IMPORTANT NOTICE

You must read the following disclaimer before continuing. The following applies to the Offering Memorandum following this notice, and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them anytime you receive any information from us as a result of such access.

The Offering Memorandum has been prepared in connection with the proposed offer and sale of the shares (the "**Shares**") of CTT—Correios de Portugal, S.A. (the "**Company**"). The Offering Memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

THE OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS OFFERING MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SHARES.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SHARES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THE SHARES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Confirmation of your representation: In order to be eligible to view this Offering Memorandum or make an investment decision with respect to the Shares, you must (i) be a qualified institutional buyer ("**QIB**") (within the meaning of Rule 144A under the Securities Act ("**Rule 144A**")) or (ii) be located outside the United States. By accepting this electronic transmission and accessing the Offering Memorandum, you shall be deemed to have represented to the Company and the underwriters named in the Offering Memorandum (collectively, the "**Underwriters**") that you consent to the delivery of such Offering Memorandum by electronic transmission and either:

(i) you and any customers you represent are QIBs; or

(ii) you and any customers you represent are not located in the United States.

You are reminded that this Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Offering Memorandum to any other person.

Under no circumstances shall the Offering Memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Shares, in any jurisdiction in which such offer, solicitation or sale would be unlawful. If a jurisdiction requires that the offering and sale of the Shares be made by a licensed broker or dealer and the Underwriters or any affiliate of the Underwriters is a licensed broker or dealer in that jurisdiction, the offering of the Shares shall be deemed to be made by them or such affiliate in such jurisdiction.

This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently, none of the Underwriters, nor any person who controls any of the Underwriters, or any of their respective directors, officers, employees or agent of theirs, respectively, or any affiliate of any of the foregoing persons, accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Underwriters.

Offering Memorandum

CTT—Correios de Portugal, S.A.

(*a public limited company incorporated under the laws of Portugal*)

Offering of 105,000,000 Shares
Offer Price: €5.52 per Share

This offering memorandum (the "**Offering Memorandum**") relates to an offering (the "**Offering**") of ordinary shares, each with a nominal value of €0.50 (the "**Shares**"), of CTT—Correios de Portugal, S.A. (registration number 500 077 568) (the "**Company**" and, together with its consolidated subsidiaries, "**CTT**"), a public limited company incorporated under the laws of Portugal, by PARPÚBLICA—Participações Públicas (SGPS), S.A., a holding company incorporated under the laws of Portugal and controlled and wholly owned by the Republic of Portugal (the "**Selling Shareholder**").

The Offering comprises (i) an offering of 84,000,000 Shares by the Selling Shareholder to institutional investors within and outside Portugal (the "**Institutional Offering**"); and (ii) a public offering in Portugal of 21,000,000 Shares by the Selling Shareholder, by way of a separate Portuguese language prospectus, to retail investors and CTT's employees in Portugal (the "**Retail Offering**").

The Shares are being offered: (i) within the United States only to qualified institutional buyers ("**QIBs**"), as defined in, and in reliance upon, Rule 144A ("**Rule 144A**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or another exemption from, or in a transaction not subject to, registration under the Securities Act and (ii) outside the United States in offshore transactions in reliance on Regulation S ("**Regulation S**") under the Securities Act.

In the Offering, as part of the Institutional Offering, 9,545,455 Shares (the "**Option Shares**") are being sold by the Selling Shareholder to the Underwriters for the purpose of conducting stabilization activities in the Shares. In connection with the sale of the Option Shares, the Selling Shareholder has granted to J.P. Morgan, as stabilizing manager (the "**Stabilizing Manager**") on behalf of the Underwriters a put option (the "**Put Option**"), exercisable within 30 calendar days of the admission to trading of the Shares, to sell to the Selling Shareholder up to 9,545,455 Shares which have been purchased in the market as a result of stabilization activities. The Underwriters have also granted the Selling Shareholder a call option (the "**Call Option**"), exercisable on the 30th calendar day following the admission to trading of the Shares, to purchase from the Stabilizing Manager on behalf of the Underwriters 9,545,455 Shares, which can be satisfied by the delivery of Shares acquired in stabilization activities.

This Offering Memorandum has been prepared by CTT and the Selling Shareholder solely for use in connection with the Institutional Offering. This Offering Memorandum has not been approved by the Comissão do Mercado de Valores Mobiliários (*Portuguese Securities Market Commission*) (the "**CMVM**") and may not be distributed in Portugal in connection with the offer and sale of the Shares except to qualified investors as defined in article 30 of the Código dos Valores Mobiliários (*Portuguese Securities Code*). There is currently no public market for the Shares. Application has been made (i) to the CMVM for the approval of the Portuguese language prospectus relating to the Retail Offering and the admission of the Shares to trading and (ii) to Euronext Lisbon—Sociedade Gestora de Mercados Regulamentados, S.A. ("**Euronext**") for the Shares to be admitted to trading on Euronext Lisbon, which is a Portuguese regulated market for the purposes of Directive 2004/39/EC managed by Euronext. Admission of the Shares to trading is expected to occur on 5 December 2013.

See "*Risk Factors*" beginning on page 23 to read about factors investors should carefully consider before buying the Shares.

The Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. Prospective purchasers are hereby notified that the sellers of the Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Shares are subject to transfer restrictions in certain jurisdictions. See "*Transfer Restrictions*".

Settlement and delivery of the Shares sold in the Offering is expected to occur on or about 5 December 2013 (the "**Closing Date**"). The Shares will be delivered by registering such Shares in investors' securities accounts through the facilities of Interbolsa Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. ("**Interbolsa**") in accordance with standard procedures applicable to the settlement of public offerings of equity securities in Portugal.

Joint Global Coordinators and Joint Bookrunners

Caixa—Banco de Investimento **J.P. Morgan**

Co-Lead Managers

BBVA **Espírito Santo Investment**

The date of this Offering Memorandum is 3 December 2013

TABLE OF CONTENTS

IMPORTANT INFORMATION

The Company and the Selling Shareholder assume responsibility for the completeness and accuracy of the contents of this Offering Memorandum. Certain sections of this Offering Memorandum have been drafted on the basis of the information provided by the Selling Shareholder, including (i) the description of the Selling Shareholder and its shareholding in the Company; (ii) the description of the Put Option granted by the Selling Shareholder and the Call Option granted to the Selling Shareholder; and (iii) the use of proceeds of the Offering. The Selling Shareholder assumes responsibility for these sections of the Offering Memorandum.

Having taken all reasonable care to ensure that such is the case, each of the Company (for the entirety of this Offering Memorandum) and the Selling Shareholder (in particular, with respect to the sections for which it assumes responsibility) attests that the information contained in this Offering Memorandum is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

None of Caixa—Banco de Investimento, S.A., J.P. Morgan Securities plc, Banco Bilbao Vizcaya Argentaria, S.A. or Banco Espírito Santo de Investimento, S.A. (the "**Underwriters**") makes any representation or warranty, express or implied, as to, or assumes any responsibility for, the accuracy or completeness or verification of the information in this Offering Memorandum, and nothing in this Offering Memorandum is, or shall be relied upon as, a representation by the Underwriters, whether as to the past or the future. Accordingly, the Underwriters disclaim, to the fullest extent permitted by applicable law, any and all liability, whether arising in tort, contract or otherwise, which they might otherwise be found to have in respect of this Offering Memorandum.

In making an investment decision, investors must rely on their own assessment of the Company and the terms of this Offering Memorandum, including the merits and risks involved. Any purchase of the Shares should be based on the assessments that the investor in question may deem necessary, including the legal basis and consequences of the Offering, and including possible tax consequences that may apply, before deciding whether or not to invest in the Shares. In addition to their own assessment of the Company and the terms of the Offering, investors should rely only on the information contained in this Offering Memorandum, including the risk factors described herein, and any notices that are published by the Company under current legislation or the rules of Portugal applying to issuers of shares.

No person has been authorized to give any information or to make any representation in connection with the Offering other than those contained in this Offering Memorandum, and, if given or made, such information or representation must not be relied upon as having been authorized. Without prejudice to the Company's obligation to publish supplements to the Offering Memorandum when legally required (as described below), the delivery of this Offering Memorandum at any time after the date hereof shall not, under any circumstances, create any implication that there has been no change in the affairs of CTT since the date hereof or that the information set forth in this Offering Memorandum is correct as of any time since its date.

The Underwriters are acting exclusively for the Company and the Selling Shareholder and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Offering and will not be responsible to anyone other than the Company and the Selling Shareholder for providing the protections afforded to their respective clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to herein.

The information in this Offering Memorandum is as of the date printed on the front of the cover, unless expressly stated otherwise.

This Offering Memorandum has been prepared by CTT and the Selling Shareholder solely for use in connection with the Institutional Offering. This Offering Memorandum has not been approved by the CMVM and may not be distributed in Portugal in connection with the offer and sale of the Shares except to qualified investors as defined in article 30 of the Código dos Valores Mobiliários (*Portuguese Securities Code*). A Portuguese language prospectus relating to the Retail Offering was approved by the CMVM on 18 November 2013, although the CMVM assumes no responsibility for its contents, the economic and financial situation of the Selling Shareholder or the Company, the feasibility of the Offering or the quality of the Shares. The Portuguese language prospectus is substantially similar to this Offering Memorandum except for the inclusion of certain information required by Portuguese law, the use of a different style and format and the use of the Portuguese language.

The distribution of this Offering Memorandum and the Offering may, in certain jurisdictions, be restricted by law, and this Offering Memorandum may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. This Offering Memorandum does not constitute an offer of, or an invitation to, purchase any Shares in any jurisdiction in which such offer or invitation would be unlawful. The Company, the Selling Shareholder and the Underwriters require persons into whose possession this Offering Memorandum comes to inform themselves of and observe all such restrictions. None of the Company, the Selling Shareholder or the Underwriters accepts any legal responsibility for any violation by any person, whether or not a prospective purchaser of Shares, of any such restrictions. The Company, the Selling Shareholder and the Underwriters reserve the right in their absolute discretion to reject any offer to purchase Shares that the Company, the Selling Shareholder, the Underwriters or their respective agents believe may give rise to a breach or violation of any laws, rules or regulations.

This Offering Memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any shares offered hereby by any person in any jurisdiction in which is unlawful for such person to make such any offer or solicitation.

STABILIZATION

IN CONNECTION WITH THE OFFERING, THE STABILIZING MANAGER OR ANY AGENT OR OTHER PERSON ACTING ON ITS BEHALF MAY EFFECT STABILIZATION TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SHARES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. SUCH STABILIZATION ACTIVITIES MAY BE EFFECTED ON ANY SECURITIES MARKET, OVER-THE-COUNTER MARKET, STOCK EXCHANGE OR OTHERWISE AND MAY BE UNDERTAKEN AT ANY TIME DURING THE PERIOD COMMENCING ON THE DATE OF THE ADMISSION TO TRADING OF THE SHARES AND ENDING NO LATER THAN 30 CALENDAR DAYS THEREAFTER. HOWEVER, THERE WILL BE NO OBLIGATION ON THE STABILIZING MANAGER OR ANY OF ITS AGENTS TO EFFECT STABILIZING TRANSACTIONS, AND THERE CAN BE NO ASSURANCE THAT STABILIZING TRANSACTIONS WILL BE UNDERTAKEN. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE. IN NO EVENT WILL MEASURES BE TAKEN TO STABILIZE THE MARKET PRICE OF THE SHARES ABOVE THE OFFER PRICE.

SAVE AS REQUIRED BY LAW OR REGULATION, THE STABILIZING MANAGER DOES NOT INTEND TO DISCLOSE THE EXTENT OF ANY STABILIZATION TRANSACTIONS CONDUCTED IN RELATION TO THE OFFERING.

NOTICE TO INVESTORS IN THE UNITED STATES

The Shares are being offered and sold outside the United States in reliance on Regulation S and within the United States to QIBs in reliance upon the exemption from registration under the Securities Act provided by Rule 144A thereunder. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements. See "*Transfer Restrictions*".

The Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission ("**SEC**"), any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering Memorandum. Any representation to the contrary is a criminal offense in the United States.

Prospective purchasers are hereby notified that the seller of any Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain further restrictions on resale or transfer of the Shares, see "*Transfer Restrictions*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION IS AVAILABLE FOR A

SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF OR RECOMMENDED OR GIVEN APPROVAL TO ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Offering Memorandum has been prepared on the basis that all offers of Shares, other than the offers contemplated in Portugal in the Retail Offering, will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the European Economic Area ("**EEA**"), from the requirement to produce a prospectus for offers of Shares. Accordingly, any person making or intending to make any offer within the EEA of Shares which are the subject of the offering contemplated in this Offering Memorandum should only do so in circumstances in which no obligation arises for the Company, the Selling Shareholder or any of the Underwriters to produce a prospectus for such offer.

The Shares have not been, and will not be, offered to the public in any member state of the European Economic Area that has implemented the Prospectus Directive, except for Portugal (a "**Relevant Member State**"). Notwithstanding the foregoing, an offering of the Shares may be made in a Relevant Member State:

- to any legal entity that is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the publication by the Company, the Selling Shareholder or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Shares so as to enable an investor to decide to purchase Shares, as that definition may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

Offers of the Shares pursuant to the Offering are only being made to persons in the United Kingdom who are "qualified investors" or otherwise in circumstances which do not require publication by the Company of a prospectus pursuant to section 85(1) of the U.K. Financial Services and Markets Act 2000.

Any investment or investment activity to which this Offering Memorandum relates is available only to, and will be engaged in only with, persons who (i) are investment professionals falling within Article 19(5) or (ii) fall within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or other persons to whom such investment or investment activity may lawfully be made available (together, "relevant persons"). Persons who are not relevant persons should not take any action on the basis of the Offering Memorandum and should not act or rely on it.

AVAILABLE INFORMATION

The Company has agreed that, for so long as any of the Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) under the U.S. Exchange Act, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, on the request of such holder, beneficial owner or prospective purchaser, the information required to be provided to such persons pursuant to Rule 144A(d)(4) under the Securities Act. The Company is not currently subject to the periodic reporting requirements of the Exchange Act.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Company's financial information included in this Offering Memorandum has been derived or extracted from CTT's audited adjusted consolidated financial statements as of and for the years ended 31 December 2012, 2011 and 2010 (the "**Adjusted Audited Consolidated Financial Statements**") and its unaudited interim consolidated financial statements as of and for the nine months ended 30 September 2013 as compared to the nine months ended 30 September 2012 (the "**Interim Consolidated Financial Statements**" and, together with the Adjusted Audited Consolidated Financial Statements, the "**Financial Statements**"), in each case together with the notes thereto, prepared in accordance with EU IFRS, which is defined as all International Accounting Standards and International Financial Reporting Standards and all interpretations of the International Financial Reporting Interpretations Committee approved and adopted by the European Union ("**EU IFRS**"). The Adjusted Audited Consolidated Financial Statements were prepared for the purposes of the Offering.

Prospective investors are advised to consult their professional advisors for an understanding of: (i) the differences between EU IFRS and other systems of generally accepted accounting principles and how those differences might affect the financial information included in this Offering Memorandum and (ii) the impact that future additions to, or amendments of, EU IFRS may have on CTT's results of operations and/or financial condition, as well as on the comparability of the prior periods. In addition, prospective investors should note that interim results are not necessarily indicative of the results that may be expected for any other interim period or for a full year.

The Adjusted Audited Consolidated Financial Statements have been audited by PricewaterhouseCoopers with registered offices at Rua Sousa Martins, 1 - 3º, 1069-316 Lisbon, registered with the Chartered Accountants Institute (*Ordem dos Revisores Oficiais de Contas*) under number 183 and registered with the CMVM under number 9077.

CTT's previously published historical statutory consolidated financial statements for the years ended 31 December 2012, 2011 and 2010 (the "**Statutory Consolidated Financial Statements**") have been adjusted in order to reflect certain improvements in disclosures, reclassifications and adjustments for the purpose of presentation in the Offering Memorandum and in order to ensure comparability between the financial periods presented. The changes are as follows:

- CTT changed its accounting policy regarding the recognition of actuarial gains and losses in respect of defined post-retirement benefit plans, such that it has fully recognized all actuarial gains and losses in the consolidated statement of comprehensive income for each of the years ended 31 December 2012, 2011 and 2010, whereas in the Statutory Consolidated Financial Statements this was only the case for the years ended 31 December 2012 and 2011. These adjustments do not affect CTT's consolidated net equity as of 31 December 2012 as reported in the Statutory Consolidated Financial Statements; and
- CTT's Statutory Consolidated Financial Statements for the year ended 31 December 2010 included a qualified audit opinion relating to a provision for restructuring costs which did not conform to EU IFRS. The Adjusted Audited Consolidated Financial Statements were adjusted to conform to EU IFRS. These adjustments do not affect CTT's consolidated net equity as of 31 December 2012 as reported in the Statutory Consolidated Financial Statements.
- IAS 19 does not specify whether interest expense in respect of defined benefit obligations should be presented as staff costs or financial costs. Most European postal operators present interest expense as financial costs, and accordingly CTT reclassified the interest expense in respect of defined benefit obligations to financial costs in order to ensure comparability with the majority of its peers. These reclassifications do not affect CTT's consolidated net profit for the year ended 31 December 2012 as reported in the Statutory Consolidated Financial Statements.
- CTT changed its accounting policy regarding the recognition of interest income related to financial services float (amounts from financial services clients temporarily held and invested by CTT). In the Statutory Consolidated Financial Statements, CTT recognized interest income related to financial services float as financial income, whereas in the Adjusted Audited Consolidated Financial Statements this amount is presented under other operating income. These reclassifications do not affect the consolidated net profit for the year ended 31 December 2012 as reported in the Statutory Consolidated Financial Statements.

A reconciliation of consolidated net equity, consolidated net income and consolidated earnings before financial income and taxes as set forth in the Statutory Consolidated Financial Statements to consolidated net equity, consolidated net income and earnings before financial income and taxes as set forth in the Adjusted Audited Consolidated Financial Statements for the years ended 31 December 2010, 2011 and 2012 is set forth below.

	31 December		
	2012	2011	2010
	(EUR thousands)		
Statutory consolidated net equity	**273,481**	**257,357**	**236,465**
Actuarial gains and losses (net of taxes)	—	14,250	11,606
Provision for restructuring costs (net of taxes)	—	2,819	3,377
Adjusted consolidated net equity	**273,481**	**274,426**	**251,447**
Statutory consolidated net income	**38,786**	**57,135**	**56,580**
Actuarial gains and losses (net of taxes)	—	(894)	(707)
Provision for restructuring costs (net of taxes)	(2,819)	(558)	3,376
Adjusted consolidated net income	**35,967**	**55,683**	**59,250**
Statutory earnings before financial income and taxes	**42,310**	**60,439**	**53,177**
Actuarial gains and losses	—	(1,259)	(994)
Provision for restructuring costs	(3,965)	(785)	4,750
Interest costs—Employee Benefits	16,091	17,235	18,302
Interest Income—Financial Services float	2,535	4,694	3,471
Adjusted earnings before financial income and taxes	**56,971**	**80,324**	**78,706**

A comparison of revenue and EBITDA based on the Statutory Consolidated Financial Statements to revenue and EBITDA based on the Adjusted Audited Consolidated Financial Statements is set forth below.

Key consolidated financials – Annual reports

(€mm)	2010A	2011A	2012A
Revenues	**794**	**761**	**712**
% growth	*–*	*(4.2%)*	*(6.5%)*
COGS	(17)	(18)	(19)
External Supplies and Services	(273)	(256)	(246)
Staff Costs	(399)	(373)	(349)
Other operating costs	(14)	(19)	(12)
EBITDA[1]	**91**	**94**	**86**
% margin	*11.4%*	*12.4%*	*12.1%*
Depreciations and Amortizations	(24)	(22)	(24)
EBIT[1]	67	72	62
% margin	*8.4%*	*9.4%*	*8.7%*
Impairments	(3)	(5)	(1)
Provisions	(10)	(6)	(19)
Financial results[2]	9	20	14
Taxes	(6)	(23)	(18)
Net income[3]	56	57	39
% margin	*7.1%*	*7.5%*	*5.4%*

Key consolidated financials – Adjusted accounts

(€mm)	2010A	2011A	2012A
Revenues	**798**	**766**	**714**
% growth	*–*	*(4.0%)*	*(6.7%)*
COGS	(17)	(18)	(19)
External Supplies and Services	(273)	(256)	(246)
Staff Costs	(382)	(358)	(333)
Other operating costs	(14)	(19)	(12)
EBITDA[1]	**112**	**114**	**104**
% margin	*14.0%*	*14.9%*	*14.6%*
Depreciations and Amortizations	(24)	(22)	(25)
EBIT[1]	87	92	79
% margin	*11.0%*	*12.0%*	*11.2%*
Impairments	(3)	(5)	(1)
Provisions	(6)	(6)	(22)
Financial results[2]	(13)	(2)	(4)
Taxes	(7)	(22)	(17)
Net income[3]	59	56	36
% margin	*7.4%*	*7.2%*	*5.0%*

- Interest float from Financial Services
- Interest from employee benefits + provision for restructuring
- Less interest from float from Financial Services + Interest cost from employee benefits

Source: Company information
[1] Excludes impairments and provisions
[2] Includes gains/losses in associated companies
[3] Net income attributable to parent company shareholders

CTT presents its Financial Statements in euros.

Rounding adjustments have been made in calculating some of the financial information included in this Offering Memorandum. As a result, figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

Non-IFRS Financial Measures

Management believes that CTT's operating performance cannot be measured solely on the basis of its reported IFRS historical financial information. CTT measures its financial performance using financial measures that are not defined under IFRS, such as EBIT, EBITDA, cash flow and cash conversion rate. CTT uses EBIT, EBITDA, cash flow and cash conversion rate to facilitate the comparison of its operating performance and because it believes these measures are frequently used by securities analysts. EBIT, EBITDA, cash flow and cash conversion rate have limitations as analytical tools, and prospective purchasers should not consider them in isolation from, or as a substitute for analysis of, financial measures that are defined under IFRS. These measures may also not be comparable to other similarly titled measures used by other companies and, therefore, do not provide a basis for comparison of CTT's financial performance with that of other companies.

EBIT corresponds to the line item earnings before financial income and taxes on CTT's consolidated income statement and CTT defines EBITDA as revenues (sales and services rendered plus other operating income) minus operational costs (operating costs excluding impairment, provisions and depreciation and amortization). Cash flow is defined as EBITDA minus capital expenditures. Cash conversion rate is defined as EBITDA minus capital expenditures divided by EBITDA.

Other Information

References to the "Portuguese State" or to the "Portuguese Government" are to the Republic of Portugal and the government of the Republic of Portugal, respectively. References to "euro" or "€" are to the common currency of the member states of the EU that are part of the Eurozone. References to the "United States" or the "U.S." are to the United States of America and references to "U.S. dollars" or "$" are to the lawful currency of the United States.

No Incorporation of Website Information

The contents of the Company's website do not form part of this Offering Memorandum.

MARKET AND INDUSTRY INFORMATION

This Offering Memorandum contains statistics, data and other information relating to markets, market sizes, market shares, market positions and other industry data pertaining to CTT's business and markets. To the extent available, such information has been extracted from reliable third-party sources such as professional organizations, consultants and analysts, including Autoridade Nacional das Comunicações (the "**ANACOM**"), National Statistics Institute ("*Instituto Nacional de Estatística"*) (the "**INE**"), Eurostat, OECD, the Bank of Portugal, Pordata, Institute of Marketing Research, the Economist Intelligence Unit, the European Association of E-commerce Europe, Readers Digest, Superbrands, the industry reports from the International Post Corporation (the "**IPC**"), Universal Postal Union ("*União Postal Universal"*) (the "**UPU**"), European Commission studies (from several consultants, including Copenhagen Economics and Frontier Economics), WIK-Consult GmbH and DBK. The Company represents that such information has been accurately reproduced, and, so far as it is aware, no facts have been omitted which would render the information provided inaccurate or misleading.

Certain other statistical or market-related data has been estimated by management based on reliable third party sources, where possible, including those referred to above. Although management believes its estimates regarding markets, market sizes, market shares, market positions and other industry data to be reasonable, these estimates have not been verified by any independent sources (except where explicitly cited to such sources), and the Company cannot assure prospective investors as to the accuracy of these estimates or that a third party using different methods to assemble, analyze or compute market data would obtain the same results. Management's estimates are subject to risks and uncertainties and are subject to change based on various factors, including macroeconomic evolution and market dynamics. The Company does not intend, and does not assume any obligation, to update the industry or market data set forth herein.

Industry publications or reports generally state that the information they contain has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. The Company has not independently verified and cannot give any assurance as to the accuracy of market data contained in this Offering Memorandum that were extracted or derived from these industry publications or reports. Market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. In particular, in the case of information sourced to WIK-Consult GmbH, certain data presented for 2012 is estimated data rather than actual data for that year. Furthermore, given the market position of CTT and the fact that until April 2012 it was the only company offering postal services in Portugal pursuant to its concession contract, as well as very limited competition in the mail business, there is very limited information and studies from third parties apart from data and information compiled by the ANACOM.

Where information is presented with the notation "value adjusted by CTT", this indicates that the information does not come directly, and is not reproduced directly, from the indicated source. Rather, in such cases, CTT has made certain adjustments and has estimated the data on the basis of the relevant source and its own analysis.

References to "Company information" in this Offering Memorandum are to internal information prepared by CTT.

Where the source for information is indicated as "CTT's analysis" in this Offering Memorandum, such information was not included in the relevant sources but rather was produced and analyzed by CTT based on internal information.

As a result, prospective investors should be aware that statistics, data, statements and other information relating to markets, market sizes, market shares, market positions and other industry data in this Offering Memorandum and estimates and assumptions based on that information are necessarily subject to a high degree of uncertainty and risk due to the limitations described above and to a variety of other factors, including those described in "*Risk Factors*" and elsewhere in this Offering Memorandum.

ENFORCEMENT OF CIVIL LIABILITIES

CTT is a limited liability company organized under the laws of the Republic of Portugal. All of its directors and officers live outside the United States and substantially of the assets of such persons and CTT's assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons with respect to matters arising under United States federal securities laws or to enforce against them judgments of courts of the United States predicated upon the civil liability provisions of such laws. CTT's Portuguese counsel, A.M. Pereira, Sáragga Leal, Oliveira Martins, Júdice & Associados—Sociedade de Advogados, RL (PLMJ), has advised CTT that there is doubt that a lawsuit based upon U.S. federal or state securities laws could be brought in an original action in Portugal and that a foreign judgment based upon the United States securities laws would be enforced in Portugal. There is also doubt as to the enforceability of judgments of this nature in several of the other jurisdictions in which CTT operates and where its assets are located.

EXCHANGE RATE INFORMATION

The following table sets forth, for the periods indicated, the high, low, average and year end Bloomberg Composite Rates expressed in U.S. dollars per €1.00. The Bloomberg Composite Rate is a "best market" calculation, for which, at any point in time, the bid rate is equal to the highest bid rate offered by contributing banks and the ask rate is the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate.

Fluctuations in the exchange rate between the euro and the U.S. Dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates should not be construed as representations that euro amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated as of any of the dates mentioned in this Offering Memorandum or at all. These rates may also differ from the actual rates used in the preparation of the Financial Statements and other financial data appearing in this Offering Memorandum.

	High	Low	Average(1)	Period End
	(U.S.$ per €1.00)			
Year ended 31 December:				
2008	1.5992	1.2454	1.4712	1.3973
2009	1.5134	1.2531	1.3949	1.4326
2010	1.4513	1.1923	1.3266	1.3387
2011	1.4830	1.2907	1.3926	1.2959
2012	1.3458	1.2061	1.2860	1.3192

	High	Low	Average(2)	Period End
	(U.S.$ per €1.00)			
2013:				
January	1.3577	1.3049	1.3302	1.3577
February	1.3641	1.3056	1.3339	1.3056
March	1.3107	1.2780	1.2957	1.2820
April	1.3177	1.2820	1.3025	1.3168
May	1.3180	1.2839	1.2978	1.2998
June	1.3392	1.3010	1.3200	1.3010
July	1.3302	1.2782	1.3095	1.3302
August	1.3417	1.3207	1.3319	1.3222
September	1.3530	1.3120	1.3362	1.3527
October	1.3804	1.3520	1.3639	1.3583
November (through 29 November)	1.3606	1.3367	1.3497	1.3591

(1) The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year.

(2) The average rate for each month presented is based on the average Bloomberg Composite Rate for each business day of such month.

On 29 November 2013, the average Bloomberg Composite Rate for the U.S. Dollar/euro exchange rate was U.S.$1.3591 per €1.00.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes statements that are, or may be deemed to be, forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "aims", "objectives", "plans", "contemplates", "estimates", "anticipates", "expects", "intends", "may", "will", "should" or "could", or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts. They appear in a number of places throughout this Offering Memorandum and include statements regarding CTT's intentions, beliefs or current expectations concerning, amongst other things, its management objectives and investment policy, strategies, performance, results of operations, financial condition, liquidity, prospects, macro-economic conditions in Portugal, Europe and other jurisdictions, and dividend policy. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. CTT's actual performance, results of operations, financial condition, liquidity, dividend policy and the development of its strategies may differ materially from the forward-looking statements contained in this Offering Memorandum. In addition, even if CTT's performance, results of operations, financial condition, liquidity and dividend policy and the development of its strategies are consistent with the forward-looking statements contained in this Offering Memorandum, those results or developments may not be indicative of results or developments in subsequent periods.

Prospective investors are advised to read this document in its entirety, and, in particular, "*Risk Factors*" for a further discussion of the factors that could affect CTT's future performance. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this Offering Memorandum may not occur.

In particular, the following factors could cause CTT's actual results to differ materially from those contemplated by this Offering Memorandum:

- Regulatory, legislative, political, social, and economic changes as well as other related changes that occur in Portugal, the European Economic Area, and in other countries where CTT operates, including Spain and Mozambique and other European countries;
- Deterioration of the current economic and financial crisis, in particular in Portugal and Spain;
- Changes in government policies and regulations, in particular regarding regulated industries where CTT operates;
- Changes in EU directives or regulations for postal services or other business where CTT operates;
- Changes in CTT's competitive environment;
- Changes in the price of CTT's shares;
- Changes in the availability of financing and capital markets conditions, in particular when they affect CTT or its major clients and partners;
- Changes in and volatility of exchange rates, interest rates, listing prices and spreads;
- Loss or renegotiation of contracts with partners, major clients or suppliers, amongst others;
- Changes in fiscal and tax policies of the Portuguese Government or the European Union, especially concerning VAT and income tax;
- Court rulings and/or arbitration proceedings regarding CTT and its assets or its major clients and partners;
- Restrictions in the distribution of dividends by the Company's subsidiaries;
- Other risk factors, as described in "Risk Factors"; and
- Factors currently unknown by the Company.

These forward-looking statements speak only as of the date of this document. Subject to the Company's legal and regulatory obligations, the Company expressly disclaims any obligation to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

SUMMARY

This summary highlights important information contained elsewhere in this Offering Memorandum. It does not contain all the information you should consider before investing in the Shares. You should read the entire Offering Memorandum carefully, including a discussion of certain risks of investing in the shares under the "Risk Factors". This summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information, including CTT's consolidated financial statements, appearing elsewhere in this Offering Memorandum.

Overview

CTT is a large logistics operator in Portugal (including express mail and parcels). It is the leader in the Portuguese postal sector, with a 95% market share as of 30 June 2013 (Source: ANACOM *"Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013*) and holds the concession for the Universal Service Obligation ("**USO**") until 2020. CTT has one of the oldest brands in Portugal and maintains high levels of recognition across the population, having been voted for nine years as one of the most trusted brands (Source: "*Trusted Brands*" by Reader's Digest). In 2012, 89% of CTT's revenues from sales and services rendered were generated in Portugal. See Note 4 "*Segment Reporting*" to the Interim Consolidated Financial Statements.

CTT offers a wide range of products and services through its four business units covering three markets: (i) mail, (ii) express and parcels, and (iii) financial services. In Portugal, CTT's services include mail (which includes business, retail and other services), express and parcels and financial services (including payment services through Payshop's agent network). CTT also offers express delivery and parcel services in Spain through its subsidiary, Tourline Express Mensajería S.L.U. (*Sociedad Unipersonal*) ("**Tourline**"), and in Mozambique through its 50% owned subsidiary, CORRE, which is jointly owned with the national postal services provider, Correios de Moçambique.

CTT operates four separate, but connected, networks: (i) the postal distribution network, whose main activity is the delivery of mail and other products falling within the USO and which is operated directly by CTT; (ii) the Portuguese express and parcels network, which is dedicated to the distribution of express mail and parcels in Portugal and is operated by third parties through outsourcing contracts; (iii) the Spanish express and parcels network, which is dedicated to the distribution of express mail and parcels in Spain and is partially operated through a franchisee model; and (iv) the retail network, through which CTT offers services to both retail and small corporate customers, including mail and parcels collection, acceptance and delivery services, as well as other services, including financial services. The postal distribution network and retail network are together referred to as the "postal network".

As of 30 June 2013, CTT's retail network had national coverage with 2,518 sales points (625 own branches managed by CTT and 1,893 partnership branches operated by third parties). As of 30 September 2013, CTT's retail network served its customers in Portugal through 2,520 sales points (of which 624 were post offices managed by CTT and 1,896 were postal agencies operated by third parties). CTT had also installed 379 automatic stamp vending machines and 21 automatic mail product vending machines in Portugal, some of which are available 24 hours-per-day. CTT also has 3,909 agents through its wholly owned subsidiary, Payshop. Through its postal distribution network, CTT sorts and distributes postal items through 11 sorting units and 304 postal distribution centres. During the nine months ended 30 September 2013, CTT handled an average of 3.6 million addressed mail items per day and served 5.3 million households in Portugal.

CTT operates its business through the following business units:

- *Mail.* Collection, sorting, transportation and distribution of domestic and international mail, including transactional mail (encompassing non-priority and priority mail, convenience mail, registered mail and international mail outbound and inbound), press mail, USO parcels and advertising mail.
- *Business Solutions.* Mail and document management services, printing and finishing services, digital mail, geographically focused products and other document and archive management services for business customers. This business unit is ancillary to the mail business unit and offers corporate customers solutions and services related to mail products.
- *Express and Parcels Services.* Collection, processing, transport and delivery of express and parcel services (domestic and international) in Portugal, Spain and Mozambique.
- *Financial Services.* Savings and insurance brokerage services (including public savings certificates and public debt targeted at retail investors), payment and collection services (including payment at CTT

branches and the Payshop network), international money transfers and money orders (*vales de correio*) as well as other financial products and services.

For the years ended 31 December 2012, 2011 and 2010, CTT had revenues of €714.2 million, €765.8 million and €797.8 million, respectively, and EBITDA of €104.3 million, €113.9 million and €111.7 million, respectively. For the nine months ended 30 September 2013 and 2012, CTT had revenues of €520.0 million and €529.3 million, respectively, and EBITDA of €93.3 million and €82.8 million, respectively.

CTT is wholly owned by the Selling Shareholder, a company controlled by the Republic of Portugal. On 31 January 2013, the Secretary of State of the Treasury transferred 100% ownership of CTT from General Directorate of the Treasury to the Selling Shareholder pursuant to Order 2468/12.

Strengths & Strategy

Strengths

- Unique distribution network with high capillarity and strong brand in Portugal.
- Market leading and profitable mail business in Portugal.
- Continuous operational efficiency management.
- Improving legal framework.
- Iberian express and parcels platform.
- Well positioned to expand financial services.
- Skilled management team and employees with extensive experience in the postal services industry.
- Cash flow generation, liquidity and dividend payout.

Strategy

- Maintain market leadership[1] in mail and parcels and capitalize on economies of scale as a competitive advantage.
- Promote a regulatory framework that supports the USO sustainability.
- Maintain efficiency through continuous transformation programs.
- Develop the express and parcels business to take advantage of expected market growth, especially in the B2C segment.
- Strengthen financial services platform and offer a broader range of services.

Recent Developments

- Sustain strong market leadership in postal services, mail and parcels, to support competitive advantage coming from relevant economies of scale.
- Maintain high levels of efficiency through continuous transformation programs to adjust and adapt operations.
- Promote a regulatory framework that supports the USO sustainability.
- Develop the express and parcels business, taking advantage of the expected market growth, especially in B2C.
- Strengthen and promote a wider financial services platform levered in a unique retail network.

