de-recognition only occurs when the obligations arising from contracts terminate, namely when their full payment, cancellation or expiry has taken place.

Financial charges are calculated according to the effective interest rate and stated through net income statement according to the accrual basis principle, and the due and unpaid amounts as at the reporting date are classified under "Other accounts payable"(Note 27).

Accounts payable

The balances of suppliers and other creditors (Note 27) are liabilities relative to the acquisition of goods or services by the Company during normal business activity. If their payment falls due within one year or less, then they are classified as current liabilities. Otherwise, they are classified as non-current liabilities.

Accounts payable classified as current liabilities are recorded at their nominal value.

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

Their de-recognition only occurs when the obligations arising from agreements terminate, namely when their full payment, cancellation or expiry has taken place.

Equity instruments

An equity instrument is only recognised when it is issued and underwritten. If an equity instrument is issued and underwritten, and if the funds are not provided, the amount receivable is stated as a deduction from equity.

Should the Company acquire its own equity instruments, these instruments are recognised as a deduction from equity.

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

The costs related to an issue of equity which has not been concluded are recognised as expenditure in the income statement.

3.9. Inventories

Commodities and raw materials, subsidiary materials and consumables (Note 14) are valued at acquisition cost, including costs incurred in bringing the inventories to their location and in condition for use. The method of valuing warehouse outputs is the weighted average cost.

The inventory system used in the Company is the perpetual inventory system.

Whenever the inventory age is significant, the recorded amount is reduced by the recognition of an impairment loss.

3.10. Non-current assets held for sale and discontinued operations

Non-current assets, namely tangible fixed assets and equity holdings, are classified as held for sale (Note 17) if the corresponding value can be achieved through its sale and not its continuous use. It is considered that this situation occurs only when: (i) the sale is highly probable and the asset is available for immediate sale in its present condition, (ii) the Company has made a commitment to sell, and (iii) the sale is expected to be completed within a 12-month period.

Non-current assets, which are classified as held for sale, are measured at the lowest value between the carrying value before this classification and fair value minus the expected sale costs. Whenever the fair value is less than the carrying value, the difference is recognised in "Impairment of depreciable/amortisable assets, net."

Non-current assets held for sale are presented on a specific line of the balance sheet.

Non-current assets are not, under any circumstances, subject to depreciation or amortisation.

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

If an asset no longer meets the requirements to be classified as held for sale, this classification must cease and its value must be stated as the lowest of: (i) the carrying value before the classification as available for sale, adjusted by any depreciation or amortisation that would be made if it had not been classified as such; and, (ii) the recoverable amount at the date of the later decision not to sell. Any adjustment is recognised through the Corporate income statement.

A discontinued operation is a component of the Company that has been sold or classified for sale, and (i) represents an important separate business line or operational geographic area, or (ii) is part of a single coordinated plan to sell an important separate business line or operational geographic area.

The earnings of discontinued operations are presented in a specific line, in the income statement, after Income tax and before the net income.

3.11. Earnings per share

Earnings per share (Note 22) are calculated by dividing the profit attributable to the shareholders by the weighted number of ordinary shares in circulation during the period.

3.12. Distribution of dividends

The distribution of dividends, when approved at the General Meeting of the Company, and until the shareholders are paid, is recognised as a liability (Note 21).

3.13. Provisions and contingent liabilities

Provisions (Note 23) are recognised when, cumulatively: (i) the Company has a present obligation (legal or implicit) arising from a past event, (ii) it is probable that its payment will be demanded, and (iii) there is a reliable estimate of the value of this obligation.

The amount of the provisions corresponds to the present value of the obligation, with the financial updating being recorded as a financial cost under the heading "Interest and similar expenses" (Note 36).

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

Whenever losses in the subsidiary or associated companies exceed the investment made in these entities, the carrying value is reduced to zero and the recognition of future losses is discontinued, except in what concerns the part in which the Company incurs in any legal or constructive obligation to assume all these losses on behalf of the associated or subsidiary company, in which case a Provision is recorded for investments in subsidiaries and associate companies.

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

Provisions are made for dismantling costs, costs of removal of the asset and costs of restoration of the site of certain assets, when these assets are in use and it is possible to reliably estimate the respective obligation, or when there is a contractual commitment to restore the spaces rented by third parties.

Whenever any of the conditions for the recognition of provisions is not met, the Company discloses the events as contingent liabilities (Note 23). Contingent liabilities are: (i) possible obligations which arise from past events and whose existence will only be confirmed by the occurrence, or not, of one or more future events that are uncertain and not fully under the Company's control, or (ii) present obligations which arise from past events, but which are not recognised because it is not probable that an outflow of resources which incorporate economic benefits will be necessary to settle the obligation, or the value of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed unless the possibility of an outflow of resources is remote.

3.14. Leases

Leases are classified as financial or operating according to the substance of the transition and not the form of the contract. Leases are classified as financial whenever their terms imply the substantial transfer, to the lessee, of all the risks and advantages associated to the ownership of the asset (Note 25). All other leases are classified as operating (Note 24).

Tangible assets acquired through financial leasing contracts, as well as the corresponding liabilities payable to the lessor, are recorded in the balance sheet at the beginning of the lease at the lowest value between the fair value of the assets and the present value of the minimum lease payments. The discount rate to be used should be the rate implicit in the lease. If this rate is not known, then the Company's funding rate for this type of investment should be used. The policy of depreciation of these assets follows the

rules applicable to tangible fixed assets owned by the Company. The interest included in the rents and amortisation of fixed tangible assets are recognised in the Income Statement for the period to which they refer.

For operating leases, the instalments that are owed are recognised as a cost in the Income Statement, during the lease period (Note 32).

3.15. Employee benefits

Retirement pensions of the staff integrated in "Caixa Geral de Aposentações" ("CGA")

In accordance with Decree-Law 36,610 of 24 November 1947 the pension liability was transferred to Administração Geral dos Correios Telégrafos e Telefones, from Caixa Geral de Aposentações, without transfer of the corresponding mathematical provisions.

In 1969, Decree-Law 49368, of 10 November, which created CTT – Correios e Telecomunicações de Portugal E.P, determined that the payment of pensions by the Company should be made, directly or by a fund, which would be established as the Fundo de Pensões do Pessoal dos CTT (Personnel Pension Fund of CTT) on 31 December 1988.

Decree-Law 87/92, of 14 May, which transformed the company CTT into a public limited company, kept the company's obligation of assuring the maintenance of the Fundo de Pensões do Pessoal dos CTT, subscriber of CGA, through contributions to fund these liabilities.

During 1998, the Company adopted the provisions of Portuguese Accounting Directive 19 issued on 21 May 1997 by the Comissão de Normalização Contabilística and started recognising the liability on the balance sheet.

With Decree-Law 246/2003, of 08 October, CTT saw their liability with the charge of the pensions of CTT staff, subscribers of CGA, already retired or in active duty, transferred to the latter entity, taking effect as of 01 January 2003. This Decree-law would also extinguish the Pension Fund of CTT Staff and determine the transfer to CGA of the value of the respective assets of the Pension Fund, composed of the set of assets it held, existing on 01 January 2003, plus the respective income until the date of its effective hand-over, in December 2003.

Post-employment benefits - health care

Workers who are integrated in CGA and workers who are beneficiaries of Social Security, (recruited as permanent staff of the Company after 19 May 1992 and up to 31 December 2009) are entitled to the health care benefits established in the CTT Social Work Regulation. These benefits are extended to all permanent workers of the company, whether they are

still working, or if they are pensioners, or in a situation of pre-retirement or retirement.

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

Health care benefits include contributions to the cost of medication, medical 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-employment health care plan is ensured mostly by the Company, and the remaining costs are covered by the fees paid by the beneficiaries.

The maintenance of the post-employment health plan benefits requires that the beneficiaries (retirees and pensioners) pay a fee corresponding to 1.5% of their respective pension. For each family member enrolled a fee is also paid, corresponding to 1.5% or 2% of the pension, depending on the percentage of the amount of the pension. In certain special situations, an exemption from the payment of the fee may be granted, either for the beneficiaries or for family members, namely in case of pensions lower than the Minimum National Remuneration or in special situations of economic deprivation.

The Company adopts the accounting policy for the recognition of its liability for the payment of post-retirement health care and other benefits, whose criteria are set out in NCRF 28 - Employee Benefits, namely using the projected unit credit method (Note 26).

In order to obtain an estimation 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 items “Employee benefits”. As at 31 December 2012, CTT, SA chose an early adoption of the amendments set out in IAS 19, and, as a result, the actuarial gains and losses are recognised in full, in the Equity, contrary to the procedure that occurred in previous years, when these were deferred and amortised for the estimated average period of future services provided by the employees until their retirement age.

The management of the health care plane is ensured by the IOS – Instituto das Obras Sociais (Institute of Social Work), which in turn, hired Portugal Telecom – Associação de Cuidados de Saúde (Health Care Association) (“PT-ACS”) to provide health care services.

Other long term benefits

CTT also assumed a series of constructive obligations to certain groups of workers (Note 26), namely:

- Suspension of contracts, redeployment, pre-retirement contracts, and release from employment

The liability for the payment of salaries to employees in the abovementioned situations or equivalent, are fully recognised at the time they move into these conditions.

- Telephone subscription charges

CTT has assumed the obligation of the life-long payment, to a closed group of retired workers and surviving spouses (8,117 beneficiaries as at 31 December 2012, and 8,471 beneficiaries as at 31 December 2011), of the telephone rental charges, to a monthly amount of 15.30 Euros.

- Pensions for accidents at work

The liabilities related to the payment of pensions for accidents at work is restricted to workers integrated in CGA

The Company also supports other liabilities arising from accidents at work suffered by these workers.

According to the legislation in force concerning employees integrated in CGA, CTT is liable for the costs incurred with pensions that have been attributed for damages resulting from accidents at work, and which have resulted in permanent handicap or death of the worker. The value of these pensions is updated pursuant to a legal diploma. Also, regarding the workers of CGA, the employer is not obligated to transfer its liability for damages resulting from accidents at work to a legally authorised entity. As at 31 December 2012 and 31 December 2011 there were 66 and 67 beneficiaries, respectively, receiving this type of pension.

- Monthly life annuity

This is an annuity provided for in the family benefits legal system set out in DL no. 133-B/97 of 30 May, as amended by the Declaration of Rectification number 15-F/97, of 30 September, amended by D.L. no. 248/99, of 02 July, 341/99 of 25 August, 250/2001 of 21 September, and 176/2003, of 02 August.

Beneficiaries are workers, still working or retired, who have descendants over 24 years old, with physical, organic, sensorial, motor or mental disabilities, who are in a situation that prevents them from normally providing for their subsistence through the exercise of professional activity. In the case of beneficiaries integrated in the CGA, the cost of the monthly life annuity is the responsibility of CTT. As at 31 December 2012

there were 51 beneficiaries under these conditions, (49 beneficiaries as at 31 December 2011), receiving a monthly amount of 176.76 Euros, 12 months a year. This value is updated by Implementing Order of the Ministério das Finanças and the Ministério do Trabalho e Segurança Social.

- Support for termination of professional activity

This benefit is granted to employees who retire with at least 5 years of seniority at the company. Its amount depends on the seniority on the retirement date. As at 31 December 2012, the table in force determined a maximum amount of 1,847.16 Euros for 36 or more years of service. In 2012, the Board of Directors decided to discontinue the compensation awarded to the workers who have reached the end of their active life at the service of CTT, SA. It has also ruled that, in situations of disconnection and reform that may occur as a result of the requests for retirement already submitted or that will be submitted until 31 March, 2013, the benefit referred to above would be maintained (Note 26).

The company's liabilities concerning "Other long-term benefits" 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, the mortality and disability rates, are the same as those used in the actuarial assessment of the CTT health care plan.

3.16. Revenues

The revenue relative to sales, services rendered, royalties, interests and dividends (from investments not stated by the equity method), arising from the Company's normal business activity is measured at the fair value of the consideration that has been or will be received, which is defined as the sums established freely between the contractual parties on an independent basis, where, in relation to sales and services rendered, their fair value reflects any discounts granted and does not include Value Added Tax (Notes 30, 31, and 36).

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

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

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

Fees from collections made and from the selling of financial products are recognised on the date that the client is charged.

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

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

Revenue concerning royalties is recognised under to the accrual method, according to the substance of the respective contracts, provided it is probable that economic benefits will flow to the Group and their costs may be measured reliably.

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

Revenue from dividends, from investments not stated by the equity method, is recognised when the Company's right to receive the payment is determined, which usually occurs through deliberation of the shareholders company.

3.17. Subsidies obtained

Subsidies are recognised when there is reasonable assurance that they will be received and that the Company will comply with the conditions required for their assignment (Note 29).

Subsidies associated with the acquisition or production of tangible fixed assets or intangible assets are initially recognised in equity (Note 20), and are later recognised in the Income Statement on a system-

atic basis as revenues of the period (Note 31), in a consistent and proportional way to the depreciation of the assets for which they were acquired. If the subsidies relate to non-depreciable assets with undefined useful life, the amounts will be kept in equity, except if they are necessary to offset any impairment loss.

Operating subsidies, namely those for the employees training, are recognised in the Income statement as income, for the periods necessary to balance them with the expenses incurred (Note 31).

3.18. Borrowings costs

Financial charges related to loans are recognised in net income, in which they are incurred (Note 36). Except interest, which is capitalised when loans are directly attributable to the acquisition or construction of an asset that requires a substantial period of time (over one year) in order to reach its intended use.

3.19. Taxes

Corporate income tax (“IRC”)

The Company is covered by the Special Taxation Group Regime for groups of companies which includes all the companies where CTT holds, directly or indirectly, at least 90% of their share capital and are simultaneously resident in Portugal and subject to IRC, hence the estimated income tax and withholdings enforced by third parties are recorded in the balance sheet as accounts payable and receivable by CTT.

Corporate income tax (Note 38) corresponds to the sum of current taxes and deferred taxes. Current taxes and deferred taxes are recorded through net income, unless they refer to items stated directly under equity. In these cases, current and deferred taxes are also recorded under equity.

Current tax payable is based on the taxable income for the period, calculated in accordance with the tax laws in force on the reporting date. Taxable income differs from carrying amounts, since it excludes various costs and income which will only be deductible or taxable in other financial years, as well as costs and revenue that will never be deductible or taxable.

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

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are recognised for deductible temporary differences. However, this recognition only takes place when there are reasonable expectations of sufficient future taxable profits to use these deferred tax assets, or when there are deferred tax liabilities

whose reversal is expected in the same period that the deferred tax assets may be used. On each reporting date, a review is made of these deferred tax assets, which are adjusted according to expectations on their future use.

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

Income statements for purposes of taxation (tax returns) may be reviewed and corrected by the Tax Administration for a period of four years. Tax returns after 2010 may still be corrected, although it is not expected that any corrections that might occur will have a significant effect on these financial statements. However, this period of time may be prolonged or suspended if tax benefits have been received, when inspections, claims or objections are underway, or if there have been tax losses, in which case, for a period of six years after their occurrence, relative to periods before 2010, four years relative to 2011, and five years relative to subsequent periods, these losses cannot be deducted from any taxable profits that might be generated.

Value Added Tax (“VAT”)

For purposes of VAT, CTT follows the monthly normal regime, in accordance with the provisions of paragraph a) of no. 1 of article 40 of the Portuguese VAT Code, with the exemption to various operations in its activity that fall under the provisions of article 9 of the Portuguese 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

3.20. Accrual principle

Revenues and costs are recorded in accordance with the accrual principle, hence they are recognised as they generated or incurred, regardless of when they are received or paid.

Revenues and costs recognised in the income statement which have not yet been invoiced or whose acquisition invoice has not yet been received are recorded against “Accrued income” or “Accruals” stated under the balance sheet headings “Other accounts receivable” and “Other accounts payable”, respectively (Notes 15 and 27). Deferred revenues and costs paid in advance are recorded against the “Deferrals” headings of the liabilities and assets, respectively (Note 16).

3.21. Judgements and estimates

In the preparation of the financial statements pursuant to the NCRF, judgements and estimates were

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

The main judgements and estimates made in the preparation of the financial statements occur in the following areas:

(i) Tangible fixed and intangible assets / estimated useful lives (Note 3.1/Note 7/Note 10)

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

(ii) Impairment of Goodwill (Note 9)

The Company tests the goodwill, at least once a year, for the purpose of verifying if it is impaired, in accordance with the accounting policy referred to in Note 3.3. The recoverable amounts of the cash generating units are determined based on the calculation of values in use involving the same judgments, residing substantially in the analysis of the Management based on past experience, as well as future expectations of evolution of the corresponding activity. The assessment underlying the calculations that have been made uses assumptions based on the available information, both concerning the business and macro-economic environment.

The identification of signs of impairment and the estimate of future cash flows require significant judgments. The variations of these assumptions can influence the results and consequent recording of impairments.

(iii) Impairment of accounts receivable (Note 5)

Impairment losses relative to bad debt are based on the Company's assessment of the probability of recovery of the balances of customers and other accounts receivable. This assessment is made according to the period of time of default, the credit history of the

customer and other debtors, and the deterioration of the credit situation of the main customers and other debtors. Should the customers' financial conditions deteriorate, the impairment losses might be higher than that expected.

(iv) Deferred taxes (Note 38)

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

(v) Employee benefits (Note 3.15/Note 26)

The determination of the liabilities related to the payment of post-employment benefits, namely with health care plans, requires the use of assumptions and estimates, including the use 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 the carrying amount of employee benefits. CTT has a policy of periodically reviewing the major actuarial assumptions, in case its impact is relevant for the financial statements.

(vi) Provisions (Note 3.13/ Note 23)

The Company exercises considerable judgement in the measurement and recognition of provisions. Judgement is required in order to appraise the probability of litigation having a successful outcome. Provisions are constituted when the Company expects that the lawsuits underway 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 alterations as new information becomes available. Reviews to the estimates of these losses might affect future results.

3.22. Environmental matters

The Company is legally bound to prevent, reduce or repair environmental damages arising from its activities, and can incur in expenditures to assure full compliance with its obligations (Note 40).

However, the Company's activity is essentially non-industrial in nature, and the incorporation of material inputs in its process of rendering services is relatively reduced, therefore its direct ecological footprint is limited.

Based on an empirical comparative analysis, the environmental impact of the Company's activity is much

smaller than its contribution to the generation of value to the national economic and social fabric.

In terms of environmental policy, CTT's priority is to cover and master all the aspects of legal compliance, and has taken on commitments to continuously improve its environmental performance, in particular regarding:

- (ii) Pollution prevention,
- (ii) Compliance with the legislation,
- (iii) Communication and disclosure to all the stakeholders of the Company's environmental policy,
- (vi) Training and awareness raising of the employees,
- (v) Analyses of environmental impact arising from the Company's activity,
- (vi) Definition of environmental standards for suppliers and partners.

This subject is developed in greater depth in the chapter "Sustainability" of the Corporate Governance Report attached to the Annual Report 2012.

3.23. Subsequent events

Events which have occurred after the reporting date but before the date of approval of the financial statements by the Company's management body and, provided that they offer additional information on conditions which existed as at the reporting date, are reflected in the financial statements of the period.

Events that occurred after the reporting date which are indicative of conditions that emerged after the reporting date (non-adjusting events) are disclosed in the notes to the financial statements, if considered of material relevance (Note 43).

Following Judgment 187/2013, in which the suspension of holiday bonus provided for in article 29 and 77 of the Orçamento Geral do Estado de 2013 (Portuguese state budget law)was declared unconstitutional, the Group decided to acknowledge the corresponding liability in the accounts for this financial year, estimated at approximately 18 million Euros.

4. CASH FLOW

The cash flow statement discloses the cash receipts and cash payments from operating, financing and investing activities.

Operating activities cover receipts from customers, payments to suppliers, payments to staff and other related to operating activity, namely income tax. Investment activities namely include acquisitions and divestments in participated companies, payments and receipts arising from the purchase and sale of assets, and receipts of interest and dividends. Financing activities include payments and receipts relative to loans received, financial lease contracts, interest paid and payments of dividends.

On 32 December 2012 and 31 December 2011, cash and cash equivalents includes cash, bank deposits repayable on demand and cash investments on the monetary market, net bank overdrafts and other equivalent short term financing, and is detailed as follows:

	2012	2011
Cash	12,095,973	22,521,903
Sight deposits	27,757,540	11,638,368
Time deposits	431,495,000	368,620,000
CASH INVESTMENTS	471,348,513	402,780,271
CASH AND CASH EQUIVALENTS (STATEMENT FINANCIAL POSITION)	471,348,513	402,780,271
CASH AND CASH EQUIVALENTS (CASH FLOW STATEMENT)		

5. CHANGES TO ACCOUNTING POLICIES, ERRORS AND ESTIMATES

During the financial year, there were no changes to accounting policies in relation to those considered in the preparation of the financial statements of the previous period, presented herein for comparative effects, except for the anticipated adoption of IAS 19 - Employee benefits (amended). According to the above, the actuarial gains and losses previously deferred and amortised for the estimated average period of the future services provided by the employees until the

retirement age, are henceforth immediately and only recognised in equity.

With reference to 1 January 2011, the actuarial gains were restated with an impact of 11,605,660 Euros in the equity. With the adoption of this revision of the standard in the preparation of its financial statements, the impact per heading of the financial statements was as follows:

INDIVIDUAL BALANCE SHEET

	31 December 2011		
	Reported	Adjustments	Restated
NON-CURRENT ASSETS:			
Tangible fixed assets	248,373,699	-	248,373,699
Investment property	2,728,373	-	2,728,373
Goodwill	25,083,869	-	25,083,869
Intangible assets	6,782,171	-	6,782,171
Investment in subsidiaries and associated companies	57,912,073	-	57,912,073
Investment in other companies	130,829	-	130,829
Accounts receivable from Group companies	9,482,456	-	9,482,456
Other accounts receivable	6,004,988	-	6,004,988
Deferred tax assets	108,681,141	(5,820,590)	102,860,551
TOTAL NON-CURRENT ASSETS	465,179,598	(5,820,590)	459,359,008
CURRENT ASSETS:			
Inventories	5,077,343	-	5,077,343
Accounts receivable	125,976,551	-	125,976,551
Taxes receivable	-	-	-
Accounts receivable from Group companies	1,047,104	-	1,047,104
Other accounts receivable	22,278,286	-	22,278,286
Deferrals	4,010,046	-	4,010,046
Cash and cash equivalents	402,780,271	-	402,780,271
TOTAL CURRENT ASSETS	561,169,601	-	561,169,601
TOTAL ASSETS	1,026,349,198	(5,820,590)	1,020,528,608
EQUITY:			
SHARE CAPITAL			
Legal reserves	87,325,000	-	87,325,000
Other reserves	15,236,949	-	15,236,949
Retained earnings	10,555,947	-	10,555,947
Adjustments in investments	2,408,871	-	2,408,871
Revaluation reserve	24,864,524	-	24,864,524
Other changes in equity	58,625,232	-	58,625,232
Net income for the year	280,414	15,144,300	15,424,714
Total equity	56,712,195	(893,890)	55,818,305
	256,009,132	14,250,410	270,259,542
LIABILITIES:			
NON-CURRENT LIABILITIES:			
Provisions	19,807,651	-	19,807,651
Medium and long term debt	2,564,578	-	2,564,578
Employee benefits	300,669,522	-	300,669,522
Deferrals	32,085,398	(18,812,000)	13,273,398
Deferred tax liabilities	6,082,638	-	6,082,638
TOTAL NON-CURRENT LIABILITIES	361,209,787	(18,812,000)	342,397,787
CURRENT LIABILITIES:			
Accounts payable	68,214,015	-	68,214,015
Taxes payable	17,938,446	-	17,938,446
Accounts payable to Group companies	58,617	-	58,617
Short term debt	437,686	-	437,686
Employee benefits	20,252,295	-	20,252,295
Other accounts payable	296,530,835	-	296,530,835
Deferrals	5,698,384	(1,259,000)	4,439,384
TOTAL CURRENT LIABILITIES	409,130,278	(1,259,000)	407,871,278
TOTAL LIABILITIES	770,340,066	(20,071,000)	750,269,066
TOTAL EQUITY AND LIABILITIES	1,026,349,198	(5,820,590)	1,020,528,608

According to clarification 26 of the Commission of Accounting Standards of May/2012, “Interest income” that do not directly derive from the entity’s funding shall affect earnings before interest and taxes, hence their reclassification under the heading “Other operating income” in the corporate income statement in 2011.

Therefore, the Corporate Income Statement, which is presented below, not only includes the restatement arising from the early adoption of the revision of IAS 19, but also the reclassification mentioned in the previous paragraph.

INDIVIDUAL INCOME STATEMENT

	31 December 2011		
	Reported	Adjustments	Restated
Sales and services rendered	565,378,416	-	565,378,416
Gains/losses from subsidiaries and associated companies	17,305,921	-	17,305,921
Own work capitalised	328,148	-	328,148
Cost of sales	(15,353,944)	-	(15,353,944)
External supplies and services	(178,549,897)	-	(178,549,897)
Staff costs	(333,610,047)	(1,259,000)	(334,869,047)
Impairment of inventories, net	(686,163)	-	(686,163)
Impairment of accounts receivable, net	245,634	-	245,634
Impairment of other assets, net	(1,942,450)	-	(1,942,450)
Provisions, net	(6,307,212)	-	(6,307,212)
Other operating income	42,344,127	19,616,379	61,960,506
Other operating costs	(17,830,536)	-	(17,830,536)
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTISATION	71,321,998	18,357,379	89,679,377
Depreciation and amortisation	(17,851,648)	-	(17,851,648)
EARNINGS BEFORE INTEREST AND TAXES	53,470,350	18,357,379	71,827,729
Interest income	20,037,452	(19,616,379)	421,073
Interest expenses	(764,984)	-	(764,984)
EARNINGS BEFORE TAXES	72,742,818	(1,259,000)	71,483,818
Income tax	(16,030,623)	365,110	(15,665,513)
NET INCOME FOR THE YEAR	56,712,195	(893,890)	55,818,305
Earnings per share	3.24		3.19

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

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

6. RELATED PARTIES

All the companies which are part of the CTT Group were considered related parties of the Company. The concept of related parties includes not only the subsidiary and associate companies of CTT, but also other companies held by subsidiary companies of CTT. The related parties also include the executive officers of the Company.

The executive officers is composed of the people in charge directly under the Board of Directors.

The terms or conditions applied between the related parties are, as a rule, substantially identical to those which are normally contracted, accepted and applied between independent entities in comparable operations.

Subsidiary companies:

As at 31 December 2012 and 31 December 2011, the Company held investments in the following subsidiary companies:

Subsidiary	Head office	Percentage of Ownership	
		2012	2011
PostContacto - Correio Publicitário, Lda.	Lisbon	95%*	95%*
CTT - Expresso, S.A.	S. Julião do Tojal	100%	100%
CTT - Gestão de Serviços e Equipamentos Postais, S.A.	Lisbon	100%	100%
Payshop Portugal, S.A.	Lisbon	100%	100%
Mailtec Holding, SGPS, S.A.	Amadora	100%	100%
Tourline Express Mensajería, SLU	Barcelona	100%	100%
EAD - Empresa de Arquivo de Documentação, S.A.	Palmela	51%	51%
CORRE - Correio Expresso de Moçambique, S.A.	Maputo	50%	50%

* Directly and indirectly, CTT fully owns this entity.

Associated companies:

As at 31 December 2012 and 31 December 2011, the Company held the following investments in associated companies:

Associated company	Head office	Percentage of Ownership	
		2012	2011
Multicert - Serviços de Certificação Electrónica, S.A.	Lisbon	20%	20%
Mailtec Comunicação , S.A.	Amadora	17.695%*	17.695%*
Mailtec Consultoria, S.A.	Amadora	10%*	10%*

* Directly and indirectly, CTT fully owns these entities.

Joint Ventures:

As at 31 December 2012 and 31 December 2011, the Company held the following interests in joint ventures:

	Head office	Percentage of Ownership	
		2012	2011
Ti-Post Prestação de Serviços Informáticos, ACE	Lisbon	49%	49%
Postal Network - Prestação de Serviços de Gestão de Infra estruturas de Comunicações, ACE	Lisbon	49%	49%
PTP & F (ACE)	Amadora	51%	51%

Other companies of the ctt group:

As at 31 December 2012 and 31 December 2011, the Company held the following interests in other companies of the Group:

	Head office	Percentage of Ownership	
		2012	2011
Payshop Moçambique, SARL	Mozambique	35%	35%
Mailtec Processos, Lda.	Amadora	100%*	100%*

* Indirectly, CTT fully owns this entity.

During the periods ended on 31 December 2012 and 31 December 2011, the following transactions took place and the following balances existed with related parties:

								2012
	Accounts receivable	Shareholders and Group companies (DB)	Accounts payable	Shareholders and Group companies (CB)	Revenues	Costs	Interest income	Dividends
SHAREHOLDERS								
Dividends	-	-	-	-	-	-	-	53,876,585
CTT GROUP COMPANIES								
Subsidiaries	13,861,621	5,690,720	386,298	20,690,303	6,647,304	644,978	-	-
Associated companies		422,185	108,953	993,617	3,506,303	-	-	-
Joint Ventures				245,079	4,074	-	-	-
Other related parties		504,186	54,701	503,909	7,101,323	-	-	-
MEMBERS OF THE								
Board of Directors	-	-	-	-	518,968	-	-	-
General Meeting of Shareholders	-	-	-	-	970	-	-	-
Statutory Audit Board	-	-	-	-	155,792	-	-	-
EXECUTIVE OFFICERS	-	-	-	-	1,541,489	-	-	-
	2,970,517	13,861,621	6,617,091	549,952	22,432,908	19,476,222	644,978	53,876,585

								2011
	Accounts receivable	Shareholders and Group companies (DB)	Accounts payable	Shareholders and Group companies (CB)	Revenues	Costs	Interest income	Dividends
SHAREHOLDERS								
Dividends	-	-	-	-	-	-	-	36,056,944
CTT GROUP COMPANIES								
Subsidiaries	10,418,445	2,042,260	-	23,988,366	9,484,636	421,072	-	-
Associated companies	111,114	746,292	-	1,030,909	4,189,161	-	-	-
Joint Ventures	-	923	-	265,347	5,042	-	-	-
Other related parties	-	766,678	58,617	493,394	6,845,745	-	-	-
MEMBERS OF THE								
Board of Directors	-	-	-	-	414,537	-	-	-
General Meeting of Shareholders	-	-	-	-	970	-	-	-
Statutory Audit Board	-	-	-	-	179,020	-	-	-
EXECUTIVE OFFICERS	-	-	-	-	2,325,698	-	-	-
	4,140,211	10,529,559	3,556,153	58,617	25,778,016	23,444,809	421,072	36,056,944

DB – Debit Balances; CB – Credit Balances

The costs with the members of the Board of Directors, Statutory Auditors Board and Executive Officers correspond to all the costs with remunerations for the stated period.

During the year ended on 31 December 2012, a new Board of Directors was appointed, on 24 August 2012, which was composed of 5 members, unlike the case in 2011, when the same body was composed of only 3 members.

As at 31 December 2012 and 31 December 2011, the nature and detail, by company of the CTT Group, of the main debit and credit balances was as follows:

	2012					
	Accounts receivable	Shareholders and Group companies (DB)	Total accounts receivable	Accounts payable	Shareholders and Group companies (CB)	Total accounts payable
SUBSIDIARIES						
Tourline Express Mensajería, S.A.	64,736	11,700,000	11,764,736	3,932,109	-	3,932,109
PostContacto - Correio Publicitário, Lda.	326,663	87,324	413,987	152,825	-	152,825
CTT Expresso, S.A.	1,863,343	-	1,863,343	1,249,416	361,965	1,611,381
Payshop Portugal, S.A.	90,404	213,862	304,266	157,947	-	157,947
CTT Gestão de Serviços e Equipamentos Postais, S.A.	47,579	-	47,579	182,201	24,333	206,534
EAD - Empresa de Arquivo de Documentação, S.A.	6,405	1,674,375	1,680,780	16,222	-	16,222
Mailtec SGPS, S.A.	-	26,118	26,118	-	-	-
CORRE - Correio Expresso Moçambique, S.A.	255,122	159,942	415,064	-	-	-
ASSOCIATED COMPANIES						
Mailtec Consultoria, S.A.	941	-	941	135,789	23,743	159,532
Mailtec Comunicação, S.A.	230,455	-	230,455	252,198	85,210	337,408
Multicert - Serviços de Certificação Electrónica, S.A.	2,894	-	2,894	34,198	-	34,198
JOINT VENTURES						
Ti-Post Prestação Serviços Informáticos, ACE	1,957	-	1,957	-	-	-
Postal Network - Prestação de Serviços de Gestão	38,534	-	38,534	-	-	-
OTHER RELATED PARTIES						
Payshop Moçambique, S.A.R.L.	192	-	192	-	-	-
Mailtec Processos, Lda.	41,292	-	41,292	504,186	54,701	558,887
	2,970,517	13,861,621	16,832,138	6,617,091	549,952	7,167,043

	2011					
	Accounts receivable	Shareholders and Group companies (DB)	Total accounts receivable	Accounts payable	Shareholders and Group companies (CB)	Total accounts payable
SUBSIDIARIES						
Tourline Express Mensajería, S.A.	568,634	7,700,000	8,268,634	-	-	-
PostContacto - Correio Publicitário, Lda.	334,910	169,104	504,014	231,320	-	231,320
CTT Expresso, S.A.	2,665,194	78,927	2,744,121	1,341,456	-	1,341,456
Payshop Portugal, S.A.	84,922	497,568	582,490	169,913	-	169,913
CTT Gestão de Serviços e Equipamentos Postais, S.A.	65,396	67,429	132,825	276,700	-	276,700
EAD - Empresa de Arquivo de Documentação, S.A.	-	1,674,375	1,674,375	22,871	-	22,871
Mailtec SGPS S.A.	-	14,881	14,881	-	-	-
CORRE - Correio Expresso Moçambique, S.A.	117,650	216,161	333,811	-	-	-
ASSOCIATED COMPANIES						
Mailtec Consultoria, S.A.	1,178	81,094	82,272	304,644	-	304,644
Mailtec Comunicação, S.A.	146,308	30,020	176,328	422,725	-	422,725
Multicert - Serviços de Certificação Electrónica, S.A.	1,729	-	1,729	18,923	-	18,923
JOINT VENTURES						
Ti-Post Prestação Serviços Informáticos, ACE	1,979	-	1,979	923	-	923
Postal Network - Prestação de Serviços de Gestão	86,858	-	86,858	-	-	-
OTHER RELATED PARTIES						
Payshop Moçambique, S.A.R.L.	192	-	192	-	-	-
Mailtec Processos, Lda.	65,261	-	65,261	766,678	58,617	825,295
	4,140,211	10,529,559	14,669,770	3,556,153	58,617	3,614,770

DB – Debit Balances; CB – Credit Balances

During the year ended on 31 December 2012 the most significant movements between the group's companies were the following:

- Reinforcement of the loan from the parent company to the subsidiary Tourline amounting to 4 million Euros;
- Acquisition from the subsidiary Tourline of the software associated to the Centre Management System (SGC), for an approximate amount of 2,477 thousand Euros.