[1] Source: ANACOM "Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013

The Offering

The Company	CTT—Correios de Portugal, S.A., a public limited company, incorporated under the laws of Portugal, having its registered office at Av. D. João II, Lote 01.12.03, 1999-001 Lisbon, Portugal and registered with the Commercial Registry Office of Lisbon under number 500 077 568.
The Selling Shareholder	PARPÚBLICA—Participações Públicas SGPS, S.A., a holding company incorporated under the laws of Portugal and controlled and wholly owned by the Republic of Portugal, having its registered office in Lisbon, Avenida Defensores de Chaves, ne. 6th floor Parish of São Jorge de Arroios.
The Offering	The Offering comprises (i) the Institutional Offering, which is an offering of 84,000,000 Shares by the Selling Shareholder to institutional investors within and outside Portugal; and (ii) the Retail Offering, which is a public offering in Portugal of 21,000,000 Shares by the Selling Shareholder, by way of a separate Portuguese language prospectus, to retail investors and CTT's employees in Portugal. The offering to CTT's employees will comprise up to 5,250,000 Shares, representing 3.5% of the Company's share capital, or 25% of the Retail Offering. CTT employees purchasing Shares in the Offering will be able to purchase such Shares at a 5% discount to the Offer Price.
Offer Price	€5.52 per Share.
Put Option	In the Offering, as part of the Institutional Offering, 9,545,455 Option Shares are being sold by the Selling Shareholder to the Underwriters for the purpose of conducting stabilization activities in the Shares. In connection with the sale of the Option Shares, the Selling Shareholder has granted to the Stabilizing Manager on behalf of the Underwriters the Put Option, exercisable within 30 calendar days of the admission to trading of the Shares, to sell to the Selling Shareholder up to 9,545,455 Shares which have been purchased in the market as a result of stabilization activities.
Call Option	The Underwriters have also granted the Selling Shareholder the Call Option, exercisable on the 30th calendar day following the admission to trading of the Shares, to purchase from the Stabilizing Manager on behalf of the Underwriters 9,545,455 Shares, which can be satisfied by the delivery of Shares acquired in stabilization activities.
Shares	The Company's share capital consists of 150,000,000 ordinary shares, with a nominal value of €0.50 each. The Shares have the rights described in "*Description of Share Capital and Applicable Portuguese Law*". As of the date of this Offering Memorandum, the Selling Shareholder holds 100% of the Company's issued and outstanding share capital. After the Offering, the Selling Shareholder will hold 30.00% of the Company's issued and outstanding share capital, assuming that neither the Put Option nor the Call Option is exercised.
Listing and Market for the Shares	There is currently no public market for the Shares. Application has been made (i) to the CMVM for the approval of the Portuguese language prospectus relating to the Retail Offering and the admission of the Shares to trading and (ii) to Euronext for the Shares to be admitted to trading on Euronext Lisbon,

	which is a Portuguese regulated market for the purposes of Directive 2004/39/EC managed by Euronext. Admission of the Shares to trading is expected to occur on 5 December 2013.
Form of Shares	All of the Shares are registered with Interbolsa in book-entry form.
Settlement and Delivery of the Shares . .	Settlement and delivery of the Shares sold in the Offering is expected to occur on the Closing Date. The Shares will be delivered by registering such Shares in investors' securities accounts through the facilities of Interbolsa in accordance with standard procedures applicable to the settlement of public offerings of equity securities in Portugal.
Dividends	All Shares carry full dividend rights if and when declared, from the date the holder acquires such Shares. See "*Dividend Policy*".
Voting Rights	Each Share entitles its holder to one vote at the Company's General Meeting of Shareholders.
Use of Proceeds	Assuming that the maximum number of Shares is sold to CTT's employees and that neither the Put Option nor the Call Option is exercised, the Selling Shareholder will receive net proceeds of approximately €571.5 million, reflecting the deduction of underwriting commissions (which will be in the maximum amount of €4.9 million), as well as certain expenses incurred in connection with the Offering. CTT will not receive any of the proceeds from the sale of the Shares offered by the Selling Shareholder, although it will pay approximately €4 million (excluding VAT) in expenses incurred in connection with the Offering. The Selling Shareholder will apply the proceeds received as permitted by law and its articles of association. Such proceeds may, in particular, be used by the shareholder of the Selling Shareholder to reduce public debt.
Lock-up	The Company has agreed that neither it, nor any of its subsidiaries or other affiliates from time to time, nor any person acting on its or their behalf will, from the date of the Institutional Underwriting Agreement until 180 days after the date the Institutional Underwriting Agreement is entered into, without the prior consent of the Joint Global Coordinators, such consent not to be unreasonably withheld or delayed: (i) issue, offer, sell, assign, contract to sell, contract to sell or issue, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Shares; or (ii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above. The foregoing limitation shall not apply to any Shares issued or options to purchase or subscribe for Shares granted pursuant to employee stock option plans and liquidity reinvestment plans. For the avoidance of doubt, the foregoing limitation shall not restrict the Company's ability to acquire its own Shares. The Selling Shareholder has agreed that, subject to certain exceptions, neither it, nor any of its subsidiaries or other affiliates from time to time, nor any person acting on its or their

behalf will, from the date of the Institutional Underwriting Agreement until, in the case of all Shares sold in the Offering other than the Option Shares, 270 days after the date the Institutional Underwriting Agreement is entered into, without the prior written consent of the Joint Global Coordinators such consent not to be unreasonably withheld or delayed: (i) offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities; (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of any Shares; or (iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, whether any such transaction described above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

In the case of the Option Shares, the Selling Shareholder has agreed that, to the extent the Put Option and/or the Call Option are exercised, any Shares which it holds as a result of such exercise shall also be subject to the foregoing restrictions, except that such restrictions shall apply from the date of the Institutional Underwriting Agreement until 90 days after the date the Institutional Underwriting Agreement is entered into.

Transfer Restrictions	The Shares are subject to transfer restrictions in certain jurisdictions. See "*Transfer Restrictions*".
Securities Code	The Portuguese Securities Code, approved by Decree-Law no. 486/99 dated 13 November 1999, as amended from time to time.
Joint Global Coordinators	Caixa—Banco de Investimento, S.A. and J.P. Morgan Securities plc.
Co-Lead Managers	Banco Bilbao Vizcaya Argentaria, S.A. and Banco Espírito Santo de Investimento, S.A.
Securities Code	PTCTT0AM0001
Estimated expenses to be charged to investors	No fees will be charged to investors by the Company or the Selling Shareholder. However, certain fees or other charges may be payable by investors to financial intermediaries. These fees are available through the CMVM and on the internet through www.cmvm.pt. These fees should be disclosed by the financial institution by which the relevant investor's purchase order has been processed.

Risk factors

Risks Relating to Current Macroeconomic Conditions

- CTT is dependent on developments in the Portuguese economy, which is experiencing a period of considerable macroeconomic instability.
- The Economic and Financial Assistance Programme (the "PAEF"), which represents an important portion of the funding requirements of the Portuguese Republic for the period from 2011 to 2014, mandates the adoption of certain structural reforms.
- CTT may be negatively affected by further downgrades in the Portuguese Republic's sovereign rating.
- The EC regulatory and supervision framework may adversely affect Portugal.
- CTT may be adversely affected by a further deterioration of economic conditions in Spain.

Risks Relating to CTT's Business and Industry

- A change in communication trends has resulted in, and is expected to continue to result in, a decline in mail volumes.
- Parcels volumes may fail to grow as expected by CTT or may decline.
- CTT faces competition in certain business areas or products, which may intensify in the future.
- A limited number of customers account for a significant proportion of CTT's revenues.
- Changes in customer preferences or a failure to provide high quality products and services may adversely affect CTT's operations.
- CTT may not be able to successfully or efficiently manage its costs under its continuous transformation program.
- CTT may fail to develop and introduce new products and services on a timely basis or at all.
- CTT may not be able to successfully execute its business strategy.
- CTT may not satisfy the conditions imposed for the establishment of a postal bank and may fail to meet other measures required for the commencement of its activities or for the development of new products in the financial services business units.
- CTT brand and reputation could be negatively affected.
- The estimated amount of healthcare post-employment plan obligations may differ from actual liabilities.
- The amount provisioned by CTT in respect of labor contingencies may be insufficient to cover its actual liabilities.
- CTT's workforce is unionized and may participate in industrial actions and strikes.
- CTT is dependent on the recruitment and retention of qualified employees and experienced managers.
- CTT's operations depend on the support of its IT and communications systems.
- CTT's operations are dependent on a limited number of key facilities.
- CTT is subject to operational risks and the risk of accident.
- CTT's insurance coverage may not be sufficient to cover the risks associated with its business.
- CTT's business depends upon partnership agreements and other similar types of arrangements and its business could be adversely affected if its partners fail to observe their commitments or if these arrangements are terminated.
- CTT is subject to a variety of risks arising from its relationships with franchisees in its express and parcels business in Spain.
- CTT depends upon key suppliers in some operational areas and the loss of any such suppliers or any interruption in the services provided by them could significantly disrupt its operations.
- CTT may fail to successfully defend itself against claims brought against it or may not prevail on claims made against third parties.

- The implementation of price increases by CTT in the future may cause customers to switch to alternative media and/or cheaper services.
- CTT may decide to exit certain businesses or markets in the future.
- CTT is subject to several financial risks, including credit risk, market risk, interest rate and exchange rate risk, and liquidity risk.
- The lease agreements or other contracts for the property used by CTT are subject to certain legal or contractual requirements, which may result in increased costs for CTT.

Risks Relating to the Regulatory and Legislative Framework

- CTT's activity may be affected by potential changes in the legal and regulatory framework of the postal activity.
- CTT is subject to extensive regulation and changes in regulation may result in higher compliance costs and the dedication of additional resources.
- CTT is and was subject to various regulations and may be affected by changes to these regulations, including interpretations or judicial, administrative or other procedures aimed at the investigation of compliance with the applicable regulations.
- CTT's pricing policies have been and may in the future be subject to challenge on postal regulatory and competition law grounds.
- CTT's obligations as USO provider in Portugal may adversely affect its results of operations and profitability.
- CTT is required to provide other postal operators with access to its postal infrastructure.
- Failure to comply with the USO may enable the Portuguese State to terminate the concession for the USO.
- CTT is subject to transport regulations at the international, EU, national and regional levels and failure to comply with such regulations could result in fines or the suspension or revocation of its licenses.
- If CTT's policy with respect to its commercial products were deemed not to be compliant with the principle of no cross-subsidization under state aid or competition law, this could result in recovery of state aid, fines, damages or interim measures and could present certain challenges for its business.
- Changes to tax and labor legislation and regulations, or higher taxes or lower tax benefits may have an adverse effect on CTT's activity.
- The introduction of VAT on CTT's products and services may reduce revenues earned from customers that are unable to recover VAT.
- Changes to environmental laws and regulations may increase CTT's costs.
- European legislators may adopt legislation providing for the creation of an integrated parcel market within the EU.
- The enactment of legislation restricting advertising mail or the adoption of stricter rules regarding data protection and the use of personal data would contribute to a significant decline in advertising mail volumes.

Risks Relating to the Offering

- The Company may not be able to pay dividends in accordance with its stated dividend policy.
- The Shares may experience price and volume fluctuations.
- Any future sale of a substantial number of the Shares may have a negative impact on the price of the Shares.
- Any future capital increases by CTT may have a negative impact on the price of the Shares and existing shareholders could suffer dilution of the capital owned by them to the extent they are unable to participate in any such capital increases.
- The Portuguese State's interests may not necessarily be aligned with the interests of other shareholders.

- The Institutional Offering may be terminated by the Selling Shareholder based on public interest reasons prior to settlement of the Shares.
- There can be no assurance that the Shares will be admitted to trading on Euronext Lisbon.
- The Shares acquired by CTT's employees are subject to restrictions on transfer.
- In Portugal, interested parties are entitled to claim the invalidity of any administrative acts they deem illegal and request the suspension of such acts, within a term of three months, and to initiate other legal proceedings intended to prevent the effectiveness of potentially illegal administrative acts.
- The Company expects to be classified as a passive foreign investment company for the taxable year ending 31 December 2013.

Summary Consolidated Financial Information

Consolidated Income Statement Data

	Nine month period ended 30 September (Unaudited)		Year ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
			(EUR thousands)		
Sales and services rendered	509,742	520,187	699,332	741,850	779,866
Other operating income	10,233	9,074	14,893	23,917	17,965
Revenue	**519,974**	**529,261**	**714,225**	**765,767**	**797,831**
Cost of sales	(11,455)	(13,226)	(18,543)	(18,353)	(17,005)
External supplies and services	(176,220)	(183,415)	(246,416)	(256,464)	(273,333)
Staff costs	(231,607)	(243,106)	(333,319)	(358,096)	(382,049)
Impairment of inventories and accounts receivables, net	(1,930)	(72)	(798)	(3,119)	(543)
Impairment of non-depreciable assets	—	—	—	(1,942)	(2,669)
Provisions, net	(4,754)	(12,296)	(21,934)	(6,275)	(5,529)
Depreciation/amortization and impairment of investments, net	(19,521)	(17,468)	(24,636)	(22,252)	(24,222)
Other operating costs	(7,440)	(6,731)	(11,608)	(18,942)	(13,775)
Operating costs	**(452,925)**	**(476,314)**	**(657,254)**	**(685,443)**	**(719,125)**
Earnings before financial income and taxes	**67,049**	**52,947**	**56,971**	**80,324**	**78,706**
Interest expenses	(8,952)	(12,128)	(16,761)	(18,354)	(19,169)
Interest income	6,741	9,610	12,382	16,095	6,582
Gains/(losses) in associated companies	21	216	240	85	18
Financial results	**(2,190)**	**(2,302)**	**(4,139)**	**(2,175)**	**(12,569)**
Earnings before taxes	**64,859**	**50,645**	**52,832**	**78,149**	**66,138**
Income tax for the period	**(19,608)**	**(15,111)**	**(16,865)**	**(22,466)**	**(6,887)**
Net profit for the period	**45,251**	**35,534**	**35,967**	**55,683**	**59,250**
Net profit for the period attributable to:					
Equity holders of parent company	45,169	35,358	35,735	55,260	58,975
Non-controlling interests	(82)	(176)	(232)	(423)	(275)

Consolidated Balance Sheet Data

	As of 30 September (Unaudited)	As of 31 December		
	2013	2012	2011	2010
		(EUR thousands)		
ASSETS				
Total current assets	781,787	657,783	629,670	683,083
Total non-current assets	389,577	405,398	421,740	411,630
Total assets	**1,171,364**	**1,063,180**	**1,051,410**	**1,094,713**
EQUITY AND LIABILITIES				
Equity				
Share capital	87,325	87,325	87,325	87,325
Reserves	18,073	28,629	25,793	22,978
Retained earnings	83,373	87,105	88,569	68,450
Other changes in equity	29,118	33,080	15,851	12,312
Net profitable attributable to equity holders	**45,169**	**35,735**	**55,260**	**58,975**
Equity attributable to equity holders of parent company	263,058	271,873	272,798	250,040
Non-controlling interest	1,675	1,608	1,628	1,407
Total equity	**264,733**	**273,481**	**274,426**	**251,447**
Liabilities				
Non-current liabilities				
Medium and long term debt	3,647	4,561	5,944	7,254
Employee benefits	275,312	282,065	300,975	285,190
Provisions	38,440	36,596	16,476	15,430
Deferrals	9,447	11,323	13,705	19,570
Deferred tax liabilities	5,482	5,740	6,165	6,366
Total non-current liabilities	**332,328**	**340,285**	**343,265**	**333,811**
Current liabilities				
Accounts payable	471,612	349,215	346,905	403,880
Employee benefits	19,202	21,251	20,445	23,066
Income tax payable	2,667	862	7,381	—
Short term debt	2,831	6,857	5,165	7,025
Deferrals	3,463	4,369	4,676	6,141
Other current liabilities	74,528	66,859	49,136	69,343
Total current liabilities	**574,303**	**449,414**	**433,719**	**509,455**
Total liabilities	**906,630**	**789,699**	**776,984**	**843,266**
Net equity and liabilities	**1,171,364**	**1,063,180**	**1,051,410**	**1,094,713**

Consolidated Cash Flow Statement Data

	Nine month period ended 30 September (Unaudited)		Year ended 31 December		
	2013	2012	2012	2011	2010
			(EUR thousands)		
Cash flows from operating activities	176,775	237,882	130,604	(5,967)	56,913
Cash flows used in investment activities	(148)	(11,852)	(12,746)	(9,038)	(28,534)
Cash flows used in financing activities	(55,848)	(55,828)	(54,814)	(38,809)	(23,119)
Net change in cash and cash equivalents	**120,779**	**170,203**	**63,044**	**(53,814)**	**5,261**

Other Financial Data

	Nine month period ended 30 September (Unaudited)		Year ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
	(EUR thousands, except for %)				
EBITDA[1]	93,254	82,783	104,339	113,913	111,669
EBITDA margin	17.9%	15.6%	14.6%	14.9%	14.0%
EBIT[2]	67,049	52,947	56,971	80,324	78,706
Cash flow[3]	84,988	72,243	90,292	86,750	80,572
Cash conversion rate[4]	91.1%	87.3%	86.5%	76.2%	72.2%
Capital expenditures[5]	8,266	10,540	14,047	27,163	31,097

(1) EBITDA corresponds to earnings before interest, taxes, depreciation and amortization.

(2) EBIT corresponds to earnings before financial income and taxes in the Financial Statements. See "*Presentation of Financial and Other Information—Non-IFRS Financial Measures*".

(3) Cash flow is defined as EBITDA minus capital expenditures. See "*Presentation of Financial and Other Information—Non-IFRS Financial Measures*".

(4) Cash conversion rate is defined as EBITDA minus capital expenditures divided by EBITDA. See "*Presentation of Financial and Other Information—Non-IFRS Financial Measures*'

(5) Capital expenditures are defined as a sum of all additions to tangible assets, intangible assets and investment properties.

Reconciliation of EBITDA to EBIT

	Nine month period ended 30 September (Unaudited)		Year ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
	(EUR thousands)				
EBIT	**67,049**	**52,947**	**56,971**	**80,324**	**78,706**
Impairment of inventories and accounts receivable, net	(1,930)	(72)	(798)	(3,119)	(543)
Impairment of non-depreciable assets	—	—	—	(1,942)	(2,669)
Provisions, net	(4,754)	(12,296)	(21,934)	(6,275)	(5,529)
Depreciation/ amortization and impairment of investments, net	(19,521)	(17,468)	(24,636)	(22,252)	(24,222)
EBITDA	**93,254**	**82,783**	**104,339**	**113,913**	**111,669**

Certain Operating Data

	As of and/or the nine month period ended 30 September (Unaudited)		As of and/or the year ended 31 December		
	2013	2012	2012	2011	2010
Mail business unit:					
Total items processed (*thousands*)	1,046,740	1,106,054	1,480,066	1,600,748	1,695,980
—Transactional mail	568,900	610,624	809,632	875,861	928,901
—Press mail	32,454	35,988	47,988	55,554	59,435
—Parcels	252	284	405	405	421
—Advertising mail	445,134	459,159	622,042	668,929	707,224
Total staff	10,287	11,071	10,312	10,961	11,586
Points of sale (retail):					
—Post offices (owned branches)	624	752	748	783	884
—Postal agencies (partnership branches)	1,896	1,813	1,814	1,778	2,013
Customers per day at post offices	131,397	140,138	139,724	153,902	166,241
Customers per day per post office	211	186	187	197	188
Sorting units	11	11	11	11	11
Distribution centers	304	330	326	341	353
Express and parcels business unit:					
Total items processed (*thousands*)	18,406	16,901	22,896	23,067	24,377
—Portugal	8,728	8,657	11,608	11,896	13,213
—Spain	9,617	8,171	11,185	11,094	11,134
—Mozambique	61	73	103	77	30
Total staff	1,168	1,178	1,201	1,164	1,182
—Portugal	622	660	658	677	725
—Spain	465	462	480	443	420
—Mozambique	81	56	63	44	37
Total branches	871	1,026	1,018	1,064	1,169
—Portugal (CTT owned branches)	624	752	748	783	884
—Spain (CTT owned branches and partnership branches)	236	264	259	273	279
—Mozambique (CORRE branches)	11	10	11	8	6
Total logistics platforms(1)	45	45	46	43	44
—Portugal	13	14	14	14	13
—Spain	23	23	23	23	27
—Mozambique	9	8	9	6	4
Financial services business unit:					
Number of transactions (*thousands*)	69,432	75,744	99,952	104,602	106,719
—Post offices	31,030	34,603	45,274	48,466	52,816
—Payshop network	38,402	41,141	54,678	56,136	53,903
Total staff	103	111	114	112	116
Total points of sale	4,533	4,719	4,714	4,777	4,700
—Post offices	624	752	748	783	884
—Payshop network	3,909	3,967	3,966	3,994	3,816

(1) Logistics platforms are operational facilities for sorting and/or transferring mail and parcels between transport vehicles.

RISK FACTORS

Prospective investors should consider all of the information in this Offering Memorandum, including the following risk factors, before making an investment decision with respect to the Shares. If any of the events described below actually occur, CTT's business, financial condition, results of operations or prospects could be materially adversely affected, and the value and trading price of the Shares may decline, resulting in a loss of all or a part of any investment in the Shares. Furthermore, the risks described below are not the only risks CTT faces. Additional risks not currently known, or which are currently believed to be immaterial, may also have an adverse effect on CTT's business, financial condition, results of operations or prospects.

Risks Relating to Current Macroeconomic Conditions

CTT is dependent on developments in the Portuguese economy, which is experiencing a period of considerable macroeconomic instability.

A substantial portion of CTT's revenues are derived from Portugal, which accounted for 89% of sales and services rendered in the year ended 31 December 2012. As a result, developments in the Portuguese economy have an impact on CTT. The financial and economic crisis which has been affecting the global economy since mid-2007 has severely and negatively affected the Portuguese economy. The onset of the sovereign debt crisis in the Eurozone and concerns regarding high levels of budget deficits and public debt prompted the Portuguese Government to request international financial assistance from the International Monetary Fund (the "**IMF**"), the European Commission (the "**EC"**), and the European Central Bank (the "**ECB**" and, together with the IMF and the EC, the "**Troika**") in April 2011. Within this framework, economic activity has decreased in Portugal as a result of reduced public and private expenditure, limited financing and increased unemployment. In June 2013, Portugal's GDP contracted by 2.1% year on year and the average annual unemployment rate rose to 16.4% in 2012. The consolidated value of the gross debt of the Portuguese Republic increased to 131.4% of GDP as of June 2013 (Source: "*October Statistical Bulletin" by the Bank of Portugal dated October 2013*).

The economic situation continues to be challenging in Portugal. Additional budgetary deficits, the persistence of instability in international financial markets, the difficulty of obtaining external funding on acceptable terms, the process of reducing public and private sector indebtedness levels, the implementation of structural reforms in the labor market and pressures resulting from a higher tax burden on the disposable income of households and spending by businesses have contributed to a challenging economic environment. According to the International Monetary Fund, GDP is expected to contract by 1.8% in 2013 and to grow by 0.8% in 2014 (the OECD is less optimistic and expects a GDP growth of 0.2%). Although the European Commission has revised its growth forecasts upward and the unemployment rate in Portugal has been decreasing since the second quarter of 2013, a high degree of uncertainty exists with respect to the Portuguese economy. In particular, the introduction of further austerity measures by the Portuguese Government could compromise the Portuguese economy's expected return to growth.

Adverse macroeconomic conditions in Portugal have significantly affected, and will continue to affect, the behaviour of CTT's customers and, as a consequence, demand for its products and services. In particular, decreases in household disposable income will generally contribute to reduced spending on postal services and other products and services, reducing transactional mail volumes. In addition, high levels of household debt and the persistence of low consumer confidence could continue to affect demand for products and services, directly and indirectly affecting the demand for postal services from consumers and companies. In 2011, household debt as a percentage of GDP in Portugal was 326%, compared to 238% in 1999 (Source: *OECD website*). Any further decrease in disposable income or increase in household debt could have an adverse effect on demand for CTT's products and services.

Despite the strong performance of Portuguese exports over the last few years (in terms of resilience, market share, market diversification and higher technological incorporation), a less favourable contribution towards the growth of the Portuguese economy from Portuguese exports cannot be excluded in the future in view of certain constraints. Economic conditions in countries with which Portugal has trade links have also had an effect on the development of the Portuguese economy. In particular, adverse macroeconomic conditions for Portugal's main export markets, including Spain, which accounted for approximately 24% of Portuguese exports during the period from January to August of 2013, and the EU member states, which accounted for approximately 70% (or 47% excluding exports to Spain) of Portuguese exports in the same period (Source: *INE website*), are likely to adversely affect Portugal's economy. Many of these countries are experiencing excessive levels of public debt, a decreased effectiveness of monetary policy, primarily as a result of interest rates being close to zero, and a persistent economic climate of volatility and uncertainty. Negative economic performance in Spain, due to its trade channels and financial ties with Portugal, may have significant repercussions in the Portuguese economy, which may be aggravated if Spain requests a formal external assistance package. Furthermore, CTT's express and parcels business in Spain will be directly affected by economic growth in Spain and by domestic demand developments. See "*—CTT may be adversely affected by a further deterioration of economic conditions in Spain*".

Although the crisis in the Eurozone has to a certain extent abated during the past 18 months, any further deterioration of global economic conditions, including negative changes in the credit risk of other countries in the EU, the solvency of Portuguese or international banks or changes in the Eurozone, may lead to additional concerns relating to Portugal's economy. This could in turn have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

The Economic and Financial Assistance Programme (the "PAEF"), which represents an important portion of the funding requirements of the Portuguese Republic for the period from 2011 to 2014, mandates the adoption of certain structural reforms.

On 5 May 2011, the Portuguese Government announced that it had entered into a memorandum of understanding with the Troika in relation to the PAEF. The PAEF provides for significant financial assistance to Portugal, with up to €78 billion available for the period from 2011 to 2014. This assistance is divided between €26 billion to be provided by the IMF under the "Extended Fund Facility," with a variable interest rate indexed to special drawing rates (**"SDR"**), and the remaining €52 billion to be financed by the European Union. The PAEF was approved by the European Commission on 10 May 2011, and by the Ministers of Finance of the countries of the European Union on 16 May 2011. The financing is conditional on Portugal's compliance with a series of budgetary targets and structural measures, the implementation of which is being monitored on a quarterly basis by the Troika over the course of the PAEF.

The targets and measures included under the PAEF are as follows: (i) the reduction of the budget deficit to below 3.0% of GDP by 2015; (ii) the support of deleveraging in the financial services sector, including the imposition of reinforced capital buffers; (iii) the restructuring of certain public agencies; and (iv) the adoption of new regulatory frameworks for the labor, housing and other markets. By the end of September 2013, Portugal had largely complied with the objectives set forth in the PAEF and had already completed 9 reviews by the Troika. Portugal has already received approximately €69 billion of the €78 billion available to it.

Nonetheless, if the Portuguese Government fails to comply with the budgetary targets and structural measures set forth in the PAEF, this may affect its ability to receive further funds under the PAEF facility, which may in turn negatively affect the Portuguese economy and, as a result, CTT's business, financial condition, results of operations and prospects. The Portuguese Government's ability to comply with the requirements of the PAEF may also be impacted by political or judicial developments. Any change in the political climate or adverse judicial decision regarding the implementation of the structural measures set forth in the PAEF (namely the Constitutional Court) could result in a setback for the current stabilization and reform policies.

The PAEF and its implementation may also have a material adverse effect on the Portuguese economy in the short term, and consequently on CTT's business, financial condition, results of operations and prospects. Furthermore, even if the PAEF is successfully implemented, this does not guarantee that the Portuguese economy will return to growth or alleviate concerns regarding the level of external debt of the Portuguese Republic.

The continued deterioration of global economic conditions, including the credit profile of other countries of the European Union, may also exacerbate concerns regarding the ability of the Portuguese Republic to meet its funding needs. The high level of uncertainty in relation to the macroeconomic environment and the possible inability of the Portuguese Republic to meet the commitments assumed under the PAEF, when combined with the limited availability of funding from the capital markets, could lead to a need for additional external assistance.

CTT may be negatively affected by further downgrades in the Portuguese Republic's sovereign rating.

Each of Standard & Poor's, Moody's, Fitch and DBRS has downgraded the short and long-term sovereign credit rating of the Portuguese Republic on several occasions since the onset of the financial crisis and has placed the rating prospects of the Portuguese Republic on negative outlook, due to the uncertainties and risks arising from the budgetary consolidation process under the PAEF, the low level of competitiveness of the Portuguese economy, external funding difficulties and the level of sustainability of Portuguese public debt. The outlook of the rating agencies for the Portuguese Republic is dependent on the successful implementation of the measures included in the PAEF. Rating agencies may further downgrade the sovereign credit rating of the Portuguese Republic in the future (i) if there is, or is perceived to be, further strain on public finances resulting from weaker performance of the Portuguese economy; (ii) if the budgetary consolidation measures and structural reforms undertaken by the Portuguese Republic are perceived to be insufficient; or (iii) for other reasons. In these circumstances, the sovereign credit risk of the Portuguese Republic is likely to increase and its sovereign credit rating may be downgraded further. This could exacerbate the macroeconomic challenges Portugal is currently facing and, given the strong link between demand for CTT's services and Portuguese GDP, could indirectly affect CTT. Moreover, to the extent CTT seeks funding in the capital markets, its risk premium will be affected by the sovereign credit rating of the Portuguese Republic.

The EU regulatory and supervision framework may adversely affect Portugal.

The Treaty on Stability, Coordination and Governance entered into force on 1 January 2013 in the Economic and Monetary Union. This treaty is intended to reinforce budget discipline by means of the introduction of a "balanced budget rule" and an automatic mechanism for the adoption of corrective measures. Specifically, this treaty provides that the structural budget deficit of each member state should not exceed 0.5% of the GDP at market prices. Moreover, the budgets of the member states must comply with the specific medium-term objectives defined by the Stability and Growth Pact, which are monitored annually within the context of the European Semester. In the event that a member state does not comply with the defined objectives, an automated correction mechanism will be activated. The "balanced budget rule" and the automated correction mechanisms must be transposed into the domestic legislation of each member state by 1 January 2014. Furthermore, the debt criteria foreseen in the Stability and Growth Pact are taking on greater importance and, accordingly, member states whose public debt exceeds 60% of GDP are required to adopt corrective measures to reduce their debt at a pre-defined pace (with an average rate of one-twentieth per year), even if their deficits are at levels below 3% of GDP (the reference value for the European Union). Any limitation imposed on the Portuguese Government as a consequence thereof may have a material adverse effect on the Portuguese economy and therefore CTT's business, financial condition, results of operations and prospects.

CTT may be adversely affected by a further deterioration of economic conditions in Spain.

In 2012, €52 million, or 41%, of CTT's express and parcels business revenue was derived from Spain and, therefore, the express and parcels business is dependent upon economic conditions in Spain. After a period of economic growth, Spain entered into a recession in the third quarter of 2008. The effects of the global economic downturn were exacerbated by a rapid decline in real estate prices, as well as the high level of public debt. Spain's GDP declined by 3.8% and 0.2% in 2009 and 2010, respectively (Source*: INE, Press Release: "Spanish National Accounts. Base 2008—Update of Accounting Series 2009-2012" dated 27 August 2013*). Although GDP grew by 0.1% in 2011, it declined by 1.6% in 2012 (Source*: INE, Press Release: "Spanish National Accounts. Base 2008—Update of Accounting Series 2009-2012"dated 27 August 2013*). According to the IMF, Spanish GDP is expected to decline by 1.3% in 2013. In addition, unemployment in Spain reached 26.0% in the fourth quarter of 2012 and in the third quarter of 2013 (Source*: INE, Press Release: "Economically Active Population Survey" dated 24 October 2013*). Spain's credit rating has been downgraded several times in recent years, including most recently in 2012. An extended recession or a lack of public confidence regarding the economic environment could adversely affect demand for CTT's services. The ongoing crisis in the Eurozone may also adversely affect the Spanish economy and, directly and indirectly, CTT's business. During periods of deteriorating economic conditions, high unemployment and tax increases, disposable income is generally reduced, resulting in lower discretionary spending, especially in the businesses to consumers ("**B2C**") parcels market and the market for parcels sent by consumers to undifferentiated addressees ("**C2X**"). According to the Spanish National Statistical Institute, INE, in 2012, private consumption in Spain declined by 5.3% compared to 2011, which resulted in a decline in demand for products and services, including CTT's express and parcels services. The continued impact of adverse economic conditions in Spain may have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

Risks Relating to CTT's Business and the Sectors in which CTT Operates

A change in communication trends has resulted in, and is expected to continue to result in, a decline in mail volumes.

Transactional mail accounts for a significant portion of CTT's revenues. The use of mail in transactions has declined in recent years primarily as a result of the increased use of e-mail and the Internet, which are faster, and in many cases more cost effective, means of communication, than physical mail. This trend has accelerated due to adverse economic conditions in Portugal in recent periods, which have led to the adoption of efficiency measures by business customers (including customers in the banking, telecommunications and utilities sectors) and have also resulted in a general decline in commercial activity in Portugal, affecting demand for transactional and advertising mail. CTT estimates that volumes of domestic mail fell on average by approximately 5.0% per annum for the period from 2007 to 2012, with declines of approximately 9.0%, 6.1%, 3.7%, 5.1% and 1.3% in 2012, 2011, 2010, 2009 and 2008, respectively; and volumes of addressed mail fell on average by approximately 5.2% per annum for the period from 2007 to 2012, with declines of approximately 8.8%, 6.4%, 3.7%, 5.4% and 1.5% in 2012, 2011, 2010, 2009 and 2008, respectively. For the nine months ended 30 September 2013, volumes of addressed mail fell by approximately 7.4% compared to the nine months ended 30 September 2012. Mail volumes in Portugal are expected to decrease even further in coming years as a result of continued electronic substitution, and the rate of decline may vary depending on economic conditions. The increased use of electronic bills and invoices by utilities, telecommunications, banks and other financial services providers, which represent some of CTT's largest mail customers in terms of revenues, and implementation by these customers of electronic "paperless" communications are expected to contribute to a further reduction in addressed mail volumes. Furthermore, programs implemented by Portuguese Government agencies to promote the use of "paperless" communication may lead to further declines in mail volumes in Portugal. The future implementation in Portugal of European legislation that requires explicit prior consent of the addressee for the use of personal data (commonly referred to as "opt-in" legislation) would contribute to a significant decline in advertising mail volumes. Given the relatively fixed nature of its cost base (fixed costs represented 51% of CTT's total costs in 2012), CTT may find it difficult to preserve its margins in the event that mail volumes decline quicker than CTT has forecasted. If mail volumes continue to decline and CTT is unable to compensate for the lost revenues resulting from any such decline, this would have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

Parcels volumes may fail to grow as expected by CTT or may decline.

Parcels volumes are affected by several factors, including economic activity, in particular domestic demand, industry pricing policies and trends in e-commerce. While CTT aims to increase revenues in its express and parcels business to mitigate the continued decline in mail volumes and revenues, its ability to do so depends on continued growth in both the Iberian and other European parcels markets. Management believes that the Iberian markets have strong growth potential, mainly as a result of expected growth in e-commerce. In 2012, the percentage of customers that shopped online was 22% in Portugal and 31% in Spain, compared to the average of 44% across the EU (Source: *Eurostat, "Internet Purchases by Individuals" dated 12 September 2013*). Portuguese parcels volumes (for parcels weighing up to 20kg) grew at a compound annual growth rate of 11% from 2008 to 2012 (Source: *ANACOM, Historical data of "Postal Services—Postal Services Statistical Information for the Second Quarter of 2013" dated 1 October 2013*). However, there can be no assurance that parcels volumes in Iberia and other countries in Europe will grow at the rates expected by CTT, or that they will not decline. This could have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

CTT faces competition in certain business areas or products, which may intensify in the future.

CTT faces competition across a number of its business areas or products. In particular, it faces competition in the unaddressed mail market segment, where the decrease in the number of clients, due to market concentration in the retail sector, has led to a decrease in volumes per advertising campaign, as well as lower margins. In addition, CTT faces competition in its express and parcels business, where it competes with large international operators, such as DHL, TNT Express, FedEx (in partnership with Rangel in Portugal) and Chronopost / Seur (La Poste Group) as well as local operators such as MRW, Nacex, Tipsa, ASM and Urbanos. Large international operators may have access to greater financial resources or may accept lower margins than CTT in order to increase their market share. CTT also faces significant competition in its business solutions unit from small and medium domestic operators, as well as from Logica CGI, a major competitor in the printing and finishing market. The economic downturn has had a significant impact on this market, resulting in lower demand and greater price competition, primarily due to customers seeking lower prices.

Although currently 12 operators (three belong to CTT) have licenses to provide letter mail services within the USO, no major direct competitor has entered the domestic mail market since the Portuguese postal services market was fully opened to competition in 2012. In the future, CTT may face increasing competition if additional operators were to enter this market. If competition in the markets in which CTT operates intensifies, whether as a result of the activities of its existing competitors or new entrants to these markets, this could have a material adverse effect on its business, financial condition, results of operations and prospects.

A limited number of customers account for a significant proportion of CTT's revenues.

CTT derives a significant proportion of its revenues from sales to a relatively concentrated customer base, which is primarily located in Portugal, with 37.5% of revenues attributable to its top 20 customers and 13.3% of revenues attributable to the Portuguese State in 2012. If the Portuguese State or any of CTT's other large customers were to reduce the volume of mail they send, whether as a result of government initiatives, cost cutting measures, or otherwise, this could lead to an acceleration of the decline in mail volumes that CTT is already experiencing.

Customer concentration also varies by type of product. For certain product types, CTT relies on a relatively limited number of customers. 26.3% and 49.0% of the revenues of the mail and business solutions business units, respectively, correspond to CTT's top ten clients in each business unit. In the event that any of CTT's key customers elects not to use CTT's services, or reduces spending on CTT's services, CTT's business, financial condition, results of operations and prospects could be materially adversely affected.

Changes in customer preferences or a failure to provide high quality products and services may adversely affect CTT's operations.

Management believes there is a strong link between the quality of service customers receive from a particular provider and their willingness to use that provider again in the future. Failure by CTT to offer the quality of service expected by its customers may lead to a decline in demand for CTT's products and could result in its customers switching to other forms of communication. In addition, CTT's customers could reduce their online shopping or use the services of on-line retailers that provide pick-up and drop-off services at their branches. If CTT fails to meet its quality of service targets, it may lose some of its customers and suffer damage to its brand and reputation, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

Furthermore, CTT must meet certain quality of service levels with respect to services comprising the USO. These quality of service levels are set by the ANACOM based on certain principles, including proportionality, adequacy, affordability, non-discrimination and transparency. Non-compliance with these quality of service levels may lead the ANACOM to apply mechanisms requiring CTT to compensate its customers for any non-compliance. Additionally, failure to achieve such quality of service levels can lead to the application of a fine by the ANACOM, or, in certain cases, the suspension of the relevant activity. Between 2010 and 2012, no such corrective measures were applied to CTT, as it significantly exceeded the quality of service levels set out in the USO convention on quality of service entered into between the ANACOM and CTT. CTT is also subject to quality obligations under international postal regulations and international agreements. If CTT does not meet these quality of service targets, its business, financial condition, results of operations and prospects could be materially adversely affected.

CTT may not be able to successfully or efficiently manage its costs under its continuous transformation program.

CTT's ability to improve or maintain profitability and to recover investments depends on its ability to manage costs. CTT has implemented various initiatives to reduce certain costs, including a continuous transformation program which involves significant changes to CTT's business units, such as a reduction in the number of CTT owned post offices and delivery offices and the eventual reduction of the number of employees, as well as internalization of outsourced activities. There is no guarantee that these or other cost management efforts will be successfully implemented due to reasons beyond CTT's control. In particular, CTT's obligations as a USO provider may prevent it from reducing costs in areas that are unprofitable. Furthermore, the removal of austerity measures that currently place limits on staff compensation once the Offering is completed or opposition from labor unions may adversely affect CTT's ability to reduce costs. If CTT is unable to manage costs effectively, it may be unable to achieve its desired and expected levels of profitability. CTT's targets and initiatives in relation to cost reduction and/or cost efficiency are also based on assumptions and expectations that may prove to be incorrect. Consequently, restructurings of operations and other cost reduction measures may not achieve the intended results and CTT may incur restructuring and other costs in excess of original estimates. Furthermore, because of the significant steps it has taken in the past to reduce its costs, CTT may not be able to achieve the same level of costs savings it has achieved in the recent past. If CTT is not able to manage its costs effectively, this could have a material adverse effect on its business, financial condition, results of operations and prospects.

CTT may fail to develop and introduce new products and services on a timely basis or at all.

Given that a significant portion of CTT's business falls within the postal sector, where opportunities for innovation are limited, and certain businesses such as pension payments may be in decline, CTT relies on the development of new products and solutions to mitigate these effects. CTT may not be able to develop new products and services properly and, even if it does, these new products and services might not be successful. In addition, CTT's competitors may introduce new products and services before CTT does, which may permit these competitors to increase their market share. If CTT is unsuccessful in developing new products and services or if the costs of development exceed the expected costs, this could have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

CTT may not be able to successfully execute its business strategy.

CTT may not be able to successfully execute its business strategy, which includes maintaining leadership in its core mail business, with a market share of 95% as of 30 June 2013 (Source: *ANACOM "Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013*), consolidating and developing the express and parcels business and strengthening its financial services platform. CTT's ability to achieve these objectives is subject to diverse risks, including macroeconomic and political risks as well as specific risks applicable to each of its business units and the markets in which it operates. CTT may not be successful in achieving these objectives within the desired time frames or at all, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

CTT may not satisfy the conditions imposed for the establishment of a postal bank and may fail to meet other measures required for the commencement of its activities or for the development of new products in the financial services business units.

On 5 August 2013, CTT filed an application with the Bank of Portugal for a license to create a postal bank. The Bank of Portugal issued its authorization for the establishment of the postal bank on 27 November 2013. The authorization was subject to the fulfillment of a set of conditions and requirements, namely: (i) a confirmation by the new shareholders of CTT that the postal bank project shall be implemented in accordance with the terms submitted and analyzed by the Bank of Portugal, including those pertaining to the geographic coverage of the postal bank's network; (ii) a confirmation that the indirect qualified shareholders of the postal bank, resulting from CTT's privatization process, are able to ensure the sound and prudent management of the institution, under the terms and for the purposes of article 103 of the General Framework of Credit Institutions and Financial Companies; and (iii) updated economic and financial forecasts, which incorporate the expected contractual terms of the partnership agreements.

Even though the Bank of Portugal has issued its authorization for the establishment of the postal bank, the Company's competent corporate bodies may not approve the project due to the potential cost of the project. Furthermore, the commencement of the postal bank's operations will depend on the fulfillment of an additional set of regulatory requirements, which will include registering the postal bank with the Bank of Portugal. In addition, CTT intends to increase its revenues and market share in the financial services sector by offering new credit products (*e.g.*, credit cards, consumer loans, etc.) and other new products (*e.g.*, structured products, risk insurance, etc.) and will have to establish partnerships with local and international counterparts and financial institutions. CTT may not be able to enter into agreements with such counterparties and institutions, and may be subject to applicable regulatory requirements, which may hinder the development of CTT's strategy in this sector. Any of these risks could have a material adverse effect on CTT's business, financial condition, results of operations, dividends policy and prospects.

CTT brand and reputation could be negatively affected.

Management believes that CTT's brand reputation is a key element of its success. The markets in which CTT operates are dependent upon the reliability of its brand and customer confidence in the brand, which is considered to be one of trust. If CTT's brand or reputation were to be damaged through failures or delays in the delivery of items to customers, employee misconduct, negative advertising campaigns or otherwise, this could have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

The estimated amount of healthcare post-employment plan obligations may differ from actual liabilities.

CTT has undertaken to provide healthcare benefits to most of its employees and certain of their family members during the terms of their employment contracts and in many cases upon retirement, in accordance with the terms established in the agreements signed between CTT and the relevant labor unions under the Regulamento de Obras Sociais (*Social Benefits Regulation*).

Healthcare liabilities amounted to €258.4 million as at 30 September 2013 (€252.8 million as at 31 December 2012), of which €174.0 million (€167.3 million as at 31 December 2012) related to retired employees and €84.4 million (€85.5 million as at 31 December 2012) related to liabilities from current employees. There are also a number of other long-term post-employment benefits that were recorded as liabilities in the financial statements, which were €36.1 million as at 30 September 2013.

An actuarial study is carried out annually by an independent entity based on the projected unit credit method. The past service liabilities are calculated based on certain demographic and financial assumptions. Depending on the changes to certain indicators (*e.g.*, increase in medical costs growth rates, discount rates, GDP growth rates, etc.), the estimated amount of healthcare plan obligations could differ from CTT's actual healthcare liabilities, which could have a material adverse effect on CTT's business, financial condition and prospects. In the report issued together with the draft state budget for 2014, it was decided that CTT's employees, whose social benefits are currently covered by Caixa Geral de Aposentações, will be transferred to ADSE ("*Assistência na Doença aos Servidores Civis do Estado"*). The transfer of such employees would result in the transfer of the liabilities and estimated costs to ADSE. However, no agreement was reached on the conditions and the amount of such transfer. Therefore, CTT is unable to estimate or anticipate the impact of such transfer.

The amount provisioned by CTT in respect of labor contingencies may be insufficient to cover its actual liabilities.

CTT has recorded several provisions to cover potential risks resulting from labor contingencies (in particular, a provision related to claims brought or expected to be brought by several employees regarding the calculation of holiday remuneration and holiday and Christmas bonuses). In the event that CTT's provisions are insufficient to cover actual liabilities (*e.g.*, if the number of CTT's employees bringing a claim is higher than expected or the amount of principal and interest imposed by the courts and payable by CTT is higher than expected), CTT could incur additional costs, which could have a material adverse effect on CTT's financial condition, results of operations and prospects. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Results of Operations—Provisions—Provision for judicial proceedings and labor contingencies*" for further details.

CTT's workforce is unionized and may participate in industrial actions and strikes.

CTT's business is labor intensive and necessitates a large number of employees. The majority of these employees are unionized. On 22 March 2013, CTT entered into a new labor agreement with 12 trade unions, which may be subject to renegotiation in 2014. In the event that CTT has material disagreements or relevant disputes with its unions, this could result in localized or national actions and strikes and could have a material adverse effect on the CTT's results of operations, financial condition and prospects.

CTT is dependent on the recruitment and retention of qualified employees and experienced managers.

CTT's ability to recruit and retain qualified and experienced employees is essential to its future success. In the future, CTT may face increased competition for skilled workers and experienced managers. Although CTT has taken steps to mitigate the risks associated with the loss of its experienced managers, such as talent management and career development programs, there can be no assurance that CTT will succeed in retaining its key employees. CTT's operations are dependent on a large number of employees and require fixed-term and employees on a seasonal basis (especially during holiday periods). Notwithstanding the increased automation of CTT's operations, CTT depends on a large number of employees for its collection, distribution and transportation activities. In addition, demographic changes and emigration flows, particularly in Portugal, may lead to difficulties in recruitment. Failure to recruit and retain suitable, experienced and qualified staff may adversely affect CTT's business, financial condition, results of operations and prospects. In addition, any increase in personnel costs or labor disputes may result in higher staff expenses and may adversely affect CTT's business, financial condition, results of operations and prospects.

CTT's operations depend on the support of its IT and communications systems.

CTT depends on its IT infrastructure and communication systems for the day-to-day management of its operations. IT and communications systems are vulnerable to disruptions, damage, power failures, terrorist or other acts of sabotage, computer viruses, fires and similar events. There can be no assurance that CTT's IT and communications systems will not suffer from disruptions or breakdowns. If one or more elements of CTT's IT infrastructure fails and back-up facilities do not operate successfully, CTT's operations could be adversely affected. The lack of functional IT and communications systems may affect CTT's ability to offer products and services in its network, resulting in lower revenues. Any compromise of CTT's IT and communications systems could result in a decline of customer confidence in CTT's platform and thus adversely affect its business, financial condition, results of operations and prospects.

CTT's operations are dependent on a limited number of key facilities.

CTT's mail and express and parcels operations are dependent on the success of its logistics support centers and sorting units as well as its postal network. If one or more of these facilities were to be shut down for a period of time or were unable to operate to their full capacity, whether as a result of a power outage, accident, strike action, natural disaster, extreme weather or otherwise, CTT might be unable to comply with the quality of service targets set forth by the ANACOM or under agreements entered into with its customers. If CTT fails to comply with such delivery times, demand for its services as well as its reputation may be adversely affected and the ANACOM may impose fines or other corrective measures upon CTT, which could in turn have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

CTT is subject to operational risks and the risk of accident.

CTT's postal, mail and express and parcels services depend on a complex operating infrastructure (including roads, harbors and airports) with high quality of service standards to avoid any disruptions to its delivery operations. CTT's operations may be compromised by any problems arising with regard to collection, sorting, transport, warehousing or delivery of its products. Any disruptions or malfunctions of the infrastructure on which CTT relies or in CTT's operational processes could result in CTT failing to meet the quality of service targets set out by the ANACOM or in agreements with its clients. In addition, any such disruptions or malfunctions could have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

CTT's insurance coverage may not be sufficient to cover the risks associated with its business.

CTT has obtained insurance policies from commercial insurers to cover risks arising from its business activities. However, these policies may not provide sufficient coverage for damages, losses or liability claims, and CTT may have to incur provisions for other unforeseen losses. In addition, CTT's insurers could be unwilling or unable to pay out the agreed compensation in the event of a loss. For various reasons, CTT may not be able to continue to obtain suitable insurance coverage for all of its business operations on economically acceptable terms in the future. It is also possible that insurance companies may stop providing coverage under comprehensive/third party liability insurance policies for certain risks in connection with terrorist attacks, war or other hostile actions at commercially acceptable terms or may suspend such insurance entirely. Terrorist attacks, acts of sabotage, and other disasters, especially if they occur during air travel or are directed against aircraft, could result in insurance coverage for air transport risks, becoming more expensive or limited in scope and covered amount. Any such development could adversely affect CTT's business, financial condition, results of operations and prospects.

CTT's business depends upon partnership agreements and other similar types of arrangements and its business could be adversely affected if its partners fail to observe their commitments or if these arrangements are terminated.

In certain areas of its business, CTT operates through partnership agreements or other similar types of arrangements. In particular, in its financial services business unit, it has arrangements with Portuguese Treasury and Debt Management Agency ("Agência de Gestão da Tesouraria e da Dívida Pública—IGCP, E.P.E.") (the "**IGCP**") for the distribution of public savings certificates and treasury certificates, with the insurance company Fidelidade for the distribution of life insurance products, with the insurance company MAPFRE for the distribution of housing, work accidents, personal accidents and insurance savings products, with Western Union in relation to money transfers, and with ISS for the payment of pensions and other social benefits through money orders. See "*Business—Material Contracts*" for details of these arrangements. If CTT's partners fail to comply with their contractual obligations, CTT might not be able to operate in accordance with its expectations and/or may not earn the expected level of fees. CTT may also have disputes with its partners and may encounter difficulties agreeing on actions that Management believes would be beneficial for the operation of the relevant arrangement. Any of the foregoing could reduce the profitability of CTT's partnership arrangements, thereby materially adversely affecting CTT's business, financial condition, results of operations and prospects.

CTT is subject to a variety of risks arising from its relationships with franchisees in its express and parcels business in Spain.

CTT operates its express and parcels business in Spain through Tourline, which relies on franchisees for a portion of its commercial and distribution activities. CTT's franchisees accounted for 76% of Tourline's revenues in 2012. Franchisees operate on an exclusive basis in a particular geographical area and retain the direct relationship with the customer. Each of CTT's franchise agreements is valid for a specified term, following which either party may elect not to renew the agreement. These franchise agreements are also subject to termination by CTT upon the occurrence of certain events of default or the failure by franchisees to meet quality or operating standards. Franchisees are entitled to terminate the agreements in the event that they do not agree with the annual prices published by CTT or as a result of serious misconduct by CTT. CTT may be unable to renew its franchise agreements in a timely manner or at all, or the agreements may be terminated prior to their stated expiration dates. This may compromise CTT's ability to continue to provide a high level of service in Spain and/or may result in costs associated with finding replacement franchisees on favourable terms. CTT may also be subject to reputational risk in relation to its franchise arrangements. If its franchisees provide low quality service to its customers, CTT's brand and reputation may suffer. Any of the foregoing could have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

CTT depends upon key suppliers in some operational areas and the loss of any such suppliers or any interruption in the services provided by them could significantly disrupt its operations.

CTT depends on key suppliers in certain areas of its operations such as transport, IT management, maintenance and distribution services, particularly in the express and parcels business, and if any of these suppliers were to cease to provide services to CTT, there can be no assurance that CTT would be able to replace them in a timely and cost effective manner, or at all. Additionally, any interruption in the operations of its key suppliers could result in delays to CTT's services, which could, among other things, prevent it from meeting the quality of service obligations imposed by the ANACOM or under agreements entered into with customers. The loss of any of CTT's key suppliers or any interruption in the services provided by them could have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

CTT may fail to successfully defend itself against claims brought against it or may not prevail on claims made against third parties.

During the normal course of its business, CTT is party to legal proceedings, claims and disputes, which may include, among other things, claims for the loss of goods, delays in delivery, trademark infringement, subcontracting, public procurement, employment issues, debt recovery, regulatory matters, tax and contractual disputes. Negative outcomes in material disputes may adversely affect the business, financial condition, results of operations and prospects of CTT and reserves for any potential losses associated with litigation that are not covered by insurance which had been not adequately provided for. Additionally, any negative result in legal proceedings may have an adverse reputational impact on CTT.

The implementation of price increases by CTT in the future may cause customers to switch to alternative media and/or cheaper services.

In April 2013, after a three-year period without any price increases, CTT increased prices for certain of the products and services offered by its mail business unit which comprise the USO. In the period from 2010 to 2012, CTT increased prices for products and services offered by its express and parcels business unit. CTT may implement additional price increases in the future for certain or all of its products and services. If

CTT incorrectly estimates the impact of its price increases on consumer demand, customers may switch to alternative media for the delivery of information, or they may reduce the number of items they send and/or they may seek to send items using either cheaper products and services offered by CTT or products and services offered by other operators. If the impact of the price increases implemented by CTT leads to a reduction in the volume of mail and/or express and parcels products delivered through CTT's network, CTT's business, financial condition, results of operations and prospects may be materially adversely affected.

CTT may decide to exit certain businesses or markets in the future.

CTT may choose to change its strategy and either fully or partially exit certain businesses or markets, for example due to changes in strategic focus, market conditions or the actions of competitors, subject to CTT's regulatory obligations and designation as USO provider. A full or partial exit of any of these businesses, could affect CTT's business, financial condition, results of operations and prospects due to additional and exceptional costs incurred as a result of the closure of operations, the impairment of goodwill and other contractual liabilities.

CTT is subject to several financial risks, including credit risk, market risk, interest rate and exchange rate risk, and liquidity risk.

CTT is subject to credit risk, which mainly relates to the risk that a counterparty defaults on its contractual obligations, resulting in financial losses for CTT. The credit risk on accounts receivable is monitored on a regular basis for each of CTT's business units, in order to limit the credit granted to customers. The worsening of economic conditions or other economic difficulties could lead to the inability of customers to meet their obligations, which could negatively affect CTT's results.

CTT is also subject to risks arising from its treasury activities, which mainly result from term deposit investments made by CTT. Although CTT has a policy to invest only for short/medium term periods with financial institutions that have high credit ratings (as compared to Portugal's rating), it may suffer unexpected losses.

Moreover, CTT is subject to interest rate risk, which is mainly related to the interest obtained from the application of surplus liquidity and the impact of the discount rate applied to calculate the estimated liabilities of employee benefits. Gains and losses arising from changes in interest rates could have a direct impact on CTT's financial results. In order to reduce the impact of interest rate risk, CTT 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; however any significant variations in interest rates may have an adverse impact on CTT's financial results.

CTT is also subject to foreign exchange risks. Foreign 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 based on SDR. A devaluation of the euro relative to the U.S. dollar or other applicable currencies could have a negative impact on CTT.

Finally, CTT is subject to liquidity risks, which could result from a mismatch in funding sources (such as cash balances, operating cash flow and cash flow from divestments, credit lines and cash flows from financing activities) not satisfying CTT's financial needs (such as working capital, capital expenditure and the payment of dividends to shareholders).

If CTT is unsuccessful at managing any of the risks referred to above, its business, financial condition, results of operations and prospects could be materially adversely affected. See Note 12 "*Financial risk management*" to the Financial Statements.

The lease agreements or other contracts for the property used by CTT are subject to certain legal or contractual requirements, which may result in increased costs for CTT.

CTT uses approximately 626 leased properties in its operations. A limited number of lease agreements expressly provide that in the event that the Portuguese Government ceases to own 50% of the CTT's share capital, CTT will be obliged to ensure the issuance in favor of the relevant lessor of a revolving bank guarantee on demand (*garantia bancária à primeira solicitação*), for an amount equivalent to 6 to 24 monthly rent payments (depending on the agreement). Upon completion of the Offering, CTT may be required to provide guarantees amounting to approximately €18 million under its outstanding lease agreements.

The vast majority of CTT's leases are contracts with indefinite term and were entered into before the entry into force of the New Urban Lease Regime, approved by Law no. 31/2012 dated 14 August 2012, which entered into force on 12 November 2012 (the "**NRAU**"). As a result of the entry into force of the NRAU, lessors may: (i) update the rents payable under the relevant lease; (ii) change the lease's applicable regime to the regime for the fixed-term contracts under the NRAU and/or (iii) terminate the contract or oppose its renewal. There is therefore a risk that the total amount of rent payable by CTT will increase in the short to medium term. CTT estimates that the annual increase in rent will be approximately €900,000.

In addition, the NRAU establishes that the lessor may terminate a lease agreement, with a prior notice of five years, in the event of a change of control in the lessee. Considering that CTT is the lessee in approximately 85% of its lease agreements, lessors are likely to exercise such termination right upon completion of the Offering. However, certain properties owned and/or used by CTT have no use license or their use (when applicable) is inconsistent with that license. Consequently, CTT may be subject to legal proceedings and it may be required to pay fines between €1,500 and €250,000. It may also be subject to ancillary sanctions, such as the seizure of assets, close of business in specific areas (municipalities) up to a maximum term of four years and the elimination of certain subsidies.

If any of the risks referred to above were to materialize, this could lead to increased real estate costs for CTT and could have a material adverse effect on its business, financial condition, results of operations and prospects.

Risks Relating to the Regulatory and Legislative Framework

CTT's activity may be affected by potential changes in the legal and regulatory framework of the postal activity.

The current postal regulatory framework in Portugal is set forth in Law no. 17/2012 dated 26 April 2012 (the "**Postal Law**"), which transposed Directive 2008/6/EC of the European Parliament and of the Council dated 20 February 2008, amending Directive 97/67/EC (the "**Third Postal Directive**") into Portuguese law. As a result of the introduction of the Postal Law, the Portuguese postal market was liberalized in 2012 through the removal of the requirement that the reserved services be rendered by the USO provider.

The Postal Law specifically confirms the designation of the Company as the USO provider on national territory until 31 December 2020. However, the conditions for the provision of the USO shall be assessed every five years by the Portuguese Government, after consultations with the ANACOM and consumers organizations, in order to adapt these principles to changes in the market and to the principles underlying the provision of the USO.

In accordance with the Postal Law and concession framework, and based on the public interest or security, CTT shall continue to be the exclusive provider of the following reserved activities until the end of 2020: (i) the placement of street letter boxes intended for the deposit of postal items, (ii) the issue and sale of postal stamps bearing the word "Portugal," and (iii) the registered mail service used in court or administrative proceedings. CTT shall also remain as the exclusive issuer of postal money order services until the end of 2020.

Legislation which is intended to align the USO concession framework with the Postal Law was already approved by the Portuguese Government and remains to be promulgated. The proposed changes mainly relate to the scope of the USO, the provision of postal services under a fully competitive market, the rules for determining the net cost of providing the USO and the funding of such net cost, as well as the alignment of the termination date of the concession with the Postal Law by 31 December 2020.

After 31 December 2020, the designation of one or more providers for the provision of the USO shall take the form of a concession contract applying the procedures provided in the Portuguese public procurement code, and an individual license is also permitted.

Therefore, upon termination of the concession, if it is not reassigned to the Company, CTT may provide, along with other operators and provided it obtains the relevant license, all postal services within the scope of the license, in a free competition regime, according to its strategic policy, except for services included in the concession on an exclusive basis, which account for less than 5% of CTT's revenues (the right to place on the public highway letter-boxes, the issuance and sale of postage stamps bearing the word "Portugal", and the registered mail service used in court or administrative proceedings). Consequently, at the end of the concession, CTT may not be the USO provider or may have a minor involvement in the provision of such services.

As a result of the aforementioned legal framework and the proposed changes, including the amendments to the basis of the concession, CTT may face increased competition, as well as new rules and obligations, which may materially adversely affect its business, financial condition, results of operations and prospects.

CTT is subject to extensive regulation and changes in regulation may result in higher compliance costs and the dedication of additional resources.

As a USO provider, CTT operates in a highly regulated environment and is subject to significant legal and regulatory requirements, including in relation to pricing, quality of service and USO performance parameters. The Portuguese Government designated an independent regulator, the ANACOM which regulates, *inter alia*, the postal industry in Portugal and has primary responsibility for drawing up and approving regulations required for the implementation of the regime envisioned by the Postal Law. The interpretation, adoption and application, of such regulations by the ANACOM or any other relevant authority (including any authority at the EU level) could have a material adverse effect on CTT's business, financial condition, results of operations and prospects. Failure by CTT to comply with such regulations, as well as claims by third parties, could also lead to the imposition of fines, disciplinary actions, or the suspension of CTT's activities. CTT is subject to competition regulations, in particular those regarding abuse of dominant position. Portuguese and European competition rules also prohibit agreements between undertakings which have as their object or effect the prevention, restriction or distortion of competition. Agreements which include non-compete or exclusivity obligations may be deemed, in certain circumstances, to restrict competition, based on analysis which shall be conducted in the context of the contractual relationship and the relevant markets concerned. CTT is party to certain commercial agreements, which are not material, that provide for these types of obligations. With reference to these obligations, CTT is unable to estimate the impact of any decision by a competition authority.

Additionally, the laws and regulations applicable to CTT and/or their application and interpretation may change significantly, which could increase compliance costs. This may also divert the attention of CTT's management to the detriment of CTT's business. Should any of these risks materialize, they could have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

CTT is and was subject to various regulations and may be affected by changes to these regulations, including interpretations or judicial, administrative or other procedures aimed at the investigation of compliance with the applicable regulations.

As a consequence of the activities that CTT undertakes, the fact that the Company will be a public company until the completion of the Offering, the fact that the Company was previously a public administration body and the dominant position it holds in certain sectors where it operates and other factors, CTT is and was subject to different legislation and regulations at European and domestic level, concerning various matters, including labor issues, retirement and healthcare, tax, regulations for government owned properties, competition and state aid, environmental, postal activity, transport and others.

Current and projected regulations related to future contributors to the compensation fund, rules for the determination of the density of the postal network, pricing of postal services that make up the USO, the methodology for calculating the net cost of the USO, and other requirements related to the USO provision, may be amended or adopted with wording different from that currently contemplated by the ANACOM and in other legislative proposals. On the other hand, the interpretations of the ANACOM, courts and other relevant authorities regarding the practical application and scope of those regulations and projected decisions of the ANACOM and expected legislation are not yet known. CTT may be adversely affected by changes in regulations or alteration to the referred laws and regulations, as well as by changes in the interpretation of such laws or regulations by the government authorities, the ANACOM and the courts or by judicial, administrative, or other proceedings regarding CTT's compliance with the applicable regulations. These risks may have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

CTT's pricing policies have been and may in the future be subject to challenge on postal regulatory and competition law grounds.

CTT is required to demonstrate that pricing for all products falling within the USO complies with the principles of affordability, transparency, non-discrimination and cost orientation. These principles have not been clearly defined in legislation, resulting in uncertainty as to the position ANACOM will adopt. For example, price increases for items within the scope of the USO that are subject to the price cap regime and prior control by the ANACOM may be rejected if they are not in compliance with the aforementioned principles or the price cap regime.

In addition, in relation to activities for which CTT is deemed to have a dominant market position, its pricing must not constitute an abuse of dominant position as defined by competition law (*e.g.*, pricing discrimination, predatory prices, excessive or exclusionary or involves loyalty inducing practices, where these practices cannot be objectively justified). Under EU and Portuguese competition law, CTT is subject to the risk of fines of up to 10% of its consolidated annual turnover in cases where it is found to have abused its dominant position. See "*Regulatory Matters—Competition and State Aid Laws*" for details of the fines and other penalties that can be imposed by the competent competition authorities.

Besides penalties imposed by the ANACOM and the Portuguese Competition Authority, CTT may be ordered by national courts to discontinue certain commercial practices or to pay damages to third parties that demonstrate (whether based on an earlier infringement decision by the relevant authority or independently of any such decision) that they have been adversely affected by an alleged infringement of the postal regulatory framework and/or violation of the competition rules by CTT.

Furthermore, uncertainty in the application of the Portuguese and EU postal regulatory framework and competition regime may restrict CTT's operational and commercial flexibility. For instance, as regards competition law principles, product and geographic markets are not always clearly established and it cannot be determined with certainty in which activity CTT may be considered to have a dominant position. There also can be no assurance that changes in legislation will not restrict CTT's pricing flexibility.

If CTT becomes subject to fines or injunctions by regulators or litigation by third parties in respect of its pricing policies, if it is required to modify its tariffs or if its commercial flexibility is restricted as a result of uncertainty in the application of postal regulatory or competition law requirements or changes in legislation, this could have a material adverse effect on its business, financial condition, results of operations and prospects.

CTT's obligations as USO provider in Portugal may adversely affect its results of operations and profitability.

Under applicable laws and regulations, CTT is required to provide the services comprising the USO at sufficient levels within Portugal to meet the needs of the users. In addition, products and services included in the scope of the USO must meet quality of service targets and be made available at prices approved by the ANACOM. The Company's concession contract and Portuguese law impose obligations on the Company as USO provider to guarantee the clearance, sorting, transport and distribution of postal items in Portugal. See "*Regulatory Matters—Key Legislation on Postal Services—Portuguese Postal Regulation*". The adherence to these rules involves significant costs and might require the Company, in particular in rural areas, to provide services at a cost that exceeds the associated revenues. In addition, CTT is subject to the risk that the cost base for rendering USO cannot be sufficiently decreased or offset to compensate for the decrease in revenue from an intensification of competition.

According to the Postal Law, where the net cost of the USO represents an unfair financial burden on the respective provider, it shall be compensated by means of a compensation fund. In this context, in the event that the Company submits a request for compensation, such compensation shall be made through the compensation fund. The Company will be required to contribute to the fund and its contribution will most likely be calculated according to its share of the total turnover of the USO services. To the extent that the Company is not fully compensated for the provision of the USO, its business, financial condition, results of operations and prospects may be materially adversely affected.

The Company is required to provide other postal operators with access to its postal infrastructure.

The Third Postal Directive provides that member states have the right to adopt measures to ensure access to the USO network under transparent, proportional and non-discriminatory conditions. Additionally, member states shall ensure that transparent, non-discriminatory access is given to the postal infrastructure or certain services generally provided by USO providers. These elements or services should be made accessible to other operators providing similar services, in order to promote effective competition and/or protect the interests of the users by ensuring the overall quality of the postal service. The Postal Law implementing the Third Postal Directive provides that the USO provider shall ensure access to its network under transparent and non-discriminatory access conditions, by means of bilateral agreements with other postal service providers upon request by them. If the parties are unable to reach an agreement, they may request the ANACOM to issue a binding decision setting the terms and conditions for access, including in relation to pricing. The ANACOM may also on its own initiative determine the terms and conditions of access to the universal service postal network, provided it is necessary to guarantee effective competition or to protect the interests of users. Refusal by the Company to provide access to other operators, or the provision of access under unfavorable conditions could constitute an abuse of a dominant position under Portuguese or EU competition law, which may result in material fines and may trigger proceedings initiated by other operators seeking damages in national courts. If the Company provides access to other postal operators on unfavorable terms, or if it is found to have done so on a discriminatory basis or, in certain circumstances, to have abusively refused such access, this could have a material adverse effect on its business, financial condition, results of operations and prospects.

Failure to comply with the USO may enable the Portuguese State to terminate the concession for the USO.

In the event of a default by the Company of its obligations under the concession contract, the Portuguese State may terminate the concession and the Company will be required to cease to carry out the services included within the scope of the USO. Termination may take place in the event that any of the following occurs: (i) termination or disruption in the provision of the concession services; (ii) serious limitations in the activities and in the provision of concession services, as well as situations involving the lack of security of people and/or property; or (iii) serious deficiencies in the general state of postal network facilities and equipment which compromise the continuity and/or quality of the provision of the concession services. If the Company's concession were to be terminated, it would be required to bear any costs arising from the maintenance of services and any extraordinary expenses required in order to resume normal operation, which could have a material adverse effect on its business, financial condition, results of operations and prospects. As soon as the grounds for the termination cease to exist and the Portuguese State deems appropriate, the Company would be allowed to resume the normal operation of those activities and concession services.

CTT is subject to transport regulations at the international, EU, national and regional levels and failure to comply with such regulations could result in fines or the suspension or revocation of its licenses.

CTT is subject to transport regulations at the international, European, national and regional levels and is required to maintain certain licenses in relation to its transport activities. In particular, when acting as a carrier of goods by road at the national and international level, CTT must comply with several conditions to qualify as a road transport operator and obtain access to the road market. A license is required for the national and European carriage of goods by road.

If CTT does not comply with the various transport regulations applicable to it, it may be subjected to fines and/or its transport licenses may be suspended or ultimately revoked, which could have a material adverse effect on its business, financial condition, results of operations and prospects which are dependent on such license.

CTT is subject to regulations at the international, EU, national and regional levels regarding the transportation of dangerous, hazardous and other restricted goods. As part of CTT's mail and express and parcels services, CTT may transport hazardous, dangerous and/or other prohibited goods without having been notified about the nature of the goods it transports. CTT faces a number of risks in transporting these materials, such as personal injury or loss of life, severe damage to and destruction of property and equipment and environmental damage. Incidents involving these materials could result from a variety of causes including sabotage, terrorism, accidents or the improper packaging or handling of the materials. If a significant incident occurred, CTT's operations could be disrupted and it could be subject to a wide range of potentially large civil and criminal liabilities.

As an owner and operator of a large fleet of road vehicles, CTT is involved in activities which expose it to liability in the case of a major road incident, not only for CTT's employees, facilities and third party property, but also for the general public. An incident involving one of CTT's road vehicles could cause significant loss of life and property. In addition, a major incident caused by hazardous materials could lead to additional measures or restrictions imposed on CTT by local or governmental authorities, which could further disrupt CTT's processes and may lead to additional costs.

As CTT expands its business into new areas and implements its B2B parcels strategy, it may encounter difficulties in ensuring compliance with all applicable transport regulations.

Any of these events could result in a material adverse effect on CTT's business, financial condition, results of operations and prospects.

If CTT's policy with respect to its commercial products were deemed not to be compliant with the principle of no cross-subsidization under state aid or competition law, this could result in recovery of state aid, fines, damages or interim measures and could present certain challenges for its business.

CTT is subject to the requirement of no cross-subsidization between public services on the one hand and commercial services on the other hand. Where a subsidiary or a business unit of CTT receives commercial and/or logistical assistance from it to render commercial services, that subsidiary or business unit must pay an appropriate transfer price to CTT for this assistance. In addition, according to state aid rules, if CTT engages in commercial services, the business case for providing such services must comply with the "private investor test," that is, CTT must be able to demonstrate that a private investor would have made the same investment decision. For instance, this means that in practice products should be profitable within a reasonable time period, using the adequate costing methodology standard. If CTT is found not to be in compliance with the no cross-subsidization principle or the private investor test, the European Commission could find that commercial services have benefited from unlawful state aid and order the recovery of this state aid from CTT. Furthermore, competitors may institute legal proceedings before national courts, which may order CTT to suspend or discontinue certain activities considered to be in violation of EU state aid rules and may determine damages or introduce interim measures such as injunctions.

In addition, cross-subsidization may be scrutinized under EU and Portuguese competition law, in particular if CTT is deemed to have abused the dominant position it may hold in certain markets by adopting certain behaviour in adjacent markets (*i.e.*, leveraging its position). Finally, in addition to recovery of state aid, fines and damages, proceedings at the EU or national level may disrupt CTT's business as the competent authorities may order it to suspend or change the activities concerned. Any of the foregoing could have a material adverse effect on its business, financial condition, results of operations and prospects.

Changes to tax and labor legislation and regulations, or higher taxes or lower tax benefits may have an adverse effect on CTT's activity.

CTT might be adversely affected by changes in the tax and labor legislation and other regulations applicable in Portugal, Spain, Mozambique and other countries in which it may operate in the future, as well as by changes of interpretation by the competent tax and labor authorities of legislation and regulation. In addition, CTT might be adversely affected by difficulties in the interpretation of or compliance with new tax and labor laws and regulations. The materialization of these risks may have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

The introduction of VAT on CTT's products and services may reduce revenues earned from customers that are unable to recover VAT.

In Portugal, the provision of USO services is exempt from VAT. The VAT exemption is applied to the supply of the USO by designated operators in their capacity as designated USO providers. The European Court of Justice has ruled that the VAT exemption does not apply to supplies of services (or of goods incidental thereto) for which the terms have been individually negotiated. The application of VAT to all postal services provided by CTT, in the event that the exemption of VAT for postal services covered by the USO is eliminated in the future, could result in a loss of revenues earned from customers that are unable to recover part or all of the VAT on their expenditure (*e.g.*, private individuals, public authorities, banks, insurance companies, certain real estate companies and certain holding companies).

Changes to environmental laws and regulations may increase CTT's costs.

CTT is affected by several European and national environmental protection laws and regulations aimed at promoting the use of renewable sources and reducing greenhouse gas emissions and energy usage. In the event that such laws and regulations were changed or any new regulations, policies and practices were implemented, CTT's operations could be adversely affected by a possible decline in demand for products and services which require more energy intensive means or materials. If there is a change to, or the introduction of, environmental legislation, CTT may incur significant additional costs in order to comply with any new requirements, which may adversely affect CTT's business, financial condition, results of operations and prospects.

European legislators may adopt legislation providing for the creation of an integrated parcel market within the EU.

CTT may become subject to further regulatory requirements and procedures, over and above the USO, in relation to the delivery of parcels. The European Commission published a Green Paper consultation on 29 November 2012, seeking an integrated parcel delivery market for the growth of e-commerce in the EU. Although European Commission officials have indicated that the European Commission does not intend to publish formal legislation implementing the Green Paper with, there is a risk that it may ask postal operators to adopt several policies and practices measures to facilitate market integration, which could have a material adverse effect on CTT's business, financial condition, results of operations and prospects.

The enactment of legislation restricting advertising mail or the adoption of stricter rules regarding data protection and the use of personal data would contribute to a significant decline in advertising mail volumes.

If enacted, opt-in legislation or similar legislation, which requires CTT's customers to request permission from their customers before using their personal data, whether at the national or EU level, would contribute to a significant decline in advertising mail volumes and could have an adverse impact on CTT's business. On 25 January 2012, the EU Commission published proposals with respect to the reform of the EU data protection framework. The proposals would substantially tighten the data protection regime by requiring explicit consent for the processing of personal data, which would need to be evidenced by a statement or clear affirmative action, and by introducing fines of up to a value of 2% of the annual worldwide turnover of the relevant entity for non-compliance with these requirements. If such legislation is instituted in the future, CTT may experience a significant decline in its advertising mail volumes as senders of advertising mail decrease their direct mail activities, which could have a material adverse effect on its future business, financial condition, results of operations and prospects.

Risks Relating to the Offering

The Company may not be able to pay dividends in accordance with its stated dividend policy.

The Company currently intends to declare and distribute annual dividends of a minimum of 90% of its distributable earnings. See "*Dividend Policy*". Under Portuguese law and the Company's articles of association (the "**Articles of Association**"), the Company must allocate at least 5% of its annual net profit to a legal reserve until the reserve equals 20% of the Company's share capital and, except pursuant to a resolution passed by a vote representing three-quarters of the Company's outstanding share capital to the contrary, the Company must distribute half of distributable profit for the year. The Company's legal reserve currently meets this requirement. According to the Articles of Association in force, the General Meeting of Shareholders decides the annual distribution of dividends.

No assurance can be given, however, that the Company will pay dividends in the future or that any dividends it pays will comply with its stated dividend policy. Such payments will depend upon a number of factors, including CTT's business prospects, cash requirements and financial performance, the actuarial valuation of its long-term healthcare benefits, the condition of the market and the general economic climate and other factors, including tax and other regulatory considerations, and the amount of available distributable profits.