During the periods ended on 31 December 2012 and 31 December 2011, the nature and detail, by company of the CTT Group, of the main transactions was as follows:

	2012								
	Fixed assets acquired	Services to be reinvoiced	Inventories acquired	Fixed assets sold	Sales and services rendered	Other operating income	Supplies and external services	Other operating costs	Interest Income
SUBSIDIARIES									
Tourline Express Mensajeria, S.A.		-	-	-	5,043	543,442	9,776	-	531,301
PostContacto - Correio Publicitário, Lda.		-	-	5,291	1,907	3,466,334	164,925	295	-
CTT Expresso, S.A.		-	-	27,871	310,366	14,853,649	1,517,371	10,188	-
Payshop Portugal, S.A.		-	-	-	83,664	788,153	1,704,863	-	-
CTT Gestão de Serviços e Equipamentos Postais, S.A.		-	-	-	60	569,985	3,060,770	-	-
EAD - Empresa de Arquivo de Documentação, S.A.		-	-	-	7	597	179,116	-	113,678
CORRE - Correio Expresso Moçambique, S.A.		-	-	-	-	67,098	-	-	-
ASSOCIATED COMPANIES									
Mailtec Consultoria, S.A.		-	-	-	-	5,522	1,406,419	-	-
Mailtec Comunicação, S.A.	752,435		1,489	1,163	187,516	778,729	1,973,109	-	-
Multicert - Serviços de Certificação Electrónica, S.A.		-	-	-	21,850	-	126,775	-	-
JOINT VENTURES									
Ti-Post Prestação Serviços Informáticos, ACE		-	-	-	-	25,670	4,074	-	-
Postal Network - Prestação de Serviços de Gestão		-	-	-	-	219,410	-	-	-
OTHER RELATED PARTIES									
Payshop Moçambique, S.A.R.L.		-	-	-	-	-	-	-	-
Mailtec Processos, Lda.		-	-	-		503,909	7,101,323	-	-
	4,098,012	752,435	1,489	34,325	610,412	21,822,496	17,248,520	10,483	644,978

	2011								
	Fixed assets acquired	Services to be invoiced	Inventories acquired	Fixed assets sold	Sales and services rendered	Other operating income	Supplies and external services	Other operating costs	Interest income
SUBSIDIARIES									
Tourline Express Mensajeria, S.A.	-	-	-	-	35	633,898	11,558	-	388,938
PostContacto - Correio Publicitário, Lda.	-	-	-	-	4,802	3,839,840	296,359	-	-
CTT Expresso, S.A.	-	-	-	356,251	341,590	17,441,903	1,737,539	13,428	-
Payshop Portugal, S.A.	-	-	-	-	73,981	737,086	1,644,394	18	-
CTT Gestão de Serviços e Equipamentos Postais, S.A.	-	-	-	-	90	768,048	5,560,262	-	-
EAD - Empresa de Arquivo de Documentação, S.A.	-	-	-	-	-	3,935	221,078	-	32,134
CORRE - Correio Expresso Moçambique, S.A.	-	-	-	-	-	143,158	-	-	-
ASSOCIATED COMPANIES									
Mailtec Consultoria, S.A.	506,237	-	-	-	-	4,227	1,791,082	-	-
Mailtec Comunicação, S.A.	-	1,595,533	10,167	-	74,720	928,005	2,295,796	-	-
Multicert - Serviços de Certificação Electrónica, S.A.	-	-	-	-	23,958	-	102,283	-	-
JOINT VENTURES									
Ti-Post Prestação Serviços Informáticos, ACE	-	-	-	-	-	27,234	5,042	-	-
Postal Network - Prestação de Serviços de Gestão	-	-	-	-	-	238,113	-	-	-
OTHER RELATED PARTIES									
Payshop Moçambique, S.A.R.L.	-	-	-	-	-	-	-	-	-
Mailtec Processos, Lda.	-	-	-	-	493,394	-	6,845,745	-	-
	506,237	1,595,533	10,167	356,251	1,012,570	24,765,447	20,511,138	13,446	421,072

7. TANGIBLE FIXED ASSETS

During the periods ended on 31 December 2012 and 31 December 2011, the movement which occurred in the carrying value of the “Tangible fixed assets”, as well as the respective accumulated depreciation and impairment losses was as follows:

2012

	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advances to suppliers	Total
TANGIBLE FIXED ASSETS									
Opening balance	41,811,771	360,279,239	119,508,092	2,124,912	108,609,424	28,226,124	357,489	1,464,021	662,381,071
Acquisitions	-	2,037,629	3,178,416	-	1,270,279	1,470,949	58,114	542,194	8,557,581
Disposals	(162,109)	(498,500)	(4,473,864)	-	(321,114)	(4,213)	-	-	(5,459,800)
Transfers and write-offs	-	357,489	1,286,250	-	(36,203,255)	(7,981,109)	(357,489)	(1,967,725)	(44,865,839)
Adjustments	(3,448)	(4,014)	-	-	-	(209,509)	-	-	(216,971)
CLOSING BALANCE	41,646,214	362,171,843	119,498,894	2,124,912	73,355,334	21,502,242	58,114	38,490	620,396,042
ACCUMULATED DEPRECIATION									
Opening balance	4,200,150	178,901,543	104,722,218	1,982,237	102,439,658	21,761,567	-	-	414,007,373
Depreciation for the period	-	8,923,624	4,045,305	37,148	2,624,328	1,177,612	-	-	16,808,017
Disposals	-	(149,374)	(4,473,864)	-	(321,114)	(4,213)	-	-	(4,948,565)
Transfers and write-offs	-	-	(224,047)	-	(37,516,131)	(7,116,597)	-	-	(44,856,775)
Impairment losses	-	502,113	-	-	-	-	-	-	502,113
Adjustments	-	-	-	-	-	-	-	-	-
CLOSING BALANCE	4,200,150	188,177,906	104,069,612	2,019,385	67,226,741	15,818,369	-	-	381,512,163
NET TANGIBLE FIXED ASSETS	37,446,064	173,993,937	15,429,282	105,527	6,128,593	5,683,873	58,114	38,490	238,883,879

2011

	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advances to suppliers	Total
TANGIBLE FIXED ASSETS									
Opening balance	41,034,702	356,723,867	112,459,031	2,031,900	105,399,962	26,803,825	1,768,162	1,912,079	648,133,528
Acquisitions	-	5,204,211	7,630,660	95,409	900,213	4,524,798	357,489	954,081	19,666,861
Disposals	(2,632)	(172,629)	(1,536,625)	(1,115)	(114,474)	(10,943)	-	-	(1,838,418)
Transfers and write-offs	779,701	(1,476,210)	955,026	(1,282)	2,423,723	(2,929,414)	(1,768,162)	(1,387,639)	(3,404,257)
Adjustments	-	-	-	-	-	(162,142)	-	(14,500)	(176,642)
CLOSING BALANCE	41,811,771	360,279,239	119,508,092	2,124,912	108,609,424	28,226,124	357,489	1,464,021	662,381,072
ACCUMULATED DEPRECIATION									
Opening balance	3,970,789	172,045,586	102,956,454	1,944,752	100,920,382	20,730,881	-	-	402,568,844
Depreciation for the period	-	8,610,449	3,447,530	39,883	2,157,504	1,133,673	-	-	15,389,039
Disposals	(134)	(113,028)	(1,535,292)	(1,115)	(113,667)	(10,921)	-	-	(1,774,157)
Transfers and write-offs	229,495	(1,641,464)	(146,474)	(1,283)	(524,561)	(92,066)	-	-	(2,176,353)
Adjustments	-	-	-	-	-	-	-	-	-
CLOSING BALANCE	4,200,150	178,901,543	104,722,218	1,982,237	102,439,658	21,761,567	-	-	414,007,373
NET TANGIBLE FIXED ASSETS	37,611,621	181,377,696	14,785,874	142,675	6,169,766	6,464,557	357,489	1,464,021	248,373,699

The balances of the headings “Land” and “Buildings and other constructions” include 6,668,577 Euros related to land and property in co-ownership with PT Communications, SA.

As a result of the change in the concession agreement in 26 July 2006 (Note 1), at the end of the concession the assets included in the public and private domain of the State revert automatically, at no cost, to the conceding entity, while under the previous concession agreement, all the assets allocated to the concession reverted to the Portuguese state. As the postal network belongs exclusively to CTT, not being a public domain asset, only the assets that belong to the State revert to it, and as such, at the end of the concession CTT will continue to own its assets. The Board of Directors, supported by its legal advisors, believes that CTT’s assets do not include any public or private domain assets of the Portuguese state.

During the period ended on 31 December 2012, the most significant movements in the headings of Tangible Fixed Assets are the following:

Land and buildings and other constructions:

The movements associated to additions, relate entirely to the preservation and maintenance works executed on properties owned by the company (1,363,408 Euros) and properties where CTT is tenant (670,207 Euros).

The main sale during the period refers to the property in Lisbon (Rua das Pedras Negras), which at the date of sale had a net value of 509,008 Euros composed of land (162,109 Euros) and building (346,899 Euros). This sale generated for CTT approximately 43 thousand Euros of capital gains.

The transfers recorded and regarding this type of asset (357,489 Euros), relate to works that were in progress at the beginning of the period, and that were, during the period in question, transferred to fixed assets.

The company has some properties that are vacant, so they are not allocated to the activity. Any evidence that these assets might be impaired would require determination of their recoverable amount (fair value minus costs to sell). Accordingly, the company decided to evaluate the referred properties, and the valuation was conducted by an external entity, which concluded that there was impairment of the amount of 502,113 Euros in eight of them.

Basic equipment:

The amount concerning acquisitions and transfers (4,688,721 Euros), refers essentially to direct purchases or warehouse outputs, of the following types of assets:

- Stamp-cancelling machines (3): 46,141 Euros
- Upgrades to indexing machines (optical readers): 580,771 Euros
- Upgrades to sorting machines: 1,276,137 Euros
- Telephone booths installed in Retail Network (31): 14,320 Euros
- Bicycles and Motorcycles: 150 electric bicycles (244,094 Euros) and 117 motorcycles (224,904 Euros);
- Heavy goods vehicles: 26 vehicles and 4 trailers (2,255,340 Euros);
- Dock tractors, electric (2): 24,612 Euros

The disposals recorded, amounting to 4,473,864 Euros, refer to the sale of various assets, which were fully depreciated as follows:

- A variety of postal equipment (156,608 Euros), in particular the sale of 21 strapping machines;
- Bicycles (4) and motorcycles (43) with the acquisition price of 86,242 Euros, which generated approximately 62 thousand Euros of capital gains;
- Vehicles (3,979,151 Euros), being 1 mixed passenger vehicle (7,939 Euros), 65 goods vehicles (681,066 Euros) and 47 heavy goods vehicles (3,290,146 Euros), which generated capital gains of the amount of 137 000 Euros;
- Tractors (12) and stackers (4), of the amount of 236,707 Euros;
- One vehicle as itinerary post office (15,156 Euros).

Some write-offs were recorded due to the disabling/ destruction of several categories of goods, such as obliterating machines, optical recording machines, recording and tying machines, franking machines, postal receptacles and other fixtures, equipment for the internal handling of loads and scales, to the total amount of 224,047 Euros.

Office equipment:

The amount related to acquisitions and transfers (2,585,131 Euros) refers to direct acquisitions or warehouse outputs, which are mainly composed of computer equipment (2,348 thousand Euros), postal furniture (about 158,000 Euros), miscellaneous furniture (48,000 Euros) and about 20 thousand Euros in security boxes. Among the computer equipment, reference should be made to the acquisition from the participated company Tourline of equipment associated with the Centre Management System (SGC) for the value of 852 thousand Euros, the acquisition of 3,000 automatic payment terminals (APT), to be installed in the CTT Retail network, of the amount of approximately 422,000 Euros, as well as the expenditure of 289 thousand Euros relative to the roll-out of NAVE.

The amount recorded on disposals concerns the sale of different types of assets, fully depreciated, namely the following: postal furniture and other furniture (283,868 Euros) and computer equipment (16,657 Euros), which generated about 11,000 Euros of capital gains.

A final reference to the movements regarding the write-offs reported in Office Equipment and Other tangible fixed assets. The high amounts are mainly due to the write-off of approximately 150,000 assets that were fully depreciated and which were acquired up to 1992. The reasons for these write-offs were related to their physical deterioration, arising from age.

Other tangible fixed assets:

The value corresponding to the acquisition of this type of assets (1,470,949 Euros), mainly refers to the acquisition of prevention and safety equipment (714,425 Euros), communication equipment (60 thousand Euros), as well as the acquisition of a variety of warehouse equipment (referred to as assets not allocated to the operations), whose value, during the year, was of approximately 681,000 Euros.

In the heading of regularisation, whose value recorded amounts to 209,000 Euros, the following two facts should be highlighted: the warehouse outputs of goods (assets not allocated to operations) for sale to companies of the group (36 thousand Euros), as well as the output from the same warehouse of assets to cost account (SNC account 62), referring to assets whose purchase value is less than 200 Euros, the minimum value capable of being capitalised as fixed assets in the company. The amount involved in this situation amounted to about 173 thousand Euros.

Tangible fixed assets in progress:

The figures in this heading concern the registration of the costs of the maintenance and preservation works on own property, and the value of the transfers made are due to the conclusion of those works, and are capitalised in assets related to the company's properties (buildings and other constructions).

The depreciation recorded during the period of these Notes, of the amount of 16,808,017 Euros (15,389,039 Euros in 2011), was recorded in the heading "Depreciation/amortisation, net and impairment of depreciable/amortisable assets, net" of the Corporate statement income (Note 34).

Contractual commitments relative to Tangible Fixed Assets are as follows:

(i) Buildings and other constructions

The acquisition of a unit to install the Post Office of Corroios, under a promissory contract of purchase and sale concluded with the Municipal Seixal (Seixal Municipality), on 26 December 1985.

The deed of acquisition of this property was made after the closure of the year 2012, on 22 March 2013.

(ii) Basic equipment

Acquisition of trays holders from Caddie Portugal of the value of 120,000 Euros, of a lift-truck from Manitou of the value of 18,000 Euros, labelling machines from Burótica of the value of 17,200 Euros and a firewall from PT Prime of the value of 10.8 thousand Euros.

8. INVESTMENT PROPERTY

As at 31 December 2012 and on 31 December 2011, the Company has the following assets classified as investment property:

	2012		
	Land and natural resources	Buildings and other constructions	Total
INVESTMENT PROPERTY			
Opening balance	2,692,616	65,653	2,758,269
Write-offs (note 35)	(1,361,565)	-	(1,361,565)
Other variations	3,448	-	3,448
Closing balance	1,334,499	65,653	1,400,152
ACCUMULATED DEPRECIATION			
Opening balance	-	29,896	29,896
Depreciation for the period	-	1,313	1,313
Closing balance	-	31,209	31,209
NET INVESTMENT PROPERTY	1,334,499	34,444	1,368,943
	2011		
	Land and natural resources	Buildings and other constructions	Total
INVESTMENT PROPERTY			
Opening balance	2,700,129	-	2,700,129
Other variations	(7,513)	65,653	58,140
Closing balance	2,692,616	65,653	2,758,269
ACCUMULATED DEPRECIATION			
Opening balance	-	-	-
Depreciation for the period	-	1,313	1,313
Other variations	-	28,583	28,583
Closing balance	-	29,896	29,896
NET INVESTMENT PROPERTY	2,692,616	35,757	2,728,373

These assets are not allocated to the operating activities of the Company, nor have a specific future use.

The market value of these fixed assets, which are classified as investment property, in accordance with the valuations recorded as at the end of fiscal year 2012 which were conducted by independent entities, amounts to 2,936,900 Euros and to 170,000 Euros, for land and buildings, respectively.

The objective of this valuation was to estimate the market value for the sublease (rent value) and the current market value for purchase / sale. The valuation criteria were based on the comparative/market method, based primarily on knowledge of the local market and on the basis of comparison with identical values collected in the market covering the assets in question. The objective of this method is to determine the estimated value for the transaction of those properties between entities without special interests that are not commercial. The method enables the valuation

of income generating assets, properties that already generate or may generate income.

For the periods ended on 31 December 2012 and 2011, 1,313 Euros were recorded under the heading "Depreciation and amortisation, net" relative to depreciation (Note 34).

Reference should also be made to the recognition of a loss caused by the breach of contract concerning the land of "Campo 24 de Agosto", of the amount of 1,361,565 Euros.

9. GOODWILL

As at 31 December 2012 and 31 December 2011, the composition of Goodwill was as follows:

Company	Year of acquisition	2012	2011
SUBSIDIARY COMPANIES			
Mailtec Consultoria, S.A. (51%)	2004	4,718	4,718
Mailtec Comunicação, S.A. (51%)	2004	69,767	69,767
Mailtec Holding, SGPS, S.A. (51%)	2004	582,970	582,970
Mailtec Holding, SGPS, S.A. (49%)	2005	6,641,901	6,641,901
Payshop Portugal, S.A.	2004	406,101	406,101
Tourline Express Mensajería, SLU	2005	16,592,248	16,592,248
EAD - Empresa de Arquivo de Documentação, S.A.	2006	786,164	786,164
		25,083,869	25,083,869

During the years ended on 31 December 2012 and 31 December 2011, the movements occurred in Goodwill were as follows:

	2012	2011
Opening balance of the period	25,083,869	27,026,319
Impairment	-	(1,942,450)
CLOSING BALANCE OF THE PERIOD	25,083,869	25,083,869

Impairment

The recoverable amount of goodwill is assessed annually or whenever there is indication of an eventual loss of value. For the purpose of these tests, the Company has defined a methodology and a set of assumptions so as to determine the recoverable amount of the investments made, of which the following stand out:

Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Growth rate in perpetuity
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%

2011						
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Growth rate in perpetuity	
Tourline Express Mensajería, SLU	CEP and Logistics	Equity Value/DCF	5 years	13.00%	2.0%	
EAD - Empresa de Arquivo de Documentação, S.A.	Custody and archive management	Equity Value/DCF	5 years	16.40%	2.0%	
Mailtec Group	Documental services	Equity Value/DCF	5 years	14.58%	2.0%	
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	16.09%	2.0%	

The cash flow projections were based on the historical performance and the medium and long term business plans, approved by the Board of Directors, and were prolonged in perpetuity. As a consequence of this impairment analysis, the Company concluded that as at 31 December 2012 there were no impairment losses and as at 31 December 2011 the impairment losses in goodwill (Note 18) were as follows:

2012						2011
Company	Year of acquisition	Initial value	Impairment losses for the period	Accumulated impairment losses	Carrying value	Carrying value
Mailtec Consultoria, S.A. (51%)	2004	4,718	-	-	4,718	4,718
Mailtec Comunicação, S.A. (51%)	2004	69,767	-	-	69,767	69,767
Mailtec Holding, SGPS, S.A. (51%)	2004	582,970	-	-	582,970	582,970
Mailtec Holding, SGPS, S.A. (49%)	2005	6,641,901	-	-	6,641,901	6,641,901
Payshop Portugal, S.A.	2004	406,101	-	-	406,101	406,101
Tourline Express Mensajería, SLU	2005	20,671,985	-	4,079,737	16,592,248	16,592,248
EAD - Empresa de Arquivo de Documentação, S.A.	2006	1,082,015	-	295,851	786,164	786,164
		29,459,457	-	4,375,588	25,083,869	25,083,869

The impairment loss is recorded in the income statement for the period it refers to under the heading “Impairment of depreciable/amortisable investments (losses/reversals)” of the Income statement.

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

The results of the sensitivity analyses for Payshop, EAD and the Mailtec Group do not determine that there are indications of impairment. Regarding Tourline, the results of the sensitivity analyses conclude that a 1% increase in the sovereign risk, with implications on the discount rate would determine the recognition of an impairment loss amounting to 1,460,824 Euros, according to the following tables:

VARIATION OF SOVEREIGN RISK

	-0.5%	0.0%	0.5%
TOURLINE			
WACC	1.5%	2.0%	2.5%
Equity Assessment	21,794,050	22,630,972	23,554,689
Test: impairment (if negative)	561,344	1,398,266	2,321,983
MAILTEC			
WACC	1.5%	2.0%	2.5%
Equity Assessment	23,686,948	24,246,247	24,856,480
Test: impairment (if negative)	9,747,053	10,306,352	10,916,585
EAD			
WACC	1.5%	2.0%	2.5%
Equity Assessment	7,105,222	7,423,782	7,772,163
Test: impairment (if negative)	1,309,964	1,472,430	1,650,104
PAYSHOP			
WACC	1.5%	2.0%	2.5%
Equity Assessment	49,546,076	50,580,533	51,702,500
Test: impairment (if negative)	42,422,883	43,457,340	44,579,307

VARIATION OF PERPETUITY GROWTH

	-1%	0%	+1%
TOURLINE			
g (Growth perpetuity rate)	11.20%	12.14%	13.08%
Equity Assessment	26,066,769	22,630,972	19,771,882
Test: impairment (if negative)	4,834,063	1,398,266	-1,460,824
MAILTEC			
g (Growth perpetuity rate)	12.48%	13.48%	14.48%
Equity Assessment	26,416,441	24,246,247	22,430,269
Test: impairment (if negative)	12,476,546	10,306,352	8,490,374
EAD			
g (Growth perpetuity rate)	12.26%	13.18%	14.10%
Equity Assessment	8,467,831	7,423,782	6,543,482
Test: impairment (if negative)	2,004,894	1,472,430	1,023,477
PAYSHOP			
g (Growth perpetuity rate)	13.32%	14.32%	15.32%
Equity Assessment	54,303,132	50,580,533	47,413,672
Test: impairment (if negative)	47,179,939	43,457,340	40,290,479

10. INTANGIBLE ASSETS

During the periods ended on 31 December 2012 and 31 December 2011, the movement which occurred in the main categories of intangible assets, as well as the respective accumulated amortisation and accumulated impairment losses, was as follows:

	2012				
	Development projects	Computer programmes	Industrial property	Intangible assets in progress	Total
INTANGIBLE ASSETS					
Opening balance	3,670,096	20,599,818	3,220,203	1,426,079	28,916,196
Acquisitions	-	2,812,365	-	2,100,007	4,912,372
Transfers and write-offs	-	746,311	-	(746,311)	-
CLOSING BALANCE	3,670,096	24,158,494	3,220,203	2,779,775	33,828,568
ACCUMULATED AMORTISATION					
Opening balance	3,670,096	15,629,466	2,834,463	-	22,134,025
Amortisation for the period	-	2,475,203	41,233	-	2,516,436
Transfers and write-offs	-	-	-	-	-
CLOSING BALANCE	3,670,096	18,104,669	2,875,696	-	24,650,461
NET INTANGIBLE ASSETS	-	6,053,825	344,507	2,779,775	9,178,107

	2011				
	Development projects	Computer programmes	Industrial property	Intangible assets in progress	Total
INTANGIBLE ASSETS					
Opening balance	3,670,096	18,037,597	3,207,289	712,472	25,627,454
Acquisitions	-	2,029,954	12,914	1,067,333	3,110,201
Transfers and write-offs	-	532,267	-	(368,226)	164,041
Adjustments	-	-	-	14,500	14,500
CLOSING BALANCE	3,670,096	20,599,818	3,220,203	1,426,079	28,916,196
ACCUMULATED AMORTISATION					
Opening balance	3,670,096	13,211,545	2,791,088	-	19,672,729
Amortisation for the period	-	2,417,921	43,375	-	2,461,296
CLOSING BALANCE	3,670,096	15,629,466	2,834,463	-	22,134,025
NET INTANGIBLE ASSETS	-	4,970,352	385,740	1,426,079	6,782,171

Intangible assets in progress concern some computer projects, which are being implemented with the participation of internal and external resources.

The acquisition from the subsidiary Tourline of the software associated with the Centre Management System (SGC), for an approximate amount of 2,477 thousand Euros should also be noted.

The amortisation for the period in question, amounting to 2,516,346 Euros (2,461,296 Euros in 2011) was recorded in the heading “Depreciation and amortisation, net “ (Note 34).

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

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

R & D

During the financial year ended on 31 December 2012 no expenses were recorded relative to research and development.

11. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

During the periods ended on 31 December 2012 and 31 December 2011, the movements occurred in “Investment in subsidiaries and associates companies” were as follows:

	2012		
	Subsidiary companies	Associated companies	Total
GROSS CARRYING VALUE			
Opening balance	56,169,478	1,742,595	57,912,073
Equity method - proportion of net income	10,778,746	402,451	11,181,197
Distribution of dividends	(18,452,547)	(562,915)	(19,015,462)
Other	(8,331)	-	(8,331)
CLOSING BALANCE	48,487,346	1,582,131	50,069,477

	2011		
	Subsidiary companies	Associated companies	Total
GROSS CARRYING VALUE			
Opening balance	56,784,488	1,661,514	58,446,002
Equity method - proportion of net income	16,974,661	331,260	17,305,921
Distribution of dividends	(17,589,671)	(250,179)	(17,839,850)
CLOSING BALANCE	56,169,478	1,742,595	57,912,073

As at 31 December 2012 and 31 December 2011, the detail by company of “Investment in subsidiaries and associates companies” was as follows:

2012					2011			
Corporate name	% held	Investments	Provision for investments	Proportion of net income	% held	Investments	Provision for investments	Proportion of net income
SUBSIDIARIES:								
CORRE - Correio Expresso Moçambique, S.A.	50	139,876	-	49,431	50	98,776	-	(23,110)
EAD - Empresa de Arquivo de Documentação, S.A.	51	1,527,536	-	190,023	51	1,600,268	-	460,974
PostContacto - Correio Publicitário, Lda.	95	2,176,249	-	1,669,612	95	2,251,269	-	1,744,633
CTT Expresso,S.A.	100	24,696,387	-	4,045,273	100	26,602,703	-	6,049,425
CTT Gestão de Serviços e Equipamentos Postais, S.A.	100	2,819,225	-	958,211	100	2,944,229	-	1,143,298
Mailtec Holding, SGPS, S.A.	100	5,770,524	-	1,196,938	100	8,259,075	-	2,189,873
Payshop Portugal, S.A.	100	6,717,092	-	4,916,327	100	7,525,631	-	5,295,880
Tourline Express Mensajería, S.A.	100	4,640,457	-	(2,247,070)	100	6,887,527	-	113,688
		48,487,346	-	10,778,746		56,169,478	-	16,974,661
ASSOCIATED COMPANIES:								
Mailtec Consultoria, S.A.	10	59,021	-	26,594	10	162,351	-	69,920
Mailtec Comunicação, S.A.	17.695	833,376	-	121,266	17.695	1,027,900	-	209,616
Multicert - Serviços de Certificação Electrónica, S.A. (a)	20	689,734	-	254,591	20	552,344	-	51,724
		1,582,131	-	402,451		1,742,595	-	331,260
JOINT VENTURES								
Ti-Post Prestação Serviços Informáticos, ACE	49	-	-	-	49	-	-	-
Postal Network - Prestação de Serviços de Gestão	49	-	-	-	49	-	-	-
		-	-	-		-	-	-
		50,069,477	-	11,181,197		57,912,073	-	17,305,921

(a) The amount of 2012 reflects the effect of the Equity method of 2011.

The main disclosure regarding the abovementioned companies was as follows:

2012					
Company	Assets	Liabilities	Sales and services rendered	Net income	Equity
SUBSIDIARIES:					
CORRE - Correio Expresso Moçambique, S.A.	1,571,624	1,372,477	1,660,366	93,418	199,146
EAD - Empresa de Arquivo de Documentação, S.A.	6,602,556	3,607,387	4,533,059	372,594	2,995,168
PostContacto - Correio Publicitário, Lda.	3,330,469	1,039,680	11,141,800	1,757,487	2,290,788
CTT Expresso, S.A.	38,220,743	13,524,355	73,961,504	4,045,273	24,696,387
CTT Gestão de Serviços e Equipamentos Postais, S.A.	3,348,453	529,229	1,855,751	958,211	2,819,225
Mailtec Holding, SGPS, S.A.	5,825,905	55,381	480,000	1,196,938	5,770,524
Payshop Portugal, S.A.	8,694,968	1,977,876	14,805,658	4,916,327	6,717,092
Tourline Express Mensajería, S.A.	26,006,755	21,366,297	52,040,133	(2,247,070)	4,640,458
ASSOCIATED COMPANIES:					
Mailtec Consultoria, S.A.	1,194,862	604,700	2,800,559	265,923	590,162
Mailtec Comunicação, S.A.	7,062,455	2,352,925	13,132,494	685,289	4,709,529
Multicert - Serviços de Certificação Electrónica, S.A. (a)	5,003,269	1,284,270	3,716,304	655,710	4,732,941
JOINT VENTURES					
Ti-Post Prestação Serviços Informáticos, ACE	453,400	453,400	2,025,594	-	-
Postal Network - Prestação de Serviços de Gestão	320,851	320,851	262,076	-	-

(a) Values of 2011

2011					
Denominação	Assets	Liabilities	Sales and services rendered	Net income	Equity
SUBSIDIARIES:					
CORRE - Correio Expresso Moçambique, S.A.	1,004,733	886,061	1,275,162	(46,129)	118,763
EAD - Empresa de Arquivo de Documentação, S.A.	7,176,101	4,038,320	5,466,444	903,871	3,137,781
PostContacto - Correio Publicitário, Lda.	3,484,861	1,115,104	11,666,001	1,836,455	2,369,757
CTT Expresso, S.A.	42,657,084	16,054,380	79,847,417	6,049,425	26,602,703
CTT Gestão de Serviços e Equipamentos Postais, S.A.	3,766,424	763,209	3,452,839	1,084,312	3,003,215
Mailtec Holding, SGPS, S.A.	8,304,618	45,543	480,000	2,189,873	8,259,075
Payshop Portugal, S.A.	9,764,857	2,239,226	15,445,654	5,295,880	7,525,631
Tourline Express Mensajería, S.A.	26,160,873	19,273,347	52,285,351	113,688	6,887,527
ASSOCIATED COMPANIES:					
Mailtec Consultoria, S.A.	2,325,343	701,958	3,574,081	699,144	1,623,383
Mailtec Comunicação, S.A.	8,344,079	2,535,268	14,989,088	1,184,571	5,808,811
Multicert - Serviços de Certificação Electrónica, S.A. (a)	4,167,165	2,013,746	3,622,432	662,248	2,761,718
JOINT VENTURES					
Ti-Post Prestação Serviços Informáticos, ACE	355,333	355,333	2,411,443	-	-
Postal Network - Prestação de Serviços de Gestão	134,899	134,899	272,564	-	-

(a) Values of 2010

Equity method

For the periods ended on 31 December 2012 and 2011, the net income in subsidiary, associated and joint ventures companies arising from the application of the equity method, and stated under the item “Gains/ losses from subsidiaries, associated companies and joint ventures” of the income statement were recognised against the following items on the statement of financial position:

	2012	2011
INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES		
CORRE - Correio Expresso Moçambique, S.A.	49,431	(23,110)
EAD - Empresa de Arquivo de Documentação, S.A.	190,023	460,974
PostContacto - Correio Publicitário, Lda.	1,669,612	1,744,633
CTT Expresso, S.A.	4,045,273	6,049,425
CTT Gestão de Serviços e Equipamentos Postais, S.A.	958,211	1,143,298
Payshop Portugal, S.A.	4,916,327	5,295,880
Tourline Express Mensajería, S.A.	(2,247,070)	113,688
Mailtec Holding, SGPS, S.A.	1,196,938	2,189,873
Mailtec Comunicação , S.A.	121,266	209,616
Mailtec Consultoria, S.A.	26,594	69,920
Multicert, Serviços de Certificação Electrónica, S.A.	254,591	51,724
	11,181,197	17,305,921

12. INVESTMENT IN OTHER COMPANIES

For the periods ended on 31 December 2012 and 2011 the “ Investment in others companies” had no movement. The final balance is 130,829 Euros and essentially refers to shareholdings in the companies EMS Internacional, Eurogiro, and CEPT of the amounts of 6,157 Euros, 124,435 Euros, and 237 Euros, respectively.

13. FINANCIAL RISK MANAGEMENT

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

The categories of financial assets and liabilities as at 31 December 2012 and 31 December 2011 are detailed as follows:

	2012	2011
FINANCIAL ASSETS		
Accounts receivable	132,723,022	164,789,385
Cash and cash equivalents	471,348,513	402,780,271
	604,071,535	567,569,656
FINANCIAL LIABILITIES		
Account payable	66,833,187	68,214,015
Employee benefits	303,009,132	320,921,817
Other accounts payable	328,942,767	317,530,162
	698,785,086	706,665,994

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

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

The management of financial risks includes the Corporate Risk Management System, which is coordinated by the Corporate Risk Management unit, which reports directly to the Board of Directors. CTT's departments of Finance and Risk Management, and Accounting and Treasury assure the centralised management of financing operations, investment of reserve liquidity, exchange transactions, as well as the counterparty risk management of the Company, and monitoring of the exchange risk, according to the policies approved by the Board of Directors.

The financial risks of particular importance include credit risks, market risks and liquidity risks.

Credit risk

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

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

The Company is not exposed to significant credit risk relative to any single customer in particular, since its accounts receivable refer to a large number of customers.

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

The movement of impairment losses of accounts receivable is disclosed in Note 15. As at 31 December 2012, the Company believes that impairment losses

in accounts receivable are adequately estimated and recorded in the financial statements.

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

Interest rate risk

Interest rate risk is essentially associated to the interest received from the investment of reserve liquidity and to the determination, through its impact on the discount rate, of the estimated liabilities related to employee benefits.

Gains arising from financial operations are important, hence alterations in interest rates have a direct impact on the Company's interest income.

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

The investment of reserve liquidity received interest income of approximately 13,522,891 Euros during the period of 2012 and 19,577,908 Euros during the period of 2011 (Note 31).

If the interest rates had been lower by 1%, during the period ended on 31 December 2012, the interest received would be less by 3,705 thousand Euros.

With a reduction of 0.5 per cent in the discount rate and keeping all other variables constant, the liabilities with employee benefits – health care would increase by approximately 17.4 million Euros (Note 26).

Foreign currency exchange rate risk

Exchange rate risks are related to the existence of balances in currencies other than the Euro, in particular balances arising from transactions with foreign Postal Operators recorded in Special Drawing 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 reference to previously defined objectives based on the evolution of the international business activities.

As at 31 December 2012 and 31 December 2011, the net exposure (assets minus liabilities) of the Company ascended, respectively, to -1,838,001 SDR (2,142,796 Euros at the exchange rate €/SDR 1,16583) and 378,627 SDR (449,257 Euros at the exchange rate €/SDR of 1.18654).

In the sensitivity analysis of the balances of accounts receivable and payable to foreign Postal Operators, as at 31 December 2012 and 31 December 2011, assuming a appreciation / depreciation in the exchange rate €/SDR (1,282413 as at 31 December 2012 and 1,305194 as at 31 December 2011) of 10%, the impact on the results would be (-214,280) Euros and 44,926 Euros, respectively.

Liquidity risk

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

The principal contractual obligations of the Company are related to the funding received (essentially financial leases) and respective interest, the employee benefits, the operating leases and other non-contingent financial commitments. The following table sums up the expected contractual obligations and financial commitments of the Company as at 31 December 2012:

2012	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Debt (Note 25)	453,146	2,104,100	-	2,557,246
Interest expenses (Note 25)	16,684	33,214	-	49,898
Payment of employees' benefits ⁽¹⁾	21,216,422	74,303,670	645,447,746	740,967,837
Operating leases (Note 24)	7,043,103	6,613,062	-	13,656,165
Non-contingent financial commitments ⁽²⁾	166,026	-	-	166,026
TOTAL CONTRACTUAL OBLIGATIONS	28,895,381	83,054,046	645,447,746	757,397,172

(1) The presented amounts correspond to undiscounted payments. This amount differs from the liabilities recognised on the corporate statement of financial position due to the effect of the discount on the liabilities with past services and because it also includes the component of future services with the population currently covered by these benefits.
(2) As mentioned in Note 23, the non-contingent financial commitments are essentially related to contracts concluded with suppliers of tangible fixed assets.