The Shares may experience price and volume fluctuations.

No assurance can be given that an active trading market for the Shares will develop or, if developed, can be sustained following the closing of the Offering. Furthermore, the Offer Price is not necessarily indicative of the prices at which the Shares will subsequently trade on the market. If an active trading market is not developed or maintained, the liquidity and trading price of the Shares could be adversely affected.

Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them. In addition, the market price of the Shares may prove to be highly volatile and may fluctuate significantly in response to a number of factors, many of which are beyond the Company's control, including new legislation or regulation or changes in its interpretation or application or judicial, administrative, or other proceedings related to the compliance with the legislation and regulations applicable to the Company, variations in operating results in the Company's reporting periods, changes in financial estimates by securities analysts, changes in market valuations of similar companies, announcements by CTT or its competitors of significant contracts, acquisitions, strategic alliances, joint ventures, capital commitments or new products or services, loss of major customers, additions or departures of key personnel, any shortfall in revenue or any increase in losses from levels expected by securities analysts, future issues or sales of ordinary shares and stock market price and volume fluctuations. Any of these events could result in a material decline in the price of the Shares.

Any future sale of a substantial number of the Shares may have a negative impact on the price of the Shares.

In connection with the Offering, the Company has agreed to certain restrictions on the sale or other disposition of Shares for a period of 180 days from the date of the Institutional Underwriting Agreement. The Selling Shareholder has agreed to similar restrictions for a period of 270 days from the date of the Institutional Underwriting Agreement or, in the case of the Option Shares, 90 days from the date hereof (the lock-up period of the Company and the lock-up period of the Selling Shareholder being collectively referred to as the "**Lock-Up Period**"). Following the expiry of the Lock-Up Period, the Selling Shareholder will be able to sell the remaining Shares it holds and the Company will be able to sell Shares. In addition, the Selling Shareholder may be required, pursuant to applicable law (including securities law, the laws applicable to state shareholdings or other) or otherwise, to sell all or part of the Option Shares after the expiry of the applicable Lock-Up Period, as part of the Selling Shareholder's commitment to relinquish control of the Company. Any future sales of Shares by the Selling Shareholder or the Company or any rumors relating to such sales could cause the price of the Shares to fall.

Any future capital increases by CTT may have a negative impact on the price of the Shares and existing shareholders could suffer dilution of the capital owned by them to the extent they are unable to participate in any such capital increases.

CTT may in the future increase its share capital against cash or contributions in kind to finance any acquisition or any investments or to strengthen its balance sheet. Any such capital increase could have a negative impact on the price of the Shares.

Under Portuguese law, shareholders have a pro rata pre-emptive right to subscribe pro rata to their existing shareholdings to the issuance, against a contribution in cash, of new shares or other securities entitling the holder thereof to new shares. This right may be limited or cancelled by decision of the General Meeting of Shareholders. In these cases, the stock of the shareholders in the share capital of the Company may suffer dilution. The exercise of pre-emptive rights by certain shareholders not residing in Portugal may, however, be restricted by applicable law, practice or other considerations, and such shareholders may not be allowed to exercise such rights. In particular, there can be no assurance that CTT will be able to establish an exemption from registration under the Securities Act, and the Company is under no obligation to file a registration statement with respect to any such pre-emptive rights or underlying securities or to endeavour to have a registration statement declared effective under the Securities Act. Shareholders in jurisdictions outside Portugal who are not able or not permitted to exercise their pre-emptive rights in the event of a future pre-emptive rights offering may suffer dilution.

The Portuguese State's interests may not necessarily be aligned with the interests of other shareholders.

The Portuguese State (indirectly through Parpública) holds, and will continue to hold for a period of at least 270 days following the Offering, a substantial stake in the Company, corresponding to at least 30% of the share capital and voting rights of the Company. CTT and the Selling Shareholder are committed to ensuring that the Company's corporate governance is aligned with its shareholder structure after the Offering and progressively accommodates market leading corporate governance practices. However, the Portuguese State will continue to have a significant power to decide matters submitted to shareholders for consideration via its significant voting stake in CTT. The interests of the Portuguese State and the factors that it considers in exercising its vote at the General Meeting of Shareholders could differ from those of other shareholders.

The Selling Shareholder is entitled, in accordance with the provisions set forth in the Decree-Law of Privatization, to transfer the Shares it will hold after the Offering (at least 30% of the Company's share capital and voting rights). Therefore, the shareholder structure of the Company may change as a result of this potential transfer. In the event that the Selling Shareholder transfers all of the Shares it currently holds, it will cease to be a shareholder of the Company. However, in connection with the Offering, the Selling Shareholder has agreed to certain restrictions on the sale or other disposition of Shares during the Lock-Up Period.

In the event that the Offering is not successful and the Company maintains its current legal status as a company with a public shareholding, the Company will continue to have legal and regulatory constraints on its operations and business activities. In particular, the Company will have legal and regulatory constraints on its modernization and cost reduction plans due to its status as a USO provider.

Nevertheless, due to the Selling Shareholder's remaining shareholding, the Company will qualify as a minority state-owned company pursuant to Decree-Law no. 133/2013 dated 3 October 2013, which states that restrictions on minority state-owned companies will only be applicable to the public shareholding of the Company and not to the Company itself, in particular in relation to its registration and control, as well as shareholders' rights, which need to be consistent with the Decree-Law and other applicable laws.

The Institutional Offering may be terminated by the Selling Shareholder based on public interest reasons until the settlement of the Shares.

The Decree-Law of Privatization and the resolution of the Council of Ministers dated 11 October 2013 set forth certain parameters for the Institutional Offering and the Retail Offering. In particular, the number of Shares allocated in the Institutional Offering may be increased by up to 30%, with the number of Shares allocated in the Retail Offering correspondingly decreasing. Alternatively, the number of Shares allocated in the Retail Offering may be increased by up to 30%, with the number of Shares allocated in the Institutional Offering correspondingly decreasing.

In addition, in accordance with Article 11 of the resolution of the Council of Ministers, the Institutional Offering may be terminated by the Selling Shareholder based on public interest reasons prior to the settlement of the Shares, with the prior authorization by the Ministry of State and Finance. If the Institutional Offering is terminated, all trades undertaken by investors with regard to the Shares (including the Shares that are part of the Retail Offering) would be unwound and neither the Company, the Selling Shareholder nor the Joint Global Coordinators would have any liability to any investors with regard to the Shares or any other actions undertaken with regard to the Institutional Offering. However, based on the expected timing of the Offering, the settlement of the Institutional Offering and the Retail Offering shall occur on the same date.

There can be no assurance that the Shares will be admitted to trading on Euronext Lisbon.

Application has been made to Euronext Lisbon for the Shares to be admitted to trading on Euronext Lisbon. Admission of the Shares to trading is currently expected to take place on 5 December 2013. There can, however, be no assurance that admission of the Shares to trading will occur. Article 163 of the Portuguese Securities Code provides that admission to trading may not be granted due to facts attributable to the Company, the Selling Shareholder, the financial intermediary in charge of providing assistance in connection with the Retail Offering or any person acting in concert with any of the foregoing. In the event that admission of the Shares to trading does not occur, investors will be entitled to revoke their purchase orders pursuant to Article 163 of the Portuguese Securities Code. Accordingly, any dealings in the Shares that have occurred will be of no effect.

The Shares acquired by CTT's employees are subject to restrictions on transfer.

Article 8 of the Decree-Law No. 129/2013, published on 6 September 2013 (the "**Decree-Law of Privatization**") provides that, for a term of 90 days from the date on which the Shares are registered in investors' securities accounts, the Shares (including all voting and other rights attaching thereto) acquired by CTT's employees may not be transferred or encumbered, either temporarily or permanently and regardless of whether they are transferred outright or on a conditional basis. Accordingly, any transaction carried out in breach of this restriction will be deemed void, even if entered into prior to the registration of Shares in investors' securities accounts. As a result of the foregoing restrictions, CTT employees acquiring Shares in the Retail Offering must maintain their investment during the 90-day period and must not transfer or encumber the Shares owned by them. As such, CTT employees will be exposed to fluctuations in the price of the Shares during such 90-day period. Any sale of Shares upon the expiration of the aforementioned 90-day period could also cause the price of the Shares to fall.

In Portugal, interested parties are entitled to claim the invalidity of any administrative acts they deem illegal and request the suspension of such acts, within a term of three months, and initiate other legal proceedings intended to prevent the effectiveness of potentially illegal administrative acts.

The terms of the privatization are set forth in the Decree-Law of Privatization and the resolutions of the Council of Ministers. In Portugal, interested parties are entitled to claim the invalidity of any administrative acts they deem illegal and request the suspension of such acts, within a term of three months, and initiate other legal proceedings intended to prevent the effectiveness of potentially illegal administrative acts. However, the requirements that must be met in order for injunctive relief to be granted by the courts or tribunals are very limited.

As far as the Selling Shareholder is aware and notwithstanding the proceedings described under "*Business—Legal Proceedings*", the privatization does not contain any defects which could form the basis of a successful claim by interested parties. However, in the event that an interested party were to make such a claim and a court or tribunal were to decide in favor of that party, the Offering could be adversely affected. The impact of these adverse effects for the holders of the Shares cannot be estimated by the Company or the Selling Shareholder.

The Company expects to be classified as a Passive Foreign Investment Company for the taxable year ending 31 December 2013.

Based on certain estimates of the Company's gross income and gross assets and the nature of its business the Company expects that it will be classified as a passive foreign investment company (a "**PFIC**") for the taxable year ending 31 December 2013. In addition, one or more of the Company's subsidiaries may be classified as a PFIC for the taxable year ending 31 December 2013. Because PFIC status must be determined annually based on tests which are factual in nature, the PFIC status of the Company (and any of its subsidiaries) in future years will depend on the income, assets and activities of the Company (and such subsidiaries) in those years. There can be no assurance that the Company (or any subsidiary) will not be considered a PFIC for any taxable year and the Company does not intend to make a determination of its or its subsidiaries' PFIC status in the future. The Company's classification as a PFIC (and the classification of any subsidiary of the Company as a PFIC) may result in material adverse consequences for you if you are a U.S. taxable investor, including having gains realized on the sale of the Shares treated as ordinary income, rather than capital gains, having potentially punitive interest charges apply to those gains, and the denial of the taxation of certain dividends paid by the Company at the lower rates applicable to long-term capital gains. A U.S. investor may be able to mitigate some of the adverse U.S. federal income tax consequences with respect to owning the Shares if the Company is classified as a PFIC, provided that such U.S. investor is eligible to make, and successfully makes, a "mark-to-market" election described below in "*United States Federal Income Taxation—Passive Foreign Investment Company Considerations*."

Prospective U.S. investors should consult their own tax advisors regarding the potential application of the PFIC rules to them. Prospective U.S. investors should refer to "*United States Federal Income Taxation—Passive Foreign Investment Company Considerations*" for a discussion of additional U.S. income tax considerations applicable if we are treated as a PFIC.

USE OF PROCEEDS

Assuming that the maximum number of Shares is sold to CTT's employees and that neither the Put Option nor the Call Option is exercised, the Selling Shareholder will receive net proceeds of approximately €571.5 million, reflecting the deduction of underwriting commissions (which will be in the maximum amount of €4.9 million), as well as certain expenses incurred in connection with the Offering.

CTT will not receive any of the proceeds from the sale of the Shares offered by the Selling Shareholder, although it will pay approximately €4 million (excluding VAT) in expenses incurred in connection with the Offering.

The Selling Shareholder will apply the proceeds received as permitted by law and its articles of association. Such proceeds may, in particular, be used by the shareholder of the Selling Shareholder to reduce public debt.

DIVIDEND POLICY

The distribution of dividends is determined by a resolution of the General Meeting of Shareholders, passed on the basis of a proposal of the Board of Directors. The Board of Directors, with the consent of the Fiscal Board or Audit Committee, as applicable, may decide to distribute interim dividends based on estimated profit for the relevant financial year, in accordance with Portuguese law and the Articles of Association.

Pursuant to article 294(1) of the Portuguese Companies Code, half of net income that is distributable must be distributed to the shareholders, unless there is a contractual provision or a resolution passed by a vote representing three-quarters of the Company's outstanding share capital to the contrary. The Articles of Association of the Company do not include such a clause.

Under the Articles of Association, the Company must allocate at least 5% of its annual net profit to a legal reserve until the reserve equals 20% of the Company's share capital. The Company's legal reserve currently meets this requirement. Once the legal reserve has been allocated, annual profits may be distributed as dividends on the basis of a decision of the General Meeting of Shareholders. Any remaining profits may be allocated in the manner determined by the General Meeting of Shareholders in the interest of the Company.

The dividends paid by the Company to the Selling Shareholder and to the Portuguese State (for the period before the Shares were transferred to the Selling Shareholder) for the years ended 31 December 2012, 2011 and 2010 are as follows:

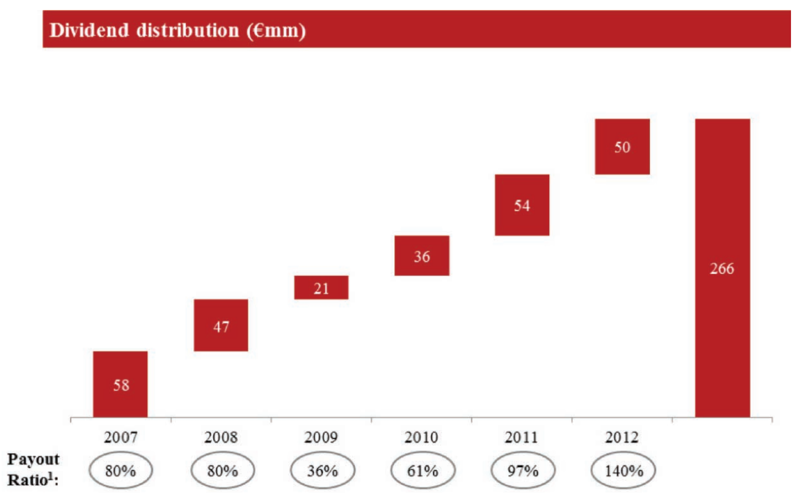
Year(1)	Dividends	Dividends per Share as of date of Offering Memorandum(2)	Dividends per Share as of Payment Date(3)	Payout Ratio (Dividend/Net profit)
2010	€36,056,944	€0.24	€2.06	61%
2011	€53,876,585	€0.36	€3.08	97%
2012	€50,000,000	€0.33	€2.86	139%

(1) Year in respect of which the dividends were paid.

(2) Calculated by reference to the share capital of the Company as of 30 October 2013, which was €75,000,000.00, represented by 150,000,000 shares with a nominal value of €0.50 euro per Share.

(3) Calculated by reference to the share capital of the Company on the date of payment of the dividend (*i.e.*, prior to the capital reduction and stock split which occurred on 30 October 2013 and is referred to in "*Principal and Selling Shareholder*"), being 87,325,000.00, represented by 17,500,000 shares with a nominal value of €4.99 per Share.

The Company has paid dividends during each of the past six years, with an average payout ratio of above 80%, above 90% during the past two years, as shown in the table below.



Source: Company information

(1) Dividend/Net income attributable to parent company shareholders

For the financial year ending 31 December 2013, the Board of Directors expects to be able to propose the distribution of dividends in the amount of approximately €60 million, to be paid in 2014, subject to the approval of the relevant corporate bodies of the Company. The dividend policy for the financial year ending 31 December 2013 was approved by the Board of Directors. The policy is based on (i) CTT's current financial situation based on the Interim Consolidated Financial Statements, and (ii) the distribution of the results and/or reserves subject to the approval of CTT's competent corporate bodies, considering that, in particular the allocation of profits, depends upon a proposal of the management based on the annual accounts and a resolution of the General Meeting.

The proposal for dividend distribution is therefore subject *inter alia* to a favorable resolution by the Board of Directors of the Company, after the amendments to its future composition, as set forth in "*Directors and Senior Management*". For this purpose, the Selling Shareholder has committed to call the General Meeting of Shareholders and propose a change in the composition of the Board of Directors so it is composed of 11 directors (the Selling Shareholder intends that the five current members of the Board of Directors continue in their roles, as executive members).

For the year ending 31 December 2014 and subsequent financial years, the Company expects to declare and pay dividends to its shareholders representing at least 90% of distributable earnings of the relevant fiscal year. This policy approved by the Board is subject to a proposal on the allocation of profits and the approval of the competent corporate bodies at each moment.

The Board of Directors may adjust these dividend policies in the future, if necessary, to reflect, among other things, changes in business strategy and capital requirements, with any future dividends depending on the conditions prevailing at the time, including the Company's consolidated and individual results, profits, financial position, reserves, the availability of funds legally distributable and future prospects. This means there can be no assurance that in a given year dividends will be proposed or declared. Any dividends paid in the future may be subject to withholding tax.

CAPITALIZATION AND INDEBTEDNESS

Capitalization and Indebtedness

The following table sets forth CTT's capitalization and indebtedness as of 30 September 2013 (i) on an actual basis; and (ii) as adjusted to give effect to the Company's share capital reduction, which was approved by the General Meeting of Shareholders on 30 October 2013.

The information contained in the following table should be read in conjunction with the Financial Statements and "*Management's Discussion and Analysis of Financial Condition and Results of Operation*".

	As of 30 September 2013		
	Interim Consolidated Financial Statements	Impact of the share capital reduction[(1)]	Adjusted values (Unaudited)
		(EUR thousands)	
Current debt			
Guaranteed debt[(2)]	1,278	—	1,278
Secured debt	—	—	—
Non-Guaranteed/Non-secured debt	1,553	—	1,553
Total	**2,831**	**—**	**2,831**
Non-Current debt			
Guaranteed debt[(2)]	**3,647**	—	3,647
Secured debt	—	—	—
Non-Guaranteed/Non-secured debt	—	—	—
Total	**3,647**	**—**	**3,647**
Total debt	**6,478**	**—**	**6,478**
Equity			
Share capital	87,325	(12,325)	75,000
Legal reserves	18,073	—	18,073
Other reserves[(3)]	112,491	12,325	124,816
Total	**217,889**	**—**	**217,889**
Capitalization and indebtedness	**224,367**	**—**	**224,367**

(1) On 30 October 2013, the Company's share capital was reduced to its current value of €75,000,000.00, as a result of a share split through the reduction of their nominal value from €4.99 to €0.50.

(2) Guaranteed debt corresponds to liabilities undertaken in the context of finance leases.

(3) Other reserves include retained earnings, other changes in equity and distributable reserves.

Net Indebtedness

The following table sets forth CTT's net indebtedness as of 30 September 2013.

The information contained in the following table should be read in conjunction with the Financial Statements and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

	As of 30 September 2013 Unaudited Interim Consolidated Financial Statements
	(EUR thousands)
Cash	85,958
Cash equivalents[(1)]	524,124
Liquidity	**610,082**
Bank loans	(1,543)
Finance Leases	(1,278)
Other loans	(10)
Current financial debt	**(2,831)**
Net current financial indebtedness	**607,251**
Finance Leases	(3,647)
Non-current financial indebtedness	**(3,647)**
Net financial indebtedness	**603,604**

(1) Cash equivalents represent bank deposits.

As of 30 September 2013, CTT does not have indirect or contingent debt.

SELECTED HISTORICAL FINANCIAL AND OPERATING INFORMATION

The following tables set forth selected financial and operating information of CTT as of and for the periods indicated.

Selected financial information as of and for the years ended 31 December 2012, 2011 and 2010 has been derived or extracted from the Adjusted Audited Consolidated Financial Statements. Selected financial information and as of and for the nine month period ended 30 September 2013 and 2012 has been derived or extracted from the Interim Consolidated Financial Statements.

Interim results are not necessarily indicative of the results of operations that may be expected for any other period or for a full year.

The selected financial and operating data in the tables below should be read together with the Financial Statements, including the notes thereto, which are included elsewhere in this Offering Memorandum. See also "*Presentation of Financial and Other Information*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Consolidated Income Statement Data

	Nine month period ended 30 September (Unaudited)		Year ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
	(EUR thousands)				
Sales and services rendered	509,742	520,187	699,332	741,850	779,866
Other operating income	10,233	9,074	14,893	23,917	17,965
Revenue	**519,974**	**529,261**	**714,225**	**765,767**	**797,831**
Cost of sales	(11,455)	(13,226)	(18,543)	(18,353)	(17,005)
External supplies and services	(176,220)	(183,415)	(246,416)	(256,464)	(273,333)
Staff costs	(231,607)	(243,106)	(333,319)	(358,096)	(382,049)
Impairment of inventories and accounts receivables, net	(1,930)	(72)	(798)	(3,119)	(543)
Impairment of non-depreciable assets	—	—	—	(1,942)	(2,669)
Provisions, net	(4,754)	(12,296)	(21,934)	(6,275)	(5,529)
Depreciation/amortization and impairment of investments, net	(19,521)	(17,468)	(24,636)	(22,252)	(24,222)
Other operating costs	(7,440)	(6,731)	(11,608)	(18,942)	(13,775)
Operating costs	**(452,925)**	**(476,314)**	**(657,254)**	**(685,443)**	**(719,125)**
Earnings before financial income and taxes	**67,049**	**52,947**	**56,971**	**80,324**	**78,706**
Interest expenses	(8,952)	(12,128)	(16,761)	(18,354)	(19,169)
Interest income	6,741	9,610	12,382	16,095	6,582
Gains/(losses) in associated companies	21	216	240	85	18
Financial results	**(2,190)**	**(2,302)**	**(4,139)**	**(2,175)**	**(12,569)**
Earnings before taxes	**64,859**	**50,645**	**52,832**	**78,149**	**66,138**
Income tax for the period	**(19,608)**	**(15,111)**	**(16,865)**	**(22,466)**	**(6,887)**
Net profit for the period	**45,251**	**35,534**	**35,967**	**55,683**	**59,250**
Net profit for the period attributable to:					
Equity holders of parent company	45,169	35,358	35,735	55,260	58,975
Non-controlling interests	(82)	(176)	(232)	(423)	(275)

Consolidated Balance Sheet Data

	As of 30 September (Unaudited)	As of 31 December		
	2013	2012	2011	2010
		(EUR thousands)		
ASSETS				
Total current assets	781,787	657,783	629,670	683,083
Total non-current assets	389,577	405,398	421,740	411,630
Total assets	**1,171,364**	**1,063,180**	**1,051,410**	**1,094,713**
EQUITY AND LIABILITIES				
Equity				
Share capital	87,325	87,325	87,325	87,325
Reserves	18,073	28,629	25,793	22,978
Retained earnings	83,373	87,105	88,569	68,450
Other changes in equity	29,118	33,080	15,851	12,312
Net profitable attributable to equity holders	**45,169**	**35,735**	**55,260**	**58,975**
Equity attributable to equity holders of parent company	263,058	271,873	272,798	250,040
Non-controlling interest	1,675	1,608	1,628	1,407
Total equity	**264,733**	**273,481**	**274,426**	**251,447**
LIABILITIES				
Non-current liabilities				
Medium and long term debt	3,647	4,561	5,944	7,254
Employee benefits	275,312	282,065	300,975	285,190
Provisions	38,440	36,596	16,476	15,430
Deferrals	9,447	11,323	13,705	19,570
Deferred tax liabilities	5,482	5,740	6,165	6,366
Total non-current liabilities	**332,328**	**340,285**	**343,265**	**333,811**
Current liabilities				
Accounts payable	471,612	349,215	346,905	403,880
Employee benefits	19,202	21,251	20,445	23,066
Income tax payable	2,667	862	7,381	—
Short term debt	2,831	6,857	5,165	7,025
Deferrals	3,463	4,369	4,676	6,141
Other current liabilities	74,528	66,859	49,136	69,343
Total current liabilities	**574,303**	**449,414**	**433,719**	**509,455**
Total liabilities	**906,630**	**789,699**	**776,984**	**843,266**
Net equity and liabilities	**1,171,364**	**1,063,180**	**1,051,410**	**1,094,713**

Consolidated Cash Flow Statement Data

	Nine month period ended 30 September (Unaudited)		Year ended 31 December		
	2013	2012	2012	2011	2010
			(EUR thousands)		
Cash flows from operating activities	176,775	237,882	130,604	(5,967)	56,913
Cash flows used in investment activities	(148)	(11,852)	(12,746)	(9,038)	(28,534)
Cash flows used in financing activities	(55,848)	(55,828)	(54,814)	(38,809)	(23,119)
Net change in cash and cash equivalents	**120,779**	**170,203**	**63,044**	**(53,814)**	**5,261**

Other Financial Data

	Nine month period ended 30 September (Unaudited)		Year ended 31 December		
	2013	2012	2012	2011	2010
	(EUR thousands, except for %)				
EBITDA[(1)]	93,254	82,783	104,339	113,913	111,669
EBITDA margin	17.9%	15.6%	14.6%	14.9%	14.0%
EBIT[(2)]	67,049	52,947	56,971	80,324	78,706
Cash flow[(3)]	84,988	72,243	90,292	86,750	80,572
Cash conversion rate[(4)]	91.1%	87.3%	86.5%	76.2%	72.2%
Capital expenditures[(5)]	8,266	10,540	14,047	27,163	31,097

(1) EBITDA corresponds to earnings before interest, taxes, depreciation and amortization.

(2) EBIT corresponds to earnings before financial income and taxes in the Financial Statements. See "*Presentation of Financial and Other Information—Non-IFRS Financial Measures*".

(3) Cash flow is defined as EBITDA minus capital expenditures. See "*Presentation of Financial and Other Information—Non-IFRS Financial Measures*".

(4) Cash conversion rate is defined as EBITDA minus capital expenditures divided by EBITDA. See "*Presentation of Financial and Other Information—Non-IFRS Financial Measures*'

(5) Capital expenditures are defined as a sum of all additions to tangible assets, intangible assets and investment properties.

Reconciliation of EBITDA to EBIT

	Nine month period ended 30 September (Unaudited)		Year ended 31 December		
	2013	2012	2012	2011	2010
	(EUR thousands)				
EBIT	**67,049**	**52,947**	**56,971**	**80,324**	**78,706**
Impairment of inventories and accounts receivable, net	(1,930)	(72)	(798)	(3,119)	(543)
Impairment of non-depreciable assets	—	—	—	(1,942)	(2,669)
Provisions, net	(4,754)	(12,296)	(21,934)	(6,275)	(5,529)
Depreciation/ amortization and impairment of investments, net	(19,521)	(17,468)	(24,636)	(22,252)	(24,222)
EBITDA	**93,254**	**82,783**	**104,339**	**113,913**	**111,669**

Certain Operating Data

	As of and/or the nine month period ended 30 September (Unaudited)		As of and/or the year ended 31 December		
	2013	2012	2012	2011	2010
Mail business unit:					
Total items processed (*thousands*)	1,046,740	1,106,054	1,480,066	1,600,748	1,695,980
—Transactional mail	568,900	610,624	809,632	875,861	928,901
—Press mail	32,454	35,988	47,988	55,554	59,435
—Parcels	252	284	405	405	421
—Advertising mail	445,134	459,159	622,042	668,929	707,224
Total staff	10,287	11,071	10,312	10,961	11,586
Points of sale (retail):					
—Post offices (owned branches)	624	752	748	783	884
—Postal agencies (partnership branches)	1,896	1,813	1,814	1,778	2,013
Customers per day at post offices	131,397	140,138	139,724	153,902	166,241
Customers per day per post office	211	186	187	197	188
Sorting units	11	11	11	11	11
Distribution centers	304	330	326	341	353
Express and parcels business unit:					
Total items processed (*thousands*)	18,406	16,901	22,896	23,067	24,377
—Portugal	8,728	8,657	11,608	11,896	13,213
—Spain	9,617	8,171	11,185	11,094	11,134
—Mozambique	61	73	103	77	30
Total staff	1,168	1,178	1,201	1,164	1,182
—Portugal	622	660	658	677	725
—Spain	465	462	480	443	420
—Mozambique	81	56	63	44	37
Total branches	871	1,026	1,018	1,064	1,169
—Portugal (CTT owned branches)	624	752	748	783	884
—Spain (CTT owned branches and partnership branches)	236	264	259	273	279
—Mozambique (CORRE branches)	11	10	11	8	6
Total logistics platforms(1)	45	45	46	43	44
—Portugal	13	14	14	14	13
—Spain	23	23	23	23	27
—Mozambique	9	8	9	6	4
Financial services business unit:					
Number of transactions (*thousands*)	69,432	75,744	99,952	104,602	106,719
—Post offices	31,030	34,603	45,274	48,466	52,816
—Payshop network	38,402	41,141	54,678	56,136	53,903
Total staff	103	111	114	112	116
Total points of sale	4,533	4,719	4,714	4,777	4,700
—Post offices	624	752	748	783	884
—Payshop network	3,909	3,967	3,966	3,994	3,816

(1) Logistics platforms are operational facilities for sorting and/or transferring mail and parcels between transport vehicles.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the financial condition and results of operations of CTT, based on the Interim Consolidated Financial Statements and the Adjusted Audited Consolidated Financial Statements. The Adjusted Audited Consolidated Financial Statements have been adjusted as described in "Presentation of Financial and Other Information". This discussion should be read in conjunction with "Selected Historical Financial Information" and the Financial Statements included elsewhere in this Offering Memorandum.

Some of the information contained in the following discussion contains forward-looking statements that are based on assumptions and estimates and are subject to risks and uncertainties. Investors should read "Forward-Looking Statements" for a discussion of the risks and uncertainties related to these statements. Investors should also read "Risk Factors" for a discussion of certain factors that may affect CTT's business, financial condition, results of operations and prospects.

Overview

CTT is a large logistics operator in Portugal (including express mail and parcels). It is a leader in the Portuguese postal sector, with a 95% market share as of 30 June 2013 (Source: ANACOM *"Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013*) and holds the concession for the USO until 2020. CTT has one of the oldest brands in Portugal (its origin dates back to 1520 when the office of Kingdom Post Master was named in Portugal by King Manuel I) and maintains high levels of recognition across the population, having been identified for nine years as one of the most trusted brands (Source: *"Trusted Brands"* by Reader's Digest). In 2012, 89% of CTT's revenues from sales and services rendered were generated in Portugal. See Note 4 "*Segment Reporting*" to the Interim Consolidated Financial Statements.

CTT offers a wide range of products and services through its four business segments covering three markets: (i) mail, (ii) express and parcels, and (iii) financial services. In Portugal, CTT's services include mail (which includes business solutions and retail offer and other services), express and parcels and financial services (including payment services through Payshop's agent network). CTT also offers express and parcels services in Spain through its subsidiary, Tourline, and in Mozambique through its 50% owned subsidiary, CORRE, which is jointly owned with the national postal services provider, Correios de Moçambique.

CTT operates four separate, but connected, networks: (i) the postal distribution network, whose main activity is the delivery of mail and other products falling within the USO and which is operated directly by CTT; (ii) the Portuguese express and parcels network, which is dedicated to the distribution of express mail and parcels in Portugal and is operated by third parties through outsourcing contracts; (iii) the Spanish express and parcels network, which is dedicated to the distribution of express mail and parcels in Spain and is partially operated through a franchisee model; and (iv) the retail network, through which CTT offers services to both retail and small corporate customers, including mail and parcels collection, acceptance and delivery services, as well as other services, including financial services. The postal distribution network and retail network are together referred to as the "postal network".

As of 30 June 2013, CTT's retail network had national coverage with 2,518 sales points (625 own branches managed by CTT and 1,893 partnership branches operated by third parties). As of 30 September 2013, CTT's retail network served its customers in Portugal through 2,520 sales points (of which 624 were post offices managed by CTT and 1,896 were postal agencies operated by third parties). CTT had also installed 379 automatic stamp vending machines and 21 automatic mail product vending machines in Portugal, some of which are available 24 hours-per-day. CTT also has 3,909 agents through its wholly owned subsidiary, Payshop. Through its postal distribution network, CTT sorts and distributes postal items through 11 sorting units and 304 postal distribution centres. During the nine months ended 30 September 2013, CTT handled an average of 3.6 million addressed mail items per day and served 5.3 million households in Portugal.

CTT operates its business through the following business units:

- *Mail.* Collection, sorting, transportation and distribution of domestic and international mail, including transactional mail (encompassing non-priority and priority mail, convenience mail, registered mail and international mail outbound and inbound), press mail, USO parcels and advertising mail.
- *Business Solutions.* Mail and document management services, printing and finishing services, digital mail, geographically focused products and other document and archive management services for

business customers. This business unit is ancillary to the mail business unit and offers corporate customers solutions and services related to mail products.

- *Express and Parcels Services.* Collection, processing, transport and delivery of express and parcel services (domestic and international) in Portugal, Spain and Mozambique.
- *Financial Services.* Savings and insurance brokerage services (including public savings certificates and public debt targeted at retail investors), payment and collection services (including payment at CTT branches and the Payshop network), international money transfers and money orders (*vales de correio*) as well as other financial products and services.

For the years ended 31 December 2012, 2011 and 2010, CTT had revenues of €714.2 million, €765.8 million and €797.8 million, respectively, and EBITDA of €104.3 million, €113.9 million and €111.7 million, respectively. For the nine months ended 30 September 2013 and 2012, CTT had revenues of €520.0 million and €529.3 million, and EBITDA of €93.3 million and €82.8 million, respectively.

Recent Developments

Privatization Process

On the 25 July 2013, the Council of Ministers approved CTT's privatization process, through the sale of Shares representing up to 100% of CTT's share capital, in accordance with the Decree-Law of Privatization.

The approval reflected that the privatization process may occur either through (i) a sale of CTT's share capital via a direct sale to one or more institutional investors or (ii) an initial public offering of CTT's shares in the Portuguese market, which can be combined with a sale to institutional investors. The decision further provided that one or more financial institutions were to be mandated to promote the sale of shares through a domestic and/or international offering. Additionally, it was decided that up to 5% of CTT's share capital would be sold to CTT and its employees.

On the 10 October 2013, the Council of Ministers approved the conditions of the initial public offering and the contractual provisions of the direct sale to institutional investors, as well as the conditions of sale to employees CTT and its employees. The Selling Shareholder was authorized to sell up to 70% of the Shares through (i) the initial public offering of Shares in the Portuguese market; and (ii) a direct sale to institutional investors, to one or more financial institutions obliges to promote its dispersion in the market. Up to 5% of the share capital will be set aside for sales to CTT's and its employees, at a price that will reflect a 5% discount to the Offer Price.

Material Changes in the Financial or Operating Condition of the Company

No material changes have occurred in the financial or operating condition of the Company as from the date of its Interim Consolidated Financial Statements (*i.e*. 30 September 2013), other than the Company's share capital reduction of €12,325,000, from €87,325,000 to €75,000,000 and the change in the nominal value of its shares from €4.99 to €0.50, approved by the Shareholders Meeting on 30 October 2013. The share capital of the Company is divided into 150,000,000 shares.

Postal Bank Application

On 5 August 2013, CTT filed an application with the Bank of Portugal for a license to create a postal bank. The proposal assumed that the new postal bank will be supported by CTT's current branch network and will require a low level of investment. On 27 November 2013, the Bank of Portugal issued its authorization for the establishment of the postal bank, subject to several conditions and requirements. On 28 November 2013, the Company's Board of Directors decided not to issue any immediate resolution on the establishment of the postal bank, but rather to assess and vote on this matter in 2014. This vote will take place only after the General Shareholders Meeting that will elect new members of the Board of Directors, which is scheduled to take place by 28 February 2014.

PSGI: Citizen's Bureau Areas

CTT entered into an agreement with the Portuguese Government to provide public services of general interest ("**PSGIs**") through the creation of Citizen's Bureau areas across CTT's retail network. A pilot project will start on 1 December 2013 in the Lisbon metropolitan area and will gradually be extended to all CTT post offices in Portugal. The Portuguese Government intends to set up 1,000 Citizen's Bureau areas with CTT as its main partner through 624 post offices. The economic model as well as other operational issues and investment required are still to be agreed by the parties. Citizen's Bureau areas will provide the various services, such as: (i) driving license renewal, (ii) Social Security declarations and requests, (iii) land registry certificates, (iv) exemptions from municipal tax for real estate, (v) personal income tax declarations deliveries, and (vi) school enrollment for students.

Key Factors Affecting Results of Operations

CTT's results of operations have been and continue to be affected by a number of external factors. These factors are discussed below.

Macroeconomic Environment

A substantial portion of CTT's revenues is derived from Portugal, which accounted for 89% of revenues from sales and services rendered for the nine months ended 30 September 2013. As a result, developments in the Portuguese economy have an impact on CTT. The financial and economic crisis which has been affecting the global economy since mid-2007 has negatively affected the Portuguese economy. During the same period, private consumption continued to fall due to uncertain economic conditions and austerity measures being imposed in certain countries, including Portugal. Public and private investment also declined substantially, reflecting the relatively low levels of business confidence and significant restrictions in accessing bank credit in some European countries, including Portugal.

As a consequence of the implementation of the PAEF, the Portuguese Government introduced austerity measures for public companies in 2010, which impacted CTT's results of operations in 2011 and 2012. In Portugal, real GDP contracted by 1.3% and 3.2% in 2011 and 2012, respectively, after having grown by 1.9% in 2010 (Source*: Eurostat website*). The contraction in GDP in 2011 and 2012 was primarily due to a significant decline in domestic demand resulting from the fiscal and structural changes mandated by the PAEF, as well as by the lower than expected growth in foreign demand, mainly due to the 0.4% contraction in European GDP. Adverse economic conditions in Portugal impacted the disposable income of Portuguese households, as well as spending by corporate customers, thereby adversely affecting demand for CTT's products and services. GDP growth in 2010 was largely due to higher exports and a limited increase in private consumption. See "*Risk Factors—Risks Relating to Current Macroeconomic Conditions—CTT is dependent on developments in the Portuguese economy, which is experiencing a period of considerable macroeconomic instability.*"

Government Austerity Program and Cost Reduction

In order to comply with the austerity measures imposed by the Portuguese Government in 2011 and 2012, CTT reduced salaries of most of its employees, suspended the payment of holiday and Christmas bonuses in 2012, introduced a hiring freeze and eliminated several employee compensation schemes, including performance bonuses. CTT also introduced a cost reduction program, which was presented to the Portuguese Government in June 2011.