14. INVENTORIES

As at 31 December 2012 and 31 December 2011, the Company's "Inventories" are as follows:

	2012			2011		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net a mount
Merchandise	5,007,339	1,903,511	3,103,828	6,314,860	3,275,093	3,039,767
Raw materials and consumables	3,154,285	646,148	2,508,137	3,441,811	1,486,251	1,955,560
Advances on purchases	58,002	-	58,002	82,016	-	82,016
	8,219,626	2,549,659	5,669,967	9,838,687	4,761,344	5,077,343

Cost of sales

During the periods ended on 31 December 2012 and 31 December 2011, the details of the “Cost of sales “ were as follows:

	2012		
	Merchandise	Raw materials and consumables	Total
Opening balance	6,314,860	3,441,811	9,756,671
Purchases	12,842,536	2,071,234	14,913,770
Inventory offers	(44,070)	(20,691)	(64,761)
Inventory adjustments	(377,409)	(186,804)	(564,213)
Closing balance	(5,007,339)	(3,154,285)	(8,161,624)
COST OF SALES	13,728,578	2,151,265	15,879,844

	2011		
	Merchandise	Raw materials and consumables	Total
Opening balance	5,726,612	3,499,177	9,225,789
Purchases	14,264,782	1,901,151	16,165,933
Inventory offers	(50,059)	(21,908)	(71,967)
Inventory adjustments	(173,742)	(35,398)	(209,140)
Closing balance	(6,314,860)	(3,441,811)	(9,756,671)
COST OF SALES	13,452,733	1,901,211	15,353,944

Impairment in inventories

For the periods ended on 31 December 2012 and 31 December 2011, the movement occurred in “Accumulated impairment losses” (Note 18) was as follows:

	2012			
	Closing balance	Increases	Reversals	Closing balance
Merchandise	3,275,093	-	(1,371,582)	1,903,511
Raw materials and consumables	1,486,251	-	(840,103)	646,148
	4,761,344	-	(2,211,685)	2,549,659

	2011			
	Closing balance	Increases	Reversals	Closing balance
Merchandise	2,854,170	420,923	-	3,275,093
Raw materials and consumables	1,221,011	265,240	-	1,486,251
	4,075,181	686,163	-	4,761,344

For the periods ended on 31 December 2012 and 31 December 2011, impairment losses of inventories were recorded (net increases of reversals) amounting to (2,211,685) Euros and 686,163 Euros, respectively, in the heading “Impairment of inventories, net

**15. ACCOUNTS RECEIVABLE AND OTHER
ACCOUNTS RECEIVABLE**

As at 31 December 2012 and 31 December 2011, the headings “Accounts receivable” and “Other accounts receivable” showed the following composition:

	2012			2011		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net amount
ACCOUNTS RECEIVABLE						
Current						
Third parties	60,499,260	4,596,368	55,902,892	88,659,884	5,472,595	83,187,289
Group companies (Note 6)	2,904,123	-	2,904,123	4,140,212	-	4,140,212
Postal operators	40,540,287	218,408	40,321,879	38,869,410	220,360	38,649,050
	103,943,670	4,814,776	99,128,893	131,669,506	5,692,955	125,976,551
OTHER ACCOUNTS RECEIVABLE						
Current						
Third parties	25,378,975	7,760,223	17,618,752	29,642,728	7,364,442	22,278,286
Group companies (Note 6)	66,395	-	66,395	-	-	-
Non-current	4,597,433	2,578,814	2,018,619	8,668,289	2,663,301	6,004,988
	30,042,803	10,339,037	19,703,766	38,311,017	10,027,743	28,283,274
	133,986,473	15,153,813	118,832,659	169,980,523	15,720,698	154,259,825

Accounts receivable

As at 31 December 2012 and 31 December 2011, the age of the gross amounts of the heading “Customers” is detailed as follows:

	2012				2011			
	Third parties	Postal operators	Group companies	Total	Third parties	Postal operators	Group companies	Total
ACCOUNTS RECEIVABLE								
Balance not immediately due	31,679,668	4,189,162	2,692,126	38,560,956	35,682,600	4,757,902	3,451,872	43,892,374
Past due balance:								
0-30 days	16,863,958	-	36,773	16,900,731	17,812,207	-	89,578	17,901,785
30-90 days	5,899,581	2,400,885	17,557	8,318,023	6,106,872	1,402,581	99,957	7,609,410
90-180 days	401,702	1,238,832	16,175	1,656,709	6,759,870	1,289,510	30,157	8,079,537
180-360 days	159,249	6,857,769	37,088	7,054,106	13,589,476	9,120,538	55,222	22,765,236
> 360 days	5,495,102	25,853,639	104,404	31,453,145	8,708,859	22,298,879	413,425	31,421,163
	60,499,260	40,540,287	2,904,123	103,943,670	88,659,884	38,869,410	4,140,211	131,669,506

Other accounts receivable

As at 31 December 2012 and 31 December 2011, the carrying values in the headings “Accounts receivable” and “Other accounts receivable” showed the following detail:

	2012			2011		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net amount
NON-CURRENT						
Advances to staff	312,243	-	312,243	282,300	-	282,300
Other amounts receivable from staff	1,384,664	1,123,171	261,493	1,354,099	1,166,208	187,891
Ministry of Health	1,444,883	-	1,444,883	5,534,797	-	5,534,797
INESC financing loan	1,455,643	1,455,643	-	1,497,093	1,497,093	-
	4,597,433	2,578,814	2,018,619	8,668,289	2,663,301	6,004,988
CURRENT						
Advances to staff	2,836,285	911,743	1,924,542	3,031,443	960,378	2,071,065
Ministry of Health	1,487,594	-	1,487,594	1,487,594	-	1,487,594
Postal financial services	9,461,390	-	9,461,390	13,838,233	-	13,838,233
Accrued income	3,011,035	-	3,011,035	2,019,464	-	2,019,464
Other current assets						
Philatelic agents	54,001	-	54,001	42,786	-	42,786
Sundry invoicing CT	916,986	371,823	545,163	503,623	127,203	376,420
Caixa Geral de Aposentações - Social Work	296,524	-	296,524	290,378	-	290,378
INESC financing loan	49,740	49,740	-	49,740	49,740	-
Office for media	74,624	-	74,624	284,750	-	284,750
Debtors - escrow accounts	196,184	196,184	-	240,492	240,492	-
Foreign postal operators	-	-	-	1,335,343	-	1,335,343
Sundry debtors	5,124,781	5,124,781	-	5,133,433	5,133,433	-
Other	1,936,226	1,105,952	830,274	1,385,449	853,196	532,253
	25,445,370	7,760,223	17,685,147	29,642,728	7,364,442	22,278,286

The account receivable from the Ministério da Saúde refers to the Portuguese state contribution to health care costs during 2000 to 2006, under the CTT health plan, and according to the protocol signed with this entity, which ended on 31 December 2006. Based on the prepared documentation and work, the claim by CTT was accepted, and the debt is recognised based on its parcelled payment, where the amount of 4,594,703 Euros was settled on December 2012 according to the negotiated payment plan.

The amounts recorded in the heading “Postal financial services” refer to amounts receivable from subscription of savings products and the marketing of insurance.

Accounts receivable and other accounts receivable impairments

For the periods ended on 31 December 2012 and 31 December2011, the movement occurred in “Accumulated impairment losses” (Note 18) was as follows:

	2012					
	Opening balance	Increases	Reversals	Uses	Transfers	Closing balance
Accounts receivable	5,692,955	299,124	-	(1,177,303)	-	4,814,776
Other accounts receivable	10,027,743	787,069	(475,775)	-	-	10,339,037
	15,720,698	1,086,193	(475,775)	(1,177,303)	-	15,153,813

	2011					
	Opening balance	Increases	Reversals	Uses	Transfers	Closing balance
Accounts receivable	5,976,892	-	(471,863)	(937,743)	1,125,669	5,692,955
Other accounts receivable	11,191,634	696,494	(470,265)	(264,451)	(1,125,669)	10,027,743
	17,168,526	696,494	(942,128)	(1,202,194)	-	15,720,698

For the periods ended on 31 December 2012 and 31 December2011, increases of impairment losses (net of reversals) were recorded in debts receivable for the amount of 610,418 Euros and (245,634) Euros, respectively.

16. DEFERRALS

As at 31 December 2012 and 31 December 2011, the headings “Deferrals” of the current assets and current and non-current liabilities had the following composition:

	2012	2011 Restated
DEFERRED ASSETS		
Current		
Rents payable	1,141,837	912,024
Meal allowances	1,772,639	1,865,875
Other	1,139,636	1,232,147
	4,054,112	4,010,046
DEFERRED LIABILITIES		
Non-current		
Deferred capital gains	10,874,369	13,273,398
	10,874,369	13,273,398
Current		
Deferred capital gains	2,399,029	2,399,029
Prepaid Phone-ix	572,687	680,860
Other	1,225,396	1,359,495
	4,197,112	4,439,384
	15,071,481	17,712,782

In previous years the Company sold certain property, which it subsequently leased. The gain on the sales was deferred and is being recognised over the period of the lease contracts.

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

As at 31 December 2012 and 31 December 2011, the Company did not have any non-current assets classified as held for sale.

18. ACCUMULATED IMPAIRMENT LOSSES

As at 31 December 2012 and 31 December 2011, the following movements were made in the headings for accumulated impairments:

2012					
	Opening balance	Increases	Reversals	Uses	Closing balance
Goodwill (Note 9)	4,375,588	-	-	-	4,375,588
Tangible fixed assets (Note 7)	-	502,113			502,113
Inventories (Note 14)	4,761,344	-	(2,211,685)	-	2,549,659
Accounts receivable and other accounts receivable (Note 15)	15,720,698	1,086,193	(475,775)	(1,177,303)	15,153,813
	24,857,630	1,588,306	(2,687,460)	(1,177,303)	22,581,173
2011					
	Opening balance	Increases	Reversals	Uses	Closing balance
Goodwill (Note 9)	2,433,138	1,942,450	-	-	4,375,588
Inventories (Note 14)	4,075,181	686,163	-	-	4,761,344
Accounts receivable and other accounts receivable (Note 15)	17,168,526	696,494	(942,128)	(1,202,194)	15,720,698
	23,676,845	3,325,107	(942,128)	(1,202,194)	24,857,630

19. EQUITY

Share capital

As at 31 December 2012 and 31 December 2011, the Company's share capital was composed of 17,500,000 shares with the nominal value of 4.99 Euros each, and fully owned by the Portuguese State. The share capital is fully underwritten and paid-up.

20. RESERVES AND OTHER EQUITY ITEMS

Legal reserves

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

As at 31 December 2012 and 31 December 2011, the heading "Legal reserves" was detailed as follows:

	2012	2011
Opening balance	15,236,949	12,421,702
Distribution of net profit for the previous period	2,835,610	2,815,247
CLOSING BALANCE	18,072,559	15,236,949

Other reserves

This heading records the profits transferred to reserves that are not imposed by the law or statutes, nor constituted pursuant to contracts signed by the Company.

As at 31 December 2012 and 31 December 2011, the heading “Other reserves” corresponding to “Free Reserves” had the amount of 10,555,947 Euros.

Retained earnings

For the periods ended on 31 December 2012 and 31 December 2011, the following movements were made in the heading “Retained earnings”:

	2012	2011
Opening balance	2,408,871	(17,432,756)
Distribution of net profit for the previous period	(893,890)	17,432,756
Revaluation reserve available	2,536,527	2,641,697
Net profit not attributed by subsidiaries and associated companies	(461,466)	(248,484)
Other	(3,338)	15,658
CLOSING BALANCE	3,586,704	2,408,871

Adjustments in investments

This heading reflects the adjustments arising from the application of the equity method on equity items other than the net income for the period. Its distribution only occurs when the subsidiary is sold.

Revaluation reserve

In the present financial statements, the revaluation reserve that is recognised under this heading is only related to assets revalued before the adoption of SNC, and for which, as permitted by NCRF 3, the Company adopted the cost model.

The historical cost of revalued tangible fixed assets and corresponding revaluation amounts, as at 31 December 2012 and 31 December 2011, included in the deemed cost, net of amortisation, is as follows:

Revaluation date	2012			2011		
	Historical cost	Revaluation reserve	Deemed cost	Historical cost	Revaluation reserve	Deemed cost
LAND						
Year 1978	134,678	1,545,871	1,680,549	134,678	1,545,871	1,680,549
Year 1982	65,905	743,377	809,282	65,905	743,377	809,282
Year 1984	139,726	1,533,493	1,673,219	139,726	1,533,493	1,673,219
Year 1986	249,315	2,713,551	2,962,866	249,315	2,713,551	2,962,866
Year 1988	161,214	1,737,056	1,898,270	161,214	1,737,056	1,898,270
Year 1991	391,202	4,110,789	4,501,991	391,202	4,110,789	4,501,991
Year 1992	340,898	3,484,631	3,825,529	340,898	3,655,128	3,996,026
Year 1998	544,170	5,049,305	5,593,475	544,170	5,289,757	5,833,927
BUILDINGS AND OTHER CONSTRUCTIONS						
Year 1978	4,680,650	595,3 39	5,275,989	4,612,261	663,728	5,275,989
Year 1982	2,700,902	607,122	3,308,024	2,649,846	658,178	3,308,024
Year 1984	6,140,174	1,632,559	7,772,733	6,015,595	1,757,138	7,772,733
Year 1986	11,691,604	3,849,010	15,540,614	11,431,154	4,109,460	15,540,614
Year 1988	7,530,569	2,707,777	10,238,346	7,356,392	2,881,955	10,238,347
Year 1991	17,828,969	7,622,951	25,451,920	17,377,351	8,074,568	25,451,919
Year 1992	15,582,524	7,637,334	23,219,858	15,161,288	8,058,570	23,219,858
Year 1998	23,222,351	14,237,634	37,459,985	22,512,058	14,947,928	37,459,986
BASIC EQUIPMENT						
Year 1988	962,595	-	962,595	1,213,304	-	1,213,304
Year 1991	2,530,043	164	2,530,207	3,089,481	1,609	3,091,090
Year 1992	2,092,103	286	2,092,389	2,603,376	1,762	2,605,138
Year 1998	4,379,462	347	4,379,809	4,793,128	2,590	4,795,718
	101,369,054	59,808,596	161,177,650	100,842,342	62,486,508	163,328,850

In accordance with current legislation and accounting practices in Portugal, the revaluation reserve is not distributable to the shareholders and can only be used in certain circumstances for future capital increases or to cover accumulated losses. It can be moved in the following order of priorities: (i) to correct situations in which the net carrying value of the revalued assets exceeds their actual amount as of the revaluation date, (ii) to cover accumulated losses as of the revaluation date, and (iii) the remainder can be used to increase capital. Amounts resulting from revaluations made under the terms of Decree-Law 31/98 (in accordance with article 5) can only be available to distributed when they have been fully or partly realised in accordance with the accounting policies. This matter is omitted in the Decree-Laws permitting the previous revaluations.

Annually, the Company transfers the reserve from revaluation reserves of the year to Retained Earnings, when the depreciation relative to the increase of the asset that originated these reserves is recorded.

For the periods ended on 31 December 2012 and 31 December 2011, the following movements were made in the heading “Revaluation reserve”:

	2012	2011
Opening balance	58,625,232	61,266,929
Revaluation reserve available	(2,536,527)	(2,641,697)
CLOSING BALANCE	56,088,705	58,625,232

Other changes in equity

The company recognises in this heading the subsidies related with the acquisition or production of non-current assets (subsidies to fixed assets), which were fully received and are non-refundable. These subsidies are subsequently allocated on a systematic basis as revenues of the period during the useful lives of the assets with which they are related, having been recognised revenues amounting to 11,267 Euros in 2012 and 7,410 Euros in 2011 (Note 31). The balance of this heading corresponds to the part of these subsidies that have not yet been allocated to revenues of the period.

With the early adoption, in 2012, of the changes to IAS 19, the Actuarial gains/losses associated with Health Care benefits, as well as the corresponding deferred income tax, are recognised in this heading.

Thus, for the years ended on 31 December 2012 and 31 December 2011 (restated) the movements occurred in this heading were as follows:

	2012	2011 Restated
Opening balance	15,424,714	12,008,436
Allocation of subsidies to the financial year	(11,267)	(7,410)
Deferred income taxes related to the subsidies	3,338	(114,952)
Actuarial gains/losses - Health Care	24,265,693	4,984,000
Deferred income taxes actuarial gains/losses - Health Care	(7,037,051)	(1,445,360)
CLOSING BALANCE	32,645,427	15,424,714

21. DIVIDENDS

At the General Meeting of 30 May 2012, the distribution of a dividend per share of approximately 3.08 Euros referring to 2011 was approved, and the total dividend of 53,876,585 Euros was paid, which was subject to withholding tax of 25% during the month of June 2012.

At the General Meeting of 20 May 2011, the distribution of one dividend per share of approximately 2.06 Euros referring to 2011 was approved, and the total dividend of 36,056,944 Euros was paid, which was subject to withholding tax of 21.5% during the month of June 2011.

22. EARNINGS PER SHARE

During the periods ended on 31 December 2012 and 31 December 2011, the earnings per share were calculated as follows:

	2012	2011 Restated
Net income for the period	38,554,129	55,818,305
Average number of ordinary shares	17,500,000	17,500,000
EARNINGS PER SHARE	2.20	3.19

23. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

During the periods ended on 31 December 2012 and 31 December 2011, the “Provisions” constituted by the Company showed the following movements:

						2012 Closing balance
	Opening balance	Increases	Reversals	Uses	Transfers	
NON-CURRENT PROVISIONS						
Litigations	8,096,619	4,691,208	(2,600,736)	(1,236,848)	-	8,950,243
Other risks and charges	11,711,032	19,795,302	(3,380,044)	(1,208,509)	-	26,917,781
	19,807,651	24,486,510	(5,980,780)	(2,445,357)	-	35,868,024

						2011 Closing balance
	Opening balance	Increases	Reversals	Uses	Transfers	
NON-CURRENT PROVISIONS						
Litigations	6,969,356	1,127,263	-	-	-	8,096,619
Other provisions	12,412,282	5,925,419	(745,470)	(1,884,199)	(3,997,000)	11,711,032
	19,381,638	7,052,682	(745,470)	(1,884,199)	(3,997,000)	19,807,651

The reductions refer to the amounts used during the period due to the occurrence of the provisioned situations. The reversals refer to annulments due to the provisioned amounts proving to be unnecessary.

The provisions for legal actions are destined to meet the requirements arising from cases brought against the Company, estimated based on information from its lawyers.

During the year ended on 31 December 2012 a provision was made, amounting to 11,344,569 Euros, for eventual contingencies that could lead to labour proceedings. This amount was determined taking into account the evolution of the legal processes referring to remuneration differences in holiday salaries, holiday and Christmas bonuses, as well as the trend of a significant number of court cases of this nature. For

this calculation, technical analyses were made of the time horizons and criteria to consider for the purposes of determining the scope and type of the remuneration supplements susceptible of being included in holiday salaries, holiday and Christmas bonuses.

During the current year, the provision for covering the estimate of the current value for net expenditure associated contracts was reinforced with 7,731,960 Euros. This value was obtained taking the following into consideration:

- Following the move to 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 termina-

tion of the lease contract, and CTT agreed to pay 50% of the discounted lease payments;

- It was decided in 2011 that a provision should be created for the 3 leased vacant properties assuming that CTT could terminate the leases under conditions similar to those negotiated for the property located in Praça. D. Luís;
- The Board of Directors approved the reinforcement of the provisions for lease payments of the previously mentioned properties so as to consider a higher cost for the early termination of the lease contracts.

As at 31 December 2012 the provisioned amount for contracts is 13,212,379 Euros (5,480,419 Euros in 2011).

As at 31 December 2012, in addition to the previously mentioned situation, this heading also included:

- the amount of 406,222 Euros for coverage of costs of dismantlement of tangible fixed assets and/or removal of facilities and restoration of the location.

- the amount of 1,390,000 Euros, which arises from the assessment made by the management regarding the possibility of the enforcement of tax contingencies.

The net amount between increases and reversals of provisions was recorded in the Income statement under the headings “Provisions, net ” as 18,505,731 Euros (6,307,212 Euros in 2011).

Guarantees provided

As at 31 December 2012 and 31 December 2011, the Company had undertaken commitments relative to guarantees provided to third parties to the value of 1,377,326 Euros and 982,002 Euros, respectively.

The details of these guarantees were as follows:

Description	2012	2011
Bank guarantees in favour of courts	822,029	600,709
Bank guarantees requested by companies in favour of third parties:		
Câmaras Municipais	137,036	120,500
Autoridade para as Condições de Trabalho(ACT)	146,210	34,046
Ana Aeroportos de Portugal , E.P.	29,000	29,000
Alfândega do Freixo	74,820	74,820
Direção Regional de Contenciosos e Administrativo de Lisboa (DRCAL)	49,880	49,880
Secretaria Geral do Ministério da Administração Interna	48,000	
Autoridade Nacional de Segurança Rodoviária	43,223	
Governo Civil de Lisboa	-	25,000
ANACOM	-	20,919
Portugal Telecom, S.A.	16,657	16,657
Estradas de Portugal, E.P.	5,000	5,000
Instituto de Infra Estruturas Rodoviárias	3,725	3,725
IFADAP	1,746	1,746
	1,377,326	982,002

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 case the Portuguese State loses the majority of the capital of CTT, SA, 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.

Contingent liabilities

As at 31 December 2012, the Company does not have contingent liabilities.

Commitments

For the periods ended on 31 December 2012 and 31 December 2011, during the normal course of its activity, the Company assumed purchase commitments as follows:

Description	2012	2011
Purchase commitments to:		
Suppliers of tangible fixed assets	166,026	276,456
	166,026	276,456

These commitments refer to the acquisition of trays holders from Caddie Portugal, of the amount of 120,000 Euros, of a lift-truck from Manitou, of the amount of 18,000 Euros, of labeling machines from Burótica, of the amount of 17,200 Euros and of a fire-wall from PT Prime, of the amount of 10.8 thousand Euros.

The Company assumed financial commitments (comfort letters) before Banco Bilbao Vizcaya Argentaria, S.A and regarding the subsidiary Tourline, SLU to the amount of 1,170,769 Euros, which are still active as at 31 December 2012.

24. OPERATING LEASES

As at 31 December 2012 and 31 December 2011, the Company maintained medium and long term liabilities in operating lease contracts of vehicles, with penalty clause in the case of cancellation. The total amount of the future payments of these operating leases is as follows:

	2012	2011
Due within 1 year	7,043,103	8,456,733
Due between 1 to 5 years	6,613,062	11,352,750
	13,656,165	19,809,483

During the periods ended on 31 December 2012 and 31 December 2011, the costs incurred with operating lease contracts of vehicles were 5,689,801 Euros and 6,395,411 Euros, respectively, and are recognised under “Rents” in the heading “External supplies and services” of the company income statement.

25. DEBT

As at 31 December 2012 and 31 December 2011, the heading “Financing received” was detailed as follows:

	2012	2011
NON-CURRENT LIABILITIES		
Leasings	2,104,100	2,564,578
	2,104,100	2,564,578
CURRENT LIABILITIES		
Bank loans	2,995,872	-
Leasings	453,146	437,686
	3,449,018	437,686
	5,553,118	3,002,264

Bank loans

As at 31 December 2012 and 31 December 2011, the details of the bank loans and other loans were as follows:

2012				2011				
Used amount				Used amount				
Financing entity	Limit	Current	Non-current	Limit	Current	Non-current	Maturity	Type of amortisation
BANK LOANS:								
Millennium BCP	5,000,000	2,995,872	-	-	-	-	02-01-2013	Lump sum
	5,000,000	2,995,872	-	-	-	-		

Leasings

As at 31 December 2012 and 31 December 2011, the Company's liabilities with leasing contracts (Note 7) presented the following plan of due dates:

	2012			2011		
	Principal	Interest	Lease payments	Principal	Interest	Lease payments
Due within 1 year	453,146	16,684	469,830	437,686	51,674	489,360
Due between 1 to 5 years	2,104,100	33,214	2,137,314	1,833,665	123,776	1,957,441
Over 5 years	-	-	-	730,913	6,579	737,492
TOTAL	2,557,246	49,898	2,607,144	3,002,264	182,029	3,184,293

As at 31 December 2012 and 31 December 2011, the Company has following assets held under finance lease contracts:

	2012		2011	
	Gross Amount	Depreciation/ accumulated impairment losses	Carrying value	Carrying value
Land	7,798,567	815,990	6,982,577	6,982,577
Buildings and other constructions	81,701	19,796	61,905	65,360
	7,880,268	835,786	7,044,482	7,047,937

The company is the lessee under a leasing contract signed with IMOLEASING – Sociedade de locação financeira imobiliária, S.A., relative to a property in the Município da Maia (Oporto) where the new Sorting Centre is located, which was opened in December 2010. The type of the lease contracts determines their classification as a lease.

There are neither contingent rents payable nor the imposition of any restrictions. There is an option to buy for a residual value of approximately 6% of the contract's value.

26. EMPLOYEE BENEFITS

The liabilities with employee benefits refer to (i) post-employment benefits – health care, and (ii) other long term benefits for employees.

During the periods ended on 31 December 2012 and 31 December 2011, these liabilities showed the following movement:

	2012		
	Health care	Other long term benefits	Total
Opening balance	272,102,000	48,819,817	320,921,817
Movement of the period	(19,299,000)	1,386,315	(17,912,685)
CLOSING BALANCE	252,803,000	50,206,132	303,009,132

	2011		
	Health care	Other long term benefits	Total
Opening balance	272,123,000	36,132,807	308,255,807
Movement of the period	(21,000)	12,687,010	12,666,010
CLOSING BALANCE	272,102,000	48,819,817	320,921,817

The details of liabilities related to employee benefits, considering their chargeability, are as follows:

	2012	2011
Non-current liabilities	281,919,352	300,669,522
Current liabilities	21,089,780	20,252,295
	303,009,132	320,921,817

The costs with employee benefits recognised in the Corporate income statement amounted to:

	2012	2011 Restated
Costs for the period		
Health care	17,608,000	18,576,000
Other long term benefits	7,824,526	13,549,015
	25,432,526	32,125,015

The cost regarding the heading “Other long term benefits” essentially concern the liabilities arising from the staff reduction programme in 2012. The liabilities with this programme regarding the suspension of work agreements have totalled 23,777,219 Euros, and the amount of 11,168,961 Euros is recognised in staff costs for the period ended on 31 December 2012.

Health care

As mentioned in Note 3.15, CTT is responsible for financing the health care plan applicable to certain employees. In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is made by an independent entity every year, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable.

The main assumptions followed in the actuarial assessment were:

	2012	2011	2010
FINANCIAL ASSUMPTIONS			
Discount rate	4.00%	5.00%	5.50%
Salaries expected growth rate	0% and 2013 and 2014 2.75% from that date	2.75%	2.75%
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP \leq 2%)	Law no. 53-B/2006	Law no. 53-B/2006
Inflation rate	2.00%	2.00%	2.00%
Health costs growth rate	0% and 2013 and 2014 2.75% from that date	3.00%	3.00%
DEMOGRAPHIC ASSUMPTIONS			
Mortality table	TV 88/90	TV 88/90	TV 88/90
Invalidity table	Swiss RE	Swiss RE	Swiss RE

The discount rate is estimated based on interest rates of private debt bonds with high credit rating ("AA" or equivalent) at the date of the financial position and with a duration equivalent to that of the liabilities with health care.

The reduction of the discount rate to 4.00% is motivated by the analysis performed by the Company of the evolution of the macroeconomic context taking into account a constant need to match the actuarial and financial assumptions to that reality.

The salaries expected growth rate is determined according to the salary policy defined by the Company.

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:

	2012	2011	2010	2009	2008
Liabilities at the end of the period	252,803,000	272,102,000	272,123,000	299,454,000	313,807,000

For the periods ended on 31 December 2012 and 31 December 2011, the movement which occurred in the present value of the defined benefits liability regarding the health care plan was as follows:

	2012	2011
Opening balance	272,102,000	272,123,000
Service costs of the period	4,330,000	4,002,000
Interest costs of the period	13,278,000	14,574,000
Contributions of pensioners	3,409,494	3,422,000
(Payment of benefits)	(14,877,637)	(15,995,000)
(Structure costs)	(1,173,164)	(1,040,000)
Actuarial (gains)/losses	(24,265,693)	(4,984,000)
CLOSING BALANCE	252,803,000	272,102,000

For the periods ended on 31 December 2012 and 31 December 2011, the composition of costs related to health care recognised in the heading was as follows:

	2012	2011 Restated
Costs with service in the period	4,330,000	4,002,000
Interest costs of the period	13,278,000	14,574,000
	17,608,000	18,576,000

The total costs for the period are recognised as follows:

	2012	2011 Restated
Staff costs/employee benefits (Note 33)	16,434,836	17,536,596
Other operating costs	1,173,164	1,039,404
TOTAL COSTS FOR THE PERIOD	17,608,000	18,576,000

The best estimate that Company has at this date for costs with the health care plan, which it expects to recognise in the next annual period of 2013 is 13,747 thousand Euros

The sensitivity analysis performed for the health care plan leads to the following conclusions:

(i) If there was an increase of 1 per cent in the growth rate of medical costs, keeping all other variables constant, the liabilities of the health care plan would be 299,158 thousand Euros, increasing by approximately 18.3%.

(ii) If the discount rate was reduced 0.5 per cent and keeping all the remaining variables constant, the liabilities would increase by approximately 6.9%, amounting to 270,246 thousand Euros.

Other long term benefits

As mentioned in Note 3.15, in certain situations, the Company has liabilities with the payment of salaries in situation of “Suspension of contracts, redeployment, pre-retirement contracts and release of employment”, with the allocation of subsidies for the “Support for termination of professional activity”, which will be terminated from 1 April 2013 onward, with the payment of the “Telephone subscription charge”, with “Pensions for accidents at work”, and “Monthly life annuity”. In order to obtain the estimate of the value of these liabilities and the costs to be recognised for each period, every year, an actuarial study is made by an independent entity, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable.

The main assumptions followed in the assessment of these liabilities were:

	2012	2011	2010
FINANCIAL ASSUMPTIONS			
Discount rate	4.00%	5.00%	5.50%
Salaries growth rate	0% and 2013 and 2014 2.75% from that date	2.75%	2.75%
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP < 2%)	Law no. 53-B/2006	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 Company's liabilities to employees in situations of "Suspension of contracts, redeployment and release of employment", salary growth rates of 0% were considered for 2013 and 2014, and 2.25% for the following years. The salary growth rate of 2.75% was applied to the remaining employee benefits, except for the "Telephone subscription charge" for which no value update was considered.

For the periods ended on 31 December 2012 and 31 December 2011, the movement of liabilities with other employee long-term benefits was as follows:

	2012	2011
SUSPENSION OF CONTRACTS, REDEPLOYMENT AND RELEASE OF EMPLOYMENT		
Opening balance	16,501,232	4,131,151
Interest cost	1,255,368	966,283
Liabilities relative to new beneficiaries	12,556,711	10,467,170
Liabilities relative to new beneficiaries (provisioned in previous years)	-	3,997,001
(Payment of benefits)	(3,892,974)	(2,036,534)
Actuarial (gains)/losses	(2,643,118)	(1,023,839)
CLOSING BALANCE	23,777,219	16,501,232
TELEPHONE SUBSCRIPTION CHARGE		
Opening balance	14,296,771	14,841,007
Interest cost	676,602	772,281
(Payment of benefits)	(1,512,475)	(1,581,133)
Actuarial (gains)/losses	781,227	264,616
CLOSING BALANCE	14,242,125	14,296,771
PENSION FOR ACCIDENT AT WORK		
Opening balance	7,166,624	6,936,757
Interest cost	347,635	369,869
(Payment of benefits)	(425,297)	(425,343)
Actuarial (gains)/losses	474,977	285,341
CLOSING BALANCE	7,563,939	7,166,624
MONTHLY LIFE ANNUITY		
Opening balance	3,047,431	2,855,189
Interest cost	149,739	154,080
(Payment of benefits)	(112,719)	(105,526)
Actuarial (gains)/losses	607,189	143,688
CLOSING BALANCE	3,691,640	3,047,431
SUPPORT FOR TERMINATION OF PROFESSIONAL ACTIVITY		
Opening balance	7,807,759	7,368,703
Service costs of the period	345,177	328,867
Interest cost	384,031	398,923
Cut-off on settlements	(6,563,175)	-
(Payment of benefits)	(494,746)	(710,470)
Actuarial (gains)/losses	(547,837)	421,736
CLOSING BALANCE	931,209	7,807,759
TOTAL CLOSING BALANCE	50,206,132	48,819,817

In 2012, the Board of Directors decided to discontinue the compensation awarded to the workers who have reached the end of their active life at the service of CTT, SA. – Support for termination of professional activity. It has also ruled that, in situations of release and retirement that may occur as a result of the requests for retirement already submitted or that will

be submitted until 31 March, 2013, the above referred benefit would be maintained (Note 3.15).

During the periods ended on 31 December 2012 and 31 December 2011, the composition of expenditure related to other long term benefits, recognised under the heading “Staff costs”, was as follows (Note 33):

	2012	2011
Suspension of contracts, redeployment and release of employment		
Current costs	(1,387,750)	(57,557)
Staff reduction programme	12,556,711	10,467,172
Telephone subscription charge	1,457,829	1,036,897
Pension for accident at work	822,612	655,210
Monthly life annuity	756,928	297,768
Support for termination of professional activity		
Current costs	181,371	1,149,526
Cuts	(6,563,175)	-
TOTAL COSTS FOR THE PERIOD	7,824,526	13,549,016

The best estimate that Company has at this date for costs with other long-term benefits, which it expects to recognise in the next annual period of 2013 is 1,813 thousand Euros.

The sensitivity analysis done for the “Other long term benefits” plan leads to the conclusion that, if the discount rate was reduced by 50 b.p. compared to the final discount rate on 31 December 2012, keeping everything else constant, this would give rise to an increase of liabilities for past services of approximately 3.2%, increasing to 50,852 thousand Euros.

27. ACCOUNTS PAYABLE

As at 31 December 2012 and 31 December 2011, the headings “Accounts payable” and “Other accounts payable” showed the following composition:

Accounts payable

As at 31 December 2012 and 31 December 2011, the age structure of the balance of the “Accounts payable” headings was as follows:

	2012				2011			
	Group companies	Third parties	Postal operators	Total	Group companies	Third parties	Postal operators	Total
ACCOUNTS PAYABLE, CURRENT ACCOUNT:								
Not due	1,433,154	13,738,433	3,770,338	18,941,925	2,041,252	11,995,838	5,662,935	19,700,025
0-30 days	268	2,546,072	-	2,546,340	51,595	1,128,530	-	1,180,125
30-90 days	-	3,815,043	1,795,369	5,610,412	-	9,427,120	2,715,021	12,142,141
90-180 days	-	248,374	2,411,338	2,659,712	-	51,761	2,097,877	2,149,638
180-360 days	-	(4,410)	7,256,689	7,252,279	-	99,254	8,353,568	8,452,822
› 360 days	-	36,902	27,867,914	27,904,816	-	81,620	21,256,784	21,338,404
	1,433,422	20,380,414	43,101,648	64,915,484	2,092,847	22,784,123	40,086,185	64,963,155
Accounts payable, invoices pending confirmation	-	1,917,703	-	1,917,703	-	3,250,860	-	3,250,860
	1,433,422	22,298,117	43,101,648	66,833,187	2,092,847	26,034,983	40,086,185	68,214,015

Other accounts payable

As at 31 December 2012 and 31 December 2011, the details of “Other accounts payable” were as follows:

	2012	2011
CURRENT		
Advances from customers	3,049,633	2,824,886
Fixed assets suppliers		
Group companies	3,930,799	147,734
Third parties	1,514,494	6,108,639
Accruals		
Remunerations payable	31,082,639	19,205,523
Social contributions	7,728,410	4,561,020
Other	10,729,075	8,301,003
Centro Nacional de Pensões (CNP)	186,169,916	186,484,578
Other creditors		
Taxes	25,688,889	25,427,743
Money orders	21,532,103	21,016,361
Postal savings certificates	11,346,698	86,580
Cash-on-delivery services	12,255,109	11,584,221
Group companies	1,252,870	1,315,572
Other	7,189,979	9,466,975
	323,470,614	296,530,835

The increase in the heading “Postal savings certificates” results from the investment in this financial product by the savers.

The heading “Centro Nacional de Pensões (CNP)” refers to values received from the National Pensions Centre, whose payment date to the corresponding pensioners must occur in the month after the closing of the period.