CTT proposed reductions in staff costs and in supplies and external services of €103 million, which have been implemented during 2011 and 2012. The proposed reductions included, amongst others: (i) a decrease in staff costs of €24.7 million; (ii) a decrease in other operating costs of €22.2 million; (iii) a reduction in costs resulting from a restructuring of the management structure and the adoption of extraordinary measures in relation to staff of €15.5 million; and (iv) further cost reductions at the subsidiary level of €7.6 million. By the end of 2012, CTT had realized aggregate reductions of €110.1 million which was €6.9 million more than planned. However, after taking into account the costs associated with the reintroduction of holiday subsidies in 2012 (such costs were accrued in 2012, with the actual payments being made in 2013), the net total cost reduction in 2011 and 2012 was approximately €92.5 million.

After the Offering, if the Portuguese Government ceases to own more than 50% of CTT's share capital, CTT will no longer be required to comply with the Portuguese Government's austerity measures, which mandated lower salaries for CTT's staff during 2011 and 2012. As a result, it is expected that CTT's staff costs may increase in the next year by approximately €6.5 million, of which approximately €4.8 million relate to expected salary increases. There can be no assurance that such increases will not be greater than currently expected. See "*Risk Factors—CTT may not be able to successfully or efficiently manage its costs under its continuous transformation program*" and "*Business—Employees—Salaries and Pensions*."

Mail Volumes and Pricing

CTT's revenues decreased by 1.8% to €520.0 million for the nine months ended 30 September 2013 from €529.3 million for the nine months ended 30 September 2012, and decreased by 6.7% to €714.2 million in 2012 from €765.8 million in 2011, which already reflected a 4.0% decrease from revenues of €797.8 million in 2010. In the nine months ended 30 September 2013, this decline was primarily attributable to a decline in mail revenues of €11.5 million (to €387.4 million in the nine months ended 30 September 2013, as compared to €398.9 million in the nine months ended 30 September 2012). In 2012, this decline was primarily attributable to a decline in mail revenues in 2012 of €41.5 million (€577.5 million in 2011). In 2011, the decline in revenues from 2010 reflected a decline in mail revenues of €36.2 million (€613.7 million in 2010). In future years, CTT expects that its mail revenues, results of operations and demand for its services will continue to be affected by the state of both, global and Portuguese economy, with domestic demand and economic activity together with the electronic substitution of mail being the key drivers of CTT's development.

Like most postal markets in the EU, the Portuguese postal sector has experienced a declining trend in the recent years. There has been a reduction in mail volumes, which cannot be explained alone by business cycle fluctuations or economic conditions, but rather increasingly by the replacement of paper-based mail by electronic means of communication (*e.g.*, e mail and online social networks). This structural trend has been exacerbated by (i) the significant contraction of the Portuguese economy, which has resulted in CTT's large customers significantly reducing their demand for mail services, and (ii) the gradual liberalization of the market, which has resulted in an approximate 7.4% decline in CTT's addressed mail volumes during the nine months ended 30 September 2013 as compared to the same period in 2012 and an approximate 8.8% decline in 2012 as compared to a decline of 6.4% in 2011 and 3.7% in 2010.

With regard to advertising mail, it should be noted that the negative economic situation in Portugal, combined with higher competition due to market concentration in the retail sector, has resulted in lower volumes per advertising campaign and in reduced prices for advertising mail. In the future, CTT expects that advertising mail volumes will continue to be influenced by the economic situation in Portugal and the high level of competition between different advertising media. Advertising mail is not part of the USO and therefore is not subject to the ANACOM price controls. In order to maintain its market share in advertising mail, CTT has maintained its prices during 2010, 2011 and 2012 and has improved its quality of service through faster response times and better online tools. However, on 1 July 2013, CTT increased its prices for advertising mail by 2.1%.

Express and Parcels Volumes and Pricing

Revenues for express and parcels reached €95.1 million (17.5% of CTT's revenues[2]) in the nine months ended 30 September 2013, which represented a 0.3% increase from €94.8 million in the nine months ended 30 September 2012. Revenues for express and parcels reached €128.0 million (17.2% of CTT's revenues[1]) in 2012, which represented a 4.4% decrease from €133.9 million in 2011, which represented a 6.9% decrease from €143.8 million in 2010.

In Portugal, CTT distributed 8.7 million items in the nine months ended 30 September 2013 (an increase of 0.8% compared to the same period in 2012), and maintained its leadership position in the domestic market with a market share of 28.7% based on volume in the first half of 2013 (Source: "*Postal Services Statistical Information for the Second Quarter of 2013" and "Telecommunications Sector Report 2012", by the ANACOM*). In Spain, 9.6 million items were sent during the nine months ended 30 September 2013, representing a 17.7% increase compared to the same period of 2012. CTT's express and parcels volumes declined by 0.8% in 2012, compared to a decline of 5.4% in 2011 and an increase of 2.0% in 2010.

During the past three years, CTT's large customers significantly decreased their spending on express and parcels services and also switched to lower cost products, with extended delivery times, indicating that customers favored lower prices above speed, and a reduced use of products such as Express Mail Service for the banking sector. In response to the decline in demand, CTT implemented a set of measures, such as the introduction of more competitive products, operational efficiency and cost reduction measures. These measures include (i) the ongoing renegotiation of major outsourcing agreements (with an emphasis on transport and distribution), adapting to new trends and demand conditions, (ii) creating greater operational synergies within the postal distribution network and (iii) greater growth and centralization of Tourline's own operations.

[2] Excluding intragroup eliminations and central CTT structure.

The future growth of the express and parcels business is expected to be closely linked to the development of e-commerce and global macroeconomic conditions in Portugal and Spain and also to the competitive environment of the express and parcels market. CTT faces high competition in the B2B and B2C segments, where it competes with large international operators, as well as smaller local operators. For example, major global operators, such as DHL, TNT Express, FedEx (in partnership with Rangel), La Poste (through its subsidiaries Chronopost and Seur) and UPS accounted for approximately 51% and 34.5% of the Portuguese B2B and B2C markets in 2012 based on revenue, respectively (Source*: CTT's analysis*); and DHL, TNT and La Poste (through its subsidiary Seur) accounted for approximately 25% of the Spanish parcels market (Source: *"IMR—Iberian CEP 2013 "Assessment of Market Purchase Behaviors", by the Institute of Marketing Research*). See "*Risk Factors—Risks Relating to CTT's Business and Industry—The implementation of price increases by CTT in the future may lead to customers switching to alternative media and/or cheaper services.*"

In order to address these market conditions, CTT is currently implementing a well-defined plan, which is focused on: (i) the revision of the cost/benefit analysis of the current franchisee model, (ii) the improvement of synergies between the CTT postal and retail networks, (iii) implementation of convenience networks for the collection and delivery of parcels for the B2C market (through continuous product improvement incorporating value added services), (iv) implementation of segmented sales strategy for large corporate accounts, and (v) introduction of cost efficiency improvements through centralization of IT platforms and other shared services.

Healthcare and Other Employee Benefits Liabilities

CTT is responsible for covering the costs of the healthcare plans, as well as certain other long-term benefits of its current and retired employees and, in some cases, their families. However, employees hired by CTT after 31 December 2009 (representing less than 1.0% of CTT's total headcount) are only entitled to health care benefits while they remain employed by CTT and are not entitled to post-employment healthcare benefits. As of 30 September 2013, the current value of CTT's healthcare plan (which relates primarily to contributions to the cost of medication; medical, surgical and nursing services; and auxiliary diagnostic and hospital services) represented 87.7% of the value of its employee benefits liabilities (83.3% as of 31 December 2012).

The present value of CTT's liabilities relating to its healthcare plan (as recorded in CTT's balance sheet) decreased by 7.1% from €272.1 million as of 31 December 2010 to €252.8 million as of 31 December 2012. This reduction was mainly due to (i) a slower rate of increase in medical costs as a result of the recession and changes in the health care system introduced by the Portuguese Government (namely the obligation to prescribe generic drugs); and (ii) a reduction in the number of beneficiaries of CTT's healthcare plan (46,250 beneficiaries in 2012, compared to 47,212 in 2011 and 48,244 in 2010). As of 30 September 2013, the amount of these liabilities increased slightly by €5.6 million to €258.4 million from €252.8 million as of 31 December 2012. In addition, CTT has liabilities due to other long-term employee benefits, which are primarily related to the suspension of employment agreements or equivalent. These liabilities regarding the suspension of employment agreements amounted to €20.3 million as at 30 September 2013. For further details, see Note 2.18 (*Significant Accounting Policies—Employee Benefits*) and Note 26 (*Employee Benefits*) to the Financial Statements. See also "*Risk Factors—Risks Relating to CTT's Business and Industry—The estimated amount of healthcare post-employment plan obligations may differ from actual liabilities*."

In the report issued together with the draft state budget for 2014, it has been decided that the effective transfer to ADSE of CTT's employees whose social benefits are currently covered by Caixa Geral de Aposentações will be completed. The transfer of such employees would result in the transfer of the liabilities and estimated costs thereof to ADSE. However, no agreement was reached on the conditions and the amount of such transfer, which depend on the negotiation between the parties involved and therefore CTT is not able to determine, estimate or anticipate the impact of such transfer on its financial condition.

Provisions

Provision for judicial proceedings and labor contingencies

CTT has been subject to claims from certain employees regarding the basis of the calculation of holiday pay and holiday and Christmas bonuses. Employees who brought claims alleged that the holiday pay and holiday and Christmas bonuses should have been calculated using a different methodology from the one implemented by CTT. CTT has recorded provisions to cover the full amount of these outstanding claims, which at 30 September 2013 were €6.2 million (of the total amount of €11.1 million of provisions regarding "litigation"). CTT expects that additional claims may be brought by a larger group of employees who were employed before 1 March 2012. As a result, CTT has recorded additional provision in 2012 to cover these potential future liabilities. This provision was increased by €3.9 million as of 30 September 2013, amounting to a total of €12.8 million as of that date (of the total amount of €15.2 million of "other provisions"). Therefore, the aggregate amount of provisions recorded by CTT as of 30 September 2013 was €19 million. See Note 27 "*Provisions, guarantees provided, contingent liabilities and commitments*" to the Financial Statements. See also "*Risk Factors—Risks Relating to CTT's Business and Industry—The amount provisioned by CTT in respect of labor contingencies may be insufficient to cover its actual liabilities*."

Provision for onerous contracts

Following the transfer of its headquarters to the Baltic Building in Lisbon in November 2010, CTT vacated four buildings where it had entered into long-term lease agreements. These agreements were not terminated and the buildings remain vacant although they are on the market to be subleased. In 2011, CTT terminated one of these leases by paying the owner a termination fee. In 2011 and 2012, CTT recorded provisions equal to the entire rental payments remaining on its other leased properties, based on the assumption that those leases could be terminated under terms and conditions similar to those negotiated for the first property. As result, for the year ended 31 December 2012 and nine months ended 30 September 2013, CTT had provisioned €13.2 million and €11.9 million, respectively (€5.5 million in 2011). See Note 27 "*Provisions, guarantees provided, contingent liabilities and commitments*" to the Financial Statements.

Organization and Operating Segments

CTT organizes its companies into operating segments in order to enable CTT to evaluate and monitor the nature, operation and financial effects of the activities in which it engages.

CTT's business is organized into the following four operating segments, which correspond to its four business units: (i) mail; (ii) business solutions; (iii) express and parcels; and (iv) financial services. These operating segments cover CTT's three business markets, as follows: (i) the postal market (mail), which includes the mail and business solutions operating segments; (ii) the express and parcels market, which includes the express and parcels operating segment; and (iii) the financial market, which includes financial services operating segment. In addition, CTT maintains two sales channels, which operate across the operating segments: the retail network and large customers.

Key Line Items

Descriptions of certain principal financial statement items are set forth below.

Revenues

Sales and Services Rendered

CTT principally derives revenues from the sale of products and services rendered in the ordinary course of business. The services include mail, business solutions, express and parcels and financial services.

Other Operating Income

Other operating income is income derived from sales of products and services rendered other than in relation to the CTT's core business, including services provided to other business units or revenues from the use of retail network. It also includes other income such as income from the sale of mail products and services (*i.e*. postal boxes, packages, etc.) and favourable exchange gains arising from non-financing assets and liabilities and income derived from financing (and non-financing) investments.

Operating Costs

Cost of Sales

Cost of sales includes the purchase and production costs incurred for the sale of the products and the costs of raw materials and consumables incorporated in the services rendered.

External Supplies and Services

External supplies and services costs primarily include the costs for services provided by third parties, such as specialized services, outsourcing contracts, transportation of goods and rents and remuneration to other postal operators, amongst others.

Staff Costs

Staff costs primarily include the remuneration of CTT's employees, post-employment benefits, social security charges, among others.

Impairment of Inventories and Accounts Receivables, Net

Impairment of inventories and accounts receivables includes costs determined through the calculation and recognition of the net realizable value of such assets in the Financial Statements. Net realizable value corresponds to the difference between the fair values and the carrying values of the respective assets.

Impairment of Non-Depreciable Assets

Impairment of non-depreciable assets (*e.g.*, goodwill) includes costs assessed regularly corresponding to the difference between their respective fair values and their carrying values.

Provisions, Net

Provisions are recognized when (i) CTT has a current obligation (legal or implicit) arising from a past event; (ii) it is probable that a payment may be required; and (iii) there is a reliable estimate of the amount of this obligation.

Provisions relate to non-current provisions which primarily include (i) litigation; (ii) onerous contracts; and (iii) other provisions.

Depreciation/Amortization and Impairment of Investment, Net

Depreciation, amortization and impairment of investments include costs associated with tangible fixed assets, intangible assets and investment properties. The impairments are assessed annually corresponding to the difference between their respective fair values to their carrying values.

Other Operating Costs

Other operating costs include expenses not listed above, such as the losses arising from unfavorable exchange differences of non-financing assets and liabilities, the concession rent (based on the services rendered by CTT on an exclusive basis) and indirect taxes.

Financial Results

Interest Expenses

Financial expenses primarily include financial costs arising from healthcare post-employment liabilities and interest on bank loans.

Interest Income

Interest income primarily includes interest received from deposits at credit institutions.

Earnings before Taxes

This figure represents the sum of the operating and financial results and provides the basis for determining profit assessable to income tax.

Income Tax for the Year

Estimated income tax for the year, which includes both current tax expenses and deferred tax charges.

Results of Operations for the Nine Months Ended 30 September 2013 and 2012

The following table presents CTT's results of operations for the nine months ended 30 September 2013 and 2012.

	Nine month period ended 30 September (Unaudited)					
	2013		2012			
	Amount	% of revenues	Amount	% of revenues	Amount of Change	% of Change
	(EUR thousands, except %)					
Sales and services rendered	509,742	98.0%	520,187	98.3%	(10,445)	(2.0)%
Other operating income	10,233	2.0%	9,074	1.7%	1,159	12.8%
Revenues	**519,974**	**100.0%**	**529,261**	**100.0%**	**(9,286)**	**(1.8)%**
Cost of sales	(11,455)	(2.2)%	(13,226)	(2.5)%	(1,771)	(13.4)%
External supplies and services	(176,220)	(33.9)%	(183,415)	(34.7)%	(7,196)	(3.9)%
Staff costs	(231,607)	(44.5)%	(243,106)	(45.9)%	(11,499)	(4.7)%
Impairment of inventories and accounts receivable, net	(1,930)	(0.4)%	(72)	(0.0)%	1,858	2593.6%
Provisions, net	(4,754)	(0.9)%	(12,296)	(2.3)%	(7,542)	(61.3)%
Depreciation/ amortization and impairment of investments, net	(19,521)	(3.8)%	(17,468)	(3.3)%	2,053	11.8%
Other operating costs	(7,440)	(1.4)%	(6,731)	(1.3)%	709	10.5%
Operating costs	**(452,925)**	**(87.1)%**	**(476,314)**	**(90.0)%**	**(23,388)**	**(4.9)%**
Earnings before financial income and taxes	**67,049**	**12.9%**	**52,947**	**10.0%**	**14,102**	**26.6%**
Interest expenses	(8,952)	(1.7)%	(12,128)	(2.3)%	(3,176)	(26.2)%
Interest income	6,741	1.3%	9,610	1.8%	(2,868)	(29.8)%
Gains/(losses) in associated companies	21	0.0%	216	0.0%	(196)	(90.5)%
Financial results	**(2,190)**	**(0.4)%**	**(2,302)**	**(0.4)%**	**(112)**	**(4.9)%**
Earnings before taxes	**64,859**	**12.5%**	**50,645**	**9.6%**	**14,214**	**28.1%**
Income tax for the period	(19,608)	(3.8)%	(15,111)	(2.9)%	4,497	29.8%
Net profit for the period	**45,251**	**8.7%**	**35,534**	**6.7%**	**9,717**	**27.3%**

Revenues

Revenues decreased by €9.3 million, or 1.8%, to €520.0 million for the nine months ended 30 September 2013 from €529.3 million for the nine months ended 30 September 2012. The decrease was primarily attributable to a reduction in revenues from the mail business segment due to the progressive decline of the use of physical mail as a result of electronic substitution, which was exacerbated by the recessionary economic environment. Addressed and unaddressed mail volumes decreased to 671.5 million and 376.8 million items, respectively, in the nine months ended 30 September 2013, compared to 725.4 million and 379.5 million items, respectively, during the nine months ended 30 September 2012.

The following table presents CTT's operating income by business segment for the nine months ended 30 September 2013 and 2012.

	Nine month period ended 30 September (Unaudited)					
	2013		2012			
	Amount	% of revenues	Amount	% of revenues	Amount of Change	% of Change
	(EUR thousands, except %)					
Mail	387,436	74.5%	398,889	75.4%	(11,453)	(2.9)%
Business solutions	16,143	3.1%	17,819	3.4%	(1,676)	(9.4)%
Express and parcels	95,063	18.3%	94,774	17.9%	289	0.3%
Financial services	44,108	8.5%	43,612	8.2%	496	1.1%
Central CTT Structure	73,210	14.1%	81,162	15.3%	(7,952)	(9.8)%
Intragroup eliminations	(95,986)	(18.5)%	(106,995)	(20.2)%	(11,009)	(10.3)%
Total	**519,974**	**100.0%**	**529,261**	**100.0%**	**(9,286)**	**(1.8)%**

Mail

Mail revenues decreased by €11.5 million, or 2.9%, to €387.4 million for the nine months ended 30 September 2013 from €398.9 million for the nine months ended 30 September 2012. The decrease in mail revenues was primarily attributable to a 7.4% decrease in addressed mail volumes, partially offset by an increase in mail prices and the effect from selling higher value services (*e.g.*, registered mail). The 7.4% decrease in addressed mail volumes, although at a higher rate of decline than the average rate of decline experienced during the period from 2011 to 2012, seems to indicate an inflection in the deterioration trend. Advertising mail volumes, decreased significantly, with direct mail volumes decreasing by 13.5%, although unaddressed mail volumes decreased only slightly by 0.7%. This decline was further exacerbated by the economic crisis, which led to a contraction of the advertising market and increased competition from other advertising media. On 1 April 2013, new prices for the USO came into force. As a result, CTT is thereafter permitted to apply different prices to its occasional and contractual customers and apply zonal pricing for bulk mail. On 1 June 2013, the press mail tariff was revised according to a new editorial mail agreement among CTT, the Portuguese Press Association ("**API**") and the State Media Office. On 1 July 2013, new tariffs for direct mail came into force.

Business solutions

Business solutions revenues decreased by €1.7 million, or 9.4%, to €16.1 million for the nine months ended 30 September 2013 from €17.8 million for the nine months ended 30 September 2012. The decrease in business solutions revenues was primarily attributable to a decrease in demand for CTT's printing and finishing and document management services.

Express and parcels

Express and parcels revenues increased by €0.3 million, or 0.3%, to €95.1 million for the nine months ended 30 September 2013 from €94.8 million for the nine months ended 30 September 2012, demonstrating a reversal of the trend experienced during the past few years. The increase in express and parcels revenue was primarily attributable to an increase in express volumes in Spain (by 17.7% to 9.6 million items for the nine months ended 30 September 2013, compared to 8.2 million items for the same period in 2012), which was partially offset by a decrease in average prices, as a consequence of the preference by customers for lower price products or for products with extended delivery. The reorganization of the commercial activities and the increased integration of CTT's Iberian operations also contributed to growth in revenue. In Mozambique, revenues grew by 36.6% due to the development of CTT's activity in the country and strong underlying economic growth.

Financial services

Financial services revenues increased by €0.5 million, or 1.1%, to €44.1 million for the nine months ended 30 September 2013 from €43.6 million for the nine months ended 30 September 2012. The increase in financial services revenues was primarily attributable to the introduction of more value-added services and growth in the placement of savings products. Inflows from savings products increased by €623 million, or 112.2% to €1,177 million for the nine months ended 30 September 2013 from €554 million for the nine months ended 30 September 2012. Placements of public savings certificates grew by 200.5% as a result of improved returns being offered (EURIBOR +2.75%) by the Portuguese State from 31 August 2012, such returns remaining in force until 2016. Higher revenues from insurance placements and the reversal of the negative trend in the evolution of tax payment solutions revenues (which increased by 2.1% in the nine months ended 30 September 2013 as compared to the same period in 2012) also contributed to the increase. Inflows from capitalization insurances and retirement savings plans (PPR) increased by €113.5 million to €414 million for the nine months ended 30 September 2013, representing a significant strengthening of CTT's position in this competitive market. Management believes that this was achieved as a result of the competitiveness of CTT's products and customers' strong bond with CTT's brand.

Operating costs

Operating costs decreased by €23.4 million, or 4.9%, to €452.9 million for the nine months ended 30 September 2013 from €476.3 million for the nine months ended 30 September 2012. This decrease was primarily due to the reduction in staff costs, which more than offset the added costs of reintroducing the Christmas salary bonus in 2013, and due to the reduction in external supplies and services as a result of the impact of the transformation program. In particular, within the mail business unit, during the nine months ended 30 September 2013, sorting, transport and delivery activities were integrated and optimized, with a reduction in the delivery activities previously outsourced by CTT. Also, the retail network was optimized by reducing the number of CTT's post offices and increasing the number of postal agencies, thus maintaining the capillarity and proximity of the network and serving citizens in an economically efficient and sustainable way. In the express and parcels segment, the delivery networks were merged and optimized, the outsourcing contracts were renegotiated and the sorting units centralized and optimized.

As a percentage of revenues, operating costs decreased from 90.0% for the nine months ended 30 September 2012 to 87.1% for the nine months ended 30 September 2013.

Cost of sales

Cost of sales decreased by €1.8 million, or 13.4%, to €11.5 million for the nine months ended 30 September 2013 from €13.2 million for the nine months ended 30 September 2012. This decrease in cost of sales was primarily due to a decline of €2.0 million, or 19.3%, in the costs related to the sale digital terrestrial television ("**TDT**") (which decode analog television to digital) and toll payments devices. As a percentage of revenues, costs of sales decreased from 2.5% for the nine months ended 30 September 2012 to 2.2% for the nine months ended 30 September 2013.

External services and supplies

External services and supplies decreased by €7.2 million, or 3.9%, to €176.2 million for the nine months ended 30 September 2013 from €183.4 million for the nine months ended 30 September 2012. This decrease was primarily due to: (i) a decrease of €2.5 million, or 5.5%, in specialized services (such as maintenance and repair of assets and outsourcing IT costs, as a result of the renegotiation of IT contracts and a lower number of users); and (ii) a decrease of €1.4 million, or 4.8%, in rents, primarily as a result of costs related to vacant and unoccupied buildings (onerous contracts) which had been accrued in previous years, which was partially offset by a normal increase in remaining rents. A decrease of €1.2 million, or 2.4%, in the cost of transportation of goods also contributed to the decrease external services and supplies costs. As a percentage of revenues, external services and supplies decreased from 34.7% for the nine months ended 30 September 2012 to 33.9% for the nine months ended 30 September 2013.

The following table presents a breakdown of CTT's cost of external supplies and services for the nine-month periods ended 30 September 2013 and 2012.

	Nine month period ended 30 September (Unaudited)					
	2013		2012			
	Amount	% of revenues	Amount	% of revenues	Amount of Change	% of Change
	(EUR thousands, except %)					
Subcontracts	4,150	0.8%	3,723	0.7%	427	11.5%
Specialized services[1]	42,840	8.2%	45,351	8.6%	(2,511)	(5.5)%
Materials	1,202	0.2%	1,114	0.2%	88	7.9%
Energy and liquids[2]	11,866	2.3%	11,955	2.3%	(89)	(0.7)%
Staff transportation	203	0.0%	206	0.0%	(3)	(1.5)%
Transportation of goods[3]	48,742	9.4%	49,945	9.4%	(1,203)	(2.4)%
Remuneration to postal operators[4]	11,466	2.2%	12,347	2.3%	(881)	(7.1)%
Rents[5]	27,494	5.3%	28,894	5.5%	(1,400)	(4.8)%
Communication	4,618	0.9%	5,096	1.0%	(478)	(9.4)%
Insurance	2,019	0.4%	2,026	0.4%	(7)	(0.3)%
Cleaning, hygiene and comfort	3,234	0.6%	3,274	0.6%	(40)	(1.2)%
Royalties	162	0.0%	225	0.0%	(63)	(28.0)%
Litigation and notary	239	0.0%	146	0.0%	93	63.7%
Remuneration to postal agencies	3,182	0.6%	3,146	0.6%	36	1.1%
Agencing	4,462	0.9%	5,384	1.0%	(922)	(17.1)%
Other services	10,341	2.0%	10,582	2.0%	(241)	(2.3)%
Total	**176,220**	**33.9%**	**183,415**	**34.7%**	**(7,194)**	**(3.9)%**

(1) "Specialized services" refer in particular to the outsourcing contracts for the provision of IT services and the maintenance of IT equipment.

(2) "Energy and liquids" refers mainly to diesel fuel for vehicles used in the operating process.

(3) "Transportation of goods" refers to costs with the transportation of mail in several ways (sea, air, land).

(4) "Remuneration to postal operators" refers to costs with similar postal operators.

(5) "Rents" refer to costs with leased facilities from third-parties and the operating lease of vehicles.

Staff costs

Staff costs decreased by €11.5 million, or 4.7%, to €231.6 million for the nine months ended 30 September 2013 from €243.1 million for the nine months ended 30 September 2012. The decrease was primarily attributable to (i) a decrease of €8.4 million, or 4.4%, in staff remuneration as a result of the reduction in average headcount from 13,870 during the nine months ended 30 September 2012 to 13,030 during the same period in 2013, and (ii) reductions in employee benefits (*i.e.*, the discontinuation as of 1 April 2013 with effect from September 2012 of the benefit referred to as "support for cessation of provisional activity") and the reformulation of the form of payment for the "telephone rental charges" benefit. The overall decrease in staff costs was partially offset by an increase of €0.7 million, or 1.8%, in social security charges as a result of the enlargement of the base of calculation for employees belonging to the Caixa Geral de Aposentações regime, in accordance with the 2013 Portuguese State Budget. As a percentage of revenues, staff costs decreased from 45.9% for the nine months ended 30 September 2012 to 44.5% for the nine months ended 30 September 2013.

The following table presents a breakdown of CTT's staff costs for the nine-month periods ended 30 September 2013 and 2012.

	Nine month period ended 30 September (Unaudited)					
	2013		2012			
	Amount	% of revenues	Amount	% of revenues	Amount of Change	% of Change
			(EUR thousands)			
Board of Directors and Audit Board Remuneration	958	0.2%	520	0.1%	438	84.2%
Staff remuneration	183,873	35.4%	192,278	36.3%	8,405	4.4%
Employee benefits	(5,918)	(1.1)%	(2,175)	(0.4)%	3,743	172.1%
Indemnities	1,375	0.3%	1,819	0.3%	(444)	(24.4)%
Social security charges	40,842	7.9%	40,130	7.6%	712	1.8%
Occupational accident and disease insurance	1,309	0.3%	1,453	0.3%	(144)	(9.9)%
Social welfare costs	9,083	1.7%	8,827	1.7%	256	2.9%
Other staff costs	84	0.0%	254	0.0%	(170)	(66.9)%
Total	**231,607**	**44.5%**	**243,106**	**45.9%**	**(11,500)**	**(4.7)%**

Impairment of inventories and accounts receivables, net

Impairment of inventories and accounts receivables increased by €1.9 million, or 2,593.6%, to €1.9 million for the nine months ended 30 September 2013 from €0.07 million for the nine months ended 30 September 2012. The increase was primarily attributable to an increase of €1.1 million in impairment losses due to a deterioration of the credit situation of certain customers and other debtors mainly in Spain. As a percentage of revenues, impairment of inventories and accounts receivables increased from 0.0% for the nine months ended 30 September 2012 to 0.4% for the nine months ended 30 September 2013.

Provisions, net

Provisions decreased by €7.5 million, or 61.3%, to €4.8 million for the nine months ended 30 September 2013 from €12.3 million for the nine months ended 30 September 2012. This decrease was primarily due to the fact that provisions for contingencies related to employment litigation was already made in 2012 (in the amount of €11.3 million) and that only a partial re-enforcement (in the amount of €3.9 million) was deemed necessary in the nine months ended 30 September 2013. As a percentage of revenues, provisions decreased from 2.3% for the nine months ended 30 September 2012 to 0.9% for the nine months ended 30 September 2013.

Depreciation/amortization and impairment of investments, net

Depreciation, amortization and impairment of investments increased by €2.1 million, or 11.8%, to €19.5 million for the nine months ended 30 September 2013 from €17.5 million for the nine months ended 30 September 2012. This increase was largely due to a recorded impairment loss of €1.0 million in investment properties during the nine months ended 30 September 2013 (€0 million during the same period in 2012) as a result of changes in market conditions in the geographic areas where these properties are located, and an increase of €0.7 million in depreciation of investment properties, as well as an increase of €0.7 million, or 23.4%, in amortization of intangible assets. As a percentage of revenues, depreciation, amortization and impairment of investments costs increased from 3.3% for the nine months ended 30 September 2012 to 3.8% for the nine months ended 30 September 2013.

Other operating costs

Other operating costs increased by €0.7 million, or 10.5%, to €7.4 million for the nine months ended 30 September 2013 from €6.7 million for the nine months ended 30 September 2012. The increase was primarily attributable to an increase of €1.4 million, or 144.7%, of unfavorable movements in exchange rates, which was partially offset by a decrease of €0.8 million, or 82.5%, in concession rent as a result of the approval of the Postal Law, which transposed the Third Postal Directive into Portuguese law. The law introduced significant changes to the range of services comprising the USO, which affected the way CTT calculates its concession rent. As a percentage of revenues, other operating costs increased from 1.3% for the nine months ended 30 September 2012 to 1.4% for the nine months ended 30 September 2013.

Financial results

Financial results increased slightly by €0.1 million, or 4.9%, to €2.2 million losses for the nine months ended 30 September 2013 from €2.3 million losses for the nine months ended 30 September 2012.

Interest expenses

Interest expenses decreased by €3.2 million, or 26.2%, to €9.0 million for the nine months ended 30 September 2013 from €12.1 million for the nine months ended 30 September 2012. This decrease was primarily due to a decrease of €2.9 million, or 24.9%, in interest costs from employee benefits related to healthcare plan post-retirement, as a result of a 100 basis point reduction in discount rate used in the actuarial valuation.

Interest income

Interest income decreased by €2.9 million, or 29.8%, to €6.7 million for the nine months ended 30 September 2013 from €9.6 million for the nine months ended 30 September 2012. This decrease was primarily due to a €2.7 million decrease in interest from deposits with credit institutions, as a result of average interest rates offered by financial institutions decreasing by approximately 90 basis points during 2013.

Gains/(losses) in associated companies

Gains in associated companies decreased by €0.2 million, or 90.5%, to €21 thousand for the nine months ended 30 September 2013 from €216 thousand for the nine months ended 30 September 2012. This decrease was primarily attributable to the decrease in net profit from Multicert—Serviços de Certificação Electrónica, S.A.

Earnings before taxes

Earnings before taxes increased by €14.2 million, or 28.1%, to €64.9 million for the nine months ended 30 September 2013 from €50.6 million for the nine months ended 30 September 2012. This increase was primarily due to the €23.4 million reduction in operating costs during the nine months ended 30 September 2013 as compared to the nine months ended 30 September 2012, which more than offset the €9.3 million decrease in revenues over the same period.

Income tax for the period

Income tax for the period increased by €4.5 million, or 29.8%, to €19.6 million for the nine months ended 30 September 2013 from €15.1 million for the nine months ended 30 September 2012. This increase was primarily due to the increase in earnings before financial income and taxes by €14.1 million (26.6%). The effective tax rate was 30.2% and 29.8% for the nine-month periods ended 30 September 2013 and 2012, respectively.

Net profit for the period

As a result of the factors discussed above, net profit for the period increased by €9.7 million, or 27.3% to €45.3 million for the nine months ended 30 September 2013 from €35.5 for the nine months ended 30 September 2012.

Results of Operations for the Years Ended 31 December 2012 and 2011

The following table presents CTT's results of operations for the years ended 31 December 2012 and 2011.

	Year ended 31 December					
	2012		2011			
	Amount	% of revenues	Amount	% of revenues	Amount of Change	% of Change
	(EUR thousands, except %)					
Sales and services rendered	699,332	97.9%	741,850	96.9%	(42,518)	(5.7)%
Other operating income	14,893	2.1%	23,917	3.1%	(9,024)	(37.7)%
Revenues	**714,225**	**100%**	**765,767**	**100.0%**	**(51,542)**	**(6.7)%**
Cost of sales	(18,543)	(2.6)%	(18,353)	(2.4)%	190	1.0%
External services and supplies	(246,416)	(34.5)%	(256,464)	(33.5)%	(10,048)	(3.9)%
Staff costs	(333,319)	(46.7)%	(358,096)	(46.8)%	(24,777)	(6.9)%
Impairment of inventories and accounts receivable, net	(798)	(0.1)%	(3,119)	(0.4)%	(2,321)	(74.4)%
Impairment of non-depreciable assets	—	—	(1,942)	(0.3)%	—	—
Provisions, net	(21,934)	(3.1)%	(6,275)	(0.8)%	15,659	249.5%
Depreciation/amortization and impairment of investments, net	(24,636)	(3.4)%	(22,252)	(2.9)%	2,384	10.7%
Other operating costs	(11,608)	(1.6)%	(18,942)	(2.5)%	(7,334)	(38.7)%
Operating costs	**(657,254)**	**(92.0)%**	**(685,443)**	**(89.5)%**	**(28,189)**	**(4.1)%**
Earnings before financial income and taxes	**56,971**	**8.0%**	**80,324**	**10.5%**	**(23,353)**	**(29.1)%**
Interest expenses	(16,761)	(2.3)%	(18,354)	(2.4)%	(1,593)	(8.7)%
Interest income	12,382	1.7%	16,095	2.1%	(3,713)	(23.1)%
Gains/(losses) in associated companies	240	0.0%	85	0.0%	155	182.4%
Financial results	**(4,139)**	**(0.6)%**	**(2,175)**	**(0.3)%**	**(1,964)**	**(90.3)%**
Earnings before taxes	**52,832**	**7.4%**	**78,149**	**10.2%**	**(25,317)**	**(32.4)%**
Income tax for the year	(16,865)	(2.4)%	(22,466)	(2.9)%	(5,601)	(24.9)%
Net profit for the year	**35,967**	**5.0%**	**55,683**	**7.3%**	**(19,716)**	**(35.4)%**

Revenues

Revenues decreased by €51.5 million, or 6.7%, to €714.2 million for the year ended 31 December 2012 from €765.8 million for the year ended 31 December 2011. The decrease was primarily attributable to a reduction in revenues from mail and express and parcels business segments due to adverse economic conditions in Portugal and lower demand by CTT's large customers.

The following table presents CTT's revenues by business segment for the years ended 31 December 2012 and 31 December 2011.

	Year ended 31 December					
	2012		2011			
	Amount	% of revenues	Amount	% of revenues	Amount of Change	% of Change
	(EUR thousands, except %)					
Mail	535,957	75.0%	577,504	75.4%	(41,547)	(7.2)%
Business solutions	22,999	3.2%	26,055	3.4%	(3,056)	(11.7)%
Express and parcels	127,998	17.9%	133,917	17.5%	(5,919)	(4.4)%
Financial Services	57,673	8.1%	61,673	8.1%	(4,000)	(6.5)%
Central CTT Structure	122,806	17.2%	140,990	18.4%	(18,184)	(12.9)%
Intragroup eliminations	(153,207)	(21.5)%	(174,373)	(22.8)%	(21,166)	(12.1)%
Total	**714,225**	**100.0%**	**765,767**	**100.0%**	**(51,542)**	**(6.7)%**

Mail

Mail revenues decreased by €41.5 million, or 7.2% to €536.0 million for the year ended 31 December 2012 from €577.5 million for the year ended 31 December 2011. The decrease in mail revenues was primarily attributable to an 8.8% decrease in addressed mail volumes (including transactional mail, direct mail and USO parcels) and a 4.6% decrease in unaddressed mail volumes. Transactional mail and USO parcels prices remained unchanged during the period. Addressed mail volumes declined due to (i) lower customer demand, primarily as a result of electronic substitution, (ii) cost cutting measures implemented by CTT's customers, as a result of adverse economic conditions. Regarding the advertising addressed mail, the customers showed their preference for cheaper products, which resulted in a decrease of revenue per item.

Unaddressed mail volumes decreased mainly due to the deterioration of the macroeconomic environment, which negatively influenced companies' trading activities. CTT was confronted with the need to lower prices in order to address competitive pressure in the course of negotiations of various campaigns. CTT estimates that the proportion of the adverting market attributable to direct advertising mail has not increased and that direct advertising mail volumes (about 10 items per capita) will remain low compared to more developed countries in Europe. Despite the effectiveness and wide reach of direct mail, television continues to be the major advertising medium in Portugal.

Business solutions

Business solutions revenues decreased by €3.1 million, or 11.7%, to €23.0 million for the year ended 31 December 2012 from €26.1 million for the year ended 31 December 2011. The decrease in business solutions revenues was primarily attributable to the renegotiation of the printing and finishing contracts with some of CTT's large customers, which negatively impacted CTT's pricing levels.

Express and parcels

Express and parcels revenues decreased by €5.9 million, or 4.4%, to €128.0 million for the year ended 31 December 2012 from €133.9 million for the year ended 31 December 2011. The decrease in express and parcels revenues was primarily attributable to a 2.4% decrease in parcels volumes in Portugal. During 2012, CTT's large customers significantly reduced their spending on express and parcel services, having changed their preference to products with lower prices.

Financial services

Financial services revenues decreased by €4.0 million, or 6.5%, to €57.7 million for the year ended 31 December 2012 from €61.7 million for the year ended 31 December 2011. The decrease in financial services revenues was primarily attributable to lower interest income earned by CTT generated by the float on financial services operations and decreased demand for CTT's money orders and bill payment services.

The daily average of the float applied (*i.e.* amount from financial services CTT temporarily held and invested) was approximately €95 million in 2012. Interest rates obtained in 2012 ranged between 150 and 350 basis points.

Operating costs

Operating costs decreased by €28.2 million, or 4.1%, to €657.3 million for the year ended 31 December 2012 from €685.4 million for the year ended 31 December 2011. The decrease was primarily attributable to a reduction in staff costs, external supplies and services, and other operating costs, as a result of the cost reduction program implemented by CTT during the last two years. This reduction was partially offset by a 250% increase in the net provisions, primarily as a result of a provision for contingencies that may arise from potential judicial proceedings related to holiday and Christmas bonuses which had an amount of €11.3 million. However, as percentage of revenues, operating costs increased from 89.5% in 2011 to 92.0% in 2012, due to the decrease in revenue being higher than the decrease in costs achieved in that period.

Costs of sales

Costs of sales increased slightly by €0.1 million, or 1.0%, to €18.5 million for the year ended 31 December 2012 as compared to €18.4 million for the year ended 31 December 2011. This increase was primarily due to the introduction of new products (such as TDT devices) in the retail network. As a percentage of revenues, cost of sales increased from 2.4% in 2011 to 2.6% in 2012.

External supplies and services

The following table presents a breakdown of CTT's cost of external supplies and services for the years ended 31 December 2012 and 2011.

	Year ended 31 December					
	2012		2011			
	Amount	% of revenues	Amount	% of revenues	Amount of Change	% of Change
	(EUR thousands, except %)					
Subcontracts	5,133	0.7%	5,223	0.7%	(90)	(1.7)%
Specialized services[1]	62,282	8.7%	68,477	8.9%	(6,195)	(9.0)%
Materials	1,569	0.2%	1,945	0.3%	(376)	(19.3)%
Energy and liquids[2]	15,972	2.2%	15,476	2.0%	496	3.2%
Staff transportation	1,391	0.2%	1,458	0.2%	(67)	(4.6)%
Transportation of goods[3]	67,174	9.4%	66,248	8.7%	926	1.4%
Remuneration to postal operators[4]	15,574	2.2%	16,078	2.1%	(504)	(3.1)%
Rents[5]	38,866	5.4%	40,114	5.2%	(1,248)	(3.1)%
Communication	6,549	0.9%	7,332	1.0%	(783)	(10.7)%
Insurance	2,666	0.4%	2,392	0.3%	274	11.5%
Cleaning, hygiene and comfort	4,370	0.6%	5,135	0.7%	(765)	(14.9)%
Royalties	201	0.0%	277	0.0%	(76)	(27.4)%
Litigation and notary	245	0.0%	138	0.0%	107	77.5%
Remuneration to postal agencies	4,215	0.6%	4,033	0.5%	182	4.5%
Agencing	7,054	1.0%	7,626	1.0%	(572)	(7.5)%
Other services	13,154	1.8%	14,515	1.9%	(1,361)	(9.4)%
Total	**246,416**	**34.5%**	**256,464**	**33.5%**	**(10,048)**	**(3.9)%**

(1) "Specialized services" refer in particular to the outsourcing contracts for the provision of IT services and the maintenance of IT equipment.

(2) "Energy and liquids" refers mainly to diesel fuel for vehicles used in the operating process.

(3) "Transportation of goods" refers to costs with the transportation of mail in several ways (sea, air, land).

(4) "Remuneration to postal operators" refers to costs with similar postal operators.

(5) "Rents" refer to costs with leased facilities from third-parties and the operating lease of vehicles.

External supplies and services decreased by €10 million, or 3.9%, to €246.4 million for the year ended 31 December 2012 from €256.5 million for the year ended 31 December 2011. The decrease in cost of external supplies and services was due to a decrease of €6.2 million, or 9.0%, in specialized services (such as advertising, maintenance and repair costs), and to a decrease of €1.2 million, or 3.1%, in rents primarily due to the termination of a lease contract for the Praça D. Luís I property located in Lisbon. As a percentage of revenues, cost of external supplies and services increased from 33.5% in 2011 to 34.5% in 2012, primarily due to fixed costs remaining relatively constant while revenues declined during the same period.

Staff costs

Staff costs constitute the largest operating cost for CTT. The following table presents a breakdown of CTT's staff costs for the years ended 31 December 2012 and 31 December 2011.

	Year ended 31 December					
	2012		2011			
	Amount	% of revenues	Amount	% of revenues	Amount of Change	% of Change
			(EUR thousands)			
Board of Directors and Audit Board Remuneration	867	0.1%	829	0.1%	38	4.6%
Staff remuneration[(1)]	254,148	35.6%	269,033	35.1%	(14,885)	(5.5)%
Employee benefits	8,147	1.1%	14,359	1.9%	(6,212)	(43.3)%
Indemnities	2,477	0.3%	2,637	0.3%	(160)	(6.1)%
Social security charges	53,301	7.5%	55,421	7.2%	(2,120)	(3.8)%
Occupational accident and disease insurance	2,117	0.3%	2,310	0.3%	(193)	(8.4)%
Social welfare costs	12,063	1.7%	13,313	1.7%	(1,250)	(9.4)%
Other staff costs	199	0.0%	193	0.0%	6	3.1%
Total	**333,319**	**46.7%**	**358,096**	**46.8%**	**(24,776)**	**(6.9)%**

(1) "Staff remuneration" in 2012 included an accrual cost for the holiday bonus to be paid in 2013, based on the decision by the Portuguese Constitutional Court.

Staff costs decreased by €24.8 million, or 6.9%, to €333.3 million for the year ended 31 December 2012 from €358.1 million for the year ended 31 December 2011. The decrease in staff costs was primarily attributable to a decrease of €14.9 million, or 5.5%, in staff remuneration, and €2.1 million, or 3.8%, decrease in social security charges, as a result of a reduction in average headcount from 14,371 in 2011 to 13,756 in 2012. This decrease was due to the elimination of the "Support for the cessation of the professional activity" benefit, partly offset by increases in spending in other long-term benefits. As a percentage of revenues, staff costs decreased slightly from 46.8% in 2011 to 46.7% in 2012.

Impairment of inventories and accounts receivable, net

Impairment of inventories and accounts receivable, decreased by €2.3 million, or 74.4%, to €0.8 million for the year ended 31 December 2012 from €3.1 million for the year ended 31 December 2011. The decrease was primarily attributable to a reversal of inventory impairment losses of €2.2 million in 2012 (€0 million in 2011) due to new potential use of some stocks.

Impairment of non-depreciable assets

CTT did not record any impairment of non-depreciable assets in 2012, but recorded a goodwill impairment of €1.9 million in 2011. The goodwill impairment costs in 2011 were comprised of €1.6 million with respect to Tourline and €0.3 million with respect to EAD. The goodwill impairment costs were recognized due to greater than expected reduction in the operational results of the two companies (mainly as a result of the economic crisis in Portugal and Spain).

Provisions, net

Net provisions increased by €15.7 million, or 249.5%, to €21.9 million for the year ended 31 December 2012 from €6.3 million for the year ended 31 December 2011. This increase was primarily due to a provision in the amount of €11.3 million to cover contingencies that may arise from potential future liabilities resulting from labor proceedings related to holiday remuneration and holiday and Christmas bonuses, as well as an increase in the provisioned amount for certain onerous lease agreements related to several vacant and unoccupied properties. The provisioned amount for these onerous contracts increased by €7.7 million, or 141.1%, to €13.2 million in 2012, from €5.5 million in 2011. This increase in net provisions was partially offset by a €2.8 million reversal of the provision for pending lawsuits that were settled. As a percentage of revenues, net provisions increased from 0.8% in 2011 to 3.1% in 2012.

Depreciation/ amortization and impairment of investments, net

Depreciation, amortization and impairment of investments increased by €2.4 million, or 10.7%, to €24.6 million for the year ended 31 December 2012 from €22.3 million for the year ended 31 December 2011. This increase was largely due to an increase of €1.1 million, or 5.6%, in depreciation of tangible fixed assets, as well as an increase of €0.9 million, or 26.9%, in amortization of intangible assets. As a percentage of revenues, depreciation, amortization and impairment of investments increased from 2.9% in 2011 to 3.4% in 2012.

Other operating costs

Other operating costs decreased by €7.3 million, or 38.7%, to €11.6 million for the year ended 31 December 2012 from €18.9 million for the year ended 31 December 2011. The decrease was primarily attributable to a decrease in costs related with contractual penalties of €3.6 million, or 72.6%, as a result of termination of a lease contract in 2011. The decrease in other operating costs was also due to a decline in concession rent of €1.8 million, or 61.8%, as a result of the adoption of the Postal Law, which incorporated the Third Postal Directive into Portuguese national law. The Postal Law introduced changes to the range of services under USO, which affected the way CTT calculates its concession rent.

Financial results

Financial results decreased by €2.0 million, or 90.3%, to €4.1 million losses for the year ended 31 December 2012 from €2.2 million losses for the year ended 31 December 2011.

Interest expenses

Interest expenses decreased by €1.6 million, or 8.7%, to €16.8 million for the year ended 31 December 2012 from €18.4 million for the year ended 31 December 2011. This decrease was primarily due to a cost reduction in financial obligations regarding the post-employment healthcare plan. The decrease in other interest expenses was partially offset by an increase of €0.2 in interest expenses related to bank loans.

Interest income

Interest income decreased by €3.7 million, or 23.1%, to €12.4 million for the year ended 31 December 2012 from €16.1 million for the year ended 31 December 2011. This decrease was primarily attributable to a €4.3 million, or 26.5%, decline in interest income from deposits in credit institutions, as a result of lower interest rates offered by financial institutions during 2012 due to the interest rates limits placed by the Bank of Portugal on financial institutions (the average interest rate obtained by CTT decreased by approximately 200 basis points in 2012). The decrease in interest income was partially offset by a €0.5 million increase in other financial income.

Gains/(losses) in associated companies

Gains in associated companies increased by €155 thousand, or 182.4%, to €240 thousand for the year ended 31 December 2012 from €85 thousand for the year ended 31 December 2011. This increase was primarily attributable to an increase in net profit from Multicert—Serviços de Certificação Electrónica, S.A., which was partially offset by losses in Payshop Moçambique, S.A.[3]

Earnings before taxes

Earnings before taxes decreased by €25.3 million, or 32.4%, to €52.8 million for the year ended 31 December 2012 from €78.1 million for the year ended 31 December 2011. This decrease was primarily attributable to a decline in revenues due to lower mail and parcels volumes. Although CTT was able to reduce its operating costs, these reductions were not sufficient to offset the decline in revenues.

Income tax for the year

Income tax for the year decreased by €5.6 million, or 24.9%, to €16.9 million for the year ended 31 December 2012 from €22.5 million for the year ended 31 December 2011. This resulted in an effective tax rate of 31.92% and 28.75% in 2012 and 2011, respectively. The decrease in income tax was primarily

3 Payshop Mosambique, S.A. is a company incorporated under the Mozambican law, owned by Payshop, and currently in a liquidation and winding-up process.

due to a decline in earnings before taxes in 2012, which resulted in a reduction of €7.5 million in the income tax. The decrease was partially offset by an increase in the state surcharge in 2012 (as compared to 2011) which resulted in an increase in tax of €1.0 million.

Net profit for the year

As a result of the factors discussed above, net profit for the year decreased by €19.7 million, or 35.4%, to €36.0 million for the year ended 31 December 2012 from €55.7 million for the year ended 31 December 2011.

Results of Operations for the Years Ended 31 December 2011 and 2010

The following table presents CTT's results of operations for the years ended 31 December 2011 and 31 December 2010.

	Year ended 31 December					
	2011		2010			
	Amount	% of revenues	Amount	% of revenues	Amount of Change	% of Change
	(EUR thousands, except %)					
Sales and services rendered	741,850	96.9%	779,866	97.7%	(38,016)	(4.9)%
Other operating income	23,917	3.1%	17,965	2.3%	5,952	33.1%
Revenues	**765,767**	**100.0%**	**797,831**	**100.0%**	**(32,064)**	**(4.0)%**
Cost of sales	(18,353)	(2.4)%	(17,005)	(2.1)%	1,348	7.9%
External supplies and services	(256,464)	(33.5)%	(273,333)	(34.3)%	(16,869)	(6.2)%
Staff costs	(358,096)	(46.8)%	(382,049)	(47.9)%	(23,953)	(6.3)%
Impairment of inventories and accounts receivable, net	(3,119)	(0.4)%	(543)	(0.1)%	2,576	474.4%
Impairment of non-depreciable assets	(1,942)	(0.3)%	(2,669)	(0.3)%	(727)	(27.2)%
Provisions, net	(6,275)	(0.8)%	(5,529)	(0.7)%	746	13.5%
Depreciation/ amortization and impairment of investments, net	(22,252)	(2.9)%	(24,222)	(3.0)%	(1,970)	(8.1)%
Other operating costs	(18,942)	(2.5)%	(13,775)	(1.7)%	5,167	37.5%
Operating costs	**(685,443)**	**(89.5)%**	**(719,125)**	**(90.1)%**	**(33,682)**	**(4.7)%**
Earnings before financial results and taxes	**80,324**	**10.5%**	**78,706**	**9.9%**	1,618	2.1%
Interest expenses	(18,354)	(2.4)%	(19,169)	(2.4)%	(815)	(4.3)%
Interest income	16,095	(2.1)%	6,582	0.8%	9,513	144.5%
Gains/(losses) in associated companies	85	0.0%	18	0.0%	67	372.2%
Financial results	**(2,175)**	**(0.3)%**	**(12,569)**	**(1.6)%**	**(10,394)**	**(82.7)%**
Earnings before taxes	**78,149**	**10.2%**	**66,138**	**8.3%**	**12,011**	**18.2%**
Income tax for the year	(22,466)	(2.9)%	(6,887)	(0.9)%	15,579	226.2%
Net profit for the year	**55,683**	**7.3%**	**59,250**	**7.4%**	**(3,567)**	**(6.0)%**

Revenues

Revenues decreased by €32.1 million, or 4.0%, to €765.8 million for the year ended 31 December 2011 from €797.8 million for the year ended 31 December 2010. The decrease was primarily attributable to a reduction in revenues from mail and express and parcels business segments due to adverse economic conditions in Portugal and lower demand by CTT's large customers. This decrease was partially offset by increase in revenues from financial services business segment.

The following table presents CTT's revenues by business segment for the years ended 31 December 2011 and 31 December 2010.

	Year ended 31 December					
	2011		2010			
	Amount	% of revenues	Amount	% of revenues	Amount of Change	% of Change
	(EUR thousands, except %)					
Mail	577,504	75.4%	613,704	76.9%	(36,200)	(5.9)%
Business solutions	26,055	3.4%	27,121	3.4%	(1,066)	(3.9)%
Express and parcels	133,917	17.5%	143,780	18.0%	(9,863)	(6.9)%
Financial services	61,673	8.1%	60,060	7.5%	1,613	2.7%
Central CTT structure	140,990	18.4%	132,449	16.6%	8,541	6.4%
Intragroup eliminations	(174,373)	(22.8)%	(179,284)	(22.5)%	(4,910)	(2.7)%
Total	**765,767**	**100.0%**	**797,831**	**100.0%**	**(32,064)**	**(4.0)%**

Mail

Mail revenues decreased by €36.2 million, or 5.9%, to €577.5 million for the year ended 31 December 2011 from €613.7 million for the year ended 31 December 2010. The decrease in mail revenues was primarily attributable to 6.4% decrease in addressed mail volumes (including transactional mail, direct mail and USO parcels) and a 4.8% decrease in unaddressed mail volumes. Transactional mail and parcels (USO) prices remained unchanged during the period. The addressed mail volumes declined due to lower customer demand, primarily as a result of the adverse economic conditions in Portugal, as well as the effects of electronic substitution. The unaddressed mail volumes declined primarily as a result of the deterioration of the macroeconomic environment that negatively influenced companies' trade activity.

Business solutions

Business solutions revenues decreased by €1.1 million, or 3.9%, to €26.1 million for the year ended 31 December 2011 from €27.1 million for the year ended 31 December 2010. The decrease in business solutions revenues was primarily attributable to a significant decrease in demand for CTT's printing and finishing services, primarily due to the recession in Portugal.

Express and parcels

Express and parcels revenues decreased by €9.9 million, or 6.9% to €133.9 million for the year ended 31 December 2011 from €143.8 million for the year ended 31 December 2010. The decrease in express and parcels revenues was primarily attributable to a 10.0% decrease in express and parcels volumes in Portugal and shift in customer demand towards lower priced products, which was due to the cost cutting measures implemented by CTT's customers, as a result of adverse economic conditions in Portugal and Spain.

Financial services

Financial services revenues increased by €1.6 million, or 2.7% to €61.7 million for the year ended 31 December 2011 from €60.1 million for the year ended 31 December 2010. The increase in financial services revenues was primarily attributable to the introduction of new products, such as toll payments, and higher interest income earned by CTT generated by the float on financial services operations. The daily average of the float was approximately €90 million in 2011.

Operating costs

Operating costs decreased by €33.7 million, or 4.7%, to €685.4 million for the year ended 31 December 2011 from €719.1 million for the year ended 31 December 2010. This decrease was primarily attributable to a decrease in staff and external supplies and services costs, which was partially offset by an increase in other operating costs. As a percentage of revenues, operating costs decreased from 90.1% in 2010 to 89.5% in 2011, as a result of the cost reduction program.

Cost of sales

Cost of sales increased by €1.3 million, or 7.9%, to €18.4 million for the year ended 31 December 2011 from €17.0 million for the year ended 31 December 2010. This increase was primarily due to introduction of new products, such as toll payments devices in the retail network. As a percentage of revenues, cost of sales increased from 2.1% in 2010 to 2.4% in 2011.

External supplies and services

The following table presents a breakdown of CTT's cost of external supplies and services for the years ended 31 December 2011 and 31 December 2010.

	Year ended 31 December					
	2011		2010			
	Amount	% of revenues	Amount	% of revenues	Amount of Change	% of Change
			(EUR thousands)			
Subcontracts	5,223	0.7%	8,219	1.0%	(2,996)	(36.5)%
Specialized services[1]	68,477	8.9%	79,974	10.0%	(11,497)	(14.4)%
Materials	1,945	0.3%	2,785	0.3%	(840)	(30.2)%
Energy and liquids[2]	15,476	2.0%	14,837	1.9%	639	4.3%
Staff transportation	1,458	0.2%	1,872	0.2%	(414)	(22.1)%
Transportation of goods[3]	66,248	8.7%	69,690	8.7%	(3,442)	(4.9)%
Remuneration to postal operators[4]	16,078	2.1%	16,221	2.0%	(143)	(0.9)%
Rents[5]	40,114	5.2%	36,687	4.6%	3,427	9.3%
Communication	7,332	1.0%	9,118	1.1%	(1,786)	(19.6)%
Insurances	2,392	0.3%	2,800	0.4%	(408)	(14.6)%
Cleaning, hygiene and comfort	5,135	0.7%	6,476	0.8%	(1,341)	(20.7)%
Royalties	277	0.0%	60	0.0%	217	361.7%
Litigation and notary	138	0.0%	154	0.0%	(16)	(10.4)%
Remuneration to postal agencies	4,033	0.5%	3,820	0.5%	213	5.6%
Agencing	7,626	1.0%	7,519	0.9%	107	1.4%
Other services	14,515	1.9%	13,102	1.6%	1,413	10.8%
Total	**256,464**	**33.5%**	**273,333**	**34.3%**	**(16,869)**	**(6.2)%**

(1) "Specialized services" refer in particular to the outsourcing contracts for the provision of IT services and the maintenance of IT equipment.

(2) "Energy and liquids" refers mainly to diesel fuel for vehicles used in the operating process.

(3) "Transportation of goods" refers to costs with the transportation of mail in several ways (sea, air, land).

(4) "Remuneration to postal operators" refers to costs with similar postal operators.

(5) "Rents" refer to costs with leased facilities from third-parties and the operating lease of vehicles.

External supplies and services decreased by €16.9 million, or 6.2%, to €256.5 million for the year ended 31 December 2011 from €273.3 million for the year ended 31 December 2010. This decrease was primarily due to a decline of €11.5 million, or 14.4%, in specialized services (such as advertising costs and maintenance and repair costs), as well as a decline of €3.4 million, or 4.9%, in transportation of goods and a €3.0 million, or 36.5%, decrease in subcontracts costs. These decreases were mainly due to CTT's cost reduction program. These decreases were partially offset by an increase of €3.4 million, or 9.3%, in rents, due to CTT's entry into a new property lease contract in 2011. As a percentage of revenues, cost of supplies and external services decreased from 34.3% in 2010 to 33.5% in 2011.

Staff costs

Staff costs are the main operating costs of CTT. The following table presents a breakdown of CTT's staff costs for the years ended 31 December 2011 and 31 December 2010.

	Year ended 31 December					
	2011		2010			
	Amount	% of revenues	Amount	% of revenues	Amount of Change	% of Change
			(EUR thousands)			
Board of Directors and Audit Board remuneration	829	0.1%	1,302	0.2%	(473)	(36.3)%
Staff remuneration	269,033	35.1%	303,198	38.0%	(34,165)	(11.3)%
Employee benefits	14,359	1.9%	(3,457)	(0.4)%	17,816	515.4%
Indemnities	2,637	0.3%	1,219	0.2%	1,418	116.3%
Social security charges	55,421	7.2%	62,952	7.9%	(7,531)	(12.0)%
Occupational accident and disease insurance	2,310	0.3%	3,078	0.4%	(768)	(25.0)%
Social welfare costs	13,313	1.7%	13,420	1.7%	(107)	(0.8)%
Other staff costs	193	0.0%	336	0.0%	(143)	(42.6)%
Total	**358,096**	**46.8%**	**382,049**	**47.9%**	**(23,954)**	**(6.3)%**

Staff costs decreased by €24.0 million, or 6.3%, to €358.1 million for the year ended 31 December 2011 from €382.0 million for the year ended 31 December 2010. The decrease in staff costs was primarily attributable to a €34.2 million, or 11.3%, decrease in staff remuneration and a €7.5 million, or 12.0%, decrease in social security charges. This was largely as a result of a reduction in average headcount from 15,044 in 2010 to 14,371 in 2011, as well as salary reductions and the elimination of holiday bonus (paid in 2012, but accrued and recognized in 2011) as part of the 2011 Portuguese State Budget. The overall decrease in staff costs was partially offset by an increase in post-employment benefits costs of €17.8 million, or 515.4%, which were largely related to costs associated with the suspension of the contracts of CTT's employees or equivalent. Liabilities under new suspended employment agreements increased by €15 million, with €11 million recognized as costs in 2011. As a percentage of the revenues, staff costs decreased from 47.9% in 2010 to 46.8% in 2011.

Impairment of inventories and accounts receivable, net

Impairment of inventories and accounts receivable increased by €2.6 million, or 474.4%, to €3.1 million for the year ended 31 December 2011, compared to €0.5 million for the year ended 31 December 2010. This increase was primarily attributable to a reduction in the reversal of impairment losses of €2.9 million, or 69.4%, largely driven by an 84.4% decline in reversals of impairment losses for other accounts receivable.

Impairment of non-depreciable assets

Impairment of non-depreciable assets decreased by €0.8 million, or 27.2%, to €1.9 million for the year ended 31 December 2011, compared to €2.7 million for the year ended 31 December 2010. Impairment costs in 2010 comprised €2.4 million attributable to Tourline's goodwill and €0.2 million attributable to Payshop Mozambique. Impairment costs in 2011 comprised €1.6 million of costs attributable to Tourline and €0.3 million attributable to EAD. The goodwill impairment loss for Tourline was made due to its lower than expected operational results, primarily as a result of the economic crisis in Spain.

Provisions, net

Net provisions increased by €0.7 million, or 13.5%, to €6.3 million for the year ended 31 December 2011 from €5.5 million for the year ended 31 December 2010. During 2011, a provision in the amount of €5.5 million was recorded for the estimated present value of rents from several onerous contracts (buildings in Casal Ribeiro, Restauradores and Conde Redondo). During 2010, a provision in the amount of €4.0 million was recorded in relation to suspension of employee contracts which were being negotiated. In 2011, as the contracts were being signed, this provision was transferred to employee benefits line item, which reflects all of CTT's liabilities related to employees that are no longer employed by CTT. As a percentage of revenues, provisions increased from 0.7% in 2010 to 0.8% in 2011.

Depreciation/ amortization and impairment of investments, net

Depreciation, amortization and impairment of investments decreased by €2.0 million, or 8.1%, to €22.3 million for the year ended 31 December 2011 from €24.2 million for the year ended 31 December 2010. This decrease was due to a decrease of €1.4 million, or 30.3%, in amortization of intangible assets, as well as a decrease of €0.5 million, or 2.7% in depreciation of tangible fixed assets.

Other operating costs

Other operating costs increased by €5.2 million, or 37.5%, to €18.9 million for the year ended 31 December 2011, compared to €13.8 million for the year ended 31 December 2010. The increase was primarily attributable to costs with contractual penalties of €5 million due to the termination of a lease contract with an established limit which, if breached, would imply the payments to the lessor (property in Praça D. Luís I in Lisbon), and costs and losses from non-financial investments of €1.1 million recorded in 2011, related to a demolished real estate in Pinheiro de Fora. This increase was partially offset by a decline of €1.2 million, or 72.8%, in bad debts. As a percentage of revenues, other operating costs increased from 1.7% in 2010 to 2.5% in 2011.

Financial results

Financial results improved by €10.4 million, or 82.7%, to €2.2 million losses for the year ended 31 December 2011 from €12.6 million losses for the year ended 31 December 2010.

Interest expenses

Interest expenses decreased by €0.8 million, or 4.3%, to €18.4 million for the year ended 31 December 2011 from €19.2 million for the year ended 31 December 2010. This decrease was primarily due to a decrease of €1.1 million, or 5.8%, in interest costs from the liabilities with the healthcare post-employment plan and a decrease of €0.4 million, or 57.3%, in interest expenses related to bank loans. This was partially offset by an increase of €0.6 million in other interest costs, resulting from the application of the effective interest rate method on long term debt of the Ministry of Health (€7.6 million).

Interest income

Interest income increased by €9.5 million, or 144.5%, to €16.1 million for the year ended 31 December 2011 from €6.6 million for the year ended 31 December 2010, which was primarily due to the increase of €9.5 million, or 144.9%, in income from CTT's deposits due to higher average interest rates in the market, due to the banking market conditions which allow the maximization of the remuneration rate obtained in the application of funds (the average interest rate obtained by CTT increased by approximately 300 basis points in 2011).

Gains/(losses) in associated companies

Gains in associated companies increased by €67 thousand, or 372.2%, to €85 thousand for the year ended 31 December 2011 from €18 thousand for the year ended 31 December 2010. This increase was primarily attributable to gains associated with investment in Payshop Moçambique, S.A.

Earnings before taxes

Earnings before taxes increased by €12.0 million, or 18.2%, to €78.1 million for the year ended 31 December 2011 from €66.1 million for the year ended 31 December 2010, which was primarily attributable to an increase in interest income as well as a reduction in operating costs superior to the decrease in revenues.

Income tax for the year

Income tax for the year increased by €15.6 million, or 226.2%, to €22.5 million for the year ended 31 December 2011 from €6.9 million for the year ended 31 December 2010. This resulted in an effective tax rate of 10.41% in 2010 and 28.75% in 2011.

The increase in income tax in 2011 resulted from the fact that in 2010 the tax was exceptionally low due to two factors: (i) the recognition of an increase in deferred tax assets as a result of the introduction of the state surcharge, and (ii) the regularization of the income tax from the previous years as a result of a tax credit for the *SIFIDE* (Tax Incentives for Research and Development). Additionally, the increase in income before taxes in 2011 also contributed to this tax increase.

Net profit for the year

As a result of the factors discussed above, net profit for the year decreased by €3.6 million, or 6.0%, to €55.7 million for the year ended 31 December 2011 from €59.3 million for the year ended 31 December 2010.

EBITDA

Management believes that CTT's operating performance cannot be measured solely on the basis of its reported IFRS historical financial information. CTT measures its financial performance using financial measures that are not defined under IFRS, such as EBITDA. CTT uses EBITDA to facilitate the comparison of its operating performance and because it believes these measures are frequently used by securities analysts. EBITDA has limitations as analytical tools, and prospective purchasers should not consider them in isolation from, or as a substitute for analysis of, financial measures that are defined under IFRS. This measure may not be comparable to other similarly titled measures used by other companies and, therefore, does not provide a basis for comparison of CTT's financial performance with that of other companies.

EBITDA for the Nine Month Period Ended 30 September 2013 and 2012

EBITDA increased by €10.5 million, or 12.6%, to €93.3 million for the nine month period ended 30 September 2013 from €82.8 million for the nine month period ended 30 September 2012. The increase was primarily attributable to the increase in EBITDA from the mail business segment, as a result of the significant reduction in operating costs, which more than offset the reduction in mail business revenues.

EBITDA for the nine month period ended 30 September 2013 included €5.4 million reduction in expenses derived from the reformulation of the "telephone rental charges" benefit in the amount of €8.2 million, which was partially offset by an increase in non-recurring expenses of €2.8 million associated with new suspended and terminated employment agreements.

The following table presents CTT's EBITDA by business segment for the nine month period ended 30 September 2013 and 2012.

	Nine month period ended 30 September (Unaudited)					
	2013		2012			
	Amount	EBITDA Margin(1)	Amount	EBITDA Margin(1)	Amount of Change	% of Change
	(EUR thousands, except %)					
Mail	65,763	17.0%	55,348	13.9%	10,415	18.8%
Business solutions	1,367	8.5%	1,702	9.6%	(335)	(19.7)%
Express and parcels	6,181	6.5%	6,055	6.4%	126	2.1%
Financial services	19,944	45.2%	19,678	45.1%	266	1.4%

(1) EBITDA Margin means EBITDA/ Business segment revenue

Mail

Mail EBITDA increased by €10.4 million, or 18.8%, to €65.8 million for the nine month period ended 30 September 2013 from €55.3 million for the nine month period ended 30 September 2012. This increase was primarily attributable to a reduction in operating costs (reduction of staff, integration and optimization of sorting, transportation, retail and delivery networks) and the price increase implemented on 1 April 2013, both of which offset the impact of the decrease in mail volumes.

Business solutions

Business solutions EBITDA decreased by €0.3 million, or 19.7%, to €1.4 million for the nine month period ended 30 September 2013 from €1.7 million for the nine month period ended 30 September 2012. The decrease in business solutions EBITDA was primarily attributable to lower demand for CTT's printing and finishing services.

Express and parcels

Express and parcels EBITDA increased by €0.1 million, or 2.1%, to €6.2 million for the nine month period ended 30 September 2013 from €6.1 million for the nine month period ended 30 September 2012. The increase in express and parcels EBITDA was primarily attributable to the reorganization of commercial activities and the integration of Iberian operations, which drove revenue growth, inverting the historical decreasing trend. Average price per item decreased in Portugal, as a result of customers' cost-cutting measures and their continued preference for lower priced products or extended delivery time services. In Spain, the decrease in average prices per item was less pronounced, and revenues grew despite the unfavorable macroeconomic environment. In addition, in both Portugal and Spain, specialized delivery networks were merged and optimized, outsourcing contracts were renegotiated and sorting units were integrated. Revenues from Mozambique grew by 36.6% due to the development of CTT's activity and the strong growth of the domestic economy.

Financial services

Financial services EBITDA increased by €0.3 million, or 1.4%, to €19.9 million for the nine month period ended 30 September 2013 from €19.7 million for the nine month period ended 30 September 2012. The increase in financial services EBITDA was primarily attributable to a very positive evolution in the placement of savings products. Revenues increased as a result of the growth of inflows associated with public savings certificates, capitalization insurance and retirement savings plans (PPR) and changes in the remuneration conditions of the associated agreements.

Renewed partnership agreements (most of which for a term of five years) were concluded with: i) Fidelidade to sell capitalization insurance products; ii) IGCP to sell saving certificates; iii) with Western Union for international money transfers, and iv) with Estradas de Portugal to support toll payment. In particular, the amendment of the contracts entered into with IGCP and Fidelidade had a significant impact in CTT's revenues and EBITDA as a result of a change in the calculation rules of CTT's remuneration commissions.

EBITDA for the Years Ended 31 December 2012 and 2011

EBITDA decreased by €9.6 million, or 8.4%, to €104.3 million for the year ended 31 December 2012 from €113.9 million for the year ended 31 December 2011. The decrease was primarily attributable to a reduction in revenues from mail and express and parcels business segments due to adverse economic conditions in Portugal and lower demand by CTT's large customers, which was partially offset by a reduction in staff costs, external supplies and services and other operating costs, as a result of the cost reduction program implemented by CTT during 2012 and 2011.

The following table presents CTT's EBITDA by business segment for the years ended 31 December 2012 and 31 December 2011.

	Year ended 31 December					
	2012		2011			
	Amount	EBITDA Margin(1)	Amount	EBITDA Margin(1)	Amount of Change	% of Change
	(EUR thousands, except %)					
Mail	68,182	12.7%	71,729	12.4%	(3,547)	(4.9)%
Business solutions	1,708	7.4%	2,960	11.4%	(1,252)	(42.3)%
Express and parcels	9,143	7.1%	14,179	10.6%	(5,036)	(35.5)%
Financial services	25,305	43.9%	25,044	40.6%	261	1.0%

(1) EBITDA Margin means EBITDA/ Business segment revenue

Mail

Mail EBITDA decreased by €3.5 million, or 4.9%, to €68.2 million for the year ended 31 December 2012 from €71.7 million for the year ended 31 December 2011. The decrease in mail EBITDA was primarily attributable to the decrease in mail volumes, which was not fully offset by the impact of the cost reduction program.

Business solutions

Business solutions EBITDA decreased by €1.3 million, or 42.3%, to €1.7 million for the year ended 31 December 2012 from €3.0 million for the year ended 31 December 2011. The decrease in business solutions EBITDA was primarily attributable to significantly lower demand for CTT's printing and finishing and document management services. In addition, there was a decrease in revenues from digital document management services due to due to a loss of a significant customer.

Express and parcels

Express and parcels EBITDA decreased by €5.0 million, or 35.5%, to €9.1 million for the year ended 31 December 2012 from €14.2 million for the year ended 31 December 2011. The decrease in express and parcels EBITDA was primarily attributable to a 2.4% decrease in express and parcel volumes in Portugal and shift in customer demand towards lower priced products. CTT also faced increased competition in Portugal and Spain, which resulted in lower prices and decreased revenues.

Financial services

Financial services EBITDA increased by €0.3 million, or 1.0%, to €25.3 million for the year ended 31 December 2012 from €25.0 million for the year ended 31 December 2011. The increase in financial services EBITDA was primarily attributable to lower operating costs due to the cost reduction program implemented by CTT in 2011 and 2012.

EBITDA for the Years Ended 31 December 2011 and 2010

EBITDA increased by €2.2 million, or 2.0%, to €113.9 million for the year ended 31 December 2011 from €111.7 million for the year ended 31 December 2010. The increase was primarily attributable to increased revenues from financial services business segment and decrease in staff and external supplies and services costs in the mail business segment. These increases were partly offset by a reduction in revenue from mail and express and parcels business segments due to adverse economic conditions in Portugal and lower demand by CTT's large customers.

The following table presents CTT's EBITDA by business segment for the years ended 31 December 2011 and 31 December 2010.

	Year ended 31 December					
	2011		2010			
	Amount	EBITDA Margin(1)	Amount	EBITDA Margin(1)	Amount of Change	% of Change
	(EUR thousands, except %)					
Mail	71,729	12.4%	70,801	11.5%	928	1.3%
Business solutions	2,960	11.4%	2,621	9.7%	339	12.9%
Express and parcels	14,179	10.6%	17,925	12.5%	(3,746)	(20.9)%
Financial services	25,045	40.6%	20,323	33.8%	4,722	23.2%

(1) EBITDA Margin means EBITDA/business segment revenue

Mail

Mail EBITDA increased by €0.9 million, or 1.3%, to €71.7 million for the year ended 31 December 2011 from €70.8 million for the year ended 31 December 2010. The increase in mail EBITDA was primarily attributable to a significant decrease in operating costs, primarily related to staff costs and external supplies and services, due to the cost reduction program implemented by CTT in 2011, which was partially offset by a €36.2 million decrease in mail revenues as a result of lower volume of addressed mail volumes.