28. TAXES PAYABLE

As at 31 December 2012 and 31 December 2011, the heading “Taxes Payable” presented the following composition:

	2012	2011
CURRENT LIABILITIES		
Corporate income tax (Note 38)	1,001,131	7,284,670
Personal income tax withholding	2,167,368	2,241,528
Value added tax	1,903,771	2,548,365
Social Security contributions	4,410,724	4,488,645
Caixa Geral de Aposentações	794,990	849,025
Local Authority taxes	638,169	526,011
Other taxes	-	202
	10,916,154	17,938,446

The current liabilities relative to corporate income tax (Note 38) was calculated as follows:

	2012	2011
Estimated income tax (Note 38)	19,109,323	20,677,681
Estimated Group companies' income tax	5,370,721	6,719,552
Payments on account	(19,610,340)	(14,940,263)
Withholding taxes	(3,868,573)	(5,172,300)
	1,001,131	7,284,670

29. SUBSIDIES OBTAINED

As at 31 December 2012, the information regarding community subsidies (Note 3.17) was as follows:

Subsidy	Attributed value	Value received	Value not received	Accumulated revenues	Value to be used	Deferred tax adjustment	Net value to be used
Feder	9,815,622	9,662,306	153,316	9,431,523	384,099	(111,614)	272,485
	9,815,622	9,662,306	153,316	9,431,523	384,099	(111,614)	272,485

The amounts received from investment subsidies, initially recognised in equity (Note 20), were transferred to the Corporate Income statement, to the heading “Other operating income”, as the subsidised assets were amortised (Note 31).

30. SALES AND SERVICES RENDERED

For the periods ended on 31 December 2012 and 31 December 2011, the significant categories of the Company’s revenue were as follows:

	2012	2011
Sales	23,008,136	22,804,768
Mail services rendered	460,745,881	493,150,815
Postal financial services	35,573,109	37,585,869
Electronic vehicle identification devices	5,382,191	4,208,776
Telecommunication services	3,772,017	3,943,261
Other	3,732,262	3,684,927
	532,213,596	565,378,416

The changes in the heading “Mail services rendered” fundamentally result from the decrease of mail volumes sent by the largest clients and the intensification of competition in the liberalised area.

“Other services” fundamentally concern:

	2012	2011
Exchange of documents	611,869	553,325
Photocopies Certification	375,195	487,247
RAM transport allowance	429,419	510,230
Philately virtual store	212,987	358,647
PT services	306,108	372,052
Digital mailroom	440,735	457,897
Other	1,355,949	945,529
	3,732,262	3,684,927

31. OTHER OPERATING INCOME

During the periods ended on 31 December 2012 and 31 December 2011, the composition of the heading “Other operating income” was as follows:

	2012	2011
Amortisation of fixed assets subsidies (Notes 20 and 29)	11,267	7,410
Supplementary revenues	25,065,024	29,280,575
Prompt-payment discounts obtained	94,614	29,473
Gains in inventories	53,320	45,780
Sale of tangible fixed assets (a)	2,693,139	7,031,405
Favourable exchange rate differences of assets and liabilities different from financing	2,330,942	2,642,416
Income from non-financial investments	531,587	1,851,532
Corrections relative to previous years	-	1,117,093
VAT-pro rata adjustment	813,563	-
Deposits in credit institutions	13,522,891	19,577,908
Other interest and similar income (b)	575,418	38,471
Other	1,207,894	338,443
	46,899,659	61,960,506

(a) In 2011, includes the amount of recognition of the deferred capital gain regarding the building in Praça D. Luís.

(b) In 2012, this amount refers entirely to the updating of debts of “Other debtors”.

“Supplementary revenues” fundamentally concerns:

	2012	2011
Studies, projects and technical assistance	112,444	346,508
Royalties	500,000	500,033
Services rendered to subsidiaries and associated companies	20,695,686	24,404,980
Rental of spaces in urban buildings	2,804,296	2,826,643
Other	952,598	1,202,411
	25,065,024	29,280,575

According to clarification 26 of the Commission of Accounting Standards of May/2012, “Interest and similar income” that do not directly derive from the entity’s funding shall affect the operating profit (before financing costs and taxes), thus being reclassified in 2011 in the heading “Other operating income” in the company income statement.

32. EXTERNAL SUPPLIES AND SERVICES

During the periods ended on 31 December 2012 and 31 December 2011, the composition of the heading “External supplies and services” was as follows:

	2012	2011
Specialised services		
IT services (i)	25,467,866	25,683,980
Group company services	11,648,711	14,577,190
Maintenance and repair (ii)	14,028,802	16,106,017
Publicity and Advertising	1,561,992	2,301,421
Surveillance and security	2,265,315	2,294,034
Consulting	2,476,222	1,681,525
Other specialised services	2,904,070	2,993,523
Materials	2,059,920	2,212,793
Energy (iii)	13,252,799	13,020,470
Travel and hotels	404,934	458,677
Staff transportation	241,249	222,300
Transportation of goods (iv)	14,363,381	14,480,640
Sundry services		
Rents		
Vehicle operational lease (Note 24)	5,689,801	6,395,411
Other Portal and telecom costs rental charges (v)	23,148,923	23,937,277
Communication	4,802,848	5,598,981
Other services	41,223,841	46,585,658
	165,540,674	178,549,897

- (i) Costs with IT services refer in particular to the outsourcing contracts for rendering the mentioned services;
(ii) Costs with “Maintenance and repair” concern the maintenance of IT equipment;
(iii) Costs with “Energy” refer fundamentally to diesel for goods vehicles used in the operating process;
(iv) Costs with “Transportation of goods” refer to costs with the transportation of mail in several ways (sea, air, surface);
(v) Costs with “Other rental charges” refer to costs with facilities leased from third parties.

The breakdown of “Other Services” is as follows:

	2012	2011
Litigation and notary	174,350	125,346
Uniforms	709,044	911,443
Insurance	1,912,930	1,739,699
Remuneration to postal agencies	4,215,330	4,032,734
Cleaning, hygiene and comfort	3,939,783	4,663,329
Services for Group companies	4,761,580	5,724,729
Delivery subcontracting	7,054,046	7,626,072
Postal operators	14,858,777	18,113,843
Other	3,598,001	3,648,463
	41,223,841	46,585,658

33. STAFF COSTS

During the periods ended on 31 December 2012 and 31 December 2011, the composition of the heading “Staff Costs” was as follows:

	2012	2011
Remuneration of statutory bodies (Note 6)	675,730	594,527
Staff remuneration	225,111,767	238,520,547
Employee benefits (Note 26)		
Health care	16,434,836	17,536,596
Other benefits	8,274,074	14,059,190
Indemnities	1,132,976	1,223,086
Social charges security	46,341,045	48,346,575
Occupational accident and disease insurance	1,452,002	1,593,042
Social welfare costs	11,726,046	12,995,484
	311,148,476	334,869,047

The heading “Staff remunerations” includes the liability related to the payment of holiday pay, because the regulation that suspended it on the Orçamento Geral do Estado de 2013 (Portuguese state budget law) was declared unconstitutional by the corresponding court.

During the periods ended on 31 December 2012 and 31 December 2011, the average number of staff of the Company was, respectively, 11,921 and 12,468 employees.

Remuneration of the statutory bodies

During the periods ended on 31 December 2012 and 31 December 2011, the fixed remunerations allocated to the members of the Board of Directors of the Company were as follows:

	2012	2011
Board of Directors		
Fixed remuneration	518,968	414,537
	518,968	414,537

During the period ended on 31 December 2012, and by joint order of the Ministério da Economia and the Ministério das Finanças of 24 August, a new Board of Directors was appointed, and this body is since composed of five members, since the previous Board of Directors was composed only of three executive directors due to the resignation of two directors in 2011.

Social welfare costs

During the periods ended on 31 December 2012 and 31 December 2011, this heading includes, respectively, 5,810,058 Euros and 7,053,727 Euros, relative to costs with health care of active employees.

34. DEPRECIATION, AMORTISATION AND IMPAIRMENT

During the periods ended on 31 December 2012 and 31 December 2011, the details depreciation and amortisation, net, and impairment of depreciable/amortisable assets, net were as follows:

	2012	2011
DEPRECIATION AND AMORTISATION, NET		
Tangible fixed assets (Note 7)	16,808,017	15,389,039
Real Estate Investment (Note 8)	1,313	1,313
Intangible assets (Note 10)	2,516,436	2,461,296
	19,325,766	17,851,648
	2012	2011
IMPAIRMENTS OF DEPRECIABLE/AMORTISABLE ASSETS, NET		
Tangible fixed assets (Note 7)	502,113	-
	502,113	-

35. OTHER OPERATING COSTS

During the periods ended on 31 December 2012 and 31 December 2011, the breakdown of the heading “Other operating costs “ was as follows:

	2012	2011
Taxes and fees	1,000,615	1,077,916
Bad debts	69,557	472,519
Write-offs of tangible fixed assets	9,064	1,055,362
Losses in inventories	617,531	254,922
Concession rent	1,101,936	2,882,309
Unfavourable exchange rate differences of assets and liabilities different from financing	2,266,404	2,631,383
Donations	967,786	999,976
Subscriptions	589,491	606,379
Contractual penalties	1,361,937	4,970,069
Indemnities	188,498	249,478
Banking services	661,225	652,102
Default interest	634,784	511,472
Other operating costs	470,935	1,466,649
	9,939,763	17,830,536

The variation in the heading “Concession Rent” is caused by the issue of Law no. 17/2012, 26 April, which transposed to national law the 3rd Postal Directive, and introduced significant changes in the scope of universal service, considerably reducing the base for calculation of that amount.

The heading “Contractual penalties” on 31 December 2012 essentially concerns the de-recognition of the investment property “Campo 24 de Agosto”, since CTT did not activate the safeguard clause that would allow to keep it in the company sphere (Note 8).

The same heading includes, in 2011, the penalty regarding the termination of a lease agreement in which a time limit was established, which by not being fulfilled would imply the repayment of the lessor (property in Praça D. Luís I in Lisbon).

36. INTEREST EXPENSES AND INTEREST INCOME

During the periods ended on 31 December 2012 and 31 December 2011, the heading “Interest income” was detailed as follows:

	2012	2011
Interest income		
Loans to Group companies	644,978	421,073
	644,978	421,073

During the periods ended on 31 December 2012 and 31 December 2011, the heading “Interest expenses” was detailed as follows:

	2012	2011
Interest expenses		
Bank overdrafts	41,630	52,705
Financial leases	31,595	55,719
Other interest	35,324	21,113
Losses resulting from the application of the effective interest rate	-	635,447
	108,549	764,984

The losses of 2011 arising from the application of the effective interest rate concern the recognition of the update of the debt of the Ministry of Health.

37. EXCHANGE RATE EFFECTS

During the periods ended on 31 December 2012 and 31 December 2011, the Company recognised the following exchange rate differences:

	2012	2011
UNFAVOURABLE EXCHANGE RATE		
Operating activity		
Other operating costs (Note 35)	2,266,404	2,631,383
	2,266,404	2,631,383
FAVOURABLE EXCHANGE RATE		
Operating activity		
Other operating income (Note 31)	2,330,942	2,642,416
	2,330,942	2,642,416

38. INCOME TAX FOR THE PERIOD

The Company is subject to taxes on its profits through Corporate Income Tax ("IRC") at the normal rate of 25%, whilst Derrama (Municipal Surcharge) is established at a maximum rate of 1.5% of taxable profit, and Derrama estadual (State Surcharge) is 3% of taxable profit above in 1,500,000 Euros, reaching an aggregate maximum rate of 29.5%.

Reconciliation of the tax rate

During the periods ended on 31 December 2012 and 31 December 2011, the reconciliation between the amount arising from the application of the nominal tax rate to earnings before taxes and the cost of income tax was as follows:

	2012	2011 Restated
Earnings before taxes	51,929,365	71,483,818
Nominal income tax rate	25.0%	-
Nominal income tax rate up to € 12,500	-	14.0%
Nominal income tax rate between € 12,500 and € 2,000,000	-	26.5%
Nominal income tax rate above € 2,000,000	-	29.0%
EXPECTED TAX INCOME	12,982,341	20,678,745
PERMANENT DIFFERENCES		
Tax benefits	(329,634)	(389,781)
Accounting capital gains	(65,029)	(35,072)
Tax capital gains	4,122	14,312
Equity method	(2,795,299)	(5,018,717)
Provisions not considered in the calculation of deferred taxes	95,424	(87,136)
Impairment losses and reversals	77,823	628,917
Other situations, net	372,183	695,261
TEMPORARY DIFFERENCES:		
Accounting capital gains	(599,757)	(2,003,302)
Provisions considered in the calculation of deferred taxes	4,008,391	1,698,930
Impairment losses and reversals	(531,907)	194,189
Non tax deductible depreciation	176,392	32,447
Derecognition of inventories	(81,240)	(94,239)
Payments to pensioners	(4,476,588)	(5,055,286)
Other situations, net	6,092,023	8,623,549
Autonomous taxation	543,472	539,363
Municipal Surcharge	895,755	-
State Surcharge	2,740,849	-
Impact of the change in income tax rate	-	(193,559)
Excess estimated and refunded income tax	(539,131)	(675,160)
Other effects, net	(5,194,955)	(3,887,948)
INCOME TAXES FOR THE PERIOD	13,375,235	15,665,513
Effective income tax rate	25.76%	21.91%
INCOME TAXES FOR THE PERIOD		
Current tax	19,109,321	20,677,681
Deferred tax	(5,194,955)	(4,337,008)
Excess estimated income tax	(539,131)	(675,160)
	13,375,235	15,665,513

Deferred taxes

During the periods ended on 31 December 2012 and 31 December 2011, the movement which occurred under the deferred tax headings was as follows:

	2012	2011 Restated
DEFERRED TAX ASSETS		
Opening balance	102,860,551	98,834,743
Movements of the period - effect on net profit		
Employee benefits - health care	651,168	1,439,270
Employee benefits - other long term benefits	428,516	3,793,798
Impairment losses and provisions	3,679,857	781,321
Impairment losses in tangible fixed assets	145,613	-
Deferred accounting capital gains	(743,699)	(1,907,341)
Adjustments new GAAP - derecognition of inventories	(81,228)	(65,506)
Adjustments new GAAP - value deducted from staff debts	(19,510)	(15,734)
Movements of the period - effect on equity		
Employee benefits - health care	(6,247,878)	-
CLOSING BALANCE	100,673,390	102,860,551

	2012	2011
DEFERRED TAX LIABILITIES		
Opening balance	6,082,638	6,276,737
Movements of the period		
Revaluation reserves	(282,320)	(281,079)
Suspended capital gains	(59,408)	(27,972)
Fixed assets subsidies	(3,338)	114,952
CLOSING BALANCE	5,737,572	6,082,638

As at 31 December 2012 and 31 December 2011, the balance of deferred tax assets and liabilities was composed as follows:

	2012	2011 Restated
DEFERRED TAX ASSETS		
Employee benefits - health care		78,909,580
Employee benefits - other long term benefits	14,700,828	14,272,312
Deferred accounting capital gains		4,640,965
Impairment losses and provisions		4,741,979
Adjustments new GAAP - derecognition of inventories	157,216	238,444
Adjustments new GAAP - value deducted from staff debts	37,761	57,271
Impairment losses in tangible fixed assets	145,613	-
	100,673,390	102,860,551

	2012	2011
DEFERRED TAX LIABILITIES		
Revaluation reserves	4,529,436	4,811,756
Suspended capital gains	1,096,522	1,155,930
Fixed assets subsidies	111,614	114,952
	5,737,572	6,082,638

SIFIDE

During the periods of 2006 and 2008, the company 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, totalling approximately 20,394,000 Euros.

The applications for the Certification Commission for Tax Incentives for Corporate R&D (“Certification Commission”) were prepared and submitted, which resulted in a tax credit of 4,214,286 Euros, recognised on the tax of the year 2010.

Regarding the period of 2009, the submitted application totalled 6,126,128 Euros, which resulted in a tax credit of 576,914 Euros, recognised in tax for the year 2011.

Regarding the year of 2010, the submitted application totalled 12,856,864 Euros, which was dismissed by the Certification Commission for the Tax Incentives for Corporate R&D, after analysing the Group’s opinion in a prior hearing, in which disagreement regarding the non-eligibility of the presented projects was shown. Through notification on 3 December 2012 of the Certification Commission, the non-eligibility of the presented projects was confirmed

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 in IRCestimated as 2,553,349 Euros, pending confirmation from the Certification Commission.

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

Other information

Pursuant to the legislation in force, income tax returns are subject to review and correction by the tax administration for a period of four years (five for Social Security), except when there have been tax losses, tax benefits have been received, or when inspections, claims or objections are underway, in which cases, depending on the circumstances, these periods are extended or suspended. Therefore, the Company’s income tax returns for 2010 may still be reviewed and corrected, since the income tax returns prior to this date have already been inspected.

The Board of Directors of the Company believes that any corrections arising from reviews/inspections by the tax authority of these income tax returns will not have a significant effect on the financial statements.

39. FEES AND SERVICES OF THE AUDITORS

During the periods ended on 31 December 2012 and 31 December2011, the fees and services provided by the Company’s auditors were as follows:

	2012	2011
Legal accounts review services	81,320	93,470
External audit services	110,772	92,159
Other services	2,349	-
	194,441	185,629

40. INFORMATION ON ENVIRONMENTAL MATTERS

The Company’s activity is essentially non-industrial in nature, and the incorporation of material inputs in its supply processes is relatively reduced, thus having a limited direct ecological footprint.

Based on an empirical comparative analysis, the environmental impact of CTT’s activity is much smaller than the company’s contribution to the generation of value to the national economic and social fabric.

In terms of environmental policy, the Company’s priority is to cover and master all the aspects of legal conformity, and has taken on commitments to contin-

uously improve the environmental performance, and it has underwritten Civil Liability Insurance for the purpose of ensuring the coverage of environmental liabilities arising from the transposition to the Portuguese legal system, by Decree-Law no. 14/2008 of 29 July, of the Directive regarding the administrative responsibility to prevent and repair environmental damages, namely, (i) damages caused to protected species and natural habitats, (ii) damages caused to water and soil contamination due to pollution that creates a significant risk to human health.

This subject is developed in more depth in the chapter “Sustainability” of the Corporate Governance Report attached to the Annual Report 2012.

However, there are no current environmental liabilities or obligations, whether legal or constructive, related to environmental matters that should lead to the constitution of provisions.

41. PROVISION OF INSURANCE MEDIATION SERVICE

In accordance to the Regulatory Standard of the Instituto de Seguros de Portugal (Portuguese Insurance Institute) no. 15/2009-R of 30 December 2009, the Company will publish on its institutional website, www.ctt.pt the relevant information regarding the activity of insurance mediation according to article 4 of the abovementioned Regulatory Standard.

42. OTHER INFORMATION

Company Agreement

After a long and demanding negotiation process, the Company reached an agreement with all the Trade Unions that took part in the negotiations for the signing of a New Company Agreement (AE).

Signing a single AE will affect the simplification of management and the social atmosphere, and strengthen the collective labour relations in the Company, which are fundamental elements for the new challenges in a context of full liberalisation.

BANIF

On 7 April 2006, Banco Internacional do Funchal (BANIF) brought an ordinary action against CTT – Correios de Portugal, which was personally cited on 27 June 2006, demanding the execution of the MoU (agreement principles) for the incorporation of Banco Postal and subsidiarily, if this condemnation is deemed non-enforceable, the obligation to indemnify BANIF for emerging damage and loss of profits, with the application amounting to 100,000,000 Euros plus accrued interest. As the Company’s legal consultant believes, in a classification at three levels, from low to high probability, that BANIF’s demands have little probability of being judged in its favour, the Company

decided not to record a provision for it. Moreover, the period for Caixa Geral de Depósitos (CGD) to exercise its right of preference terminated in January 2008.

In 12 January 2011, the court found that the essential facts that support the claims for compensation by BANIF were not proved, and the facts brought forth by the Company that contradict the thesis defended by BANIF were proved. As sentenced on 2 December 2011, CTT was acquitted from the application lodged by BANIF, which appealed against this decision to the Court of Appeals of Lisbon, where the appeal is currently underway.

On 28 March 2013, via an application filed at the Court of Appeals of Lisbon, BANIF waived all its applications, including the appeal mentioned in the previous paragraph.

SINDETELCO

After the end of the year, CTT was notified of the sentence issued by the 4th Court of the 2nd Section of the Labour Court of Lisbon in the case brought by SINDETELCO (Democratic Syndicate of Communications and Media Workers) against CTT, based on the unduly reduction of remunerations and freezing of career progression of their associates, applied within the scope of the government measures for the universe of public companies. The Company has decided to appeal this decision, which condemns CTT for the claim, to the Constitutional Court, so as to obtain its suspension, for which a bank guarantee of 500 thousand Euros was given.

By decision of 26 April 2012, the Constitutional Court decided to allow the appeal to go forward, considering that the reductions and the freezing of career progressions was constitutional, and the case was returned to the appealed Court so as to dictate the decision in accordance with the judgment of constitutionality issued. The bank guarantee was returned.

SNTCT

On 17 September 2012, CTT was summoned in a court case brought to the Labour Court of Lisbon by the SNTCT (National Syndicate of Postal and Telecommunications Workers), demanding the company to be sentenced to pay the amounts that, regarding its associates, it had deducted or would deduct from the corresponding remunerations, holiday and Christmas bonuses for 2012 under articles 20 and 21 of Law no. 64-B/2011 (LOE 2012).

Through the sentence of 22 January 2013, CTT was acquitted from the application, and SNTCT appealed against this decision at the Appeals Court of Lisbon, which is still pending.

No other relevant fact occurred, considered to be material to the Company's activity that has not been disclosed in the notes to the financial statements.

Concession Agreement

Law no. 17/2012, 26 April, transposed to internal legal order the Directive no. 2008/6/EC, of the European Parliament and Council, from 20 February 2008 (also called 3rd Postal Directive), establishing the legal regime applicable to the provision of postal services, in full competition, in national territory, and in the provision of international services with origin or destination in 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.

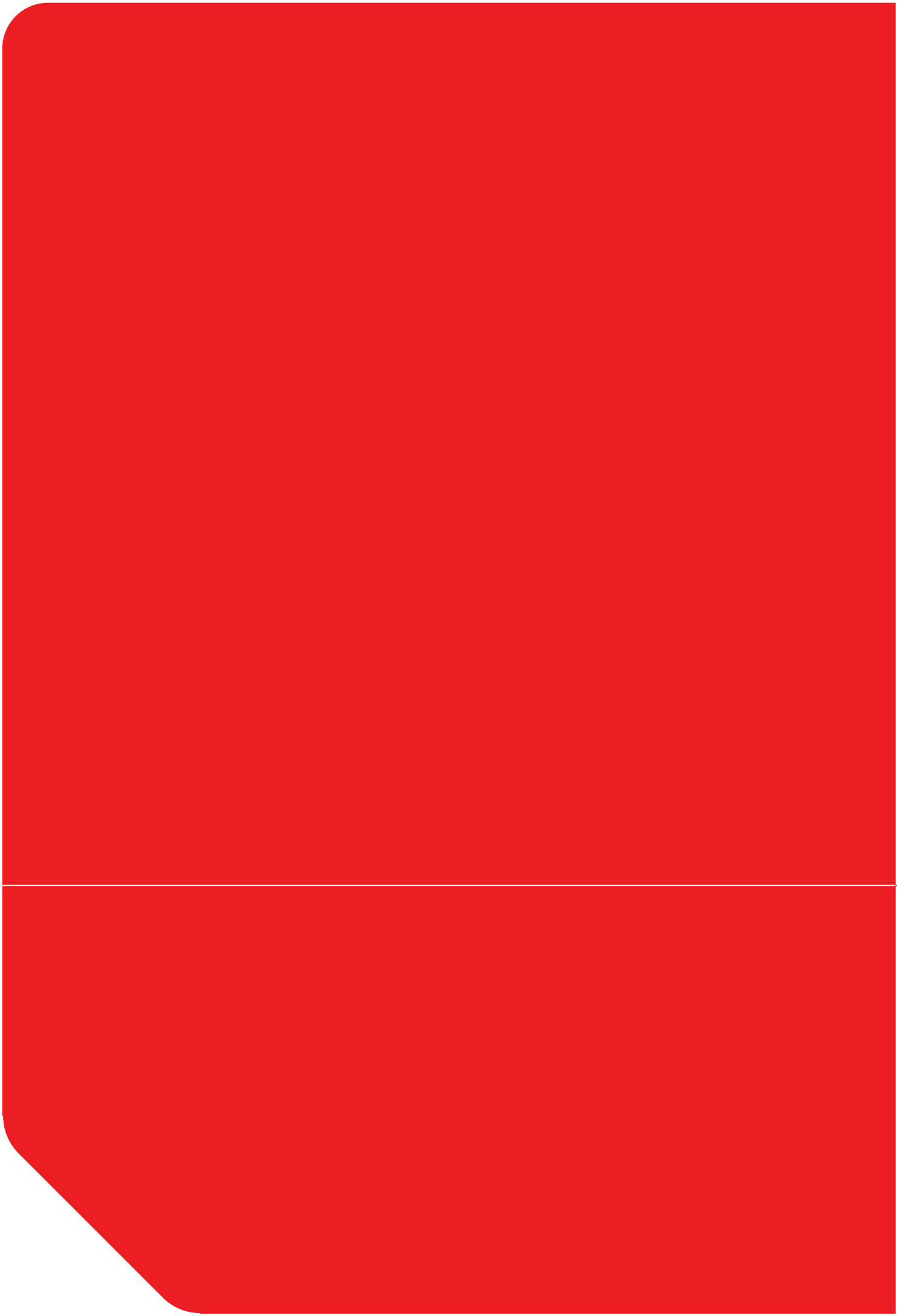
Any change to the period of enforcement of the concession agreement requires the agreement of both parties. Since the process for changing the concession agreement is still on-going, the Company believes that there are no grounds for changing the accounting policies that were adopted in the preparation of its financial statements. Furthermore, the end of the concession agreement does not prevent the provision of postal services arising from the abovementioned liberalisation of the market.

43. SUBSEQUENT EVENTS

Following Judgment 187/2013, in which the suspension of holiday bonus provided for in article 29 and 77 of the 2013 State Budget Law was declared unconstitutional, the Group decided to acknowledge the corresponding liability in the accounts for this financial year, estimated at approximately 18 million Euros.

After the end of the year and until the present date, it was verified that 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 since then this entity assumes the corresponding position as shareholder.

The financial statements for the period ended on 31 December 2012 were approved by the Board of Directors of the Company and authorised for issue on 30 April 2013. However, they are still subject to the approval of the General Meeting of Shareholders under the terms of the commercial legislation in force in Portugal.





part III

Corporate Governance Report

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0. Statement of compliance

0.1. STRUCTURE

The contents of the Corporate Governance Report complies with the determinations of the shareholder in the document “Um compromisso com a excelência na gestão do Grupo CTT” (A commitment to excellence in the management of the CTT Group), 13 September 2006, and Resolution 49/2007 of the Council of Ministers, 28 March, which approved the principles of good corporate governance of the State business sector.

Since CTT share are not listed in the capital market, because they are held entirely by the only shareholder – State, Regulation no. 1/2010 of the Portuguese Securities Regulator (Comissão do Mercado de

Valores Mobiliários - CMVM) does not apply to CTT. Responding to the best practices and certain that information is fundamental to ensure transparency, the rigour and integrity of the company’s governance, CTT adopt most recommendation of the Corporate Governance Code³ disclosed by CMVM, with the limitations arising from the above-mentioned facts. The contents of this report follow the guidelines of the shareholder, with different order and numbering of those determined in Annex I of the CMVM Regulation.

Below are the chapters of the Corporate Governance Report that correspond to the Recommendations of the CMVM. Since this is a closed company, the contents of those that do not apply are not fully transcribed.

Recommendation of CMVM	Adoption	Chapter
I. GENERAL MEETING		
I.1 BOARD OF THE GENERAL MEETING		
I.1.1. The Chairman of the Board of the General Meeting must be provided with the supporting human and logistic resources appropriate to his needs, ...	Yes	2.1
I.1.2. The remuneration of the Chairman of the Board of the General Meeting must be disclosed in the annual report on Corporate Governance.	Yes	2.1
I.2 PARTICIPATION IN THE MEETING		
I.2.1 The period of time in advance imposed for the receipt, by the board, of the statements of deposit or blocking of shares...	n.a. ⁽¹⁾	-
I.2.2 In the case of the suspension of the General Meeting, the company should not force the blocking to remain during the period...	n.a. ⁽¹⁾	-
I. 3. VOTING AND EXERCISE OF VOTING RIGHTS		
I.3.1. The companies must not establish any statutory restriction on voting by correspondence...	No ⁽¹⁾	3
I.3.2. The statutory period of time in advance for the receipt of votes cast by correspondence...	No ⁽¹⁾	3
I.3.3. Companies must ensure proportionality between voting rights and shareholder participation, ...	n.a. ⁽¹⁾	-
I.4 DELIBERATIVE QUORUM		
Companies must not establish a deliberative quorum higher than that established by law.	n.a. ⁽¹⁾	-
I.5. MINUTES AND INFORMATION ON THE ADOPTED DELIBERATIONS.		
Extracts of minutes of General Meetings or equivalent documents should be made available to the shareholders on the company's Internet site, ...	No ⁽¹⁾	-
I.6. MEASURES RELATIVE TO CORPORATE CONTROL	n.a. ⁽¹⁾	-
II. MANAGEMENT AND SUPERVISORY BOARDS		

³ Corporate Governance Code available in www.cmvm.pt

Recommendation of CMVM	Adoption	Chapter
II.1. GENERAL SUBJECTS		
II.1.1. STRUCTURE AND COMPETENCE		
II.1.1.1. The management board must assess the adopted model in its annual Corporate Governance Report, identifying any constraints to its functioning and proposing measures of action that, in its judgement, are suitable to overcome them.	No	-
II.1.1.2. Companies should create internal risk control and management systems, so as to safeguard their assets and benefit the transparency of their corporate governance, enabling the detection and management of risks. These systems should include, at least, the following components: i) establishment of the strategic objectives of the company on matters of risk-taking; ii) identification of the main risks linked to the specific activity performed and events which might lead to risks; iii) analysis and measurement of the impact and probability of occurrence of each potential risk; iv) risk management with a view to the alignment of the risks effectively incurred through the strategic decision of the company regarding risk-taking; v) control mechanisms for the execution of the adopted risk management measures and their effectiveness; vi) adoption of internal training and communication mechanisms for the different components of the system and notification of risks; vii) periodic assessment of the implemented system and adoption of any modifications deemed necessary.	Yes	5
II.1.1.3. The management board should ensure the creation and operation of the internal control and risk management systems, with the supervisory board being responsible for the assessment of the operation of these systems and proposing their respective adjustment to the company's needs.	Yes	2.3 e 5
II.1.1.4. Companies should, in their Annual Corporate Governance Report: i) identify the main economic, financial and legal risks to which the company is exposed during the exercise of its activity; ii) describe the action and efficacy of the risk management system.	Yes	5
II.1.1.5. The management and supervisory boards must have operating regulations, which should be disclosed on the company's Internet site.	No	-
II.1.2. INCOMPATIBILITIES AND INDEPENDENCE	n.a. ⁽²⁾	-
II.1.3. ELIGIBILITY AND APPOINTMENT		
II.1.3.1. According to the applicable model, the Chairman of the Supervisory Board, ... must ... possess adequate competences to perform the respective duties.	Yes	2.3
II.1.3.2. The process of selection of candidates for non-executive directors...	n.a. ⁽²⁾	-
II.1.4 POLICY OF COMMUNICATION OF IRREGULARITIES	Yes	-
II.1.5. REMUNERATION		
II.1.5.1. The remuneration of the members of the management board should be structured in order to enable the alignment of their interests with the company's long term interests, based on performance assessment and discourage excessive risk-taking. For this purpose, the remunerations should be structured, namely, as follows:	Yes ⁽³⁾	0.3 e 1.5
(i) The remuneration of directors with executive duties should include a variable component whose determination depends on performance assessment, carried out by the competent bodies of the company, pursuant to predefined measurable criteria, which considers the real growth of the company and the wealth effectively created for the shareholders, its long term sustainability and the risks taken, as well as compliance with the rules applicable to the company's activity.	Yes ⁽³⁾	0.3 e 1.5
(ii) The variable component of the remuneration should be reasonable, as a whole, in relation to the fixed component of the remuneration, and maximum limits should be established for all components.	Yes ⁽³⁾	0.3 e 1.5
(iii) A significant portion of the variable remuneration should be deferred for a period of not less than three years, and its payment should be dependent on the continuation of the positive performance of the company over this period.	Yes ⁽³⁾	1.5
(iv) The members of the management board should not sign contracts, either with the company or with third parties, which have the effect of mitigating the risk inherent to the variability of their remuneration established by the company.	Yes ⁽⁴⁾	1.5
(v) Until the end of their term of office, executive directors must keep any company shares...	n.a. ⁽¹⁾	-

Recommendation of CMVM	Adoption	Chapter
(vi) When the variable remuneration includes the attribution of options...	n.a. ⁽¹⁾	-
(vii) Suitable legal instruments should be established so as to ensure that the compensation stipulated for any form of unfair dismissal of a director is not paid if the dismissal or termination through agreement is due to the inadequate performance of the director.	Yes ⁽⁴⁾	1.5
(viii) The remuneration of the non-executive members of the management board...	n.a. ⁽²⁾	-
II.1.5.2. The statement on the remuneration policy of the management and supervisory boards referred to in article 2 of Law number 28/2009, of 19 June, should, ...	n.a. ⁽⁵⁾	-
II.1.5.3. The statement on the remuneration policy referred to in article 2 of Law number 28/2009, should also cover ...	n.a. ⁽⁵⁾	-
II.1.5.4. The proposal regarding the approval of plans to allocate shares must be submitted to the General Meeting...	n.a. ⁽¹⁾	-
II.1.5.6. At least one representative of the Remuneration Committee must be present in the Annual General Meeting of shareholders.	n.a.	-
II.1.5.7. The annual Corporate Governance Report must disclose the value of the remuneration received, as a whole and individually, from other companies of the Group and the pension rights acquired during the financial year in question.	n.a. ⁽⁶⁾	-
II.2. BOARD OF DIRECTORS		
II.2.1. Within the limits established by the law for each management and supervisory structure, and unless as a result of the small size of the company, the Board of Directors must delegate the daily management of the company, with the delegated competences being identified in the annual Corporate Governance Report.	Yes	1.1
II.3. CHIEF EXECUTIVE OFFICER, EXECUTIVE COMMITTEE AND EXECUTIVE BOARD OF DIRECTORS		
II.3.1. When requested by other members of the governing bodies, the directors performing executive duties should provide, in due time and in a form appropriate to the request, any information requested by them.	Yes	-
II.3.2. The Chairman of the Executive Committee should send...	n.a. ⁽²⁾	-
II.3.3. The Chairman of the Executive Board of Directors should send to the Chairman of the Supervisory Board and to the Chairman of the Financial Matters Committee, ...	n.a. ⁽²⁾	-
II.4. GENERAL AND SUPERVISORY BOARD, FINANCIAL MATTERS COMMITTEE, AUDIT COMMITTEE AND SUPERVISORY BOARD		
II.4.1. The Supervisory Board...	n.a. ⁽²⁾	-
II.4.2. The annual reports on the activity developed by the ... Supervisory Board should be disclosed on the company's Internet site, together with the presentation of accounts.	Yes	-
II.4.3. The annual reports on the activity developed by the ... supervisory board should include the description of the supervisory activities developed referring, namely, to any constraints which have been encountered.	Yes	-
II.4.4. The ... supervisory board ... should represent the company, for all effects, before the external auditor, being responsible, namely, for proposing the provider of this service and its remuneration, ensuring the existence of the appropriate conditions for the provision of the services within the company, as well as being the interlocutor of the company and first receiver of the respective reports.	No	-
II.4.5. The ... supervisory board, ... should assess the external auditor on an annual basis and propose his/her dismissal to the General Meeting whenever there are fair grounds for the effect.	No	-
II.4.6. The internal audit services and others striving for compliance with the rules applied to the company (compliance services), should report functionally ... to the supervisory board, regardless of the hierarchy relation that these services have with the executive board of the company.	No	-
II.5. SPECIALISED COMMISSIONS		
II.5.1. Unless as a result of the small size of the company, the board of directors ... should create the committees which prove necessary ...	n.a. ⁽²⁾	-

Recommendation of CMVM	Adoption	Chapter
II.5.2. The members of the remuneration commission or equivalent should be independent from the members of the management board and include at least one member with knowledge and experience on matters of remuneration policy.	Yes	2.4
II.5.3. No natural or legal person who provides or has provided, over the last 3 years, services to any structure dependent on the board of directors, to the actual board of directors of the company or who has a current relationship with a consultant of the company should be contracted to support the remuneration commission in the performance of their duties. This recommendation is equally applicable to any natural or legal person related to the above through work or service contract.	Yes	-
II.5.4. All the commissions should prepare minutes of the meetings they hold.	Yes	-
III. INFORMATION AND AUDITS		
III.1 GENERAL INFORMATION DUTIES		
III.1.1. The companies should ensure the existence of a permanent contact with the market, respecting the principle of shareholder equality and taking precautions against asymmetries in access to information on the part of investors. For this purpose, the company should maintain an office designed to assist investors.	n.a. ⁽²⁾	-
III.1.2. The following information available on the company's Internet site should be disclosed in English:		-
a) The firm, its status as a public company and the other elements mentioned in article 171 of the Companies Code;	Yes/ n.a. ⁽¹⁾	
b) Articles of association;	No	
c) Identity of the members of the governing bodies and of the representative for market relations;	Yes/ n.a. ⁽¹⁾	
d) Investor Support Office, respective functions and means of access;	n.a.	
e) Documents presenting the accounts;	Yes	
f) Six-monthly calendar of corporate events;	No	
g) Proposals presented for discussion and vote at the General Meeting;	No	
h) Call Notices for the holding of the General Meeting.	No	
III.1.3. Companies should promote the rotation of the auditor at the end of two or three terms of office, according to whether they are of four or three years. The auditor's maintenance beyond this period should be based on the grounds produced in a specific opinion issued by the supervisory board which explicitly weighs up the conditions of independence of the auditor and the advantages and costs of his replacement.	Yes ⁽⁸⁾	-
III.1.4. The external auditor should, under his duties, verify the application of the remuneration policies and systems, the efficacy and operation of the internal control mechanisms and report any failings to the supervisory board of the company.	Yes	5
III.1.5. The company should not contract from the external auditor, or from any entities which are in a holding relationship with it or are part of the same network, services other than audit services. Where there are motives for the contracting of such services - which should be approved by the supervisory board and explained in its annual Corporate Governance Report - they cannot represent a figure above 30% of the total value of the services provided to the company.	Yes	-
IV. CONFLICTS OF INTEREST		
IV.1. RELATIONS WITH SHAREHOLDERS	n.a. ⁽¹⁾	

n.a. – not applicable.

(1) CTT is a closed company (state-owned company).

(2) The company model approved by the shareholder for CTT is the Latin, which includes a Board of Directors, an Audit Board and a Statutory Auditor.

(3) According to article 29 of Law 55-A/2010, 31 December (OE/2011) during the period of execution of the Growth and Stability Programme 2010-2013 variable remuneration components shall not be allocated.

(4) The Board of Directors is subject to the rules of the Statute of Public Manager, approved by Decree-Law 71/2007, 27 March, amended by Decree-Law 8/2012, 18 January.

(5) The Remuneration Committee is limited by joint order of the Secretary of State of the Treasury and Finance and the Assistant Secretary of State of Public Works and Communications. (6) The directors are not entitled to these benefits.

(7) The financial director has rotated in all terms of office.

(8) According to the best practices, in 2012, the company made a consultation of the market in order to select a new external auditor, and selected KPMG. PricewaterhouseCoopers remained as SROC, although with another team responsible for the auditing.

0.2. DECLARATION OF CONFORMITY

CTT is not in the capital market, therefore the recommendations of CMVM do not apply to it.

CTT implement corporate rules in line with the best national and international practices, so as to respond to the needs of responsibility, transparency and quality of the internal practices and clear and timely disclosure of relevant information on the company's operations.

Emphasis:

- Preparation and disclosure to all employees of a Code of Ethics covering the values and rules of conduct which CTT, its management and employees must observe; creation of the Ethics Committee; creation of Ethics Officers in each company of CTT, for the reinforcement of the application of the rules of conduct defined in the Code of Ethics; approval of the Irregularity Communication System under supervision of the Ethics Committee, including its own e-mail address and postal address;
- Approval of the Integrated Quality, Environment, and Safety Policy of CTT, reaffirming the adoption of sustainable development principles;
- Identification of the financial officers of CTT's companies, responsible for assuring the protection, balance, and preservation of the stakeholders' interests;
- Creation of the compliance responsibility with organic representation, and identification of the compliance officers; approval of the Compliance Manual in order to mitigate the risks from the use of CTT's financial system for money laundering and financing of terrorism;
- Creation of specialised committees: Communication Committee, Real Estate Management Committee, and Credit Committee (see 1.1 below);
- Approval of the Investment Manual for the CTT Group and creation of the Investment Committee composed of those in charge of the corporate units Strategy and Development (that coordinates), Planning and Management Control and Finance and Risk Management;

Launch of Responsible Purchases Policy, including rules for the relationship with suppliers;

Approval of the Cash Management Manual of the CTT Group in order to define rules and implement procedures for the companies in the Group that assure and render operational an effective, optimal, and efficient daily management, of treasury balances, leveraging the available resources and the image, importance, and impact that the CTT brand has on the national financial market. Creation of the Treasury Committee, whose mission is to follow, analyse and manage the Cash Management process;

- Approval of the Corporate Risk Management process, contemplating the Risk Management Policy, and the Risk Management Manual, which aims at establishing and disclosing the procedures that should guide said process, and the key functions and responsibilities, as well as the techniques and tools that support the Risk Management System. Approval of the "Guiding principles of the Information Security Policy and its classification", the "Internal Manual for Establishing partnerships" and the "New Innovation Management model" within the scope of developing the corporate risk mitigation programme. Creation of the Finance and Corporate Risk Management units, responsible for the centralized coordination of the whole Risk Management process of CTT and the management of the planning process and implementation of action programmes for the identified risks. Creation of the Risk Management Committee aiming at the reinforcement of the organisational involvement and commitment around the risk theme;
- Approval of the Statutes of the Client Ombudsman of CTT, which resulted in a revision of the previous Statutes of Ombudsman of CTT, S.A. aiming at its modernization and adequacy to current reality.

CTT annually publishes its Annual Report, which includes the Corporate Governance Report, and the Sustainability Report, both published in their website (www.ctt.pt). Since 2006, half-yearly Reports are also published, including the Corporate Governance Report.

0.3. RESOLUTION 49/2007 OF THE COUNCIL
OF MINISTERS

Resolution (RCM) 49/2007 of the Council of Ministers, on 28 March, approved the principles of good corporate governance of the State business sector.

The following table shows the level of compliance with the principles defined in RCM and the chapter from the Annual Report or the corresponding Annex – Corporate Governance Report, in which they are mentioned.

Good governance principles (RCM 49/2007)	Applied	Chapter of the Report
1 – Mission, objectives, and company policies	Yes	Part I – 2
2 – Internal and external regulations that the company is subject to	Yes	Part III – 1.2, 4.1, 4.2 e 10
3 – Information on relevant transactions with related entities	Yes	Part II – nota 42
4 – Information on other transactions	Yes	
Procedures adopted for the acquisition of goods and services		Part III – 7
List of main suppliers		Part III – 7
5 – Identification of the governance model and members of the governing bodies:	Yes	
a) members of the governing bodies, roles, and responsibilities		Part III – 2
b) external auditor		Part III – 1.4
6 – Remuneration of the members of the governing bodies (detailed information in own table below)	Yes	Part III – 1.5, 2.1 e 2.3
7 – Sustainability analysis of the economic, social, and environmental domains:	Yes	
a) Adopted strategies		Part I – 2
b) Level of compliance with targets		Part I – 7.3 e Part III – 10
c) Policies followed to assure economic, financial, social, and environmental efficiency		Part I – 2, 3, 4, 5, 6, 7, 8 e 9 e Part III – 1.1.
d) Main risk factors inherent to the business		Part III – 5.1
e) Social responsibility		Part I – 5.3 e Part III – 9.1
f) Sustainable development		Part I – 5.3 e 6 e Part III – 9
g) Public service and satisfaction of collective needs		Part I – 1, 5.1 e Part III – 9.1
h) Investigation, innovation and development, and new technologies		Part I – 5.2
i) Future action plans		Part I – 8
8 – Compliance with good governance principles	Yes	Part III – 0.2 e 0.3
9 – Code of Ethics	Yes	Part III – 4.1
10 – Control systems	Yes	Part III – 5.2
11 – Conflicts of interest	Yes	Part III – 1.6, 4.1 e 5.2
12 – Disclosure of information on the company site and SEE site (DGTF)	Yes	Part III – 0.2
13 – Ombudsman Office	Yes	Part III – 1.1

The following tables show a summary of the information disclosed on the company website of SEE and the company portal (item 12 of the previous table), according to RCM 49/2007, 28 March.

Information to be included on the SEE site	Disclosure		
	Y	N	N.A.
Updated statutes (PDF)	X		
History, Vision, Mission, and Strategy	X		
Summary file of the company	X		
Company Identification:	X		
Mission, objectives, policies, public serv. obligations and financing model			
Governance Model / Identification of Governing Bodies:	X		
Governance Model (identification of governing bodies)			
Established remuneration statute			
Remunerations gained and other benefits			
Regulations and Transactions:	X		
Internal and External Regulations			
Relevant Transactions with related entity(ies)			
Other transactions			
Economic, Social, and Environmental sustainability analysis	X		
Assessment of compliance with PBG	X		
Code of Ethics	X		
Historical and current financial information	X		
Financial Effort of the State	X		

InInternal and External Regulations

Information to be included on the Company site	Disclosure		
	Y	N	N.A.
Site Existence	X		
History, Vision, Mission, and Strategy	X		
Organisation chart	X		
Governing Bodies and Governance Model:	X		
Identification of governing bodies	X		
Identification of the responsibility areas of the board of directors Identification of committees in the company	X		
Identification of the risk control systems			
Remuneration of the governing bodies			
Internal and External Regulations			
Transactions outside market conditions			
Relevant transactions with related entities			
Economic, Social and Environmental sustainability analysis			
Code of Ethics	X		
Annual Report	X		
Ombudsman Office	X		
Provedor do cliente	X		

Information in the
Corporate Governance
Report of the Annual
Report

Caption: Y – Yes; N – No; N.A. – Not applicable

The following tables show a breakdown of the remuneration statute of the governing bodies, according to the guidelines of RCM 49/2007, 28 March.

BOARD OF DIRECTORS
0 – All the directors are executive.
1 – Remunerations of directors: Base/fixed remuneration: Applied on 2012: Chairman - €12,226.50 x 12 = €146,718.00; Deputy chairman - €11,003.85 x 12 = €132,046.20; each member - €10,392.52 x 12 = €124,710.24. This value results from the values determined for the Chairman (€14,300 x 14), the Deputy Chairman (€12,870 x 14) and each member (€12,155 x 14), from which the reductions and suspension of subsidies described below were deducted. The monthly fixed remuneration was reduced by 5% from 1 June 2010 due to the application of Law 12- A/2010, remaining in effect in 2012. In 2012 the 10% reductions of the total gross remunerations were kept for the Board of Directors, as determined by article 19 of Law 55-A/2010, 31 September (OE/2011) and kept in effect by no. 1 of article 20 of Law 64-B/2011, 30 December (OE/2012). These reductions are added with the suspension of holiday and Christmas bonuses according to articles 20 and 21 of Law 64-B/2011, 30 September (OE/2012). Management bonuses – According to article 29 of Law 64-B/2011, 30 December (OE/2012) during the period of execution of the Growth and Stability Programme 2010-2013 variable remuneration components shall not be allocated. Others – none
2 – Other benefits and compensation Service mobile phone usage costs: up to the maximum monthly amount of €150 per director. Service vehicles – up to the limit of monthly rent of € 1,350, including insurance and maintenance: Chairman -Mercedes E 350 CDI 2010; Deputy Chairman and 2 Directors – 3 Audi 6 2.0 TDI 2009; 1 Director - Mercedes C 220 CDI 2009. All vehicles in renting. Fuel for the vehicles: up to the limit of 350 litres per month per director. Travel allowance – none. Other – meal allowance.
3 – Cost of social benefits Mandatory social security: the general law applies to directors. Health insurance: none. Life insurance / personal accident insurance: in accordance with the terms in force in the CTT, as decided by the remuneration committee. Others – none.
4 – Additional information Option for the remuneration of origin: no. Social Security Regime: general regime. Others: none
BOARD OF THE GENERAL MEETING
Chairman: attendance fee amounting to €580 Deputy Chairman: attendance fee amounting to €390 Secretary: attendance fee amounting to €290
BOARD OF AUDITORS
Chairman: Gross monthly remuneration of € 2,860.00, paid 14 times per year. Members: Gross monthly remuneration of € 2,145.00, paid 14 times per year. The monthly fixed remuneration was reduced 5% from 1 June 2010 until 24 August 2013 by application of Law 12- A/2010, 30 June, since the remuneration, when the Law was published, was indexed to that of the Board of Directors; as of 24 August 2013 it is no longer indexed. As of 1 January 2011, as determined by article 19 of Law 55-A/2010, 31 September (OE/2011) and kept in effect by no. 1 of article 20 of Law 64-B/2011, 30 December (OE/2012), the total gross remunerations of the Board of Auditors were reduced by 10%. These reductions are added with the suspension of holiday and Christmas bonuses according to articles 20 and 21 of Law 64-B/2011, 30 September (OE/2012).

1. Disclosure of information

1.1. ORGANISATIONAL STRUCTURE OF CTT

The Board of Directors approved a new structure that came in effect on 1 January 2013.

The new structure reflects the need to match the organisation of the company with the strategic objectives and the evolution of the business, with the underlying principles of efficiency and rationalization of areas and services and the reduction of directorates and managers, as well as the strategic guidelines for the State business sector.

The CTT Group (organisation chart below) is organised into four business areas: Mail, Express, Financial Services and Corporate Solutions, which provide the framework for the subsidiaries. The Retail Network and Large Customers are the two main sales channels, and act transversally, providing services to the different business areas. The central services support the Board of Directors and the business areas in the management, control, and supervision of the different activities and companies.

All the members of the Board of Directors (BD) of CTT have specific areas for which they are responsible and also have administration or management functions in other CTT companies (see 2.2).



a) Includes CTT Gest and Mailtec Processos
b) Includes PostContacto
c) Includes CTT Expresso, Tourline and CORRE
d) Includes PayShop
e) Includes Mailtec SGPS, Mailtec Comunicação and Mailtec Consultoria
f) Includes Integrated Solutions

The attributions of the CTT, S.A. departments are as follows:

Company Secretary and Legal Advisory – assure the institutional relations of the company; provide technical and administrative support to the Board of Directors (BD) and remaining governing bodies; assure the formal communication between the Board of Directors, the company structure, the subsidiaries, and external entities; assure the general legal, labour, and disciplinary advisory services and the exercise of the disciplinary function.

Strategy and Development – support the BD in the definition, implementation and management of the development strategy of the CTT universe, proposing and promoting initiatives for development and strategic management of its business portfolio, in a perspective of sustained value creation.

Human Resources and Organisation – develop and implement human resources policies in line with the strategy defined for the Group, promoting a culture of merit and continuous professional development; provide administrative services for human resources to CTT companies; promote health and safety at work, as well as the availability of health care and social protection.

Corporate Communication – define and implement the company's internal and external communication strategies, sponsorships and patronage, through the development of actions that contribute to improve and create value of the institutional image and brand CTT, in close cooperation with the BD; assure the compliance with the policy and commitments of sustainability, environment, social responsibility, and corporate citizenship of the CTT universe; assure the relationship with the media.

Audit and Quality – independently examine and assess the activities and business of CTT, in order to mitigate the risks associated with processes and transactions, recommending correction measures to the audited areas and supplying necessary information for the governance process; contribute to the management and mitigation of compliance risks in the context of provision of financial services; investigate illegal and/or fraudulent practices; define and promote quality policies and procedures in CTT.

Information Technology – develop the strategy for information systems and technologies of CTT, in order to maximise its competitiveness and efficiency; assure the correct planning and control of information systems and technologies; promote innovation and implementation of new solutions for the development of the business.

Customer and Business Support – develop the client relationship policy of CTT in terms of after/sales and client information and support, contributing to their

loyalty; assure the support to business in transversal functions, aimed at optimising the resources used, proposing optimisation measures for processes and/or improvement actions.

Regulation and Competition – advise the BD in matters of regulation and competition, and in the relationship with regulatory and supervisory entities of the sector; manage regulatory risks and the relation with competitors.

Planning and Control – advise the BD on matters of planning and management control of CTT, ensuring coordination with all CTT's organisational units and subsidiary companies in terms of value creation.

Finance and Risk Management – provide and implement strategies for the adequate use of resources by optimising the cost and return of capital and an adequate risk management, in line with the strategic objectives defined for CTT.

Accounting and Treasury – assure the accounting management, the economic-financial management, and the management of the assessment of business processes that influence the generation of income.

Litigation – assure the legal representation of the company and subsidiaries, as well as of the employees requiring this service due to reasons of work and their jobs.

Physical Resources and Security – define the coordinated strategy of the real-estate and fleet resources; assure the provision of service by the suppliers in useful time and under the contracted conditions; assure the integrated management of the processes and procedures of documents and archive; define, coordinate, and control the security and surveillance policies of the facilities, equipment, and people.

Procurement and Logistics – define CTT's procurement strategy, centralising and planning the needs of lease and acquisition of moveable assets, services, and execution of works, coordination, preparation and follow-up of purchase procedures, centralising the administrative management of contracts, quality control and assessment of suppliers, and the effective management of warehouses and stocks.

Operations – manage the operations of collection, transportation, processing, and distribution of mail efficiently, assuring the excellence of service quality and the compliance with the obligations of the Universal Postal Service in all national territory, promoting synergies with all the business areas of the company in order to increase the efficiency and creation of value for the company.

Mail and Retail Network Marketing – maximise the value of mail and network offers, contributing to a more efficient and competitive management of the

network and postal business, and for the commercial purposes, of profitability, and position of the different businesses.

Philately – develop the philately and collection business on a sustained profitable basis, maintaining competence and the quality of Portuguese philately.

Business Customers – assure the loyalty of business customers as well as the maximisation of the volume and profitability of sales through adequate detection and commercial response to the needs and business opportunities within the scope of the Mail business unit.

Financial Services – manage an innovative offer of competitive financial products and services, which generate value for the shareholder, strategically driven towards the client, margin, and efficiency, based on the Retail network.

Business Solutions – assure the satisfaction of the business clients and the contracted quality; provide offers to business clients adjusted to their needs; manage strategic projects more directly connected with the business clients.

Retail Network – manage the retail network, assuring the increase of revenue from the sales; maximise productivity of resources and rationalise offer and demand, in the context of the defined offer, price levels, and Universal Postal Service; rationalize the Retail Network and access points to the Postal Network, in a privatisation context; assure the quality of customer service in all the access points to the postal network.

Large Customers – assure the integrated management of large customers, managing the key accounts segment in a perspective of maximising sales and profitability of the different business areas of CTT.

The following specialised committees work directly under the Board of Directors:

Communication Committee, with the purpose of assuring more effectiveness, efficiency, and agility at the internal communication level; provide to people in a timely, clear and direct way, what the company wants to communicate; assure an integrated and coordinated communication to foster and increase synergies between different areas and companies of CTT and promotes the connection to the management of people, helping to consolidate the image of the organisation, the organisational identity and group spirit; assure a preventive and active communication, including labour matters; rationalize the communication network in CTT, articulating the internal and external side; create an observatory that allows to measure and assess the communication actions and propose the necessary corrective measures.

The Communication Committee, in addition to the Board of Directors, includes the people responsible for the following units: General Secretariat and Legal Advisory Services, Human Resources and Organisation, Operations and Distribution, Large Customers, Institutional Communication, Retail Network and Audit and Quality.

Real-estate Management Committee for the strategic planning and management of real-estate properties, programming of real-estate investments, and promotion of the optimisation and maximisation of real-estate properties' use. This Committee is composed of 2 members of the Board of Directors, Ana Maria Jordão and André Gorjão Costa, and by those responsible for the following units: Physical Resources and Security (joined by 2 employees), Retail Network, Operations and Distribution, Planning and Management Control, and one member of the Board of Directors of CTT Expresso.

Considering the matters of the agenda, the variable members are: Manuel Castelo-Branco and Dionísia Ferreira and other front line directors. During 2012, 11 meetings were held.

Credit Committee is in charge of the policies and management of credit to third-parties, the granting of loans, and supervises the evolution of overdue debt from third-parties. This Committee is composed by the Financial Director, André Gorjão Costa, and those responsible for the following units: Finance and Risk Management, Accounting and Treasury, Large Customers, Retail Network, Business Customers, Mail and Network Marketing, Audit and Quality, and Litigation. During 2012, 11 meetings were held.

The Ethics Committee is in charge of implementing, following, interpreting, and clarifying doubts and omissions in the Code of Ethics. It is coordinated by the Director of Human Resources and Organisation and also includes the Director of the Communications Foundations, and the Director of Audit and Quality. The Committee reports to the CTT's Board of Directors through the Director with the financial area. During 2012, 1 meeting was held.

Sales Committee that advises the BD in matters of global offer of the services of all the CTT companies, composed by the director of Large Customers, and members of the Board of Directors of CTT Expresso and Mailtec. During 2012, 23 meetings were held.

A **Procurement Table Committee** also existed up to 4 September, specialised in the execution of pre-contract procedures for the purchase of goods, services, and works, included in the previous Shared Services Management Unit. 202 meetings were held in 2012. Since then, the Procurement Table Committee has been suspended.

CTT's management is supported by the following committees:

The **Investment Committee** composed by those responsible for the corporate units Strategy and Development (which coordinates), Planning and Management Control, Finances, and Risk Management. All the proposals of investment projects amounting to more than 50 mil €, before appraisal/final approval by the Board of Directors, must be sent to this Committee in order to have its say and issue a non-binding opinion. There were 33 meetings in 2012.

The **Risk Management Committee**, created in June 2012, to promote the actions of the Corporate Risk Management function and to work as a leveraging instrument in the entire system operationalisation process of the risk management system in CTT. It is composed by the BD André Gorjão Costa and those responsible for the Finance, Risk Management, Strategy and Development, Operations and Distribution, Retail Network, Human Resources, Information Technologies, Accounting and Treasury, and Physical Resources and Security units.

1.2. SHAREHOLDER STRUCTURE

CTT – Correios de Portugal, S.A. (CTT) is a fully State owned corporation.

CTT's capital is made up of 17 500 000 fully paid shares of 4.99 Euros each, held by the State. Order 2468/12 September of the Secretary of State of the Treasury transferred the participation of CTT, held by the General Directorate of the Treasury, to Parpública, taking effect on 31 January 2013.

With the transformation of CTT into a corporation under Decree-Law 87/92 of 14 May, although still fully owned by the State, the Company ceased being under the State owned company regime, approved by Decree-Law 260/76 of 8 April, as established in its article 48, number 2.

However, with the entry into force of Decree-Law 558/99 of 17 December, the notion of State owned company was extended to corporations which the State controls, alone or jointly, directly or indirectly, due to holding the majority of shares or voting rights

or having the right to appoint or dismiss a majority of the members of the board of directors or audit board, as established in article 3, item 1, lines a) and b). Decree-Law 300/2007 of 23 August, which introduced various changes in the legal regime of the State's business sector, maintained that article 3 unchanged.

Therefore, CTT is governed by Decree-Law 87/92, its by-laws, the rules applicable to corporations, Decree-Law 558/99 with the amendments introduced by Decree-Law 300/2007 and the special rules resulting from the Company's corporate objects.

1.3. DIVIDEND POLICY

In accordance with the Company's by-laws, annual net incomes are distributed as follows:

- a minimum of 5% to the legal reserve;
- a dividend to be distributed to the shareholders as decided by the General Meeting;
- the remaining balance for the purposes of interest to the Company defined by the General Meeting.

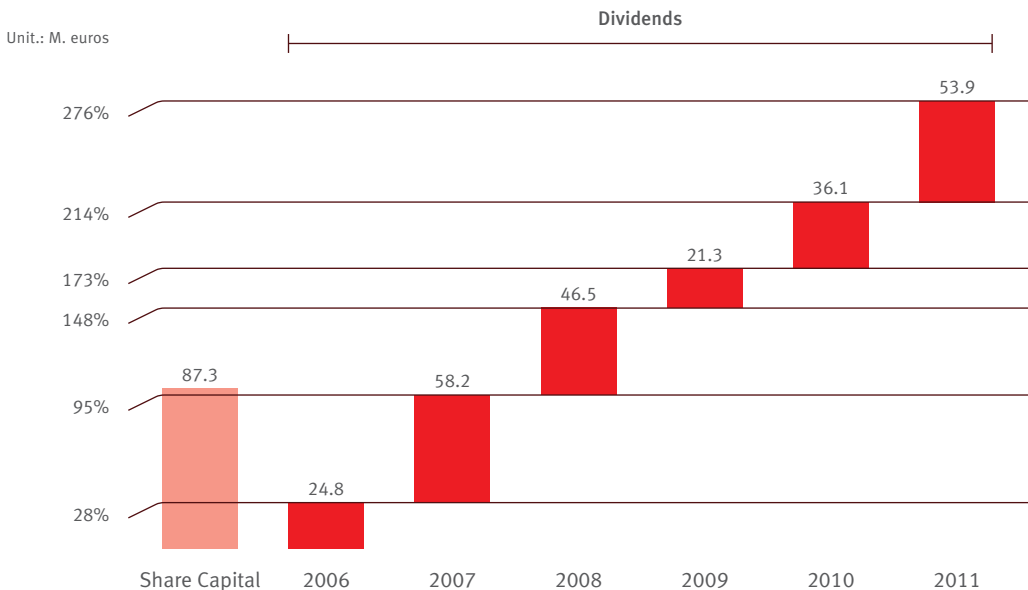
In accordance with article 294, number 1 of the Commercial Company Code, a dividend of 50% of the distributable profit is proposed, subject to the financial condition of the Company at any time. Distributable profit corresponds to net income for the year, less 5% for the legal reserve and the amount needed to cover accumulated losses.

Since 2006, the company has distributed dividends to the shareholder annually.

In June 2012 the State was paid dividends amounting to 53,876,585 Euros regarding the year of 2011, corresponding to a dividend per share of €2.13.

In six consecutive years, the company has returned to the shareholder 276% of the share capital.

DIVIDENDS



1.4. AUDITORS

CTT contracts external audit services from an independent entity, which, although not expressing an opinion on the effectiveness of the internal control structure, must inform on any deficiencies it feels are significant in the internal control structure and, if significant, any errors or irregularities noted.

In November 2012, the company selected the external auditor, KPMG.

In 2012 the remuneration of the external auditors was 113,121.33 Euros, for the following services:

	Amount (euros)	%
a) Audit of the financial statements of the CTT companies	110,772.16	97.9
- BDO	80,654.66	
- KPMG	30,117.50	
b) Other guarantee and reliability services		
- BDO	2,349.17	2.1
Total	113,121.33	100.0

1.5. REMUNERATIONS OF DIRECTORS

According to the Statute of the Public Manager, the remuneration of directors is determined considering the complexity, demand, and responsibilities inherent to the functions, and considering the normal market practices in the communications sector, also taking into account the principles and guidelines determined by the shareholders and the market situation.

In the scope of the Economic and Financial Assistance Programme to Portugal (PAEF), Decree-Law 8/2012, 18 January, introduced changes to Decree-Law 71/2007, 27 March, which approved the Statute of Public Manager (EGP), and subsequently Council of Ministers Resolution 16/2012, 14 February, was approved, which defines the categories and objective criteria for the determination of the monthly remuneration of public managers, with reference to the limit of monthly remuneration of the Prime-Minister, as well as Council of Ministers Resolution 36/2012, 26 March, which determines the application of the remuneration regime arising from no. 23 of Council of Ministers Resolution 16/2012 to the state owned company CTT - Correios de Portugal, S.A., which determined that, by order of the members of Government responsible for the areas of finance and the relevant sector, the maintenance of the current remuneration regime of managers may be determined for companies under privatisation, extinction or liquidation processes.

The remuneration policy of the members of the governing bodies must be adjusted to the dispositions of the aforementioned standard texts, according to a statement presented by the Remunerations Committee, at the General Meeting of 30 May 2012.

In 2012, as approved in the General Meeting of 31 May 2011, for the directors still in office, the monthly gross fixed remunerations remained unchanged determined for the term 2008-2010, in minute 1/2009, 16 June, with the reductions resulting from the application of no. 1 of article 12 of Law 12-A/2010, 30 June, and article 19 of Law 55-A/2010, 31 December, which approved the State Budget for 2011, and kept in effect by no. 1 of article 20 of Law 64-B/2011, 30 December, which approved the State Budget for 2012 (OE/2012). These reductions are added with the suspension of holiday and Christmas bonuses according to articles 20 and 21 of Law 64-B/2011, 30 December (OE/2012).

As foreseen in article 172 of Law 3-B/2010, 28 April (OE/2010), in article 29 of Law 55-A/2010, 31 December (OE/2011), and in article 29 of Law 64-B/2011 (OE/2012) a policy relying on the added cost containment must be adopted, and during the period of execution of the Growth and Stability Programme for 2010-2013 there will be no allocation of any variable component of the remuneration.

The following tables show all the charges for 2012 broken down by director. It should be noted that up to 24 August 2012, a Board of Directors was in office, and on 24 August a new Board of Directors was appointed, therefore the charges with the Boards of Directors are shown separately.

Unit: €	Deputy Chairman Pedro Coelho	Member Carlos Dias Alves	Member Duarte d'Araújo
Term (Previous BD – 01/01/2012 to 24/08/2012)	2008/2012	2008/2012	2008/2012
Adapted to EGP (Yes/No)	Yes	Yes	Yes
Total Remuneration (1+2+3+4)			
OPRLO (Yes/No)	No	No	No
Original Entity (Identify)	-	-	-
Paying Entity (Source/Destination)	CTT	CTT	CTT
1.1. Annual remuneration	118,349.51	111,774.54	111,774.54
1.2 Representation costs (annual)	-	-	-
1.3 Attendance fee	-	-	-
1.4. Reduction arising from Law 12-A/2010	5,917.48	5,588.73	5,588.73
1.5. Reduction arising from Law 64-B/2011	11,243.20	10,618.58	10,618.58
1.6. Suspension of payment of holiday (sf) and Christmas bonuses (sn)	8,002.80 (sf) 7,356.00 (sn)	7,558.20 (sf) 6,947.33 (sn)	7,558.20 (sf) 6,947.33 (sn)
1.7. Reductions from previous years	-	-	-
1. Effective net annual remuneration (1.1+1.2+ 1.3-1.4-1.5-1.6-1.7)	85,830.03	81,061.70	81,061.70
2. Variable remuneration	-	-	-
3. IHT (Exemption from working hours)	-	-	-
4. Others (identify)	-	-	-
Travel allowance			
Meal allowance	0.00	0.00	0.00
Cost of social benefits			
Social protection regime (Social sec.)	8,169.76	8,169.76	8,169.76
Health insurance	-	-	-
Life insurance	9,936.86	10,991.60	6,796.31
Travel personal accident insurance	118.88	118.88	118.88
Other insurance – (civil liability)	309.26	309.10	309.10
Accumulation of management roles (Yes/No)	No	No	No
Vehicle fleet			
Method of use	<i>Renting</i>	<i>Renting</i>	<i>Renting</i>
Reference value of new vehicle	59,446.80	51,200.01	51,200.01
Start year	2009	2009	2009
End year	2013	2013	2013
Number of instalments (if applicable)	48	48	48
Residual value	-	-	-
Value of rent/annual instalment of service vehicle	7,623.50	7,330.70	7,420.35
Fuel spent on the vehicle	2,517.55	3,170.74	3,755.11
<i>Annual ceiling for attributed fuel (litres)</i>	4,200	4,200	4,200
Others (tolls/repairs/insurance)	754.90	2,722.03	1 417.06
Defined limit according to article 33 of EGP (Yes/No)	Yes	Yes	Yes

(continues)

Unit: €	Deputy Chairman Pedro Coelho	Member Carlos Dias Alves	Member Duarte d'Araújo
Other benefits and compensation			
Monthly ceiling in mobile communications	150.00	150.00	150.00
Annual costs with mobile communications	505.55	912.55	685.33
Others (state)	-	-	-
Defined limit according to article 32 of EGP (Yes/No)	Yes	Yes	Yes
Costs with travel (total)	611.86	5,922.49	-
Annual total cost with travel	n.d.	n.d.	-
Annual costs with accommodation	n.d.	n.d.	-
Daily allowance	-	-	-
Others (state)	-	-	-

Caption: EGP – Statute of the Public Manager; OPRLO – Opting for Remuneration of Original Post; n.d. – breakdown not available.

Unit: €	Chairman Francisco de Lacerda	Deputy Chairman Manuel Castelo- -Branco	Member André Gorjão Costa	Member Dionízia Ferreira	Member Ana Jordão
Term (Current BD – 24/08/2012 to 31/12/2012)	2012-2014	2012-2014	2012-2014	2012-2014	2012-2014
Adapted to EGP (Yes/No)	Yes	Yes	Yes	Yes	Yes
Total Remuneration (1+2+3+4)					
OPRLO (Yes/No)	No	No	No	No	No
Original Entity (Identify)	-	-	-	-	-
Paying Entity (Source/Destination)	CTT	CTT	CTT	CTT	CTT
1.1. Annual remuneration	70,516.40	63,464.75	59,938.94	59,938.94	59,938.94
1.2 Representation costs (annual)	-	-	-	-	-
1.3 Attendance fee	-	-	-	-	-
1.4. Reduction arising from Law 12-A/2010	3,525.82	3,173.24	2,996.95	2,996.95	2,996.95
1.5. Reduction arising from Law 64-B/2011	6,639.15	5,950.41	5,605.82	5,605.82	5,605.82
1.6. Suspension of payment of holiday and Christmas bonuses	4,446.00 (sf) 4,086.67 (sn)	4,001.40 (sf) 3,678.00 (sn)	3,779.10 (sf) 3,473.67 (sn)	3,779.10 (sf) 3,473.67 (sn)	3,779.10 (sf) 3,473.67 (sn)
1.7. Reductions from previous years	-	-	-	-	-
1. Effective net annual remuneration (1.1+1.2+ 1.3-1.4-1.5-1.6-1.7)	51,818.76	46,661.70	44,083.40	44,083.40	44,083.40
2. Variable remuneration	-	-	-	-	-
3. IHT (Exemption from working hours)	-	-	-	-	-
4. Others (identify)	-	-	-	-	-

(continues)

Unit: €	Chairman Francisco de Lacerda	Deputy Chairman Manuel Castelo- -Branco	Member André Gorjão Costa	Member Dionízia Ferreira	Member Ana Jordão
Travel allowance	-	-	-	-	-
Meal allowance	380.03	380.03	380.03	380.03	380.03
Cost of social benefits					
Social protection regime (Social sec.)	4,762.22	4,694.49	4,660.62	4,660.62	4,660.62
Health insurance					
Life insurance	-	-	-	-	-
Travel personal accident insurance	35.68	35.68	35.68	35.68	35.68
Other insurance – (civil liability)	136.80	136.80	136.80	136.80	136.80
Accumulation of management roles (Yes/No)	No	No	No	No	No
Vehicle fleet					
Method of use	Renting	Renting	Renting	Renting	Renting
Reference value of new vehicle	75,700.24	51,200.01	51,200.01	59,446.80	47,499.99
Start year	2010	2009	2009	2009	2009
End year	2014	2014	2014	2014	2014
Number of instalments (if applicable)	48	60	60	60	60
Residual value	-	-	-	-	-
Value of rent/annual instalment of service	5,591.70	3,845.62	3,892.65	3,999.22	3,553.73
Vehicle (without insurance)	1,494.02	1,293.93	1,089.29	2,021.62	770.46
Fuel spent on the vehicle	4,200	4,200	4,200	4,200	4,200
Annual ceiling for attributed fuel (litres)	240.75	516.57	690.48	871.54	253.62
Others (tolls/repairs/insurance)	Yes	Yes	Yes	Yes	Yes
Other benefits and compensation					
Monthly ceiling in mobile communications	150.00	150.00	150.00	150.00	150.00
Annual costs with mobile communications	412.51	1,432.64	340.35	351.37	213.66
Others (state)	-	-	-	-	-
Defined limit according to article 32 of EGP	Yes	Yes	Yes	Yes	Yes
Costs with travel (total)	9,391.44	9,387.18	1,319.44	400.00	-
Annual total cost with travel					-
Annual costs with accommodation					-
Daily allowance	-	-	-	-	-
Others (state)	-	-	-	-	-

Caption: EGP – Statute of the Public Manager; OPRLO – Opting for Remuneration of Original Post.