Business solutions

Business solutions EBITDA increased by €0.3 million, or 12.9%, to €3.0 million for the year ended 31 December 2011 from €2.6 million for the year ended 31 December 2010. The increase in business solutions EBITDA was primarily attributable to increased revenues from document and archive management services.

Express and parcels

Express and parcels EBITDA decreased by €3.7 million, or 20.9% to €14.2 million for the year ended 31 December 2011 from €17.9 million for the year ended 31 December 2010. The decrease in EBITDA was primarily attributable to an approximate 10% decrease in volumes in Portugal that resulted in €9.9 million reduction in express and parcels revenues, primarily due to the cost cutting measures implemented by CTT's customers as a result of adverse economic conditions. This effect was partially offset by a €6.1 million decrease in operating costs, due to the cost reduction program implemented by CTT in 2011.

Financial services

Financial services EBITDA increased by €4.7 million, or 23.2%, to €25.0 million for the year ended 31 December 2011 from €20.3 million for the year ended 31 December 2010. The increase in financial services EBITDA was primarily attributable to higher interest income earned by CTT through the application of the float generated by financial services operations and the introduction of toll payments which accounted for €4.1 million in revenues and due to a €3.1 million decrease in operating costs, due to the cost reduction program implemented by CTT in 2011.

Liquidity and Cash Flows

The primary sources of liquidity for CTT's business have been the operating cash flow and, to a limited extent, the incurrence of financial debt. CTT has used its operating cash flow to fund operating expenses, working capital, capital expenditure, dividends and capital and interest payments related to its debt obligations. Following the Offering, CTT expects that its primary source of liquidity will continue to be cash flow from operations. Management believes that its available liquidity will be sufficient to meet its requirements including, among others (i) its ability to generate cash flows from operating activities (ii) the level of its outstanding indebtedness and the related debt servicing requirements and (iii) its capital expenditure requirements.

CTT's financing operations mainly comprise (i) financial leasing operations related to the construction of operating facilities, as well as the acquisition of basic equipment, and (ii) short term bank loans to finance operations of subsidiaries located in foreign markets and to fund occasional banking overdrafts. Through its central treasury department, CTT monitors its cash position and short term liquidity.

Additionally, CTT has established a cash management process and a treasury committee, which meets periodically and monitors and controls CTT's performance, manages and analyzes other short-term financial instruments, and identifies opportunities to increase profits and minimize financial risks. See Note 12 "*Financial risk management*" to the Financial Statements.

The following table sets forth CTT's cash flows for the nine months ended 30 September 2013 and 2012 and the three years ended 31 December 2012, 2011 and 2010.

	Nine month period ended 30 September (Unaudited)		Year ended 31 December		
	2013	2012	2012	2011	2010
	(EUR thousands)				
Operating activities					
Collections from customers	495,899	528,246	713,094	717,247	735,412
Payments to suppliers	(208,231)	(197,144)	(259,916)	(292,998)	(297,437)
Payments to employees	(221,419)	(220,123)	(294,639)	(346,787)	(368,271)
Payments/receivables of income taxes	(15,137)	(19,853)	(26,889)	(28,866)	(46,972)
Other receivables/payments	125,663	146,756	(1,046)	(54,563)	34,182
Cash flows used in operating activities	**176,775**	**237,882**	**130,604**	**(5,967)**	**56,913**
Investment activities:					
Receivables resulting from:					
Tangible fixed assets	186	762	790	395	501
Financial investments	46	29	41	54	46
Interest income	3,664	7,303	10,233	16,791	6,594
Dividends	—	—	117	—	—
Payments resulting from:					
Intangible assets	(396)	(2,584)	(3,823)	(2,612)	(3,422)
Tangible fixed assets	(3,648)	(17,362)	(20,106)	(23,566)	(32,214)
Loans granted	—	—	—	(100)	(38)
Cash flows used in investment activities	(148)	(11,852)	**(12,746)**	**(9,038)**	**(28,534)**
Financing activities:					
Receivables resulting from:					
Loans obtained	3,210	—	6,345	—	915
Payments resulting from:					
Loans repaid	(7,123)	(36)	(4,747)	(739)	(215)
Interest expenses	(1,190)	(779)	(1,052)	(595)	(1,118)
Repayment of finance leases	(745)	(1,136)	(1,483)	(1,419)	(1,390)
Dividends	**(50,000)**	**(53,877)**	(53,877)	(36,057)	(21,311)
Cash flows used in financing activities	**(55,848)**	**(55,828)**	**(54,814)**	**(38,809)**	**(23,119)**
Net change in cash and cash equivalents	120,779	170,203	**63,044**	**(53,814)**	**5,261**
Changes in the consolidation perimeter	—	—	—	—	452
Cash and cash equivalents at the beginning of period	**489,303**	**426,259**	426,259	480,074	474,360
Cash and cash equivalents at the end of period	**610,082**	**596,462**	**489,303**	**426,259**	**480,074**

Nine months Ended 30 September 2013 and 2012

Cash flow from operating activities

Operating activities generated a net cash inflow of €176.8 million for the nine months ended 30 September 2013 compared to €237.9 million for the nine months ended 30 September 2012. The decrease of €61.1 million was primarily due to (i) a decrease in collections from customers of €32.3 million, or 6.1%, which reflects the decrease in revenues from mail business segment and an extended average collection period of CTT other operations; and (ii) a decline in other receivables/payments in the amount of €21.1 million, or 14.4%, largely related to financial services, particularly lower tax collection inflows, which was partially offset by increased inflow from insurance subscriptions.

Cash flow used in investment activities

Investment activities used €0.1 million of cash flows in the nine months ended 30 September 2013 compared to €11.9 million in the nine months ended 30 September 2012. The decrease of €11.7 million was due to a decline of €13.7 million, or 79.0%, in payments resulting from tangible fixed assets as a result of lower capital expenditures. This reduction was partially offset by a decline of €3.6 million, or 49.8%, in receivables resulting from interest income due to lower average interest rates on bank deposits.

Cash flow used in financing activities

Cash flows related to financing activities remained almost unchanged at a net outflow of €55.9 million the nine months ended 30 September 2013, compared to €55.8 million in the nine months ended 30 September 2012. Dividend payments to shareholders declined by €3.9 million, or 7.2%, to €50 million during the nine months ended 30 September 2013 (€53.9 million during the nine months ended 30 September 2012).

CTT had €3.2 million inflows related to bank loans in the nine months ended 30 September 2013 (€0 million for the nine months ended 30 September 2012), which were applied towards its occasional working capital needs. During this period, CTT also repaid €7.1 million in loans by using available cash flow (€0.04 million in the nine months ended 30 September 2012).

Years Ended 31 December 2012 and 2011

Cash flow from operating activities

Operating activities generated a net cash inflow of €130.6 million for the year ended 31 December 2012 compared to a net cash outflow of €6.0 million for the year ended 31 December 2011. The higher cash flow from operating activities in 2012 was primarily attributable to: (i) a decline in other receivables/payments in the amount of €53.5 million, mainly as a result of higher demand for public savings certificates; and (ii) a decrease the outflow of payments to employees and payments to suppliers in the amount of €52.1 million and €33.1 million, respectively. The reduction in payments to employees was due to the cancelation of holiday and Christmas bonuses and the decrease in payments to suppliers was primarily due to a reduction in operating costs.

Cash flow used in investment activities

Investment activities generated a net cash outflow of €12.7 million in the year ended 31 December 2012, compared to net cash outflow of €9.0 million in the year ended 31 December 2011. This increase was largely due to a decline in interest obtained, which was partly offset by lower payments related to capital expenditures. Interest income decreased by 39.1% in 2012 to €10.2 million (as compared to €16.8 million in 2011), while payments related to capital expenditures in tangible assets decreased by 14.7% in 2012 to €20.1 million (as compared to €23.6 million in 2011). The decrease in the cash flow from interest income was due to lower average interest rates (by approximately 200 basis points) on bank deposits.

Cash flow used in financing activities

Financing activities generated a net cash outflow of €54.8 million in the year ended 31 December 2012, compared to net cash outflow of €38.8 million in the year ended 31 December 2011. This increase was mainly due to the payment of dividends to the shareholders of CTT, which were €53.9 million in 2012, which represents an increase of 49.4% from €36.1 million in 2011. In 2012, CTT also recorded receivables from loans of €6.3 million (€0 million in 2011) that were used to finance its working capital needs, as well as the repayment of loans in the amount of €4.7 million (€0.7 million in 2011).

Years Ended 31 December 2011 and 2010

Cash flow from operating activities

Operating activities generated a net cash outflow of €6.0 million for the year ended 31 December 2011 compared to a net cash inflow of €56.9 million for the year ended 31 December 2010. The variation of cash flow from operating activities in 2011 was primarily due to an increase in the outflow of "other receivables/ payments" in the amount of €88.7 million. This increase is explained by the higher redemption of public savings certificates and lower tax collections.

Cash flow used in investment activities

Investment activities generated a net cash outflow of €9.0 million in the year ended 31 December 2011, compared to net cash outflow of €28.5 million in the year ended 31 December 2010. This variation was largely due to an increase of €10.2 million, or 154.6%, in receivables for interest income and lower payments related to capital expenditures in tangible and intangible assets of €9.5 million, or 26.5%. The interest income increase was attributable to higher average interest rate (which increased by approximately 300 basis points) on bank deposits.

Cash flow used in financing activities

Financing activities generated a net cash outflow of €38.8 million in the year ended 31 December 2011, compared to net cash outflow of €23.1 million in the year ended 31 December 2010. This increase was mainly due to the payment of dividends to CTT's shareholders of €36.1 million, an increase of 69.2% from €21.3 million in 2010.

Capital expenditure (Capex)

	Nine month period ended 30 September (Unaudited)		Year ended 31 December		
	2013	2012	2012	2011	2010
	(EUR thousands)				
Tangible fixed assets	6,170	8,805	11,336	22,967	24,540
Intangible assets	2,096	1,735	2,711	4,098	6,447
Investment properties	—	—	—	98	110
Total capital expenditures	**8,266**	**10,540**	**14,047**	**27,163**	**31,097**

CTT's capital expenditure (defined as acquisition of tangible fixed assets, intangible assets and investments properties) for the nine months ended 30 September 2013 and 2012 was €8.3 million and €10.5 million, respectively. For the years ended 31 December 2012, 2011 and 2010, CTT's capital expenditure (capex) was €14.0 million, €27.2 million and €31.1 million, respectively.

The decline in CTT's capital expenditure (capex) over the periods under review was largely a result of decreased capital expenditure requirements following significant modernization in previous years. In 2010, CTT invested approximately €8.6 million for the construction of a new sorting center (Centro de Operaçoes de Correio do Norte na Maia), €6.7 million in the improvement of buildings and €9.0 million in IT projects and computer equipment upgrades. In 2011, CTT invested approximately €3.9 million in new sequencing equipment, €1.4 million in an optical character reading equipment, €3.1 million to upgrade transport equipment and €2.5 million in a new NAVE computer system for its post offices. In 2012, CTT reduced its capital expenditures by investing €3.8 million in the improvement of buildings and €4.1 million in IT projects. During the nine months ended 30 September 2013, CTT paid (i) €1.6 million to Portugal Telecom, SA for properties CTT acquired from Portugal Telecom, SA after the spin-off of Correios e Telecomunicações de Portugal, S.A. in 1992; (ii) €1.3 million in the improvement of buildings; (iii) €1.1 million in new printers for the printing and finishing services; and (iv) €2.2 million in several IS/IT projects and equipment upgrades.

Indebtedness

	As of 30 September 2013 (Unaudited)	As of 31 December		
		2012	2011	2010
	(EUR thousands)			
Bank loans	—	46	115	—
Leasing	3,647	4,515	5,829	7,254
Non-current liabilities	**3,647**	**4,561**	**5,944**	**7,254**
Bank loans	1,543	2,468	3,495	5,699
Leasing	1,278	1,310	1,410	1,327
Other loans	10	3,079	261	—
Current liabilities	**2,831**	**6,857**	**5,165**	**7,025**
Total liabilities	**6,478**	**11,418**	**11,109**	**14,279**

Bank loans and other loans

On December 2010, CTT entered into a credit facility line with Millenium BCP in the amount of €11 million, half of which had been drawn as of 31 December 2012 and €1.5 million as of 30 September 2013. This credit facility was used to finance CTT's working capital, supported by its cash pooling system.

The interest rate of this credit facility is variable and indexed to EONIA. When the balance of cash pooling is negative, the interest rate is EONIA plus a spread of 600 basis points and, if positive, the interest rate is EONIA. This credit facility is renewed on a quarterly basis. As of 30 September 2013, a variable interest rate of 0.079% was applied to the €1.5 million outstanding bank loan.

The interest rates of bank loans and other loans due as of 30 September 2013 ranged between 0.08% and 4.65% (between 0.81% and 5.24% as of 31 December 2012).

CTT also entered into certain financing arrangements with Spanish banks subject to EONIA interest rate, which are intended to be used to finance the operating activity of Tourline. See Note 25 "*Debt*" in the Financial Statements.

CTT has no restrictions on the use of capital resources that affect its activities and there are no financial covenants that limit or affect the Company's ability to use the loans it has entered into.

Leasings

At 30 September 2013, the interest rates applied to finance leases were between 0.73% and 1.42% (31 December 2012 between 0.71% and 1.12%).

Employee Benefits—Liabilities

Employee benefits refer to: (i) post-employment benefits—healthcare which CTT is responsible for financing; and (ii) other benefits for employees.

	As of 30 September 2013 (Unaudited)	As of 31 December		
		2012	2011	2010
		(EUR thousands)		
Healthcare	258,367	252,803	272,102	272,123
Staff (suspension work contracts)	20,256	24,084	17,010	4,131
Other long-term benefits	15,891	26,429	32,319	32,002
Total liabilities	**294,514**	**303,316**	**321,431**	**308,256**

Employee benefits liabilities decreased by €8.8 million, or 2.9%, to €294.5 million as of 30 September 2013, compared to €303.3 million as of 31 December 2012; decreased by €18.1 million, or 5.63%, to €303.3 million as of 31 December 2012, compared to €321.4 million as of 31 December 2011 and increased by €13.2 million, or 4.3%, compared to €308.3 million as of 31 December 2010. Healthcare liabilities amounted to €258.4 million as of 30 September 2013 (€252.8 million as of 31 December 2012) of which €174.0 million (€167.3 million as of 31 December 2012) related to retired employees and €84.4 million (€85.5 million as of 31 December 2012) related to benefits for current employees.

The heading "other long-term benefits" refers basically to liabilities derived from the on-going staff reduction program. CTT has liabilities related to the payment of salaries in certain situations, such as suspension of contracts, redeployment and release of employment, as well as in connection, among others, with (i) pension for work accidents; (ii) monthly life annuity; (iii) telephone rental charges; and (iv) support for cessation of professional activity, which was eliminated from 1 April 2013. For the purposes of calculating liabilities in situations of suspension of contracts and similar situations, a salary growth rate of 0% was applied for 2013 and 2014 and a salary growth rate of 2.75% was applied for the following years. Estimated salary growth rate of 2.75% was also applied for the remaining benefits, except for the telephone rental charges, where the estimate was not applicable. See Note 26 "*Employee Benefits*" to the Financial Statements and "*—Key Factors Affecting Results of Operations—Healthcare and Other Employee Benefits Liabilities*".

Off-Balance Sheet Commitments

According to the lease contracts for certain properties (located in Praça dos Restauradores, Rua do Conde Redondo, and Av. Casal Ribeiro) if the Portuguese State ceases to own more than 50% of CTT's share capital, S.A., CTT must obtain bank guarantees in amounts corresponding to 24 months of rent payable under each lease as of the request date. CTT would need to obtain bank guarantees in the aggregate amount of €6.6 million. CTT recorded provisions for onerous contracts that cover these commitments. Additionally, there is also another group of 6 buildings whose leasing contracts contain requirements similar to the ones described previously, hence, in the event that the Portuguese State loses the majority of the share capital of CTT—Correios de Portugal, S.A., bank guarantees must also be provided, for the amount corresponding to 24 months of the rent in effect at the date of request, except for the leasing contract of CTT headquarters, with a guarantee of 6 months of the rent in effect at the date of request. If the request date is in 2013, CTT would need to obtain bank guarantees in the aggregate amount of €11.1 million.

For additional details of off balance sheet transactions, see Note 27 "*Provisions, guarantees provided, contingent liabilities and commitments*" to the Financial Statements.

Qualitative and Quantitative Disclosure about Market Risk

Credit risk

Credit risk primarily refers to the risk that a third party (primarily CTT's customers) fails on its contractual obligations, resulting in financial losses to CTT. At CTT, credit risk primarily relates to accounts receivable from customers and other debtors, related to its operating and treasury activities. Credit risk in accounts receivable is monitored on a regular basis by each business unit of CTT with the objective of limiting the credit granted to customers, considering the respective profile, ensuring the follow up of the evolution of credit that has been granted, and analyzing the recoverability of the values receivable. A credit committee is in place to implement a standard risk analysis and the financial condition of the client. The deterioration of economic conditions may lead to the incapacity of customers to pay their liabilities, with consequent negative effects on CTT's profit. For this purpose, an effort has been made to reduce the term and amount of receivables.

CTT is not exposed to significant credit risk relative to any single customer, since its accounts receivable relate to a large number of customers. The impairment losses for accounts receivable are calculated considering: (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 to the Adjusted Audited Consolidated Financial Statements. Management believes that impairment losses in accounts receivable are adequately estimated and recorded in the 30 September 2013 Financial Statements.

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

As of 30 September 2013, 30 September 2012, 31 December 2012, 31 December 2011 and 31 December 2010, the heading "Cash and cash equivalents" included time deposits which reached a total of €464.0 million, €414.4 million, €444.9 million, €386.4 million and €407.7 million, respectively. For more information, see Note 17 "Cash and cash equivalents" to the Adjusted Audited Consolidated Financial Statements.

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 CTT's interest income. In order to reduce the impact of interest rate risk, CTT 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.

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

For the nine months ended 30 September 2013 and 2012, the investment of surplus liquidity generated interest income of €6.6 million and €9.4 million, respectively. For the years ended 31 December 2012, 31 December 2011 and 31 December 2010, the investment of surplus liquidity generated interest income of €11.8 million, €16.1 million and €6.6 million, respectively (excluding investment returns associated with financial services business unit).

If the interest rates had been lower by 1%, during the period ended on 30 September 2013, earnings before taxes would have been lower by €3.0 million (€3.9 million for the year ended 31 December 2012).

Foreign currency exchange rate risk

Foreign exchange risk is the exposure of CTT's financial condition to adverse movements in exchange rates. 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 SDR.

The management of foreign exchange risk relies on the periodic monitoring of exposure levels to the exchange rate risk of assets and liabilities based on previously defined operating goals on the evolution of the activity in the international business and market conditions. In the sensitivity analysis of the balances of accounts receivable and payable to foreign postal operators, assuming appreciation/depreciation of the exchange rate €/SDR of 10%, the negative impact on the results would be €0.005 million as of 30 September 2013.

Liquidity risk

Liquidity risk might occur if the funding sources, such as cash balances, operating cash flow and cash flow obtained from divestments operations and credit lines obtained from financial operations, do not match CTT'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 cash at hand, Management believes that it has the capacity to meet its obligations. The principal contractual obligations of CTT are related to the funding received (essentially financial leases) and respective interest, employee benefits, operating leases, and other non-contingent financial commitments.

The following tables set forth CTT's expected contractual obligations and financial commitments as of 30 September 2013 and three years ended 31 December 2012, 2011 and 2010.

	As of 30 September 2013 (Unaudited)			
	Due within 1 year	**Over 1 year and less than 5 years**	**Over 5 years**	**Total**
	(EUR thousands)			
Financial liabilities:				
Debts	2,919	3,769	—	6,688
Accounts payable	448,098	—	—	448,098
Other current liabilities	9,674	—	—	9,674
Non-financial liabilities:				
Operating leases	7,690	4,648	—	12,337
Non-contingent financial commitments(1)	866	—	—	866
Total	**469,246**	**8,417**	**—**	**477,663**

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

	As of 31 December 2012			
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
		(EUR thousands)		
Financial liabilities:				
Debts	6,899	4,626	—	11,525
Accounts payable	343,598	—	—	343,598
Other current liabilities	10,220	—	—	10,220
Non-financial liabilities:				
Operating leases	9,101	8,510	—	17,610
Non-contingent financial commitments(1)	166	—	—	166
Total	**369,984**	**13,136**	**—**	**383,120**

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

	As of 31 December 2011			
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
		(EUR thousands)		
Financial liabilities:				
Debts	5,331	5,150	1,151	11,632
Accounts payable	341,389	—	—	341,389
Other current liabilities	8,498	—	—	8,498
Non-financial liabilities:				
Operating leases	10,449	14,554	420	25,423
Non-contingent financial commitments(1)	276	—	—	276
Total	**365,943**	**19,704**	**1,571**	**387,218**

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

	As of 31 December 2010			
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
		(EUR thousands)		
Financial liabilities:				
Debts	7,122	5,843	1,624	14,590
Accounts payable	392,709	—	—	392,709
Other current liabilities	9,097	—	—	9,097
Non-financial liabilities:				
Operating leases	10,160	14,482	420	25,062
Non-contingent financial commitments(1)	4,726	—	—	4,726
Total	**423,814**	**20,326**	**2,044**	**446,184**

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

See Note 12 "*Financial risk management*" to the Financial Statements.

Critical Accounting Policies, Estimates and Assumptions

In the preparation of the financial statements of CTT, judgments 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. For this reason and in view of the associated degree of uncertainty, the actual outcome of the situations in question might differ from their corresponding estimates. For a full description of CTT's significant accounting policies, see Note 2 "*Significant Accounting Policies*" to the Financial Statements.

Set forth below are summaries of certain of the most critical accounting policies, adopted by CTT's Board of Directors.

Impairment of tangible and intangible assets, except goodwill

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

Employment benefits

Employee benefits includes: (i) post-employment healthcare benefits, and (ii) other 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 recognized 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". CTT adopted the policy for the recognition of actuarial gains and losses in full in the consolidated statement of comprehensive income.

Liabilities concerning "Other long-term benefits" are determined annually based on actuarial valuations prepared by an independent entity, in accordance with the actuarial methods (based on the projected unit credit method) 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. CTT requested an updated actuarial study as of 30 September 2013.

Revenues

Revenues are measured at the fair value of the consideration that has been or will be received. Revenues from the sale of merchandising products and from postal business are recognized when the risks and benefits of ownership of the products are transferred to the buyer, which usually occurs at the time of the transaction.

Revenues from postal services are recognized 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 recognized on the date that the client is charged.

Revenues from post office boxes and the custody of archives are recognized for the period of the respective contracts.

Revenues from the recharging of prepaid mobile phone services are deferred and recognized in earnings, according to the volumes of the specific client, during the period when the service is rendered.

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

Revenues from royalties are recognized on an accrual basis according to the substance of the respective contracts, provided that it is probable that economic benefits will flow to CTT and their costs may be measured reliably.

Revenues from interest are recognized 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.

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 results, 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 income 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 reported amounts of assets and liabilities for the purposes of accounts reporting and the corresponding amounts for tax purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized 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 Portugal 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 ("RETGS"), 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 (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., and CTT GEST—Gestão de Serviços e Equipamentos Postais, S.A.). 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, CTT, S.A., 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.

Financial condition

Even though CTT's results have been affected by a number of factors, CTT's financial condition has been stable, with increasing levels of liquidity.

Balance sheet as of 30 September 2013 and 31 December 2012

The following table presents CTT's summarized balance sheet as of 30 September 2013 and 31 December 2012.

	As of 30 September (Unaudited) 2013	As of 31 December 2012	Amount of Change	% of Change
	(EUR thousands)			
Assets:				
Non-current assets	389,577	405,397	(15,820)	(4)%
Current assets	781,787	657,783	124,004	19%
Total assets	**1,171,364**	**1,063,180**	**108,184**	**10%**
Equity and liabilities:				
Equity	264,733	273,481	(8,748)	(3)%
Non-current liabilities	332,328	340,285	(7,957)	(2)%
Current liabilities	574,303	449,414	124,889	28%
Total liabilities	906,631	789,699	116,932	15%
Total equity and liabilities	**1,171,364**	**1,063,180**	**108,184**	**10%**

Non-current assets decreased by €15.8 million, or 4%, to €389.6 million as of 30 September 2013 from €405.4 million as of 31 December 2012. The decrease was primarily attributable to depreciation and amortization recorded during the period (€19.5 million), which was higher than investments in tangible and intangible fixed assets during the same period (€8.3 million).

Current assets increased by €124 million, or 19%, to €781.8 million as of 30 September 2013 from €657.8 million as of 31 December 2012. This increase was primarily due to the increase in cash and cash equivalents, largely as a result of higher amounts of tax payments and insurance and savings certificates received by CTT which had not yet been paid by the end of the period.

Equity decreased by €8.7 million, or 3%, to €264.7 million as of 30 September 2013 from €273.5 million as of 31 December 2012. This decrease was mainly due to the net profit of €45.2 million for the nine months ended 30 September 2013 being lower than the combined effect of CTT distributing dividends in 2012 (€50 million) and actuarial losses (€4 million, net of income tax) related to the revaluation of post-employment healthcare liabilities carried out as of 30 September 2013.

Non-current liabilities decreased by €8 million, or 2%, to €332.3 million as of 30 September 2013 from €340.3 million as of 31 December 2012. The decrease was primarily attributable to a decline in employee benefits liabilities due to a restructuring of the payment of the "telephone rental charges" benefit, which resulted in a €8.2 million reduction, partially offset by an increase in post-employment healthcare liabilities.

Current liabilities increased by €124.9 million, or 28%, to €574.3 million as of 30 September 2013 from €449.4 million as of 31 December 2012. This increase was primarily due to the rise in accounts payable as a result of higher tax collections, insurance and savings certificates, which was in turn due to an increase in the activity of the financial services business unit, which led to a growth in cash and cash equivalents. This increase was partially offset by a decline in suppliers, as a result of the conditions imposed by the Portuguese Government aimed at reducing the average payment period.

Balance sheet as of 31 December 2012 and 31 December 2011

The following table presents CTT's summarized balance sheet as of 31 December 2012 and 31 December 2011.

	As of 31 December		Amount of	% of
	2012	2011	Change	Change
	(EUR thousands)			
Assets:				
Non-current assets	405,397	421,740	(16,343)	(4)%
Current assets	657,783	629,670	28,113	4%
Total assets	**1,063,180**	**1,051,410**	**11,770**	**1%**
Equity and liabilities:				
Equity	273,481	274,426	(945)	0%
Non-current liabilities	340,285	343,265	(2,980)	(1)%
Current liabilities	449,414	433,719	15,695	4%
Total liabilities	789,699	776,984	12,715	2%
Total equity and liabilities	**1,063,180**	**1,051,410**	**11,770**	**1%**

Non-current assets decreased by €16.3 million, or 4%, to €405.4 million for the year ended 31 December 2012 from €421.7 million for the year ended 31 December 2011. The decrease was primarily attributable to: (i) depreciation and amortization recorded as of 31 December 2012 (€24.6 million), which was higher than the investments during the same period (€14 million); and (ii) €4.1 million reduction in medium and long term debt owed by Ministry of Health, which relates to the Portuguese State's contribution to healthcare costs for the years of 2000 to 2006, under CTT's healthcare plan.

Current assets increased by €28.1 million, or 4%, to €657.8 million for the year ended 31 December 2012 from €629.7 million for the year ended 31 December 2011. This increase was primarily attributable to €63 million increase in cash and cash equivalents, mainly due to an increase in the subscription of savings products and a decline in payments to staff and suppliers, as a result of CTT's ongoing cost reduction measures. This increase was partially offset by a decrease in accounts receivable, due to lower sales in 2012 and the active management of CTT's working capital which reduced the average time of collections.

Equity accounted for €273.5 million and €274.4 million for the years ended 31 December 2012 and December 2011, respectively. Net profit for the year ended 31 December 2012 (€35.7 million) and actuarial gains related to the post-employment healthcare plan (€24.3 million) more than offset the decrease in equity as a result of the distribution of dividends for the financial year 2011 (€53.9 million).

Non-current liabilities decreased by €3 million, or 1%, to €340.3 million for the year ended 31 December 2012 from €343.3 million for the year ended 31 December 2011. The decrease was primarily attributable to (i) €18.9 million decline in employee benefits liabilities due to the valuation of post-employment healthcare liabilities carried out as of 31 December 2012, (ii) €2.4 million decrease of deferred capital gains, offset by an increase in the provisions for labor contingencies and onerous contracts of €19 million.

Current liabilities increased by €15.7 million, or 4%, to €449.4 million for the year ended 31 December 2012 from €433.7 million for the year ended 31 December 2011. This increase was primarily due to an increase in other current liabilities related to the Holiday and Christmas bonuses, accrued in 2012 and payable in 2013 (of €18 million), which were not accrued in 2011 (as no bonuses were paid for most employees in 2012, as set forth in the PAEF). This increase was partially offset by lower income tax payable in 2012.

Balance sheet as of 31 December 2011 and 31 December 2010

The following table presents CTT's summarized balance sheet as of 31 December 2011 and 31 December 2010.

	As of 31 December		Amount of Change	% of Change
	2011	2010		
	(EUR thousands)			
Assets:				
Non-current assets	421,740	411,630	10,110	2%
Current assets	629,670	683,083	(53,413)	(8)%
Total assets	**1,051,410**	**1,094,713**	**(43,303)**	**(4)%**
Equity and liabilities:				
Equity	274,426	251,447	22,979	9%
Non-current liabilities	343,265	333,811	9,454	3%
Current liabilities	433,719	509,455	(75,736)	(15)%
Total liabilities	776,984	843,266	(66,282)	(8)%
Total equity and liabilities	**1,051,410**	**1,094,713**	**(43,303)**	**(4)%**

Non-current assets increased by €10.1 million, or 2%, to €421.7 million as of 31 December 2011 from €411.6 million as of 31 December 2010. The increase was primarily attributable to: (i) €5.5 million owed by the Ministry of Health regarding the Portuguese State's contribution to healthcare costs for the years 2000 to 2006, which was recorded in non-current assets in 2011 (it had been previously recorded in current assets); (ii) €27.1 million of investments in intangible and tangible fixed assets, which was higher than the depreciation and amortization for the year 2011 (€22.3 million); and (iii) a €3 million increase in deferred tax, primarily due to the increase in the liabilities related to the suspension of labor contracts. This increase was partly offset by the recognition of an impairment loss on Tourline and EAD goodwill, which amounted to €1.6 million and €0.3 million, respectively.

Current assets decreased by €53.4 million, or 8%, to €629.7 million as of 31 December 2011 from €683.1 million as of 31 December 2010. This decrease was primarily attributable to a reduction in the balance of cash and cash equivalents, which reflects an increase in reimbursements for savings certificates.

Equity increased by €23 million, or 9%, to €274.4 million as of 31 December 2011 from €251.4 million as of 31 December 2010. This increase was mainly due to: (i) net profit for the year ended 31 December 2011 (€55.3 million), which was higher than the decline in equity as a result of the distribution of €36.1 million of dividends for the financial year 2010, when the investment in the Maia sorting centre led to a lower distribution of dividends.

Non-current liabilities increased by €9.5 million, or 3%, to €343.3 million as of 31 December 2011 from €333.8 million as of 31 December 2010. The increase was primarily attributable to a €12.9 million increase in suspension of labor contracts liabilities, which was partly offset by lower deferred capital gains due to the recognition of a €4.5 million gain in 2011 as a result of the termination of the lease agreement for the Praça D. Luís I property located in Lisbon.

Current liabilities decreased by €75.7 million, or 15%, to €433.7 million as of 31 December 2011 from €509.5 million as of 31 December 2010. This decrease was primarily due to a reduction in accounts payable related to financial services and the non-recognition of the holiday subsidy in 2011, payable in 2012, as set forth in the PAEF.

INDUSTRY

This section contains statistics, data and other information relating to markets, market sizes, market shares, market positions and other industry data pertaining to CTT's business and markets. To the extent available, such information has been extracted from reliable third-party sources such as professional organizations, consultants and analysts, including the ANACOM, INE, industry reports from IPC and UPU and European Commission studies (from several consultants, including Copenhagen Economics and Frontier Economics, WIK-Consult GmbH and DBK). In the case of information sourced to WIK-Consult GmbH, certain data presented for 2012 is estimated data rather than actual data for that year. Certain other statistical or market related data has been estimated by management based on reliable third party sources, where possible, including those referred to above.

Prospective investors should be aware that statistics, data, statements and other information relating to markets, market sizes, market shares, market positions and other industry data in this Offering Memorandum and estimates and assumptions based on that information are necessarily subject to a high degree of uncertainty and risk due to the limitations described above and to a variety of other factors, including those described in "Risk Factors" and elsewhere in this Offering Memorandum.

General Overview

The key industries relevant to CTT's operations are: (i) mail in Portugal; (ii) express and parcels in Portugal, Spain and Mozambique; and (iii) financial services in Portugal.

In 2012, the postal services, through the mail business unit (including business solutions) and express and parcels business units accounted for 92% of CTT's sales and services rendered, excluding intragroup eliminations and central structure, and 76% of its EBITDA in 2012. For the nine month ended 30 September 2013, the mail business unit (including business solutions) and express and parcels business units accounted for 92% of CTT's sales and services rendered, excluding intragroup eliminations and central structure, and 79% of its EBITDA.

The financial services business unit accounted for 8% of CTT's sales and services rendered, excluding intragroup eliminations and central structure, in the year ended 31 December 2012 and the nine month period ended 30 September 2013, and 24% and 21% of its EBITDA in the year ended 31 December 2012 and the nine month period ended 30 September 2013, respectively.

Key Market Drivers

The key drivers that influence these industries, *i.e.* the markets where CTT operates, include the following:

- GDP growth, particularly growth in domestic consumption;
- Sovereign debt crisis in Portugal and Spain and its effects on domestic economic activity;
- Electronic substitution and growth in the internet access and mobile communications industries;
- Individual preferences and habits, namely adoption of e-commerce and e-billing;
- Effectiveness and value of advertising mail in the advertising industry, its pricing and technological evolution in this industry;
- Quality of service offered, especially in the parcels business;
- Propensity to save and evolution in disposable income in Portugal; and
- Evolution of the Portuguese and EU regulatory framework.

These trends influence, to varying degrees, CTT's operations and market position. A summary of the impact of these factors are set out below.

GDP growth, particularly growth in domestic consumption

The demand for mail and parcels services is correlated with GDP growth in Portugal, particularly growth in domestic consumption. Historical data in Portugal and other European countries demonstrate that GDP growth has a positive effect on mail volumes (Source: *François Boldron, et al. (2010), "Some Dynamic Models for Mail Demand: The French Case", in "Heightening Competition in the Postal and Delivery Sector" and Florens, et al. (2001), "Mail Demand in the Long and Short Term", in "Postal and delivery services: Pricing, Productivity, Regulation and Strategy"*). Internal estimates from CTT based on historical data, indicate that mail volume has an elasticity to GDP of 0.8 for Portugal. GDP growth, especially if driven by domestic demand, is likely to have the following effects: (i) new companies sending transactional and advertising mail; (ii) existing companies sending higher volume of transactional mail and parcels, especially in the banking, utilities and e-commerce sectors as a result of higher domestic demand; and (iii) higher mail and parcels volumes sent by the Portuguese State.

Sovereign debt crisis in Portugal and Spain and its effects on domestic economic activity

The sovereign debt crisis in Portugal and Spain, due to the high levels of public deficit and debt, has forced both countries to cut public spending and increase taxes, reducing disposable income. This has had a significant detrimental effect on domestic consumption.

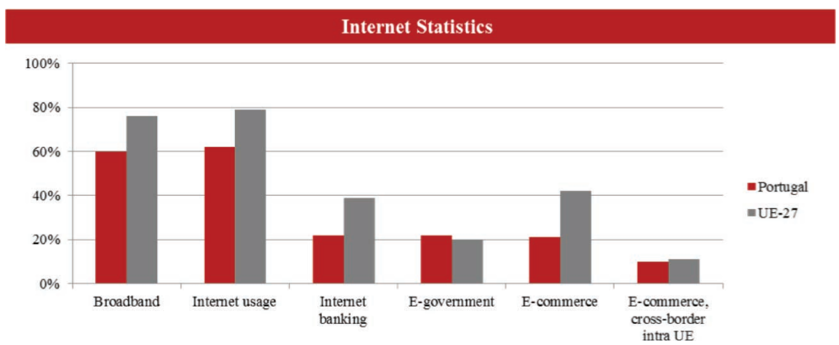
Domestic economic activities in both countries depend on the recovery and growth of domestic consumption, promoting the establishment of new companies and the development of e-commerce by local retailers.

Disposable income has an impact on the consumption and savings propensity, affecting not only CTT's postal services, but also the Financial Services.

Electronic substitution and growth in the internet access and mobile communications industries

Physical mail has been progressively substituted by electronic methods. This is a direct consequence of the wide-scale use of the internet and other electronic means of communication. This trend could provide an opportunity for postal operators, given that increasing the use of the internet could result in the expansion of e-commerce, which would have a positive effect on the express and parcels business, USO and payment solutions, all areas where CTT has a strong presence.

The development of broadband infrastructure could accelerate the trend in electronic substitution but at the same time could also contribute to the development of e-commerce. Portugal has a lower penetration rate of e-commerce than the European average (penetration in Portugal is 50% of the European average), as demonstrated by the following chart, which also presents broadband penetration, internet usage, internet banking, e-government initiatives in Portugal and in all EU member states as of 2012.



Source: "Main Developments in the Postal Sector (2010-2013)—Country Reports" by WIK-Consult GmbH dated August 2013.