1.6. OTHER INFORMATION REGARDING THE MANAGEMENT BODY

Decree-Law 558/99, as amended by Decree-Law 300/2007, establishes in article 15 that the management of State owned companies, independently of their legal form, is subject to the public manager statute.

Decree-Law 71/2007 of 27 March redefined the public manager statute and the conditions for exercising it, adopting the recommendations of the Government Audit Office (Report 28/2003 -2nd Section). This act was changed by Decree-Law 8/2012, 18 January, regarding the rules for recruiting and selecting public managers, and also regarding the regime applicable to the management contracts, their remuneration, and benefits.

In accordance with article 3, item 1, line b) and article 2 of Law 64/93 of 26 August as amended by Laws 39-B/94 of 29 December, 28/95 of 18 August, 12/96 of 18 April and 42/96 of 31 August, the Director of a fully State-owned corporation is legally considered to be exercising a “high public office”, and so, must deposit with the Attorney-General of the Republic, within 60 days of being appointed to/starting the functions, a declaration of the non-existence of incompatibilities or impediments.

This “office” is subject to the exclusivity regime, implying incompatibility with any other professional functions, remunerated or not, with some exceptions (teaching or royalties from copyright). The incompatibility can be removed by decision of the company’s General Meeting.

In accordance with article 4 of Law 4/83 of 2 April with the wording of Law 25/97 of 18 August, at the beginning and end of their term of office, directors must present to the Constitutional Court a “Declaration of the Value of the Assets and Income of Holders of Political Office and Equivalent”. This declaration must be renewed annually.

Additionally, according to no. 9 of article 22 of Decree-Law 71/2007, before starting the term, the manager states in writing to the General Inspection of Finance, all the participations and asset interest they hold, directly or indirectly, in the company where they will work or in any other.

The members of the Board of Directors comply with the rules regarding abstaining from intervention in matters that can involve their own interests, included in the Regulation of the Board of Directors approved by deliberation of 28 April 2008, and have communicated the holding of participations and relevant relationships referred to in the Statute of the Public Manager and RCM 49/2007, to the General Inspection of Finance, Constitutional Court, and Attorney-General of the Republic.

2. Governing bodies

In the General Meeting of 30 May 2012, the governing bodies for the three-year period of 2012-2014 were not elected, and until 23 August 2012, with those elected for the three-year period 2008-2010 at the General Meeting of 28 April remaining in office.

In 24 August 2012, by unanimous decision of the shareholder, in writing, the members were elected who are part of CTT’s governing bodies for the three-year period 2012-2014.

2.1. GENERAL MEETING OF SHAREHOLDERS

The General Meeting, which is made up of the shareholders with voting rights, meets once a year and whenever requested by the Chairman of the Board of the General Meeting, by the Board of Directors or the Audit Board, or by shareholders representing at least 5% of share capital.

The General Meeting is called by notice given at least 30 days in advance, explicitly stating the matters to be addressed.

Up to 24 August 2012, the Board of the General Meeting of CTT was composed of:

Chairman: Virgínia Celeste das Neves Rodrigues da Silva Veiga

Deputy Chairman: Carlos António Lopes Pereira

Secretary: Paulo Manuel Marques Fernandes

As of 24 August 2012, the Board of the General Meeting of CTT included the following members:

Chairman: Pedro Miguel Nascimento Ventura

Deputy Chairman: Maria Onilda Sousa

Secretary: Paula Alexandra Caetano da Silva

The General Meeting is especially responsible for:

- Assessing the report from the Board of Directors, discussing, and voting the balance, accounts, and the opinion of the Board of Auditors, and deciding on the application of the net income for the year;
- Electing the board of the General Meeting and the members of the Board of Directors and the Board of Auditors and the Statutory Auditor, the latter by proposal of the Board of Auditors;
- Deciding on any changes in the Company’s by-laws and capital increases;
- Authorising the acquisition and sale of property, as well as investments in excess of 10% of the share capital;

- Deciding on the remuneration of the members of the corporate boards, with the possibility of appointing a Remuneration Committee for this purpose;
- Dealing with any other business for which the meeting has been called.

In 2012, the General Meeting received the following remuneration:

	Amount (Euros)
General Meeting	970
Chairman	580
Deputy Chairman	390
Secretary	-

2.2. BOARD OF DIRECTORS

The Board of Directors is made up of five or seven directors, elected at the General Meeting for terms of three years, which are renewable but cannot exceed four successive terms of office. The General Meeting that elects the Board of Directors chooses the Chairman and may also select, from the other elected directors, the Deputy Chairman.

Up to 24 August 2012, the Board of Directors was composed of three members:

Deputy Chairman:
 Pedro Amadeu de Albuquerque Santos Coelho
Members:
 - Carlos de Jesus Dias Alves
 - Duarte Nuno Lopes Reis D’Araújo

As of 24 August 2012, the Board of Directors is composed of five members:

Chairman:
 Francisco José Queiroz de Barros de Lacerda
Deputy Chairman:
 Manuel Cabral de Abreu Castelo-Branco
Members:
 - André Manuel Pereira Gorjão de Andrade Costa,
 - Dionízia Maria Ribeiro Farinha Ferreira
 - Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo.

The Board of Directors is especially responsible for:

- approving the objectives and policies of the Company;
- approving the annual and multi-annual operating and financial plans and annual budgets, as well as the changes that may become necessary;

- managing the businesses of the Company and practice all the acts and operations relating to the corporate objects that are not the responsibility of other boards of the Company;
- representing the Company actively or passively, in or outside the court, being able to accept and confess in any lawsuit, as well as signing arbitration conventions;
- acquiring, selling or in any way disposing of or burdening rights, such as those relating to incidents over corporate participations, and moveable assets and property;
- founding companies, subscribing for, acquiring, burdening or selling corporate participations;
- establishing the Company’s technical and administrative organisation and internal operating standards;
- appointing proxies with the powers considered necessary, including that to delegate;
- exercising the other competencies delegated to him/her by the general assembly;
- appointing the company secretary and his/her delegate.

The Board of Directors can delegate to one or more of its members or special committees some of its competencies, defining in minutes the limits of such delegated powers.

The Chairman of the Board of Directors is especially responsible for:

- representing the Board in or outside the court;
- coordinating the activities of the Board of Directors and calling and chairing the meetings;
- exercising the casting vote;
- ensuring that the decisions of the Board of Directors are properly carried out.

In his absence or impediment, the Chairman is replaced by the Deputy Chairman, if he has been appointed by the General Meeting or, if not, by the member of the Board of Directors appointed by the General Meeting for this purpose.

The Board of Directors establishes the dates or frequency of the ordinary meetings and meets on an extraordinary basis whenever called by the Chairman, two Directors or by the Audit Board.

The Board of Directors cannot operate without the presence of the majority of its members in office, except for reasons of urgency, as expressly recog-

nised by the Chairman, in which case the votes can be sent by letter address to him or by proxy to another Director.

The decisions of the Board of Directors are always included in the minutes of meetings and the decisions are taken by majority of the votes cast, the Chairman or his/her alternate having the casting vote.

The absence of a member of the Board of Directors at two consecutive, or not, meetings per year, without justification accepted by the Board of Directors, is considered as a definitive fault of the director, leading to his/ her replacement in accordance with the terms of the Commercial Company Code.

In 2012, the Board of Directors held 51 meetings, all of them at the CTT building in Av. D. João II, in Lisbon.

The distribution of the areas of responsibility among the members of the current Board of Directors is as follows:

Francisco de Lacerda

- Chairman of the Board of Directors (CBD) and Chief Executive Officer (CEO).
- Organisational units: General Secretariat and Legal Advisory Services (regarding the General Secretariat), Strategy and Development, Human Resources and Organisation (regarding the preparation of policies and rules and organisation), Institutional Marketing and Communication, and Audit and Quality.

Manuel Castelo-Branco

- Deputy Chairman of the Executive Board of Directors.
- Organisational units: Transverse Solutions, Large Customers, and Information Technologies.
- Subsidiary companies: CTT Expresso, Tourline Express, Corre, Mailtec SGPS, Mailtec Comunicação, Mailtec Consultoria and EAD.
- Business areas: Express and Business Solutions.

André Gorjão Costa

- Chief Financial Officer
- Organisational units: Regulation and Competition, Planning and Management Control, Finance and Risk Management, Accounting and Treasury, and Financial Services.
- Subsidiary companies: Payshop.
- Business areas: Financial Services.

Dionízia Ferreira

- Organisational units: Business Customers, Retail Network, Customer and Business Support, Philately, Mail and Network Marketing, and Operations and Distribution.
- Subsidiary companies: CTT Gest, PostContacto and Mailtec Processos.
- Business areas: Mail.

Ana Jordão

- Organisational units: General Secretariat and Legal Advisory Services (except General Secretariat), Litigation, Human Resources and Organisation (all matters including relationships with ERCT - employees' collective representation structures, and excluding the matters of the CBD's competence), Purchasing and Logistics, and Physical Resources and Security.

The relationship with the Ombudsman is assured by CBD & CEO.

The curricula of the members of the Board of Directors are presented at the end of the current Report on Corporate Governance.

2.3. AUDIT BOARD AND STATUTORY AUDITOR

CTT's corporate activities are presently supervised by an Audit Board and a Statutory Auditor. Up to 24 August 2012, the composition was as follows:

Chairman: Pedro Manuel Guerreiro da Silva Costa

Members: Carlos Alberto Dores Costa, Maria de Lurdes Pereira Moreira Correia de Castro

Alternate Member: Sara Alexandra Ribeiro Pereira Simões Duarte Ambrósio

Statutory Auditor: PriceWaterhouseCoopers & Associados, SROC, Lda., represented by Jorge Manuel Santos Costa or Ana Maria Ávila de Oliveira Lopes Bertão

Alternate Statutory Auditor: José Manuel Henriques Bernardo, Statutory Auditor

As of 24 August 2012, the composition was as follows:

Chairman: Elsa Maria Roncon Santos

Members: Maria Fernanda Joanaz Silva Martins, Maria de Lurdes Pereira Moreira Correia de Castro

Alternate Member: Sara Alexandra Ribeiro Pereira Simões Duarte Ambrósio

The Statutory Auditor, elected by unanimous written decision of the shareholder on 24 October 2012, is a company:

Statutory Auditor: PriceWaterhouseCoopers & Associados, SROC, Lda., represented by José Pereira Alves or João Rui Fernandes Ramos

Alternate Statutory Auditor: José Manuel Henriques Bernardo, Statutory Auditor

In accordance with the Company's by-laws, the Audit Board has the following responsibilities:

- Examine, whenever considered necessary, and at least once a month, the Company's accounting records;
- Accompany the functioning of the Company and compliance with the legislation, the articles of association and the applicable rules;

- Be present at meetings of the Board of Directors whenever considered necessary;
- Request the extraordinary calling of a General Meeting whenever considered necessary;
- Examine the periodic situations presented by the Board of Directors during its management;
- Issue opinions regarding the budget, financial statements, inventory and annual accounts;
- Draw the attention of the Board of Directors to any matter that must be considered and issue opinions on any matter submitted to it by the Board;
- Monitor the preparation and disclosure process of financial information;
- Propose to the General Meeting the appointment of the Statutory Auditor;
- Receive communications of irregularities submitted by shareholders, company employees, and others.

The decisions of the Audit Board are made with the presence of a majority of the members in office and majority of votes cast.

In accordance with the Company’s by-laws, the Statutory Auditor or a Statutory Audit Firm, that may have an alternate, appointed by the General Meeting by proposal of the Audit Board, is responsible for examining the Company’s accounts and especially, in addition to the functions established in the law, perform all the examinations necessary for a statutory audit.

On January 2013, the Board of Directors approved the proposal for the fees of the Statutory Auditor for the provision of legal accounts review services for 2012, which maintained the values of the previous year, and includes the 10% reduction foreseen in Law 55-A/2010, 31 December (OE/2011).

In 2012, the remunerations of the Board of Auditors were 74,925.18 Euros, as detailed below, and those of the Statutory Auditor were 81,320.28 Euros.

FROM 1 JANUARY 2012 TO 24/08/2012

BOARD OF AUDITORS	Chairman	Member	Member
Annual fixed remuneration (€)	22,308.00	16,731.00	16,731.00
Reduction arising from Law 12-A/2010 (€)	1,115.00	836.55	836.55
Reduction arising from Law 64-B/2011 (€)	2,119.66	1,589.48	1,589.48
Effective annual remuneration (€)	19,073.34	14,304.97	14,304.97

FROM 24/08/2012 TO 31/12/2012

BOARD OF AUDITORS	Chairman	Member	Member
Annual fixed remuneration (€)	12,107.33	9,080.50	9,080.50
Reduction arising from Law 12-A/2010 (€)	0	0	0
Reduction arising from Law 64-B/2011 (€)	1,210.73	908.05	908.05
Effective annual remuneration (€)	10,896.60	8,172.45	8,172.45

2.4. REMUNERATION COMMITTEE

The Remuneration Committee is not a corporate body. It is appointed by the General Meeting and, in accordance with CTT’s by-laws, determines the remuneration of the members of the corporate boards.

Up to 23 August, the Remuneration Committee was composed of the following members:

Chairman: Dina Carvalho Santos
Members: Cristina Maria Pereira Freire
Rita Maria Pereira da Silva

Currently no new members were elected.

3. Exercise of the right to vote and shareholder representation

In accordance with article 9 of the Company's by-laws, the General Meeting is made up of the shareholders with the right to vote.

Each 100 shares correspond to one vote in the General Meeting.

Any shareholder with a voting right can be represented in the General Meeting according to the terms of the Companies Code.

The shareholders will indicate, in a letter directed to the Board of the General Meeting, the person who will represent them at the General Meeting. No shareholder can be represented by more than one person at the same General Meeting.

By unanimous corporate written decision of the sole shareholder – (the State) of 18 November 2007, paragraph 8 was introduced in article 9 of the by-laws, forbidding voting by correspondence.

There is no period during which the shares are blocked from participation in the General Meeting.

The members of the Board of Directors and Audit Board must be present at General Meetings and participate in its work, but, in that capacity, will not have the right to vote. The Statutory Auditor must be present at the General Meeting that approves the annual report.

In accordance with the Company's by-laws, a General Meeting is called by registered letter directed to all the shareholders at least 30 days before the meeting, with express indication of the matters to be dealt with.

The deliberations will be made by a majority of votes of the shareholders, present or represented in the General Meeting, whenever the law does not require a higher number.

4. Corporate Rules

4.1. CODE OF ETHICS

The image and identity of organisations depend increasingly, in addition to their economic and financial performance, on the principles, values and behaviour they adopt.

This development becomes even more important when applied to a corporate setting, as in the case of CTT, due to its corporate responsibility, the dimensions of its economic impact and the employment which it generates, and its presence and activity throughout the country and abroad.

In this context, the CTT Code of Ethics was instituted in 2006, reflecting the Group's principles, vision and mission, as a formal reference within the institution for the personal and professional conduct of all CTT's employees and managers, regardless of which company they work in and their type of contract of employment, or their status in the Group's hierarchy.

Article 14 of the appendix to Resolution 49/2007 of the Council of Ministers (RCM), of 28 March, relative to good governance principles in State Business Sector companies, establishes compliance with a code of ethics as a requirement.

The dissemination of the Code of Ethics is intended to achieve three objects:

- to consolidate the relationship of trust that CTT has built with its shareholder, customers, suppliers, partners, competitors, employees, other companies and social organisations, regulatory bodies and the public in general, hereinafter referred to as "stakeholders";
- to clarify to all the employees the standards of conduct they must observe continuously and scrupulously in their reciprocal relations and the relations which they establish, on behalf of the Company, with the stakeholders;
- to cement, together with all CTT companies and their employees, the common experience and shared values and standards of conduct that strengthen the elements by which CTT's culture is identified.

In accordance with CTT's Code of Ethics, the values arising from the standards of conduct applied refer to:

- a) protection of the shareholder and safeguarding of the public interest and CTT's physical, financial and intellectual assets and information;
- b) observance of the duties of loyalty, confidentiality, professional secrecy and responsibility by employees in performing their respective functions;

- c) good governance of CTT companies, institutional relationships with other bodies and disclosure and reliability of the information produced;
- d) business practices in scrupulous compliance with the legislation and regulations applicable to CTT's activities;
- e) resolution of conflicts of interest and submission of employees to limits regarding gifts, offers, invitations, value transactions and private transactions;
- f) interpersonal and chief – subordinate relations, relations with customers, suppliers, partners and regulators;
- g) maintenance of the quality and safety of the products and services rendered and fair competitive practices;
- h) recognition of equal opportunities, non-discrimination and respect for the intimacy of the private lives of employees, and guarantee of safety and well-being in the workplace;
- i) relations with public communications bodies and marketing and advertising practices;
- j) corporate responsibility and sustainable development.

The full text of CTT's Code of Ethics is available for consultation on the Company's official website (www.ctt.pt).

Awareness and training oriented towards ethical, socially responsible conduct, giving priority to respect for employees and protection of the environment, are included at all levels both for different departments and for staff members in initial, continuous and development training.

For example: training actions carried out for the certification of management systems (quality, environmental and safety at work standards), which involved nearly 29,500 employee/courses in 2012; training in ecologically friendly and defensive driving for 279 drivers of light vehicles motor-cycles to reduce road accidents, fuel consumption and pollution; and staff enhancement through the incentive to improve their academic qualifications, both in the context of the New Opportunities Centre, through which 179 school certificates were awarded, or under the worker-student statute, which, together, represented 16% of all hours of training.

With a view to the adoption of ethical, non-discriminatory behaviour by the management, an e-learning course has been developed on "Good practices in

human resources management – equal opportunities and non-discrimination", addressing the subjects of gender equality, deficiency and inclusion, active ageing and harassment at work, which will be disseminated during 2013.

With the approval of the Code of Ethics, an Ethics Committee was created which is responsible for implementing, monitoring, interpreting and clarifying doubts and omissions in the Code of Ethics. This is coordinated by the Director of Human Resources and Organisation, and also includes the Director of the Communications Foundation and the Director of Auditing and Quality. The Ethics Committee reports to CTT's Board of Directors through the Chief Financial Officer. The electronic address of the Committee is comissaoetica@ctt.pt

In 2012, the Ethics Committee analysed a communication received through the Ethics mailbox, and gave its opinion in accordance with current procedures.

In the area of strengthening Corporate Governance practices, procedures were defined for reporting irregularities related to non-compliance with standards of conduct, and published on the group website. The approved procedures establish:

- a) the means by which irregular practices can be reported, including the persons authorised to receive such reports;
- b) the way that the reports will be handled, including a guarantee of confidentiality, if so requested by the declarant.

Considering the nature of such reports, the Board of Directors delegated supervision of the process for reporting irregularities to the Ethics Committee, making it responsible for assessing the efficiency with which it is applied in the CTT Group and making the adjustments deemed necessary for its gradual improvement.

Responsibility for technical support to the Ethics Committee in terms of the operation of this system for reporting irregularities is entrusted to the Auditing and Quality Department, which is responsible for:

- a) Processing the reports, ensuring that they are recorded and carrying out a preliminary analysis;
- b) Identifying and acting on important reports;
- c) Proposing to the Ethics Committee whether the reports analysed should be filed or corrective measures taken.

According to the procedures approved by the Board of Directors, confidential treatment of reports received is guaranteed, and the principle of prohibition of retaliation against people reporting irregularities through this mechanism is preserved.

4.2. APPLICABLE LEGAL REGIME

Article 7, number 1 of Decree-Law 558/99, with the wording of Decree-Law 300/2007, establishes the primacy of private legislation as the legal regime applicable to State owned corporations such as CTT.

However, article 8, numbers 1, 2 and 3, articles 11 and 12, number 1, article 13, number 1 and article 15 of this Decree-Law establish various limits for the protection of the public purposes of these companies, as follows:

- Subjection to national and EU competition rules;
- Observance of the principle of financial transparency;
- Subjection to the general and specific strategic guidelines defined by the Council of Ministers and by the Minister of Finance and Minister responsible for the sector;
- Subjection to financial control to determine the sustainability, legality, economy and the efficiency and effectiveness of management;
- Obligation to provide adequate information and documents to the Minister of Finance and Minister for the Sector to enable the economic and financial situation and prospects for evolution to be understood, as well as the efficiency of management and to ensure good management of public funds;
- The directors are subject to the Public Managers' statute;
- Management must be governed by "good management" criteria.

5. Management and risk control system

During 2012, work continued on the implementation of the action plan for corporate risk mitigation ("Top 11 Risks"), started in the last quarter of 2011. The objective of this programme, which constitutes one of the pillars of the Risk Management System, is to respond effectively to the main weaknesses detected in the organisation and duly reflected in its risk profile. Of the 21 actions contained in the plan, one has already been completed and 13 are in progress.

During this period, following the management and monitoring model recommended for the action plan, monthly progress reports were prepared and submitted to the Board of Directors.

At this stage of the execution of the action plan, the results obtained do not enable corporate risks ("Top 11 Risks") to be completely mitigated. Nevertheless, various recommendations and important documents have already been produced and approved, notably the Information Security and Classification Policy, the internal manual for the establishment of partnerships and the new Innovation Management model, which will be implemented in 2013.

In June 2012, with a view to reinforcing the Group's involvement in and commitment to risk, the Board of Directors approved the creation of a Risk Management Committee. This collegiate body is intended to be a channel to aggregate the different visions and awareness of the departments involved, particularly on the strategic importance of systematised risk management in the current context of any organisation, as a guarantee of its sustainability.

5.1. PRINCIPAL RISK FACTORS INHERENT IN CTT'S BUSINESS

The ever-increasing complexity of business models and processes, and their supporting information technologies, complemented by the current challenges presented by the business environment (e.g. liberalisation, legal and regulatory requirements, competition), reflect a new reality for CTT. In such a dynamic environment, successful management of the Group and its business depends to a large degree on the ability to foresee and control potential events which may occur to threaten our defined strategic objectives.

The Top 11 risks which could compromise the achievement of CTT's strategic objectives and sustainable growth are:

- **Markets and competition:** In the context of shrinking postal traffic, the total opening of the market represents a challenge for CTT, in view of the new legal and regulatory environment which will soon exist. Market

segmentation and internationalisation are basic responses to the entry of new players and increased competition. The management of this risk is entrusted to the Regulation and Competition department, which is responsible for pro-actively monitoring the evolution of the regulatory standards issued by national and international bodies, and supporting the Group's business areas. This risk is already under continuous, dynamic management by the department responsible, which has developed various initiatives towards mitigation.

- **Innovation and development:** Innovation and modernisation in terms of new ideas, products, processes and approaches to the market is a critical success factor for CTT's future. The management of this risk is the responsibility of the Strategy and Development department, which continuously monitors and analyses a variety of sources (e.g. postal operators, software houses, professional associations, and technology forums) with a view to identifying solutions which could be applied by CTT.

- **The State as Stakeholder:** As part of the State Business Sector, CTT is strongly affected by guidelines and decisions issued by the State as stakeholder, which presents a multitude of documents, sometimes contradictory. In this context, the definition of the model for the privatisation of CTT and its specific realisation, planned for the end of 2013, is of vital importance to the group's future. Managing relations with the State as stakeholder, and the risk which this involves, is a concern for the Board of Directors, which has actively interacted with the authorities in the postal and financial sectors.

- **Obligation to provide universal coverage:** Ensuring the provision of universal coverage, as established in the concession contract which will remain in force until at least 2020, represents a responsibility with a high cost, and at the same time an opportunity for the group's strategic objective. The management of this risk is the responsibility of the Regulation and Competition department and the Strategy and Development department, and the associated mission, among other tasks, is to determine the net cost of Universal Postal Service and effective mechanisms to pay for it.

- **Customer focus and loyalty:** The growth and sustainability of CTT depend heavily on the provision of a service focused on customer satisfaction. It is therefore fundamental to anticipate, assess, respond to and monitor customer needs, offering appropriate products and services, at competitive prices and with increasing quality levels. The management of this risk is the concern of those responsible for business areas and the Retail Network and Large Customers channels.

- **Human Resources management:** Human resources are CTT's greatest asset. The production process depends heavily on its employees, who must be prop-

erly managed, fostering their motivation and involvement in achieving the group's strategy. The management of this risk is the responsibility of the Human Resources and Organisation department, in coordination with the Board of Directors. The new unified Company Employment Agreement was successfully concluded in 2013.

- **Partnerships:** The correct choice of partners, whether for core business, financial services and new business, or as service providers and suppliers, is a factor of ever increasing importance in determining the group's ability to compete and create value for stakeholders. The management of this risk is the responsibility of the business areas and corporate services departments.

- **Information Management:** Analysis and decision-making on the basis of well-selected, relevant, reliable, consistent and confidential information are crucial for the efficient definition, implementation and management of the group's business strategy. The management of this risk is the responsibility of the Information Technology department and Planning and Management Control.

- **Information Technologies:** The growth of the business requires robust, flexible technologies, in line with needs, appropriate for increasing commercial effectiveness and supporting the business strategy. Furthermore, focusing on digital business requires the development of information systems and technologies which support this mode. The management of this risk is in the hands of the Information Technologies department.

- **Strategic alignment:** Carrying out the business strategy implies clear, constant alignment with the strategic objectives, critical success factors, strategic action plans and operations carried out by the various departments. The management of this risk is entrusted to the Board of Directors and the Strategy and Development department.

- **Culture of profitability analysis:** The existence of a culture of analysis and maximisation of profitability is crucial for the sustained growth of CTT. Regular, systematic assessment of the cost/benefit ratio at the level of products and services, customers and investment projects is a critical success factor. The management of this risk is the responsibility of the Accounting and Treasury and the Finance and Risk Management departments.

5.2. INTERNAL CONTROL

CTT has resources, namely its Auditing and Quality department, to ensure that it assesses the efficiency and effectiveness of the internal control systems of organisational departments and those of its subsidiaries. This department is also responsible for Compliance and for Group policy to prevent money laundering and financing of terrorism.

The Board of Directors has established a policy of rigor, transparency and responsibility, which allows a culture of control at all levels of the organisation.

In addition to identification of the risk factors of the business activities, and the allocation of specific responsibilities to ensure that actions identified are executed on a timely basis, formal and informal channels of information and communication have been established to enable business activity to be monitored.

The aim of the internal control system in force at CTT is to ensure, to a reasonable degree of certainty, that the following objectives are achieved:

- efficient, economic use of resources;
- efficient, effective operations;
- complete, reliable financial information;
- compliance with the applicable policies, plans, procedures, laws, standards and regulations;
- detection and reporting of serious risks to the group's activity, as well as risks of corruption and associated offences;
- compliance with the principles of transparency, equality, competition, impartiality, good faith and good management;
- adherence to concerns on sustainability and social and environmental responsibility.

As a management instrument at all levels of the organisation, the internal control system is founded on the following five components:

Controlled environment – determines the functioning of the organisation and influences the behaviour of its employees, forming the basis for the other components of the internal control system.

This chapter highlights the following:

- CTT's organisational structure, with definition of the reporting lines, mission and functions of the various units of the organisation;

- the documents containing the delegation of competencies, which define the limits and acts delegated to the different management levels within the framework of the approved plans and budgets;

- the Regulation for the Board of Directors and the function of the Company Secretary in exercising the permanent functions established in articles 446-C, 446-E and 446-F of the Commercial Companies Code;

- the Code of Ethics (distributed to all employees) encapsulating CTT's values and standards of conduct, which must be observed by all directors and employees, and the Ethics Committee which is responsible for analysing, dealing with and responding to reports submitted to it by stakeholders;

- the Discipline Manual, which serves as a support for manager training and is available for consultation by employees;

- the Compliance Manual, designed to mitigate the risks arising from the use of CTT's financial system for money laundering and financing terrorism;

- training as a decisive strategic vector for improving employee performance;

- approval of the Guiding Principles of the Information Security and Classification Policy;

- issue and dissemination of a vast body of standards and procedures which regulate the activity of CTT Group companies, in all their different areas of activity.

Risk assessment, management and control – in CTT, risk management and control is assumed throughout the organisation (central services and business areas), firstly by the management and, through mutual cooperation, by the employees in general.

The Finance and Risk Management department is responsible for the centralised coordination of the whole CTT risk management process, helping to create a risk-aware culture and managing the planning and implementation of action programmes/projects against identified risks.

The Auditing and Quality Department, within its scope of action, considers the known or potential risks in order to define the annual internal audit plan, through which it analyses the quality, integrity and effectiveness of the internal control system associated with materially important operations and processes. It identifies improvements and good practices to be implemented by the departments audited, with a view to mitigating risks and/or potentially damaging events resulting in operational inefficiencies and losses.

The Auditing and Quality Department is also responsible for:

- **Compliance** identification and monitoring of the risks inherent in the financial activities carried on by CTT, with a view to ensuring compliance with moral standards and respect for the applicable legal and regulatory provisions, as well as the recommendations and guidelines issued by the competent regulatory/supervisory bodies;
- **Inspection** assessment of internal procedures and practices which allow or might lead to irregular and corrupt behaviour, particularly embezzlement, fraud and bribery, in order to act to develop processes to recover the company's threatened values and/or to adopt preventive measures against occurrences of the same nature.

As recommended by the Council for the Prevention of Corruption, an Enforcement Report was prepared on the Plan for the Prevention of Risks of Corruption and Associated Offences, including reference to managing conflicts of interest.

Control activities, based on defined policies and procedures, with a view to ensuring both compliance with instructions issued by superiors, or supervision of risks related with the pursuit of business objectives (specifically including: authorisations, checks, reconciliations, indicator analyses, safeguarding of assets and segregation of functions).

In addition to the control activities carried out by the various units of the organisation, the actions of the following should be noted:

- the Board of Directors, in support and management of economic, environmental and social performance through the following instruments: CTT strategic plan, annual plan and budget, monthly control indicators, control meetings for the planning and publication of quarterly, half-yearly and annual reports;
- the Investment Committee, responsible for assessing and issuing opinions on investment projects for amounts greater than 50,000 Euros;
- the Credit Committee, responsible for credit risk management and analysis policies, and the evolution of customer debt in arrears;
- the Property Management Committee, responsible for strategic planning and management of property, investment planning and fostering optimum profitability from property assets;
- the external audit service provider (KPMG).

Information and communications – formal and informal channels have been established for information and communications, allowing Group activities to be monitored; in particular, the activities and results obtained from all actions in the socio-economic and environmental areas are communicated both internally and externally.

Supervision – CTT's business activities are inspected by the Supervisory Board and by a Statutory Auditor, in accordance with the terms of the Company Articles and the Commercial Companies Code.

In accordance with the good governance principles of State Business Sector companies, established by Resolution No. 49/2007, the Group's accounts are additionally audited by an independent body, KPMG.

The mission of the Ombudsman is the defence and promotion of customers' legitimate rights and guarantees, as well as helping to increase trust in relations between CTT and its customers. He carries out investigations and formulates recommendations to the Board of Directors, with a view to correcting any discriminatory practices which might occur, proposing measures to improve the efficiency of the services provided.

Under current legal requirements, ICP – ANACOM (National Communications Authority) monitors CTT on a regular basis for compliance with its Universal Postal Service concession contract.

6. Investor relations

6.1. SPECIAL DISCLOSURE DUTIES

CTT has a single investor – the State – and has no debt securities in the market. The Chief Financial Officer (CFO) and Financial Department are responsible for relations with financial markets. The provision of information to the various State bodies is the responsibility of Planning and Management Control, General Secretariat and Legal Advisory Service, and the Accounting and Treasury department.

Without prejudice to the provisions of Commercial Law regarding information to shareholders, under the terms of Order No. 14,277 of 14 May 2008 of the Finance Minister, the Company submits the following to the Inspectorate General of Finance and the Directorate-General for the Treasury and Finance:

- Annual and multi-year activity plans, within 10 days after their approval;
- Annual budgets, including estimates of financial operations with the State, within 10 days after their approval;
- Annual and multi-year investment plans and the corresponding sources of financing, within 10 days after their approval;
- Documents presenting the annual individual and consolidated accounts, reports of independent auditors and annual supervision report (Report and Opinion of the Supervisory Board and Legal Certification of Accounts), at least 15 days before the date of the Annual General Meeting;
- Quarterly reports on budget execution, together with reports by the supervisory organisation if required, within 30 days after the end of the period to which they refer;
- Copies of the Minutes of General Meetings and unanimous decisions, in writing, within 15 days after they are held;
- Any other information and documents requested for monitoring the state of the Company and its activities, within 10 days from the request being made unless a different deadline is indicated.

6.2. INFORMATION ON THE COMPANY'S WEBSITE AND THE STATE BUSINESS SECTOR (SEE) WEBSITE

In addition to the documents mentioned above, as from 2008 CTT must provide information through the System for the Collection of Economic and Financial Information, developed to respond simultaneously to the requirements of three bodies: Directorate-General for the Treasury and Finance (DGTF), Inspectorate General of Finance, and Parpública.

Whenever justified, update the information published on DGTF's State Business Sector companies' website.

All the documentation mentioned must also be sent to the Economy and Employment Ministry (MEE) / Secretary of State for Public Works, Transport and Communications.

Quarterly data are also sent to MEE for entry into the SOR (Reporting Solution), a system for reporting and filing indicators for the strategic monitoring of companies under concession.

CTT publishes its Report and Accounts annually, including detailed information on the Company. This information is also published on its website (www.ctt.pt). Since 2006, CTT has also published its half-yearly Report and Accounts as at 30 June.

7. Supplier relations

In its relations with suppliers, CTT respects equal opportunities, transparency, rigor, fairness and confidentiality.

The objective of CTT's supply chain management is not only to purchase on the best terms, but above all to improve the practices of the Company and its suppliers with a view to building mutually advantageous partnerships.

In 2011, CTT launched a Responsible Purchasing Policy, which includes rules on supplier relations. For CTT, respecting, maintaining and promoting high standards of social, ethical and environmental behaviour in its activities and its sphere of influence is of crucial importance. In order to reinforce its values of fairness, solidarity and social development, CTT expects its suppliers to adopt identically responsible behaviour. The incorporation of these targets into the products or services designed, purchased and commercialised by CTT companies will allow the Group to achieve the performance objectives which it has set in the ambit of its sustainable development strategy.

CTT requires its suppliers to declare that they are familiar with its Responsible Purchasing Policy and its Code of Ethics, and encourages them to establish objectives which will improve their practices and performance on social, ethical and environmental issues through a process of responsible/sustainable purchasing, based on the principle of continuous improvement at all levels of the supply chain.

CTT will look for evidence of adherence to these principles in the supply chains of its suppliers, including sub-contractors and raw material producers.

The supplier accepts the possibility that it may be audited to verify its respect for these principles, the results of the audit being shared with the supplier and CTT companies.

CTT may consider violation of the principles defined in its Procurement Policy as breach of contract.

With the publication of Decree-Law No. 18/2008 – which approved the Public Contracts Code – on 29 January 2008, and its entry into force on 29 July, CTT became subject to this code, being considered an awarding body. In order to comply with the new law, in 2008 CTT developed new internal instructions on the rules to be observed in the procurement of goods and services, which took effect on 25 July of the same year. It should also be mentioned that, as required by the Code, a process for subscription to the VortalGOV electronic platform was set up in 2009, allowing purchases to be made exclusively by electronic means.

Following Circular No. 8,784 of 15 November 2010 of DGTF, the object of which is the progressive use of the National Public Procurement System (SNCP) by SEE companies, in November 2010 CTT requested the National Public Procurement Agency to provide the information necessary to join as a voluntary purchasing body; this culminated in the signature of the adherence contract on 25 January 2011.

On 1 June 2010, the CTT Procurement Manual came into force. Practices and rules were defined aimed at maximising savings, guaranteeing the purchase of goods and services, and obtaining the best terms in contracts, thus ensuring compliance with current legislation, particularly the Public Contracts Code. Subsequently, as a result of Order No. 438/10-SETF of 10 May, advised in Circular No. 6132 of 6 August 2010, these practices and rules were transferred to the Procurement Manual.

This change required the segregation of functions between the procurement body and that which places the order, with the latter being responsible for justifying the need for the contract and obtaining authorisation for the expenditure.

The launch of a supplier registration and qualification process, originally planned for first half 2012, did not take place.

State guidelines to tax-payers liable to Corporate Income Tax and VAT, which made it obligatory for CTT to create an Electronic Post Box among its Via CTT services, opened a new perspective for a final solution, and the possibility was considered of altering it so that Via CTT could be used as the entry point for supplier registration and qualification. At the same time, a process is underway to allow the inclusion of a supplier assessment component, which would increase its scope and encourage closer relations between CTT and its suppliers.

Purchasing processes are based on technical specifications and programmes of inspection and trials (where applicable); compliance is assessed on a sample basis or by unit (depending on the type of product or service).

Evaluation of suppliers' proposals is based on objective criteria, which include compliance with predefined conditions in accordance with the nature of the product or service to be acquired, and certification in accordance with environmental quality standards. Adjudication criteria include: quality certification, IT systems, environmental management, safety management, and health and safety at work.

In this respect, the acceptance of proposals for evaluation requires prior presentation of a declaration in which the competitors must prove commitments to, and compliance with, social laws and regulations, including:

- no outstanding debts for social security contributions in Portugal;
- no administrative or legal penalty applied for the undeclared employment of workers legally subject to payment of taxes and social security contributions as per the terms of the standards which impose this obligation in Portugal.

In the terms of Resolution No. 70/2008 of the Council of Ministers (RCM), which refers to RCM No. 65/2008, the technical specifications for purchases complied with environmental criteria, expressed in:

- Environmental Certification NP EN ISO 14001;
- Applicant's declaration, on his word of honour, stating that he has not been the object of bribes and/or non-monetary sanctions for non-compliance with environmental laws and regulations;
- Presentation of a summarised description of Environmental Management procedures (training plans and initiatives to mitigate environmental impacts associated with service provision).

Notwithstanding the legal decision, environmental criteria have been introduced into the assessment of proposals, where justified by the object of the contract.

The implementation of the indicators defined in RCM No. 65/2007 of 7 May to evaluate the extent to which the above environmental criteria have been introduced into purchasing processes (excluding sub-contracting for civil construction works) was as follows at the end of 2012:

- Percentage of pre-contractual procedures with environmental criteria as a proportion of all pre-contractual procedures: 70%;
- Percentage of contracts with environmental criteria as a proportion of all contracts signed: 98%.

These two indicators, for which the objectives in 2010 were 50%, are in line with the values for 2011, with no significant fluctuations.

Environmental criteria are not applicable to a few of the contracts awarded, due to their low commercial value and small volume (normally one-off purchases to meet urgent orders).

Of the 1,073 procurement processes which concluded with an award, 6 were for competitive tenders issued under the Public Contracts Code, representing around 60% of the total value awarded.

Use of the Framework Agreements established with eSPap – Entidade de Serviços Partilhados da Administração Pública, I.P. (which resulted from the merger of several public institutes, among them the Agência Nacional de Compras Públicas, E. P. E.) was consolidated with the award of 4 consultancies under such agreements, for procurement in the areas of fuel, IT consumables and motor vehicle insurance.

The commitments assumed are checked regularly during the validity of the contract, specifically through the periodic submission of payment receipts (social security and taxes), and non compliance is considered as breach of contract.

The start of 2012 was marked by entry into production of the new B2B electronic business platform (e-Compras) for internal requirements for products under previously established contracts. e-Compras was developed internally, allowing the rental and maintenance costs of the old system to be reduced. The system implemented, based on catalogues, allows other purchasing processes to be expanded, and therefore constitutes a potential for optimising CTT's resources.

The development of a new application has started for the management platform for issuing working clothes to workers, which is crucial for supporting the new procedure for supplying uniforms – in future the user will request only the items required, instead of being issued automatically with items when their minimum period of use expires.

TOP 25 SUPPLIERS OF CTT, SA – 2012

	Name	thousand Euros
1	PORTUGAL TELECOM - ASSOCIAÇÃO DE CUIDADOS DE SAUDE - PT – ACS	37,169
2	COMPANHIA IBM PORTUGUESA, S.A.	18,316
3	PT COMUNICAÇÕES, S.A.	11,043
4	MAILTEC PROCESSOS, LDA *	7,320
5	LOCARENT COMPANHIA PORTUGUESA DE ALUGUER DE VIATURAS, S.A.	7,209
6	CASA DA SORTE ORGANIZAÇÃO NOGUEIRA DA SILVA, S.A.	6,535
7	PETRÓLEOS DE PORTUGAL PETROGAL, S.A.	6,203
8	TMN TELECOMUNICAÇÕES MÓVEIS NACIONAIS, S.A.	4,746
9	CONFORLIMPA (TEJO) MULTISERVIÇOS, S.A.	3,677
10	ENDESA ENERGIA, S.A. - PORTUGAL BRANCH	3,527
11	TAP TRANSPORTES AÉREOS PORTUGUESES, SGPS, S.A.	3,113
12	CTT GEST GESTÃO DE SERVIÇOS E EQUIPAMENTOS POSTAIS, S.A. *	3,085
13	MAILTEC COMUNICAÇÃO, S.A. *	2,797
14	VIA VERDE PORTUGAL GESTÃO DE SIST. ELECTRÓNICOS DE COBRANÇA, S.A.	2,118
15	TRACAR TRANSPORTES DE CARGA E COMÉRCIO, S.A.	2,106
16	PAYSHOP (PORTUGAL), S.A. *	1,927
17	2045 EMPRESA DE SEGURANÇA, S.A.	1,802
18	MAILTEC CONSULTORIA, S.A.	1,666
19	CTT EXPRESSO SERVIÇOS POSTAIS E LOGÍSTICA, S.A. *	1,592
20	NOVABASE DIGITAL TV – ENG.DE SISTEMAS PARA TV INTERACTIVA, S.A.	1,356
21	TIEL TRANSPORTES E LOGÍSTICA, S.A.	1,274
22	LEASEPLAN PORTUGAL – COM. E ALUG. AUTOMÓVEIS E EQUIP., UNIP., LDA	1,178
23	SATA INTERNACIONAL SERVIÇOS E TRANSPORTES AÉREOS, S.A.	1,155
24	COMPANHIA DE SEGUROS AÇOREANA, S.A.	1,047
25	EDP SERVIÇO UNIVERSAL, S.A.	1,007

* CTT subsidiaries

The largest group of purchases by amount awarded were information/communications systems and facilities / buildings, which together represented over 50% of the total.

Contracts for institutional advertising services (RCM No. 47/2010 of 25 June)

In order to increase the transparency of advertising procurement by the State and other public bodies, RCM No. 47/2010 was published on 25 June 2010.

CTT is governed by this resolution, since it applies to public companies holding concessions for public services, relative to public service obligations.

The objective of this resolution is to construct a set of appropriate guidelines for the specific nature of the messages transmitted in the institution’s advertising, with the aim of improving efficiency and transparency in the procurement of advertising of this kind.

No institutional advertising was carried out in 2012.

8. Research and Development

CTT is a national reference as a physical and electronic communications hub, and has an international reputation. As a leader in providing postal solutions, the Group has been using new information and communications technologies to innovate and develop products and services with a strong digital component, providing a quality response to customers' needs which is environmentally friendly and ensures the Group's competitiveness and leadership in view of the growing challenges of technological substitution, liberalisation and privatisation.

CTT has developed new, integrated solutions with added value for its physical mail customers, offering an increased range of services from financial services to the digitalisation and management of documents.

The main initiatives carried out in 2012 are described in the body of the Annual Report and Accounts (see section 5.2. Innovation and development).

9. Sustainability

9.1. SOCIAL RESPONSIBILITY

CTT's activity is of an intrinsically social nature. By definition, all Portuguese citizens are customers of the Company, whether active or passive (receivers of mail). With close to 141,000 customers/day in the post offices and an average of 1 postal item per address, accessibility is one of CTT's hallmarks.

Every day, around 5,300 postmen deliver approximately 5 million postal items to the Portuguese and other residents throughout the country. In terms of counter service, there are 2,720 counter employees available in around 748 post offices to advise on the product or service that best meets the needs of each customer, complemented by a network of agencies which offer postal products and services.

As the national concession operator providing Universal Postal Services, CTT is committed to offer this postal service on a permanent basis, throughout the country, with specified quality and at accessible, non-discriminatory prices.

CTT's counter service network (post offices and agencies) is well above the European Union average (data from 2011/2012), both in terms of postal coverage (average area in km² per fixed postal establishment: EU average - 43, Portugal - 36), and in terms of postal density (average number of inhabitants per fixed postal establishment: EU average - 4919, Portugal - 4136).

With its distinctive brands, CTT can provide varied proximity services for companies and individuals, and is a unique means of reaching and learning about the population and the country. The proximity services offered to the State and to companies, in addition to being a matter of social responsibility, are an important business vector for the Company within the Post office network and the Business Solutions business area.

CTT acts as an important agent for maintaining social and territorial cohesion in the country. CTT is actively engaged in the search for, and provision of, more efficient counter service and delivery solutions, safeguarding the present characteristics and attributes of the services rendered.

In terms of establishing dialogue with communities and other interested parties, CTT has sought to deepen the identification of its most critical stakeholders and the subjects which are most important for them, as their opinions influence how the Company carries on its business. To demonstrate this involvement and its concern to provide a response to interested parties, CTT has introduced and maintains specific sustainability objectives in its business scorecard, from its top management to its operating units.

Conveying this attitude to the Group's nearly 13,000 employees has become a continuous process, implemented in the field through integrated quality, e-environment and safety management systems in the main operating units and Group companies; certification of its counter and distribution services (the widest coverage in Portugal, in terms of the number of localities served); validation of its employees' competencies; training in first aid and fire-fighting; reinforcing the clauses in its contracts with suppliers covering its Ecological Purchasing Strategy; and providing sponsorship to important institutions and projects. Protocols have been signed to support underprivileged groups or population sectors at risk, greenhouse gas emissions are monitored continuously, and projects are developed to improve energy efficiency and preserve biodiversity.

The Company has donated approximately 400 million Euros to some 20 social responsibility projects, in support of groups that are underprivileged or at risk. Outside Portugal, CTT has cooperated in actions with the Portuguese-Speaking African Countries and Latin American countries with which it has ties. In the context of the Project for the Struggle Against Poverty and Social Exclusion, CTT is associated with the "Banco do Beb " (The Baby Bank) Christmas campaign "Achar Querido N o Chega", the aim of which is to collect essential items for that association to help new-born babies. CTT offers cooperation packages for sending items donated to Banco do Beb  (The Baby Bank) free of charge from any post office in the country, including the Azores and Madeira, and last year carried around 1,700 packages.

Increasing the positive impacts of its activities, and controlling or reducing the negative, are two of CTT's biggest challenges, while always considering the needs of its different internal and external stakeholders, both primary and secondary. Actions carried out to achieve these objectives are reported in section 5.3. of the Annual Report and Accounts.

9.2. SOCIAL REPORTING

CTT has prepared a Single Report in the terms of Law No. 105/2009 of 14 September and Implementing Order No. 55/2010 of 21 January. It carried out the prior consultation and communication provided for in these statutes, particularly with regard to the Workers' Commission, and presented the same to the authorised inspection service of the Ministry responsible for labour affairs. The Social Balance Sheet includes the segmented distribution of numbers and amounts relating to the Company's social activities, which are considered as significant for assessing its sustainable management from a social standpoint.

In addition to the Single Report, the Company reports certain social surveys to the INE and the Ministry of Solidarity and Social Security, namely:

- quarterly: Vacant Positions Survey and Cost of Labour Index;
- half yearly: Survey of Earnings and Duration of Work;
- annually: Social Protection Survey;
- every three years: Survey of Continuous Professional Training.

9.3. ENVIRONMENTAL MANAGEMENT POLICY

CTT's operations are essentially non-industrial and the input of materials (raw materials and semi-finished consumables) in its supply processes is relatively low. Its direct environmental footprint is limited. An empirical comparative analysis indicates that the weight of the environmental impact of its activities would be considerably lower than the Company's contribution to the generation of value in Portugal's economic and social structure, around 1/7, using emissions of greenhouse gases (GHG) as a proxy.

Despite this, CTT has intervened in this area for many years, having pioneered the commercial use of electric vehicles in Portugal, and regularly publicising the issue of the environment on its stamps over several decades.

Environmental variables were first more accurately identified in 2005, and the associated impacts assessed. At that time a systematic, structured approach was taken to the environmental dossier, which has brought CTT today to a situation where it is active in all major environmental issues: from waste management to energy efficiency and carbon management, by way of implementation of environmental management systems, investigation and use of sustainable mobility solutions, responsible purchasing, environmental training and finally certification of its buildings and sustainable marketing. Today, all these areas of work are reflected in quantifiable targets and reported with standardised indicators.

In this area, in addition to the introduction of electric vehicles on urban routes, electric bicycles have also been purchased for postmen on their rounds.

In terms of environmental strategy, CTT's first priority was to concentrate on the area of legal compliance with environmental requirements. At that time the Company was already investigating the potential for creating environmental management value for its stakeholders: reducing costs, launching innovative products and businesses, building customer loyalty, improving its image, reinforcing employee motivation, etc.

The view taken on this issue was, in the first place, that adopting an environmental agenda displays

an attitude of corporate responsibility (preserving scarce resources and guaranteeing future generations a more viable planet), but also that it made economic sense, and could provide an important contribution to the Company's bottom line.

In October 2007, the Board of Directors approved CTT's environment policy; in April 2011 this Policy was reviewed and updated, and was included in the Group's integrated Policy together with the Quality and Safety Policies, worded as follows:

"The CTT Group reaffirms the adoption of the principles of sustainable development as an integral part of its business strategy and practices. All those who work in the Group assume clear commitments in terms of continuous improvement, in the areas of quality, the environment, and health and safety at work."

Pollution prevention

- Identify environmental aspects, assessing and controlling their impacts, resulting from CTT's activities.
- Promote the sustainable use of natural resources, particularly plant-based resources, and the rationalisation of consumption of materials.
- Reduce, re-use and recycle the waste produced.
- Adopt the best working practices and technologies available, promoting an increase in the environmental and energy efficiency of the Company's equipment, installations and fleet in order to reduce atmospheric emissions.

Legal Compliance

- Respect current laws and regulations and other requirements signed by CTT.

Communication and Awareness

- Disseminate CTT's policy and performance report to all employees, the general public and other interested parties.
- Train, raise awareness, increase competencies and motivate employees and all those whose work represents CTT to foment the adoption of good practices.

Continuous Improvement

Measure, assess, review and systematically improve the effectiveness of the Management System."

9.3.1. Analysis of the environmental impact of the Company's products and services

The environmental impact of the postal sector results from the Company's operations in the areas of processing, delivery and transport of mail items, based on a network of logistical platforms.

The main environmental impacts of CTT's operations are:

- depletion of fossil fuel reserves through the consumption of fuel and electricity;
- climate change, derived from emissions of atmospheric pollution, particularly greenhouse gases produced by the fleet and buildings;
- depletion of natural resources due to the consumption of paper (mainly an indirect impact);
- direct and indirect waste (particularly resulting from the use of paper, a basic product for communication in a physical format).

Other environmental impacts might be mentioned, particularly noise emissions and water consumption.

Implementation of the Company's environmental management systems allowed greater identification of environmental aspects and impacts, regularly updated in accordance with standardised methodologies. Likewise, the process of taking out Environmental Responsibility Insurance for the whole CTT Group implied exhaustive identification of environmental risks, mitigation measures and associated costs. Various mitigation measures have been developed and analysed.

CTT has contracted an external legal service to assess its compliance with environmental laws.

9.3.2. Definition of environmental standards for suppliers and partners

In recent years environmental clauses have been introduced into the technical specifications for consultancies and procurement, which might include the presentation of a certificate under standard NP EN ISO 14001, and a declaration by the applicant stating that he has not been the object of bribes and/or non-monetary sanctions for non-compliance with environmental laws and regulations. Likewise presentation of a summary of the procedures inherent in environmental management.

Environmental criteria are applied, such as energy efficiency, reduction of greenhouse gases (GHG), prevention of pollution emissions, incorporation of recycled materials, minimisation of direct and indirect impacts on conservation and specific environmental criteria relating to vehicles, lights, energy, computer equipment, etc. In 2011, the Sustainable Purchasing Policy was approved so that the rules and procedures governing suppliers would be clearer and more objective; in the area of supplier qualification and selection, a tool was developed for supplier registration and qualification on-line.

In the same field, in accordance with the guidelines of the Ecological Purchasing Strategy Policy, the use of environmental criteria in the selection of suppliers and partners was systematised (see section 5.3. of this Report).

9.3.3. Identification of environmental objectives/targets

CTT has assumed explicit public commitments for continuous improvement of its environmental reporting system, gradual implementation of structured environmental management systems in the most environmentally sensitive areas, energy efficiency of its vehicle fleet and property, decreased emissions, waste management, and reducing consumption.

CTT has also adopted a set of quantified environmental targets for 2013, some voluntary, other arising from public policy guidelines and its participation in sector-wide initiatives (PostEurop and IPC), such as the introduction of alternative (electric) vehicles, a reduction in CO₂ emissions, reductions in energy, fuel and paper consumption, an increase in the percentage of waste recycled, participation in international carbon management programmes, etc.

These targets (together with others relating to the other Sustainability pillars) are made public in the chapter “Commitments” in the 2012 Sustainability Report. They are expressed in over thirty different actions and apply to all CTT Group companies, having been transferred into the various existing management systems.

Among the actions initiated or carried out in 2012, particular note should be taken of: the energy certification of buildings; testing of the KangooZ.E. electric vehicle after a protocol was signed with Renault Portugal; a competitive tender for the purchase of 150 electric bicycles; the renewal of a substantial part of the heavy vehicle fleet; and the maintenance of the environmental scorecard in postal delivery offices, post offices and sorting centres, etc. As a result, CTT’s environmental performance maintained its trajectory of continuous improvement.

9.3.4. Environmental certification in accordance with international standards

CTT now has various Environmental Systems implemented and functioning, certified under ISO Standard 14001. In CTT-Correios, the three main mail operating centres are certified (North, Lisbon and Centre), covering sorting and transport activities and with a total of more than 1,300 employees. The subsidiaries have maintained their existing environmental certification (CTT Expresso and EAD) or have obtained new certification (Tourline).

10. Compliance with legal guidelines – DGTF Circular No. 843 – 30 January 2013

Management objectives

Financial and sectorial management objectives for the period 2012-2014 were defined by the shareholder.

The main challenge for this period is to prepare the company and obtain shareholder support for privatisation. Strategic objectives were established to meet this challenge, which will be measured qualitatively and quantitatively at the end of the period.

The four principal strategic objectives are:

- Preparation of the Company for privatisation, programmed for the end of 2013, in accordance with the Economic and Financial Assistance Programme and the express wish of the State.
- Maximisation of the Company's value through medium and long term structural measures, and development of the different areas of activity, with special focus on activities outside the scope of the Universal Postal Service.
- Reorganisation and development of the organisation to face the challenges of the future, in the context of a shrinking and recently liberalised market for postal services.
- Guarantee that the service obligations arising from the Universal Postal Service concession contract are covered, with proper, assured quality standards, and ensuring the medium and long term sustainability of the Company and these services.

At the same time, annual objectives were set which are to be accomplished by different, successive stages, since strategic objectives are defined for various stages with different steps and targets.

Since this Board of Directors was appointed on 24 August 2012, the annual objectives for 2012 were basically to ensure that the principal targets defined by the previous board were accomplished. The evolution of the market, in terms of postal traffic and reduced economic activity, might prejudice the accomplishment of some of the proposed targets, and the present Board of Directors must take the measures necessary to reduce the impact of these external factors.

Therefore no quantitative targets have been set for this year at the level of operations, profitability and efficiency.

For 2013 and 2014, the accomplishment of the annual objectives will be evaluated by the use of financial indicators of profitability, growth and efficiency, based on the guidelines laid down in RCM 70/2008.

Financial Risk Management

CTT's activities imply exposure to financial risks, namely: credit risks - risk that its debtors will not meet their financial obligations; market risks - basically associated with interest rates and rates of exchange, which are in turn associated, respectively, with: (i) the risk of the impact of variations in market interest rates on financial assets and liabilities and on earnings, and (ii) the risk of fluctuation in the fair value of financial assets and liabilities as a result of changes in exchange rates; liquidity risks – the risk that difficulties will be encountered in meeting obligations related to financial liabilities.

Risk management focuses on the unpredictability of financial markets, monitoring the markets to mitigate adverse effects arising from this unpredictability on the Company's financial performance.

Financial risk management includes the Company's Risk Management System, coordinated by the Finance and Risk Management department, reporting directly to the Board of Directors. The Finance and Risk Management department and the Accounting and Treasury department are responsible for centralised management of financing operations, application of surplus liquidity, exchange transactions and risk management with the company's counterparts, and monitoring exchange risk, according to the policies approved by the Board of Directors.

The table below shows the degree of compliance with the instructions contained in Order number 101/09-SETF, of 30 January, with a view to mitigating the effects of volatility in the financial markets on the Company's financial situation.

Financial Risk Management - Order number 101/ 09-SETF, of 30-01	COMPLIED WITH			Description
	Y	N	N.A.	
Procedures adopted for risk assessment and corresponding measures to cover the risk				
Diversification of finance instruments			X	Not applicable due to the low level of indebtedness.
Diversification of different ways of calculating interest available			X	
Diversification of creditors			X	
Contracting risk cover management instruments as per market conditions			X	
Adoption of an active policy to strengthen permanent capital				
Consolidation of remunerated liabilities: transformation of short term liabilities into M/ L term, on favourable terms			X	Not applicable due to the low level of indebtedness.
Contracting operations to minimise their financial cost (all-in cost)			X	
Minimising provision of real guarantees			X	
Minimising restrictive clauses (covenants)			X	
Measures adopted to optimise the Company's financial structure				
Adopting a policy to minimise allocation of third-party capital to financial cover of investments	X			Investments greater than 50,000 Euros are subject to the approval of the Investments Committee, which assesses profitability criteria and other aspects, and issues an opinion. Self-financing of activities and investments continues to be Company strategy.
Option for investments with proven social/ company profitability, benefit from CF and OC	X			
Use of self-financing and receipts from disinvestment	X			
Inclusion in Report and Accounts				
Description of the evolution of the average annual rate for financing in the last 5 years	X			See Chapter 7 - Economic and Financial Analysis in Report and Accounts
Interest paid annually on remunerated liabilities and other charges over the last 5 years	X			
Analysis of the efficiency of the financing policy and the use of financial risk management instruments			X	
Reflexão nas DF 2011 do efeito das variações do justo valor dos contratos de swap em carteira			X	

Key: CF - Community Funds; OC - Own Capital; S - Yes; N - No; N.A. - Not Applicable

Limits on growth of indebtedness

In 2012, CTT's indebtedness grew by 2.8%, within the maximum growth limit of 5% set in Order number 155/2011 of 28 April of MEF (see Chapter 7. Economic and Financial Analysis).

Evolution of Average Payment Time to Suppliers

In the context of the “pay on time” programme, the average payment time (APT), calculated as provided in No. 6 of the annex to RCM 34/2008, of 22 February, and redefined by Order number 9870/2009 of 13 April, evolved as follows in the period 2011/2012:

ATP (days)	1st Q 2011	2nd Q 2011	3rd Q 2011	4th Q 2011	1st Q 2012	2nd Q 2012	3rd Q 2012	4th Q 2012
CTT, SA (parent company)	40	37	35	34	34	36	36	39
Consolidated Data	40	39	40	38	38	37	38	38

According to legal guidelines and information on the parent company supplied to DGTF for publication on its website.

Arrears in payments

Payments in arrears by CTT, SA (parent company), at 31 December 2012, in the terms of DL 65-A/2011 of 17 May:

Payments in arrears (€)	0-90 days	90-120 days	120-240 days	240-360 days	> 360 days
Purchases of goods and services	3,198,144.25	102,988.07	151,507.46	1,898.78	11,649.95
Capital acquisitions	291,453.40	0.00	525.58	3,505.50	5,944.73
Foreign Postal Administrations ⁽¹⁾	1,795,368.79	2,111,937.86	2,807,753.90	4,748,335.83	27,867,913.80

(1) The values for Foreign Postal Administrations refer to international business and are based on an offsetting procedure. The accounts for Administration of Mail are settled on average after approximately 2 years, as agreed by the Universal Postal Union and other bilateral agreements. The amounts receivable are:

	0-90 days	90-120 days	120-240 days	240-360 days	> 360 days
Foreign Postal Administrations – amounts receivable (€)	3,709,124.00	315,671.00	3,800,236.00	4,859,027.00	28,488,428.00

Special reporting duties

As stated in Chapter 6, point 6.1., of the Corporate Governance Report, the Company carries out its special reporting duties, in the terms of Order number 14277 of 14 May of the Minister of State and Finance.

Shareholder’s recommendations

At the Annual General Meeting on 31 May 2011 the following recommendations were made:

For 2011 and subsequent years (Minute No. 35):

I. Adoption of an action plan to mitigate the risks identified;

II. Implementation of a risk management system, which should be an essential tool for managing CTT’s main risks systematically, and for identifying and managing possible future risks.

III. Comply with RCM No. 34/2008, of 22 February, which approved the “Pay on time” Programme.

This recommendation has been implemented and is in execution, having been accomplished through a risk mitigation action plan which identified the Top 11 risks.

For 2012 and subsequent years (Minute No. 36):

- Compliance with the plan to reduce operating costs

A plan to reduce operating costs was defined in February 2011, which was transferred to 2012 and is currently under implementation (see point 7.3 – Programme to reduce operating costs in the Report and Accounts).

Remunerations

In 2012, human resource management was conditioned by the measures applied under the State Budget (OE) for 2011 and by the Government guidelines to the State Business Sector on salaries policy and reducing operating costs. In the State Budget for 2012, the suspension of holiday and Christmas bonuses was added to the reduction in remunerations, the prohibition of salary increases, and other decisions which remained in force (Articles 20 and 21 of Law No. 64-A/2011, of 30 December).

The reduction in remunerations determined by article 19 of Law No. 55-A/2010, of 31 December (OE/2011), and maintained in force by No. 1 of article 20 of Law No. 64-B/2011, of 30 December (OE/2012), continued to be applied. The reduction in remunerations continues to apply to remunerations higher than 1,500 Euros and to be implemented at a progressive rate between 3.5% and 10%. For the Company's governing bodies, this measure was added to the reduction of 5% in the fixed monthly remuneration already applied from 1 June 2010, as a result of the application of Law No. 12-A/2010, of 30 June. The standards on contracts for the purchase of services, prohibition of salary increases and lunch bonuses (respectively articles 22, 24 and 28 of Law No. 55-A/2010), transport allowance, overtime work and night work (as stipulated in article 31 of the same Law) were also complied with. The suspension of holiday and Christmas bonuses is applicable to workers whose basic monthly salary is higher than € 1,100; those who earn between €600 and €1,100 will continue to receive the bonuses, at the reduced level provided for in the law.

According to article 29 of Law No. 64-B/2011 (OE/2012), a policy must be adopted based on increased cost containment, not permitting any variable component in remunerations during the period in which the Stability and Growth Programme for 2010-2013 is in force.

Application of article 32 of the Public Manager's Statute

The unanimous company decision, in writing, of 24 August 2012, with supplement, determines that credit cards will not be issued (article 32 of Public Managers' statute DL 71/2007) and this is in effect.

Public Tender Processes, National Public Purchasing System and State Vehicle Fleet

Following Circular No. 8,784 of 15 November 2010 of DGTF, the object of which is the progressive use of the National Public Purchasing System (SNCP) by SEE companies, in November 2010 CTT requested the National Public Procurement Agency to provide the information necessary to join as a voluntary purchasing body; this culminated in the signature of the adherence contract on 25 January 2011.

In 2012, the use of the Framework Agreements established with eSPap – Entidade de Serviços Partilhados da Administração Pública, I.P. (which resulted from the merger of several public institutes, among them the Agência Nacional de Compras Públicas, E. P. E.) was consolidated with the award of four consultancies under such agreements, for procurement in the areas of fuel, IT consumables and motor vehicle insurance.

Of the 1,073 procurement processes which concluded with an award, 6 were for competitive tenders issued under the Public Contracts Code, representing around 60% of the total value awarded.

Principle of Gender Equality

No. 1 of RCM No. 19/2012 of 23 February establishes that the adoption of the equality plans provided for in RCM No. 70/2008 of 22 April is mandatory in all bodies of the State Business Sector (SEE). CTT has been improving its management indicators in this respect, by continuous monitoring of the variables relevant for the gender equality policy, and some periodic management indicators have been disaggregated. Half-yearly management reports have been produced, in which CTT has been clarifying the human resources situation in each company, as a function of gender, and some indicators have been included in the Company's Sustainability Report.

On 18 February 2013, CTT signed a protocol with the Commission for Equality in Work and Employment (CITE), through the Forum of Companies for Equality (IGEN), in which it undertook to incorporate the principles of gender equality into its management strategy, with a view to promoting professional equality and ending all discriminatory practices. A package of good practices will result from this effort, which will be shared.

No. 2 of RCM No. 19/2012 defines the multiple presence of women and men in appointments to administrative and supervisory positions in SEE as an objective. The appeal of the Vice-President of the European Commission to the chairmen of the Boards of the largest companies to make a commitment to reaching a target of 30% women on their boards by 2015 and 40% by 2020 is mentioned. In the case of CTT, women already make up 40% of the Board of Directors and 100% of the Supervisory Board.

Cost Reduction Programme

At the Annual General Meeting of 30 May 2012 the Board of Directors was recommended to:

“...be diligent in complying with the Plan to Reduce Operating Costs”.

The Cost Reduction Programme (PRC) presented by CTT to the shareholder proposed a reduction of 103.2 M€ in 2012 as compared with 2009 (-15%). The table below presents the degree of compliance with the Cost Reduction Programme at the end of 2012, before the holiday bonus payable in 2013 was included in the accounts (in April 2013). A reduction of 110.1 M€ (16%) was achieved, higher than that planned (+6.9 M€).

Cost Reduction Programme

COST REDUCTION PROGRAMME

Units: thousand Euros	2009	2010	2012	Δ 2012 /2009		Δ2012 /2010	
External Supplies and Services	277,824	273,333	246,568	-31,256	-11.3%	-26,765	-9.8%
Staff costs	409,845	399,357	331,016	-78,829	-19.2%	-68,341	-17.1%
Total	687,669	672,690	577,584	-110,085	-16.0%	-95,106	-14.1%

The decision of the Constitutional Court on this aspect of the 2013 State Budget that the holiday bonus payable in 2013 constituted a special case, leading to an additional 17.8 M€ in staff costs, meant that the Company did not comply with the programme, as the final reduction compared to 2009 was 93 M€ (-14%), 1.5 percentage points (-11 M€) less than expected.

Cost Reduction Programme

COST REDUCTION PROGRAMME

After the decision that the measure was unconstitutional

Units: thousand Euros	2009	2010	2012	Δ 2012 /2009		Δ2012 /2010	
External Supplies and Services	277,824	273,333	246,416	-31,408	-11.3%	-26 917	-9.8%
Staff costs	409,845	399,357	348,751	-61,094	-14.9%	-50 606	-12.7%
Total	687,669	672,690	595,167	-92,502	-13.5%	-77 523	-11.5%

(see point 7.3 – Cost Reduction Plan in Report and Accounts).

REDUCTION IN THE NUMBER OF STAFF AND MANAGERS IN CTT, SA

Designation	2010	2011	2012
Staff Costs (€)	358,241,533	333,610,047	299,712,012
Governing Bodies (G.B.) Costs (€)	1,010,645	594,527	643,292
Reductions resulting from Legislative changes (€)	0	87,471	206,598
Increases resulting from Legislative changes (€)	0	0	0
Managers Costs without G.B. (€)	3,752,152	3,314,063	2,435,222
Reductions resulting from Legislative changes (€)	0	308,327	705,660
Increases resulting from Legislative changes (€)	0	0	0
Staff Costs, without G.B. and Managers (€)	353,478,735	329,701,457	296,633,498
Reductions resulting from Legislative changes (€)	0	22,956,539	35,840,268
Increases resulting from Legislative changes (€)	0	0	0
Redundancies / Indemnities (€)	1,560,839	1,223,086	1,132,976
Total No. of HR (G.B. + Managers + Staff)	12,484	11,932	11,402
No. in Governing Bodies (G.B.) (number)	11	9	11
No. of Managers without G.B. (number)	30	26	26 ⁽¹⁾
No. of Staff, without Managers and G.B. (number)	12,443	11,897	11,365

(1) - In the new organisational structure, effective from 1 January 2013, the number of Managers is 22.

Principle of a Single Treasury

By Order number 2349/12 SET of 26 December 2012 of the Treasury Ministry, the exception applied for by CTT was authorised, i.e. for the non-application of the Principle of a Single Treasury published in Article 17 of Law No. 12-A/2010, of 30 June, which altered article 63 of Law No. 3-B/2010, of 28 April (General State Budget for 2010). Because CTT provides financial services, which are of great importance in its operational plan and the majority of its financial flows on account of customers and partners, it qualifies as a public financial company, and is therefore not subject to Law No. 12- A/2010.

Recommendations of audits carried out by the Court of Auditors

No audits have been carried out by the Court of Auditors in the last two years (2011-2012).

The table below systematises the information on compliance with legal guidelines:

Compliance with Legal guidelines	Compliance			Quantification	Justification
	Y	N	N.A.		
Management Objectives:					
The current Board of Directors was appointed on 24 August 2012. Therefore no quantitative targets have been set for this year at the level of operations, profitability and efficiency.					see point "Management Objectives"
Financial Risk Management	X				see Table "Financial Risk Management" see point "Limits on growth of indebtedness"
Limits on Growth of Indebtedness				2.8%	see Table "Evolution of APT"
Evolution of APT to suppliers	X			equal to 2011 (0 days)	see Table "Arrears in payments"
Arrears in Payments	X			43,098,928 €	ver quadro "Atrasos nos pagamentos"
Special Reporting Duties	X				
Recommendations of Shareholder on approval of accounts:					
Recommendation 1 - Adoption of an action plan to mitigate the risks identified	X			100%	
Recommendation 2 - Implementation of a risk management system	X			100%	
Recommendation 3 - Comply with RCM No. 34/ 2008, of 22 February, which approved the	X			100%	
“Pay on Time” programme.	X			100%	
Remunerations:					
Non payment of management bonuses, as per article 29 of Law 64-B/ 2011					
Governing Bodies - reduction of remunerations as per article 20 of Law 64-B/ 2011	X			60,737 €	
Governing Bodies - reduction of 5% as per article 12 of Law No. 12-A/ 2010	X			28,341 €	
Governing Bodies - suspension of holiday and Christmas bonuses, as per article 21 of Law 64-B/ 2011	X			117,519 €	
External Auditor - reduction of remunerations as per article 26 of Law 64-B/ 2011				-	
Other employees - reduction of remunerations as per article 20 of Law 64-B/ 2011	X			4,238,311 €	
Other employees - suspension of holiday and Christmas bonuses, as per article 21 of Law 64-B/ 2011	X			32,307,617 €	
Article 32 of EGP					
Use of credit cards	X			0%	see point “Application of article 32 of EGP”
Reimbursement of personal representation expenses				0%	

Compliance with Legal guidelines	Compliance			Quantification	Justification
	Y	N	N.A.		
Public Tender Processes					
Standards for public tender processes	X				
Standards for participants in public tender processes	X		X		"Yes" for CTT Espresso and "Not applicable" for other subsidiaries.
Contracts subject to prior approval of Credit Transfer			X	0%	In 2012 no tenders were awarded with value equal to or greater than 5M€, i.e. which needed prior approval of Credit Transfer
Adherence to the National Public Purchasing System (SNCP)	X			4.3%	% vol. of purchases subject to consultation in SNCP
Vehicle Fleet	X			-105	
Principle of Gender Equality	X				
					In the case of CTT, women already make up 40% of the Board of Directors and 100% of the Supervisory Board. See initiatives taken in the point "Principle of Gender Equality".
Cost Reduction Plan					
Staff Costs	X			-9.8%	see Table "Cost Reduction Plan"
Third Party Supplies and Services	X			-12.7%	
Reduction in the Number of Staff and Managers					
Number of Staff	X			-8.7%	
Number of Managers	X			-13.3%	
Principle of a Single Treasury			X		CTT is not subject to the terms of article 77 of Law No. 55-A/2010, of 31 December because it offers financial services among its operations

11. Curricula of the members of the Board of Directors

Brief curricula of the members of the Board of Directors:

- Francisco de Lacerda, 52. Chairman of the Board of Directors and Chief Executive Officer (CEO) of CTT - Correios de Portugal, S.A. since 24 August 2012.

He has a degree in Business Management from Universidade Católica Portuguesa, where he was Assistant Professor between 1984 and 1985. Started his professional career as an Analyst and Manager in different financial companies. In 1990 he joined the management team of the banking and insurance areas of the José de Mello's Group, being Chief Executive Officer of Banco Mello, Non Executive Director of Companhia de Seguros Império and Chairman or Member of the Board of several banks and financial companies part of Banco Mello's Group, both in Portugal and abroad, until 2000.

Between 2000 and 2008 he was Executive Member of the Board of Directors of Millennium BCP, where he was responsible for the Group's activities in Europe from 2003 to 2007, and for the Investment Bank between 2005 and 2007. In the Millennium Banks in Europe, he was a Member of the Supervisory Board after having been Deputy CEO between 2001 and 2003 in Poland, Member of the Senior Board in Greece, Deputy Chairman of the Board of Directors in Turkey and Chairman of the Board of Directors in Romania. He was also on the Boards of Millenniumbcpi Investimentos and Fundação Millenniumbcpi.

From 2010 to 2012 he was CEO of CIMPOR – Cimentos de Portugal, and Chairman of the Board of Directors of Sociedade de Investimento Cimpormacau SA., before becoming Chairman of the Board of CTT. Since 2008 he has also been a Non-Executive Director of EDP Renováveis.

He is member of the Advisory Boards of Master in Finance of Católica, Business & Economics (since 2006) and of Nova, Business & Economics (since 2011).

- Manuel Castelo-Branco, 44. Vice Chairman of the Board of Directors and Deputy Chief Executive Officer (CEO) of CTT – Correios de Portugal, S.A. since 24 August 2012. Chairman of the Board of Directors of the following CTT companies: Mailtec – Holding, SA (since 24 September 2012), Tourline Express Mensajería, SLU (since 27 November 2012), CTT Expresso – Serviços Postais e Logística, S.A. and EAD - Empresa de Arquivo de Documentação S.A. (both since 30 November 2012).

Degree in Business Management from Universidade Católica Portuguesa, and graduate of Harvard Business

School Advanced Management Program (AMP). In his professional career he has held positions at a number of companies including Unilever - Elida Fabergé, Personal Care, Sara Lee Foods Portugal - Ind. Nobre, Sonae Distribuição - Continente/Worten and COTY Benckinser Group. From 2000 to 2007 he was Director General of Media Capital Telecomunicações.

In 2007 he became Executive Director of Reditus Gestão SGPS and other Group companies, until he was appointed to the CTT Board of Directors. From 2010 to 2012 he continued to act as Strategy and Business Consultant for Saudi Oger - a Lebanese/Saudi Arabian Holding company.

- André Gorjão Costa, 40. Executive Member of the Board of Directors and Chief Financial Officer (CFO) of CTT – Correios de Portugal, S.A. since 24 August 2012 and Chairman of the Board of Directors of Payshop Portugal, S.A. since 30 November 2012.

Degree in Economics, specialising in Business Economics, from the Economics Faculty of Universidade Nova de Lisboa. He has taken various courses in Corporate Finance, Banking, Strategy, Organisational Communications and Team Leadership and Management. He started his professional career in 1996 as a member of the Mergers and Acquisitions, Financial and Structured Financing Consultancy department of Banco Santander Business Bank, Portugal, and in 1999 took on the role of Cross Border Coordination. He joined Banco Santander Totta as Deputy Director in 2000, where he acted as Commercial Director of Corporate Banking, Executive Director of Corporate Banking Portugal, and from 2007 until he joined CTT, he was Coordinating Director for Structured Debt, Debt Markets and Asset Financing in Portugal, part of Santander, Global Banking & Markets Europe. From 1998 to 2002 he was guest assistant lecturer in Competitive Strategy at the Economics Faculty of Universidade Nova de Lisboa.

- Dionízia Ferreira, 47. Executive member of the Board of directors of CTT – Correios de Portugal, S.A. since 24 August 2012.

Chairman of the Board of Directors of CTT Gest - Gestão de Serviços e Equipamentos Postais, S.A., Chairman of the Management Board of PostContacto – Correio Publicitário, Lda. and Manager of Mailtec Processos, Lda since 30 November 2012.

Chairman of the Board of Directors of Payshop Portugal, S.A. from 24 September 2012 to 30 November 2012.

Degree in Business Management from Instituto Superior de Economia e Gestão, she started her professional career as Commercial Manager in Dun & Bradstreet in 1988, and subsequently worked in the financial sector - Barclays Bank, Grupo Mello, Banco Mello and Banco Comercial Português - mostly as Commercial Director,

among other positions. Between 1995 and 1997 she was in charge of the Companhia de Seguros Império (Insurance) branch in London. When Banco Comercial Português acquired Banco Mello, Ms. Ferreira led the merge of both banks retail networks.

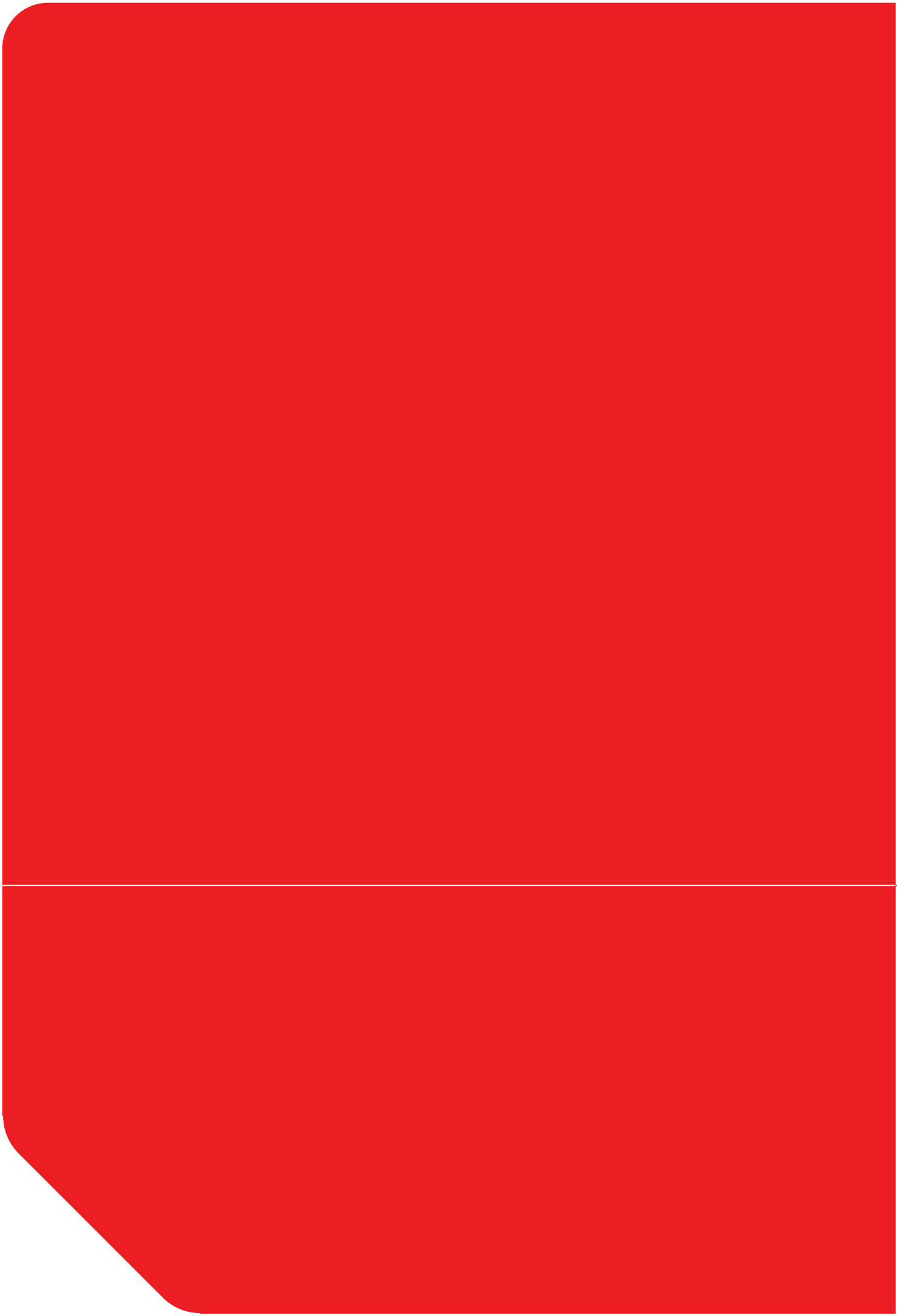
Between 2003 and 2007 she was Commercial and Marketing Director for CTT where she was responsible for the Operational and Strategic Marketing of the Retail Network, the design and launch of Correio Verde, the optimisation of the mix of the products and services portfolio and for preparing the launch of Banco Postal.

After her first experience in CTT she became CEO of PayUpGroup (Portugal and Spain) and Coordinating Director of Barclays Bank New Branches. Before returning to CTT to join the new management team, she was responsible for the disinvestment of Banco Popular.

- Ana Jordão, 57. Executive Member of the Board of Directors of CTT – Correios de Portugal, S.A. since 24 August 2012.

Degree in Law from the Faculty of Law of Universidade Clássica de Lisboa. She made her professional career in the Public Administration from 1978, holding various positions. She was Deputy Secretary of State for National Defence, Deputy Secretary of State for the Budget, Deputy Secretary-General of the Secretariat-General of the ex-Ministry of Territorial Planning and Administration, Head of Office of the Secretary of State for Fiscal Affairs, Member of the Inspection Commission of the Portuguese Securities Market Commission, and Director-General of the General Directorate of Customs and Special Consumption Taxes.

From 2006 to 2011 she was Director of Administrative and Financial Services of the Portuguese Parliament, and before joining the Board of Directors of CTT she was Deputy Secretary General of Parliament from January 2012.





part IV

Monitoring and Audit Documents

REPORT AND OPINION OF THE AUDIT BOARD

In compliance with the legal and statutory provisions, namely article 21 of the company's Articles of Association and articles 420, 452 and 508-D of the Portuguese Companies Code (Código das Sociedades Comerciais), the Audit Board hereby submits the report on its supervisory activity and issues its opinion on the Management Report, Individual Financial Statements, Consolidated Financial Statements, and on the Proposal for the Appropriation of Results of CTT – Correios de Portugal, S.A. (CTT, S.A.), all concerning the financial year of 2012.

In addition, with reference to the financial year of 2012 and under the terms of no. 17 of the Resolution of the Council of Ministers no. 49/2007, of 28 March, the Audit Board also hereby issues its opinion on:

- i) The fulfilment of the management objectives defined by the shareholder for the CTT Group and the corresponding assessment of the performance of the executive managers of CTT, S.A.;
- ii) The overall assessment of the governance structures and mechanisms in force at the company.

1. SUMMARY OF ACTIVITY

By unanimous written decision of 24 August 2012, the governing bodies of the company, including the current members of the Audit Board, which have supervised the activity of the company since that date, were elected for the three-year period 2012-2014.

In this regard, the Audit Board held meetings and accompanied the aspects deemed as relevant within the scope of the management of the CTT Group, having namely:

- i) Analysed the financial information periodically made available and the most financially significant contracts and issued quarterly reports to the shareholder;
- ii) Monitored the day-to-day management of the Group by reading the minutes of the meetings of the Board of Directors made available and the supporting documents, having requested clarifications and corresponding supplementary documentation whenever deemed necessary;
- iii) Held meetings with the Statutory Auditor and external auditors and took note of their work, namely the External Audit Report produced by the company KPMG & Associados – Sociedade de Revisores Oficiais de Contas, SA, responsible for the external audit of the individual and consolidated accounts of CTT, S.A. during the financial year of 2012;

iv) Monitored the implementation of the Risk Management System of CTT, S.A., the Risk Management Policy and the Risk Mitigation Action Plan, within the scope of the “Development and implementation of the risk management system” project;

v) Analysed the internal audit reports;

vi) Verified compliance with the law and with the articles of association and performed the verifications deemed necessary under the circumstances.

In addition, the Audit Board analysed the Management Report and the Individual and Consolidated Financial Statements of CTT, S.A., presented by the Board of Directors, having verified their clarity and rigour in characterising the activities carried out by the company in the financial year of 2012.

2. INTERNAL CONTROL AND RISK MANAGEMENT

The Audit Board took note of the work developed by the Statutory Auditor on the internal control systems, concluding that the majority of the aspects had already been identified in previous financial years, with particular emphasis on the efforts that have been made with a view to their resolution. In this regard, and due to its significance, it should be pointed out that some aspects within the scope of the information systems remain unresolved.

Among the aspects identified in the current year is the need to review the contingent liabilities arising from lawsuits and to reinforce procedures with a view to confirming the balances of third parties. It should be noted that, with regard to the first aspect, the Board of Directors reinforced existing provisions by about 11 million Euros.

In 2012, the project for the development of the Risk Management System in CTT was continued, with the implementation of the corporate risk mitigation action plan (“Top 11 Risks”), which aims at responding to the main weaknesses detected in the company and that were reflected in the risk profile.

With the objective of reinforcing the involvement and commitment of the entire organisation in this area, the Risk Management Committee was created in July 2012, which is intended to be “a centre aggregating the different visions and sensitivities involved, namely regarding the strategic importance that the systematised management of risks represents in the current context of an organisation”.

The Audit Board has accompanied the implementation of the corporate risk mitigation actions through the progress reports that are produced and considers that the elaboration of the business continuity plan and, within the latter, the disaster recovery plan, in order to avoid the risk of events that might undermine

the company's information systems and their support of the business, are a priority.

3. ACTIVITIES OF THE CTT GROUP

As an exclusively state-owned public limited company, CTT, S.A. carries out its main activities under a "Universal Postal Service" concession contract concluded with the State on 1 September 2000 and amended on 26 July 2006, following the publication of the Decree-Law no. 112/2006, of 9 June, together with other activities in a competitive environment.

It is important to mention that Law no. 17/2012, of 26 April was published during 2012. This law establishes the legal framework applicable to the rendering of postal services at arm's length in national territory, transposing the Directive of the European Parliament and of the Council of 20 February 2008 into national legislation.

The above-mentioned Law determines, in no. 1 of article 57, that CTT, S.A. is, in national territory, the provider of the Universal Postal Service until 31 December 2020, although no. 1 of clause 6 of the "Universal Postal Service concession contract" concluded between the State and CTT, S.A. on 1 September 2000, and amended on 26 July 2006, determines that said contract is valid for a period of 30 years, which would determine its termination only on 1 September 2030.

In this regard, it is important to mention that the implications of this reduction should be given prominence by the licensor and regulator within the context of a review and renegotiation of the concession contract.

In 2012, the activities of the CTT Group were conditioned by the combined effect of (i) the strong contraction of the economic activity, with the ensuing repercussions on demand for postal products; (ii) the increasingly less use of physical mail as a mean of communication, (iii) structural trends, reflecting the deepening of the full liberalisation process of the postal service market, as mentioned above, and the electronic substitution of physical mail and of (iv) the need to prepare the company's transition to the private context, in line with the privatisation strategy adopted by the State as shareholder, to take place in 2013.

Under these circumstances, aiming at promoting the emergence of new core businesses in growth areas in which CTT is a "natural owner" and at protecting the value in its basic mail business, the company implemented a Restructuring Programme, putting forward strategies involving (i) the defence of the core business mail, (ii) the establishment of a reference player in the Iberian express and parcels sector, (iii) the development of a comprehensive financial services platform and (iv) the development of business solu-

tions and Public Administration solutions, integrating the physical and digital worlds.

In the Mail business area, the company continued its efforts to rationalise, adapt and renew its offer and to develop more aggressive commercial policies, with a view to countering the downward trend in demand. There was, however, a reduction of 8.8% in addressed mail and of 4.6% in unaddressed mail relative to 2011.

In terms of Financial Services, in spite of the implementation of the strategy to expand and revitalise the portfolio of products and services, there was a decline of 23% in amounts handled, to 17,381 million Euros, and of 5.1% in the quantity of transactions, to 50.8 million.

Within the Business Solutions business area, the company continued to focus on hybrid communication solutions, developing offers that combine physical and digital communication.

In terms of human resources, there was a reduction of 4.8% in the number of employees in 2012, which came to 13 167 (permanent and fixed term employees) on 31 December. The policies of adjustment of the number of employees to the evolution of the businesses and of cost savings contributed to this result.

In terms of the sales and delivery network, the number of CTT post offices and postal delivery offices declined 4.5% and 4.4%, respectively.

The overall service quality indicator (255.4 points) exceeded the established target (100 points), having surpassed the result of 2011 (173.3 points) by about 82.1%. With regard to other sustainability indicators, and specifically with respect to the certification of the quality of services and operating centres, there was a stabilisation of the respective indices, with the exception of the certification of the customer and delivery services, which registered an improvement (3.5 p.p.).

In 2012, investments were made specifically directed at the reinforcement of productive infrastructures, computer equipment and the development of projects in the information systems and technologies area, in the amount of 14.2 million Euros (47.5% down on 2011), 97.7% of which were undertaken by CTT, S.A., CTT Expresso and Tourline.

4. FINANCIAL POSITION³

4.1. CTT, SA (parent company)⁴

The financial position of CTT, S.A. (parent company) at the end of 2012, expressed in the individual balance sheet, is solid with a solvency ratio of 35% (36% at the end of 2011) and a financial autonomy ratio of 26% (same as at the end of 2011).

Equity increased by 0.7%, whereas Assets increased by 1.83%. Short term cash investments in the money market of 431.5 million Euros, recorded under Cash and cash equivalents (45.4% of Assets), are worthy of note.

About 36.8% of Liabilities are composed of employees' benefit liabilities.

The cash flows generated by operations (119.0 million Euros) increased by 84.9 million Euros relative to the previous year, although receipts from customers only increased by 3.3 million Euros. That change is therefore due to the decrease of 35.6 million Euros in payments to suppliers and of 46.0 million Euros in payments to staff.

The dividends received from subsidiaries and income from financial investments (31.7 million Euros) enabled the investments in tangible and intangible fixed assets to be fully self-financed.

4.2. CTT (Group)⁵

The financial position of the CTT Group at the end of 2012, expressed in the consolidated balance sheet, is also quite solid, with a solvency ratio of 34.6% and a financial autonomy ratio of 25.7%.

Equity increased by 1.9 million Euros (0.7%), whereas Liabilities increased by 9 million Euros (1.2%).

The Group's operating income fell 6.5% (49.4 million Euros) to 711.7 million Euros in 2012, primarily concentrated in the Mail business area, followed by the Express business area. Financial Services registered an operating income which represents 11% of Mail.

Consolidated operating costs⁶ came to 619.3 million Euros, decreasing 38 million Euros (5.8%) in relation to 2011.

The Consolidated Cash Flow Statement shows that the operating activities, contrary to the previous year, generated sufficient funds to finance the Group's entire activity (128 million Euros).

5. ECONOMIC PERFORMANCE (GROUP)

Within the key consolidated activity indicators the following should be highlighted:

- The reduction of EBITDA to 92.4 million Euros (-11.0% relative to 2011), corresponding to a margin of 13% (-0.6 p.p. relative to 2011), with the performance of the Group's EBITDA having been supported by the Mail (56.9 million Euros) and Financial Services (24.2 million Euros) business areas which, overall, represented 87.8% of the consolidated EBITDA;

- The highest EBITDA margin was achieved in the Financial Services business area (41.1%), since it is a business whose remuneration is based on sales commissions, with the Mail business area having recorded the second highest EBITDA margin (10.6%).

The decrease of 30.9% in consolidated Net Income, which came to 38.6 million Euros, corresponding to earnings per share of 2.2 Euros, a net operating income margin of 5.4% and a return on equity of 14.1%.

Tourline Express was the only Group company that registered a negative net income.

6. MANAGER PERFORMANCE EVALUATION

The term of office of the current Board of Directors of CTT, S.A. began on 24 August 2012 and covers the financial years from 2012 to 2014.

No. 17 of the Resolution of the Council of Ministers no. 49/2007, of 28 March 2007, which approved the principles of good governance for State-owned companies, entrusts the Audit Board with the responsibility for evaluating the individual performance of the managers.

Since the Board of Directors was only elected on 24 August 2012, no quantitative objectives in terms of operations, profitability and efficiency were set for the year under consideration.

Taking into account the orientations of the shareholder with respect to the specific monitoring of compliance with the provisions on salary reductions laid down in Law no. 12-A/2010, of 30 June (for public managers and similar, from 1 June 2010) and in Law

³ Having CTT adopted in advance, in 2012, the IAS 19 standard issued by the International Accounting Standards Board (IASB) in June 2011 and adopted by the European Union through Regulation no. 475/2001 of the European Commission, according to which actuarial gains and losses, previously deferred and amortised over the estimated average period concerning future services provided by employees until their retirement age, will be immediately and only recognised in Other comprehensive income, it also restated the comparative values for 2011, with the consequent impact on its financial position.

⁴ Accounting Normalisation System (Sistema de Normalização Contabilística - SNC).

⁵ Consolidated IFRS data.

⁶ Excluding impairments, provisions, depreciation and non-recurring costs.

no. 66-B/2012, of 31 December (for office holders and other staff), the Audit Board asked the external auditors to verify proper compliance with said provisions. According to the information of KPMG & Associados – Sociedade de Revisores Oficiais de Contas, SA, and of Price waterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda, which analysed the salary reduction system implemented by CTT, S.A., no irregularities were found, and therefore compliance with said legal provisions by CTT can be confirmed.

In what concerns the Principle on State Treasury Unity, the exception of its fulfilment by CTT, due to the activity of provision of financial services, was authorised by the competent Government member.

In 2012, the company maintained an average payment period to suppliers of 38 days.

A human resources reduction policy was continued, taking advantage of, and stimulating, the natural departures and the reduction of fixed-term contracts due to the internalisation of the operations, which, associated to the remuneration policy adopted in accordance with the law, enabled CTT to achieve a 12.7% reduction in staff costs relative to 2011⁷.

Regarding External Supplies and Services, the reduction in costs achieved 9.8% relative to 2010 and 11.3% relative to 2009.

Thus, the Audit Board is of the opinion that the overall performance of the Board of Directors of CTT was positive.

7. GOVERNANCE STRUCTURE OF THE GROUP

With regard to the governance structure of the CTT Group, the Audit Board considers the following noteworthy:

- Based on the analysis carried out, it is observed that, following the amendments to the articles of association approved in the General Meeting of 29 May 2007 and through the unanimous written decision of the shareholder of 2 January 2012, the governance model in force at the company is adequate for its respective complexity and dimension, thus fulfilling the law, as well as the principles which in this regard are laid out in the Resolution of the Council of Ministers no. 49/2007, of 28 March, which approved the principles of good governance for State-owned companies.
- CTT, S.A. has been ensuring, since 2010, the rotation of the external auditor as a good governance policy. Thus, after the adequate procedure, CTT, S.A. awarded the external audit services for 2012 to the audit company KPMG & Associados – Sociedade de

Revisores Oficiais de Contas, S.A., which thus substituted BDO & Associados, SROC, Lda.

8. OPINION ON THE MANAGEMENT REPORT

The Management Report covers all the issues foreseen for this document in the Portuguese Companies Code (article 66) and in specific legislation on the State-owned company sector.

The Corporate Governance Report, attached to the Management Report, has the required content and complies with all the indications provided by the shareholder for its preparation in the current year, presenting in detail how CTT, S.A. fulfilled all the good governance principles approved for public companies through the Resolution of the Council of Ministers no. 49/2007, of 29 March, and no. 70/2008, of 22 April, being worth to emphasise the concern with ensuring compliance with the Recommendations of the Securities Market Commission, even though the company is not required to comply with said recommendations.

A special reference to the Sustainability Report which, once again, provides a significant detail, highlighting the different approaches and interactions with the stakeholders of the company, and at the same time explaining how, concerning those, the objective of value creation is pursued. In this regard, the Report reflects in depth the social and environmental responsibilities that have constituted a strategic challenge for CTT, S.A.

The Audit Board is thus of the opinion that:

- The Management Report for the financial year of 2012, submitted by the Board of Directors, should be approved.

9. OPINION ON THE INDIVIDUAL FINANCIAL STATEMENTS AND ON THE PROPOSAL FOR THE APPROPRIATION OF RESULTS OF CTT, S.A.

The Audit Board took note of the Legal Certification of Accounts arising from the examination undertaken by SROC PricewaterhouseCoopers & Associados, as well as the Report of the External Auditors, KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., with which it is in agreement.

The Audit Board analysed the individual financial statements prepared in accordance with generally accepted accounting principles in Portugal, having concluded that they present in a true and appropriate manner the financial position of CTT, S.A. on 31 December 2012 and the way how the results for the financial year then ended were determined, taking into account the emphasis mentioned in the Legal Certification of Accounts.

⁷ Relative to 2009, the reduction in staff costs came to 14.7%.

As part of its duties, the Audit Board verified that the set of individual financial statements of CTT, S.A., allows an adequate understanding of the company's financial position, results and cash flows.

In conclusion, the Audit Board is of the opinion that:

The Individual Financial Statements of CTT, S.A. for the financial year of 2012, should be approved;

The proposal for the appropriation of results presented by the Board of Directors, under which the net income for the financial year in the amount of 38,554,129.00 Euros should be distributed in full as dividends (sub-paragraph b) of article 25 of the Articles of Association and no. 1 of article 294 of the Portuguese Companies Code), should be approved.

10. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Audit Board took note of the Legal Certification of the Consolidated Accounts arising from the examination undertaken by SROC PricewaterhouseCoopers & Associados, as well as the Report of the External Auditors, KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., with which it is in agreement.

The Audit Board analysed the consolidated financial statements, prepared and presented in accordance with the international accounting standards (IAS/IFRS) adopted in the European Union, having concluded that they present in a true and appropriate manner the consolidated financial position of the CTT Group on 31 December 2012 and the way how the results for the financial year then ended were determined.

As part of its duties, the Audit Board verified that the set of Consolidated Financial Statements, allows an adequate understanding of the Group's financial position, results and cash flows.

The Audit Board is thus of the opinion that:

The Consolidated Financial Statements of the CTT Group for the financial year of 2012, should be approved;

Lisbon, 16 May 2013.

THE AUDIT BOARD

Elsa Roncon Santos, Chairman

Maria Fernanda Martins, Member

Maria de Lurdes Moreira Correia Castro, Member

CONSOLIDATED STATUTORY AUDIT REPORT

INTRODUCTION

1 We have audited the consolidated financial statements of CTT – Correios de Portugal, S.A., comprising the Consolidated statement of financial position as at 31 December 2012 (which shows total assets of 1,063,424,681 Euros and total shareholder's equity of 273,481,153 Euros, including non-controlling interests of 1,607,508 Euros, and a net income of 38,554,129 Euros), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and the corresponding notes to the accounts.

RESPONSIBILITIES

2 It is the responsibility of the Board of Directors to prepare the Management report and the consolidated financial statements which present fairly, in all material respects, the financial position of the Company and its subsidiaries, the consolidated results and the consolidated comprehensive income of their operations, the changes in consolidated equity and the consolidated cash flows, as well as to adopt appropriate accounting policies and criteria and to maintain appropriate systems of internal control.

3 Our responsibility is to express an independent and professional opinion on these consolidated financial statements based on our audit.

SCOPE

4 We conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from materially misstatements. Accordingly our audit included: (i) verification that the Company and its subsidiaries' financial statements have been appropriately examined and, for the cases where such an audit was not carried out, verification, on a sample basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the reasonableness of the estimates, based on the judgements and criteria of the Board of Directors used in the preparation of the consolidated financial statements; (ii) verification of the consolidation operations; (iii) assessing appropriateness and consistency of the accounting policies used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting, and (v) assessing the overall presentation of the consolidated financial statements.

5 Our audit also covered the verification that the consolidated financial information included in the Management report is consistent with the consolidated financial statements.

6 We believe that our audit provides a reasonable basis for our opinion.

OPINION

7 In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the consolidated financial position of CTT – Correios de Portugal, S.A. as at 31 December 2012, the consolidated results and the consolidated comprehensive income of its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

REPORTING ON OTHER LEGAL REQUIREMENTS

8 It is also our opinion that the consolidated financial information included in the Management report is consistent with the consolidated financial statements for the year.

30 April 2013

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:
José Pereira Alves, R.O.C.

STATUTORY AUDIT REPORT

INTRODUCTION

1 We have audited the financial statements of CTT – Correios de Portugal, S.A., comprising the Individual balance sheet as at 31 December 2012 (which shows total assets of 1,039,155,364 Euros and total shareholder's equity of 272,146,130 Euros, including a net income of 38,554,129 Euros), the Individual statement of income by nature, the Individual statement of changes in equity, and the Individual Statement of cash flows for the year then ended, and the corresponding notes to the accounts.

RESPONSIBILITIES

2 It is the responsibility of the Board of Directors to prepare the Management report and the financial statements which present fairly, in all material respects, the financial position of the Company, the results and the comprehensive income of its operations, the changes in equity and the cash flows, as well as to adopt appropriate accounting policies and criteria and to maintain an appropriate system of internal control.

3 Our responsibility is to express an independent and professional opinion on these financial statements based on our audit.

SCOPE

4 We conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. Accordingly, our audit included: (i) verification, on a sample basis, of the evidence supporting the amounts and disclosures in the financial statements and assessing the estimates, based on judgements and criteria of the Board of Directors used in the preparation of the financial statements; (ii) assessing the appropriateness of the accounting policies used and their disclosure, as applicable; (iii) assessing the applicability of the going concern basis of accounting; and (iv) assessing the overall presentation of the financial statements.

5 Our audit also covered the verification that the financial information included in the Management report is consistent with the financial statements.

6 We believe that our audit provides a reasonable basis for our opinion.

OPINION

7 In our opinion, the individual financial statements referred to above present, fairly in all material respects, the financial position of CTT – Correios de

Portugal, S.A. as at 31 December 2012, the results of its operations, the changes in equity and the cash flows for the year then ended, in accordance with generally accepted accounting principles in Portugal.

REPORTING ON OTHER LEGAL REQUIREMENTS

8 It is also our opinion that the financial information presented in the Management report is consistent with the individual financial statements for the year.

30 April 2013

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:
José Pereira Alves, R.O.C.

AUDITOR'S REPORT (Consolidated Accounts)

(This report is a free translation to English from the original Portuguese version)

INTRODUCTION

1 We have audited the consolidated financial statements of CTT – Correios de Portugal, S.A. (“the Group”), which comprise the Consolidated statement of financial position as at 31 December 2012 (which shows total assets of 1,063,424,681 Euros and total equity of 273,481,153 Euros, including non-controlling interests of 1,607,508 Euros and net income attributable to equity holders of the Group of 38,554,129 Euros), the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity and the Consolidated statement of cash flows for the year then ended and the corresponding Notes.

RESPONSIBILITIES

2 The Board of Directors is responsible for the preparation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union that give a true and fair view of the financial position of the group of companies included in the consolidation, the consolidated results of its operations, the consolidated changes in equity and its consolidated cash flows, as well as for the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system.

3 Our responsibility is to express a professional and independent opinion on those consolidated financial statements based on our audit.

SCOPE

4 We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors (“Ordem dos Revisores Oficiais de Contas”), which require that we plan and perform the audit to obtain a reasonable assurance about whether the consolidated financial statements are free of material misstatements. For this purpose, our audit included:

the verification that the financial statements of the companies included in the consolidation have been properly examined and, for the significant situations which have not been examined, the verification, on a test basis, of the information underlying the figures and disclosures contained in the financial statements, and an assessment of the estimates, based on judgments and criteria defined by the Board of Directors used in their preparation;

the verification of the consolidation operations and of the application of the equity method;

the assessment of the adequacy of the accounting principles used and their disclosure, considering the circumstances;

the appropriateness of the going concern basis of accounting; and,

the assessment of the adequacy of the overall presentation of the consolidated financial statements.

5 Our audit also included the verification that the consolidated financial information included in the Management Report is consistent with the consolidated financial statements.

6 We believe that our audit provides a reasonable basis for our opinion.

OPINION

7 In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of CTT – Correios de Portugal, S.A. as at 31 December 2012, the consolidated results of its operations, the consolidated comprehensive income, the consolidated changes in equity and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

EMPHASIS OF MATTER

8 Without affecting our opinion expressed above, we draw attention to the fact that the consolidated financial statements for the year ended 31 December 2011, were audited by another Statutory Audit firm that issued an Auditor's Report on 27 April 2012, without qualifications and with one emphasis of matter. We have been engaged to perform an external audit of the consolidated financial statements for the year ended 31 December 2012 on 20 December 2012.

REPORTING ON OTHER LEGAL REQUIREMENTS

9 It is also our opinion that the financial information included in the Management Report is consistent with the consolidated financial statements for the year.

Lisbon, 30 April 2013

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

AUDITOR'S REPORT

(This report is a free translation to English from the original Portuguese version)

INTRODUCTION

1 We have audited the financial statements of CTT – Correios de Portugal, S.A. (“the Company”), which comprise the balance sheet as at 31 December 2012 (which shows total assets of 1,039,155,364 Euros and a total equity of 272,146,130 Euros, including a net income of 38,554,129 Euros), the Income statement by natures, the Statement of changes in equity and the Cash flow statement for the year then ended, and the corresponding Notes.

RESPONSIBILITIES

2 The Board of Directors is responsible for the preparation of financial statements that give a true and fair view of the financial position of the Company, the results of its operations, the changes in equity and its cash flows, as well as for the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system.

3 Our responsibility is to express a professional and independent opinion on those financial statements based on our audit.

SCOPE

4 We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors (“Ordem dos Revisores Oficiais de Contas”), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. For this purpose, our audit included:

- verification, on a test basis, of the information underlying the figures and disclosures contained in the financial statements, and an assessment of the estimates, based on judgements and criteria defined by the Board of Directors, used in their preparation;
- the assessment of the adequacy of the accounting principles used and their disclosure, considering the circumstances;
- the appropriateness of the going concern basis of accounting; and,
- the assessment of the adequacy of the overall presentation of the financial statements.

5 Our audit also included the verification that the financial information included in the Management Report is consistent with the financial statements.

6 We believe that our audit provides a reasonable basis for our opinion.

OPINION

7 In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of CTT – Correios de Portugal, S.A. as at 31 December 2012, the results of its operations, the changes in equity and its cash flows for the year then ended, in accordance with generally accepted accounting principles in Portugal.

EMPHASIS OF MATTER

8 Without affecting our opinion expressed above, we draw attention to the fact that the financial statements for the year ended 31 December 2011, were audited by another Statutory Audit firm that issued an Auditor's Report on 27 April 2012, without qualifications and with one emphasis of matter. We have been engaged to perform an external audit of the financial statements for the year ended 31 December 2012 on 20 December 2012.

REPORTING ON OTHER LEGAL REQUIREMENTS

9 It is also our opinion that the financial information included in the Management Report is consistent with the financial statements for the year.

Lisbon, 30 April 2013

KPMG & Associados -
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