Individual preferences and habits namely adoption of e-commerce and e-billing

As the internet becomes more prevalent, consumers will increasingly depend on it for their shopping, bill payments, and other financial transactions. This growing tendency has come from different retail models: purely online retailers (such as Amazon), traditional retail stores adopting online platforms (such as Zara or El Corte Inglés) and online marketplaces and auction websites selling both new and second-hand goods (such as eBay, CustoJusto and OLX). Furthermore, in the financial services industry, online banking is becoming increasingly popular with consumers, despite their continuing reliance on paper statements for their operations.

In relation to e-commerce, it is expected that online sales will contribute to growth in parcels volumes at a rate faster than GDP growth. In addition, it is expected that online retail spending will grow at a faster rate than that of total retail spending.

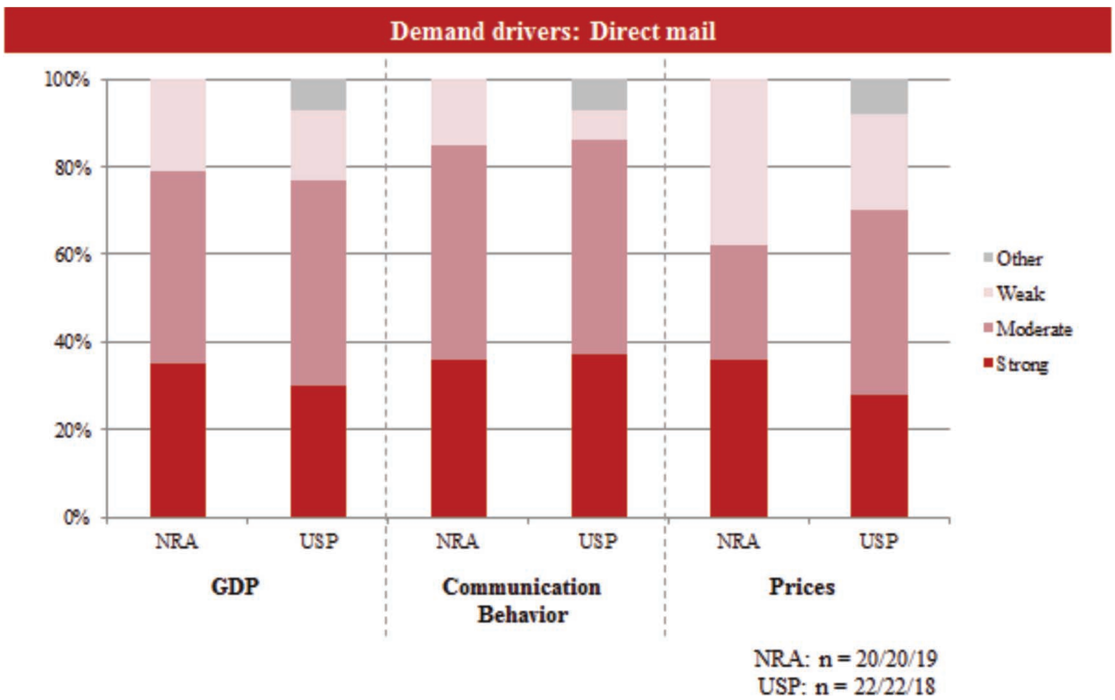
In relation to e-billing, data from Eurostat for the year 2011 reveals 17% level of adoption of e-invoices in Portugal as compared to the average of 21% for EU28 (concerning % of companies with at least 10 employees that are sending and/or receiving e-invoices, in standard formats for system integration).

Effectiveness and value of advertising mail in the advertising industry, its pricing and the technological evolution in this industry

Paper based advertising (addressed and unaddressed mail) competes against other means of advertising, such as television, radio, press, magazines and outdoor advertising. The advertising mail market is highly correlated with the evolution of and changes in the economy and is very sensitive to price changes when compared to other forms of advertising.

The effectiveness and wide reach of paper based advertising represents significant advantages compared to other media. However, lower pricing structures of such other media (particularly TV advertising in Portugal) can result in uncertain prospects for direct mail.

Following an independent survey for DG Internal Market / EU, the key drivers for postal mail and direct mail are GDP growth, communications behavior and prices. Unlike mail demand, which is affected mainly by changes in communications behavior and GDP, direct mail demand is affected by each driver equally, as shown in the chart below.



Source: "Main Developments in the Postal Sector (2010-2013)" by WIK-Consult GmbH dated August 2013.

NRA: National Regulatory Authority

USP: Universal Service Provider

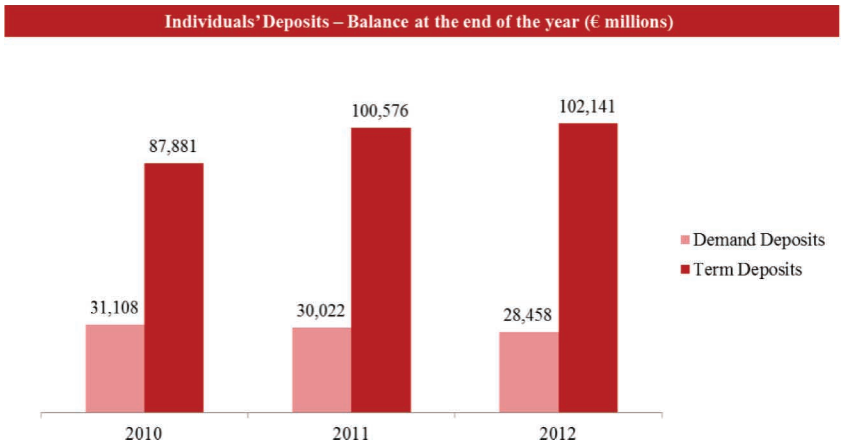
Quality of service offered, especially in the parcels business

Quality of service offered is a key driver in the mail postal industry and especially in the parcels businesses. More than speed, customers tend to seek reliability, precision and time-certain information (including the ability to track and trace their orders), easy and trusted means of payment, choice of time and location of delivery, and clear and easy return solutions. The IPC initiative to foster cooperation among operators for cross-border operations for e-commerce (IPC e-commerce Interconnect Program), in which CTT participates, is relevant in this regard.

Propensity to save and evolution in disposable income in Portugal

Disposable income in Portugal has been decreasing since the first quarter of 2011, although it has stabilized in the second quarter of 2013. Despite this trend, the household savings rate has increased from 10.1% in 2010 to 11.6% in 2012 (13.6% in the first half of 2013), having reached a 16 year high (Source: *Bloomberg, based on Eurostat, "Quarterly Annual Accounts by Institutional Sector (Base 2006)—Second Quarter of 2013" by the INE dated 30 September 2013*). Decreases in disposable income and propensity to save, have contributed to lower spending on postal services and other products and services.

The following chart shows the balance of individual deposits in Portugal as of 31 December 2012, 2011 and 2010. The growth trend in deposits is visible, namely term deposits in which CTT competes with capitalization insurance and savings and treasury certificates.



Source: Bank of Portugal website

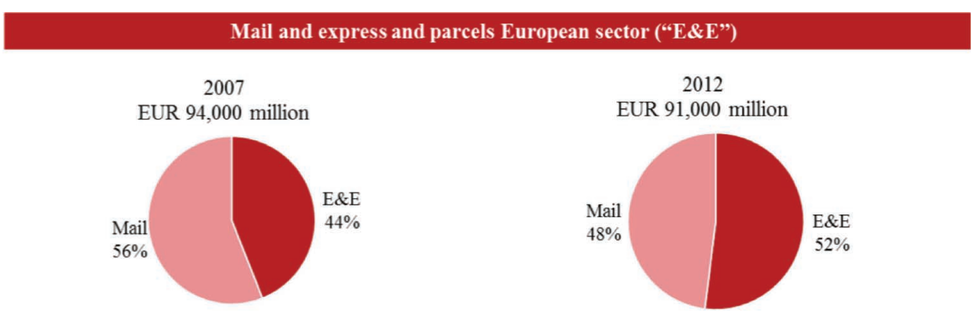
Portuguese and EU regulatory framework evolution

Regulatory developments also have the potential to drive changes in the Portuguese market, particularly, in the postal and financial services sectors. See "*Regulatory Matters*".

Postal Market

European Postal Market (mail and express and parcels)

According to the Study for the European Commission, Directorate General for Internal Market and Services on the Main Developments in the Postal Sector (2010-2013), prepared by WIK-Consult GmbH in August 2013, between 2007 and 2011 the size of the European postal sector decreased from €94 billion to €91 billion accounting for 0.72% of EU-28 GDP. While revenues in the express and parcels sector grew, revenues from mail services declined. As a result, in 2011, parcels and express revenues accounted for more than half of total revenues for the sector. The following chart shows the demand for mail and express and parcels products in the European postal sector in 2007 and 2011.



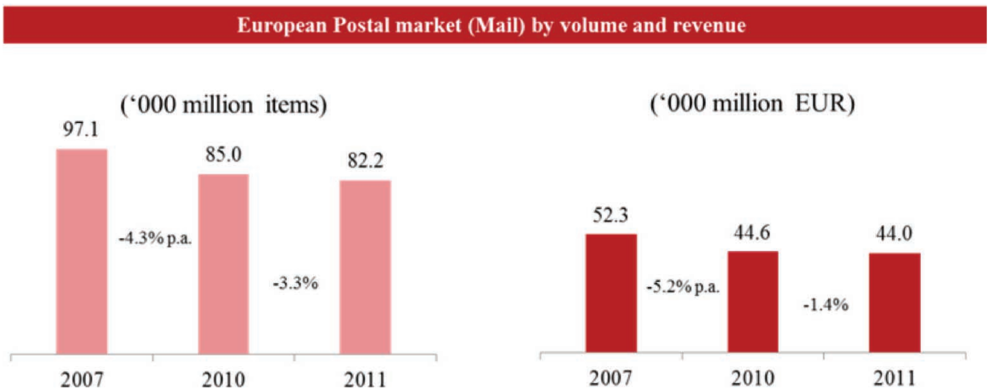
Source: Based on Wik-Consult/ ITA Consulting (2009) "Evolution of the Postal Market since 1997 and A.T. Kearney (2012)"

European Mail Market

In 2011, the EU mail sector accounted for approximately €44 billion, or 0.34%, of GDP. The European mail sector has declined in terms of revenues and volume in recent years.

Between 2007 and 2010, volume declined on average by 4.3% per year and revenue declined on average by 5.2% per year. Between 2010 and 2011, the decline slowed to a 3.3% decrease in volume and a 1.4% decrease in revenue. Overall, tariffs have slightly decreased between 2007 and 2010 while between 2010 and 2011 postal operators have increased prices to compensate for volume declines, a trend that has continued since price is an important pillar in the sustainability and profitability of mail operators.

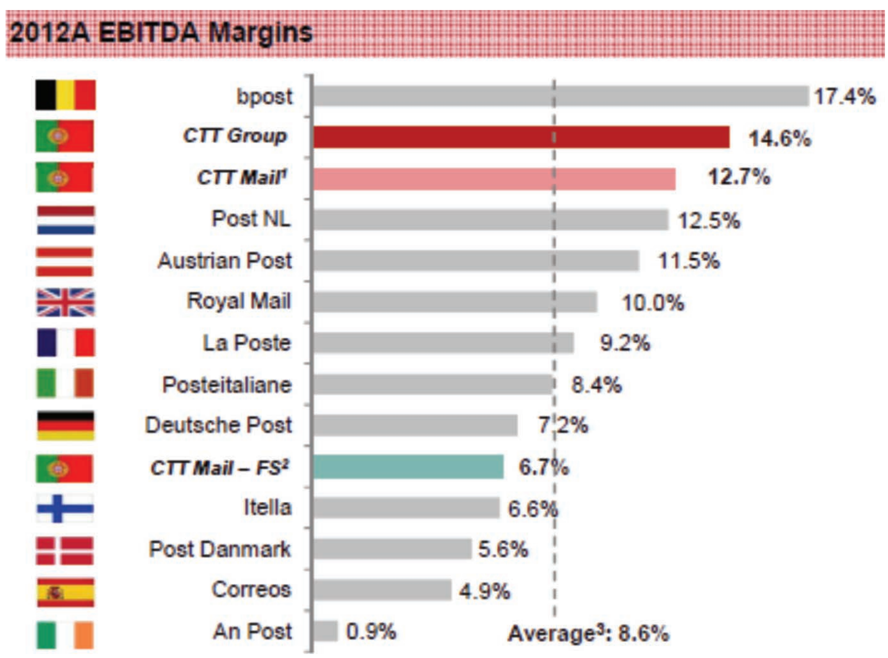
The following chart shows the development of the European mail sector in terms of volume and revenue (domestic and cross-border inbound mail).



Note: Croatia has been excluded in order to assure comparability, since there is no information for this country in 2007

Source: Based on Wik-Consult/ ITA Consulting (2009) "Evolution of the Postal Market since 1997 and A.T. Kearney (2012)"

The following chart presents EBITDA margins[2] for CTT and its main European competitors.



Source: CTT's analysis and companies' financial reports

Note: EBITDA margin benchmark based on company results but note that different operators calculate EBITDA on different basis

(1) EBITDA of CTT Mail business unit based on segmental reporting

2 EBITDA/Operating Income; (EBITDA = Earnings Before Interests, Taxes, Depreciations and Amortizations)

(2) (EBITDA of CTT Mail—Financial Services operating costs) / (Mail revenues) as per Segmental Reporting of the adjusted financials

(3) Average excluding CTT

Two major developments affected the mail sector during the past five years: (i) adverse economic conditions, and (ii) changing communications behavior between businesses and consumers. The combined effect resulted in higher decline in demand for mail services in Europe, which was reflected in visible losses in per capita items per country.

Portuguese Postal Market (mail and express and parcels)

CTT operates primarily in the postal services industry, comprised of mail and express and parcels, each one analyzed separately.

As of 30 June 2013, CTT's market share in the postal market was approximately 95% (Source: *ANACOM "Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013*).

The following chart shows the main operators in the Portuguese postal sector for the first and second quarters of 2013.

Postal players in Portugal (market share)

Company	1Q13	2Q13
ctt	95.7%	94.9%
CHRONOPOST INTERNATIONAL – *Parcels focused*	0.8%	1.0%
vasp – *Periodicals focused*	0.6%	0.7%
Rangel – *Parcels focused*	0.4%	0.6%
Other	2.5%	2.8%

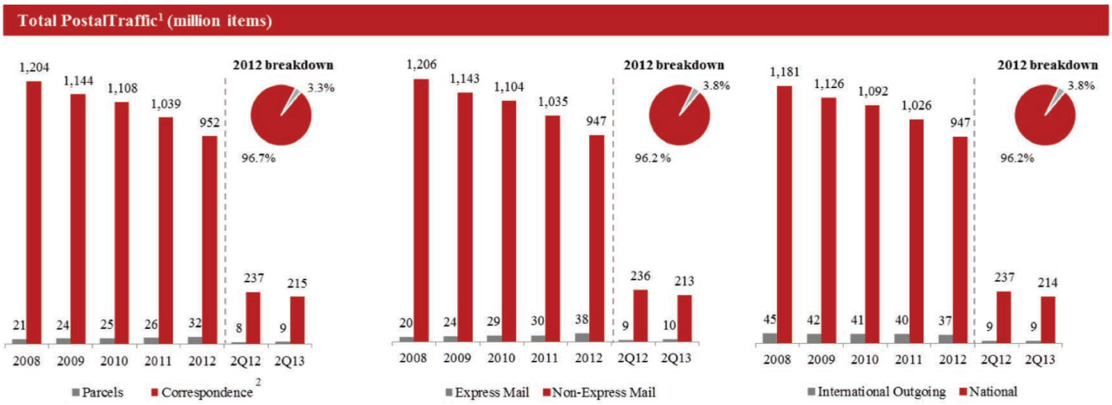
Source: ANACOM, "Postal Services Statistical Information for the Second Quarter of 2013"dated October 2013.

Note: market share based on volume

The market for postal services in Portugal has been liberalized since April 2012, with the exception of reserved services (notifications). Postal services are provided pursuant to a license (if within the scope of USO) or pursuant to general authorization (mainly express mail). As of 30 June 2013, there were 12 companies (three belonging to CTT) providing mail services (non-express) and 54 operators with authorizations to provide express postal services outside the scope of USO (Source: *ANACOM, "Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013*). As determined by the ANACOM, postal services consist of the clearance, sorting, transport and distribution of postal items. Postal item means an item addressed in its final form, which observes the physical and technical specifications that allows it to be sorted by a postal network as well as delivered at the address indicated on the object itself or on its wrapping, namely: an item of correspondence; books, catalogues, newspapers and other periodicals; as well as any other postal parcels.

From 2008 to 2012, postal volumes (including mail and parcels) decreased at a compound annual growth rate (CAGR) of 5.3% (Source*: ANACOM, Historical data of "Postal Services—Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013*). This decrease cannot be explained solely by business cycle fluctuations or the European crisis. Rather, one of the main contributing factors was electronic substitution, which is the substitution of mail by electronic means of communication (*e.g.,* email and online social network). This structural trend was exacerbated by the economy contraction, result of the economic and financial crisis in Portugal, which led to corporate clients engaging in more aggressive cost-saving strategies, as well as by the decrease in economic activity as a result of business' reduction or closure.

The following charts show trends in postal volumes for the period from 2008 to the 2012, split by correspondence and parcels, express mail and non-express mail and national and international outgoing volumes.



Performance	CAGR 08-12
Parcels	10.9%
Correspondence	(5.7)%
Total	**(5.3)%**

Performance	CAGR 08-12
Express Mail	15.4%
Non-Express	(5.8)%
Total	**(5.3)%**

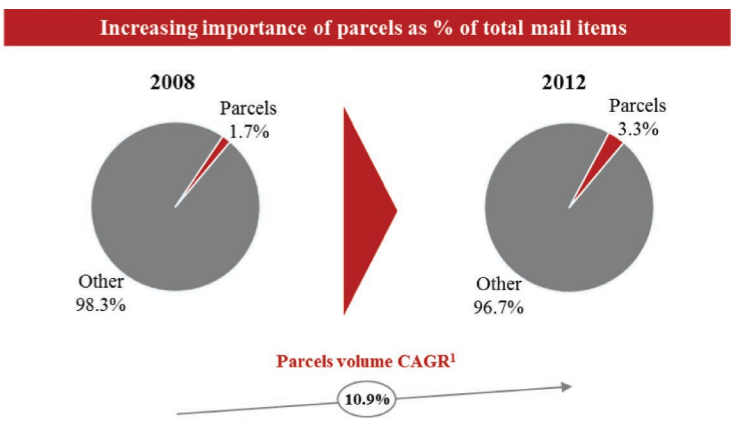
Performance	CAGR 08-12
International outgoing)	(4.2)%
National	(5.4)%
Total	**(5.3)%**

(1) Excluding international mail (incoming)

(2) Includes mail (78.5% of total volumes during the second quarter of 2013), press mail (7.7% of total volumes in the second quarter of 2013) and advertising mail (10.0% of total volumes in the second quarter of 2013)

Source: ANACOM—Historical data of "Postal Services—Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013.

Between 2008 and 2012, the express and parcels volumes have increased as a percentage of the total mail volumes.



(1) Excluding international incoming

Source: ANACOM—Historical data of "Postal Services—Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013.

Mail volumes decreased in Portugal between 2008 and 2012, even though parcels volumes increased during this period. Likewise, non-express mail decreased between 2008 and 2012, although express mail experienced an increase in this period. Transactional and advertising mail volumes are mainly responsible for the decline in postal volumes.

Mail Market in Portugal

Main segments

The mail market can be divided into four main segments:

Transactional mail

Transactional mail comprises mail items sent by companies and individuals for transaction purposes (*e.g.*, bills and invoices, government and banking communications, receipts, legal documents and notifications).

CTT estimates that domestic transactional mail, which encompasses non-priority mail, priority mail, registered mail, and convenience mail, accounts for more than 75% of mail revenues in Portugal. This type of mail is the most impacted by the effect of electronic substitution.

The Portuguese mail market has been fully open to competition since the approval of the Portuguese Postal Law in 2012. Currently, 12 companies (three belonging to CTT) have a license to provide mail services within the USO. However, no major direct competitors have effectively entered the market. Rather, most of the operators that have entered the market offer mail services that are ancillary to their core businesses (*e.g.*, express and parcels companies, publishers, media companies, etc.). This may be due to the declining nature of the mail market and the lack of successful new entrants in other European countries, mainly in small size markets.

Social mail

Social mail comprises social communications between individuals, in the form of letters, cards or postcards. Likewise other European countries, this segment is very small due to increased reliance on text messages (SMS) and e-mails. This segment is included, for simplicity purposes, within the transactional mail segment.

Press mail

Press mail is the distribution of newspapers, magazines and other periodicals mainly to households.

During the past few years, consumers have been increasingly switching to the electronic delivery of magazines and newspapers. As a result, it is expected that the distribution of press mail continues to decline in future periods.

Advertising mail

Advertising mail includes addressed direct mail, unaddressed mail and Geocontacto (*i.e.* segmented unaddressed mail delivered to all mailboxes according to socioeconomic and consumption behavior criteria). CTT estimates that in 2012 the value of the unaddressed advertising mail market in Portugal was approximately €22.4 million, with CTT's share representing approximately 45% (Source: "*Unaddressed mail—Strategic Characteristics of the Market and Consumers Behavior—2012" by Institute of Marketing Research dated February 2013*).

One of the key factors affecting the Portuguese advertising mail segment is the evolution of investment in advertising. The overall trend during the past few years has reflected a continued dominance of television related advertising, an increase in the share of internet related advertising and a decrease in the share of paper based advertising (including direct mail, newspapers, free press and magazines). This trend has been amplified by the economic downturn in Portugal. Technological developments in television, which allow users to avoid advertisements, may benefit other advertising channels, including advertising mail.

CTT nonetheless believes that paper based advertising remains attractive for advertisers due to its effectiveness of communication and wide reach, especially considering the difficulties that technological evolution brings to television advertising. CTT estimates that no more than 15% of all mail boxes in Portugal have "Do Not Mail Me" stickers, which prevent CTT from delivering unaddressed advertisements to such addresses.

In unaddressed mail, CTT faces competition from large international operators, such as La Poste (through its subsidiary Mediapost), as well as other local operators such as Dica and Totalmedia.

Volumes of unaddressed mail decreased by a compound annual growth rate (CAGR) of approximately 6% from 2007 to 2012, driven mainly by the deteriorating macroeconomic environment, which has adversely impacted the commercial activity of companies.

Despite the effectiveness and wide reach of direct mail, management believes that its share of the advertising market has not increased. Due to its very low price (when compared to other countries and other media), TV remains dominant in this market with a share above 70%.

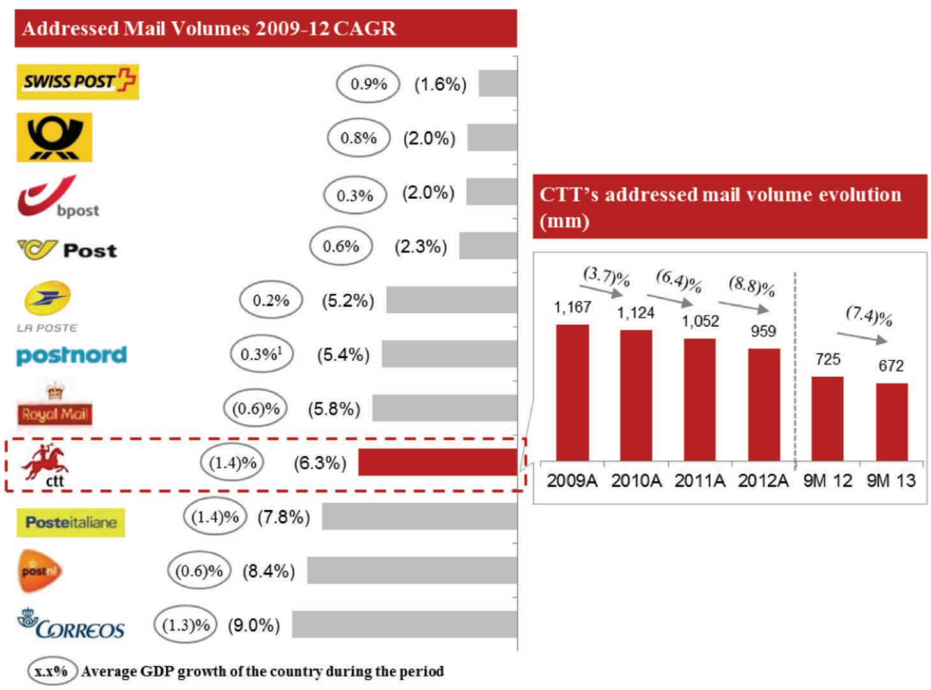
Direct mail has a very low level of competition and CTT estimates that it has a market share above 95%, which is similar to its market share for all addressed mail. Competition is primarily from other media sources.

Volumes

Like most postal markets in the EU, the Portuguese mail market has experienced a decline in volumes over the past few years. The economic situation has contributed to this, as well as the electronic substitution.

In the countries experiencing economic recessions, the decline in mail volumes was higher than that of countries experiencing economic growth. This difference in decline trend is even higher when considering the trends in private consumption.

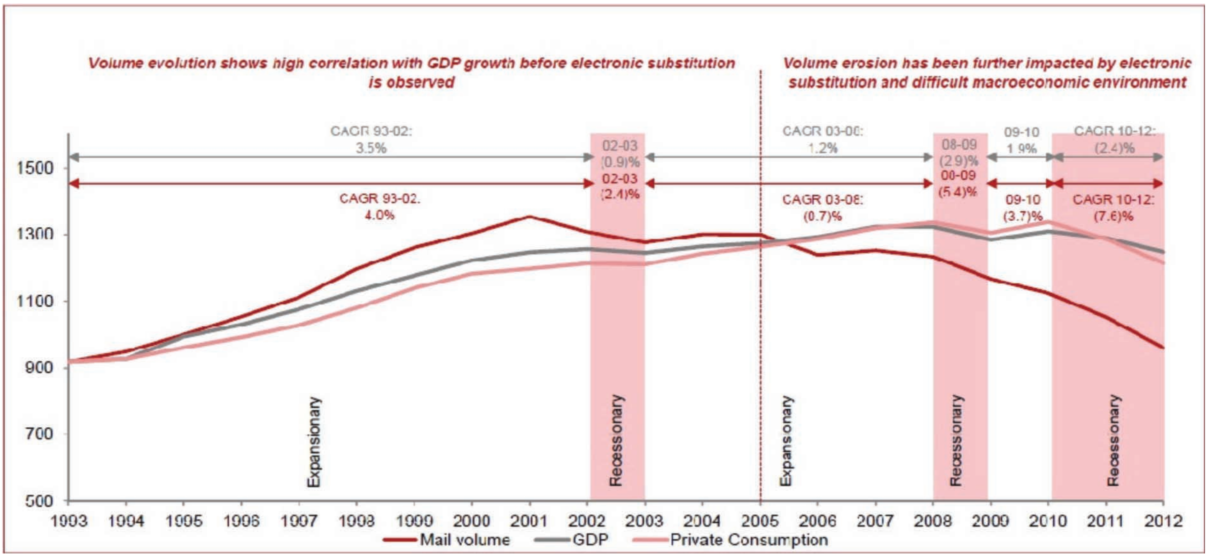
The following chart shows the negative compounded annual growth rate (CAGR) for addressed mail volumes, for the period from 2009 to 2012, as reported by the major European postal operators, namely the universal service providers. The recession in Portugal contributed to the decrease in volumes, as shown for the years 2011 and 2012, as compared to 2010.



Notes: definition of addressed mail varies for each postal player: Austrian Post: Letter Mail + Addressed Direct Mail; bpost: Domestic Mail; Correos: Ordinary Mail + Notifications and Registered Products + Direct Marketing; CTT: Addressed Mail; Deutsche Post: Business and Private Customer Letters + Addressed Advertising Mail; La Poste: Addressed Letters; PostNL: Single Items + Bulk Mail (in NL); Poste italiane: Unrecorded and Recorded Mail + Integrated Services + Digital and Multi-Channel Services + Direct Marketing; PostNord: Priority + Non-Priority Mail (Mail Denmark + Mail Sweden); Royal Mail: Inland Addressed Mail; Swiss Post: Addressed Business + Private Letters.

Source: Companies information and Economist Intelligence Unit.

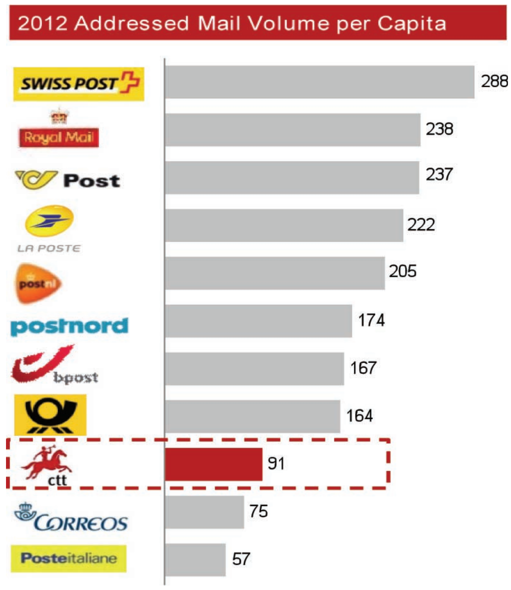
The development of mail volumes is affected by general economic activity as well as electronic substitution. In periods with a reduction in GDP growth, the effect of electronic substitution on mail volumes becomes more pronounced. The following chart shows the historical comparison of addressed mail volumes, private consumption and GDP growth.



Source: Economist Intelligence Unit, CTT's analysis

As of 2012, the level of per capita mail volumes in Portugal was below the European average, which indicates that the Portuguese market may be less exposed to the trend in declining mail volumes (Source*: Information on the Annual Reports and Accounts of the Companies as of 31 December 2012*). When comparing different countries, it can be conclude that per capita mailing is structurally closely correlated with the level of economic development given by the ratio GDP per capita and culture/habits. Management believes that the level of economic development is clearly the main reason. Electronic substitution, in line with experience in other European markets, together with a deteriorating macroeconomic environment, has accelerated volumes declines above those expected in a stable economic environment.

The following chart shows addressed mail items per capita for the major European incumbent postal operators in 2012.



Source: Companies information, Economist Intelligence Unit

Notes: definition of addressed mail varies for each postal player: Austrian Post: Letter Mail + Addressed Direct Mail; bpost: Domestic Mail; Correos: Ordinary Mail + Notifications and Registered Products + Direct Marketing; CTT: Addressed Mail; Deutsche Post: Business and Private Customer Letters + Addressed Advertising Mail; La Poste: Addressed Letters; PostNL: Single Items + Bulk Mail (in NL); Poste italiane: Unrecorded and Recorded Mail + Integrated Services + Digital and Multi-Channel Services + Direct Marketing; PostNord: Priority + Non-Priority Mail (Mail Denmark + Mail Sweden); Royal Mail: Inland Addressed Mail; Swiss Post: Addressed Business + Private Letters.

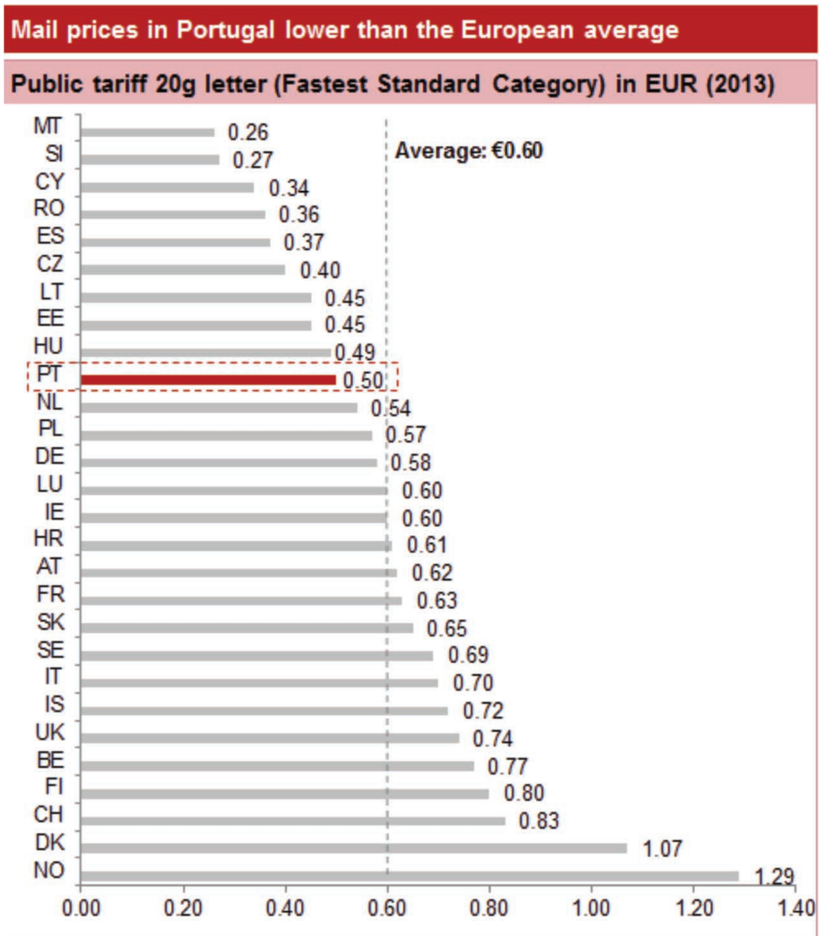
Most incumbent European postal operators have engaged in initiatives designed to control and reduce fixed costs and modernize their operations in order to offset the impact of declining mail volumes. Such initiatives include various modernization and cost reduction programs focused on improving efficiency. In 2009, CTT embarked on a cost reduction program which consisted of, among other things: (i) the optimization of the operational cycle of the transport, sorting and distribution networks; (ii) reorganization of the retail network, including a reduction of CTT owned branches (post offices) and optimization of sorting and distribution centers; (iii) reduction of management structures and other human resources initiatives; and (iv) renegotiation of supplier contracts. In addition to the initiatives referred to above, in December 2012, CTT started a new transformation plan, which includes a set of new human resources management initiatives, renegotiation of all outsourcing contracts, reorganization of post offices and agencies and the implementation of a new model of commercial management.

These transformation programs are an on-going plan of adjustment to market changes, with results both in terms of costs and revenue, and which include the development of other business areas.

Pricing

Even following the price increases implemented by CTT in April 2013 (approved by the ANACOM and with an impact on transactional mail), CTT's domestic stamp price (for priority letters up to 20g) continues to be substantially below the European average (around −17%). (Source: *"Main Developments in the Postal Sector (2010-2013)—Country Reports" by WIK-Consult GmbH dated August 2013 for the European Commission, Directorate General for Internal Market and Services*).

The following chart shows the tariff for 20g letters with D+1 delivery (priority) in 2013.

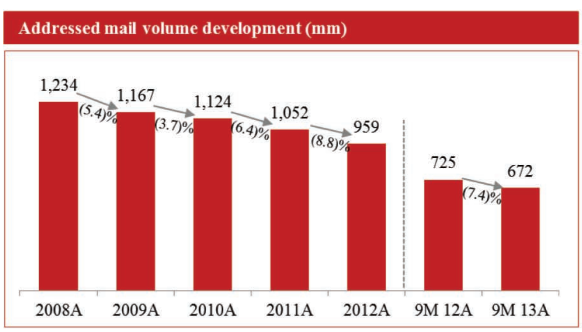


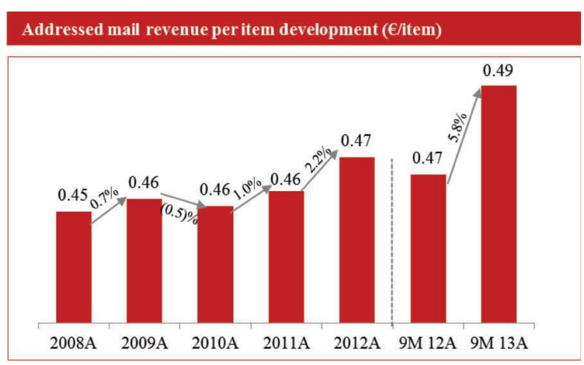
Source: "Main Developments in the Postal Sector (2010-2013)—Country Reports" by WIK-Consult GmbH dated August 2013

In Portugal, unlike in other countries, ordinary mail (D+3) has the highest weight in the mail business, with prices of €0.32 between 2010 and 2012, far below the European average.

On 1 November 2013, and following an initial increase in April, CTT increased the price of the national regular mail in a standardized format up to 20 grams for the occasional segment (non-corporate clients) from 36 to 40 cents. There were no changes to prices for other types of mail.

As per CTT analysis, historical evolution shows that mail volume has low elasticity to price increases. As shown in the figure below, the impact of mail volume decline on revenue has been compensated by price increases (addressed mail revenue per item).





Source: Company information

Express and Parcels Market

Overview, scope and definition

CTT operates in the domestic, European and international express and parcels market.

Express and parcels services enable any customer to send documents and parcels to anywhere in the world within a very short period of time. This market comprises the following segments:

- ***Courier***—Courier services typically concentrate on single item consignments which are usually transported directly via the shortest and fastest route from sender to recipient. Usually, the courier services for national shipments are delivered on the same day;
- ***Express***—Express services comprise the guaranteed delivery of parcels the following day within a specific time slot; and
- ***Parcels***—Parcels services cover the delivery of parcels on a specified daily basis and are the least urgent method of delivery.

These services are available both nationally and internationally. Express items and parcels tend to be transported along with other items, whereas courier services are transported on a consignment basis. The price charged for sending items within these segments also reflects the time taken for its delivery. Courier services are usually the most expensive and parcels services are the most economical. The European market segmentation is blurred and there is considerable overlap between express and parcels services.

There are two additional business services that tend to complement the express and parcels market needs:

- ***Cargo***—The cargo business is a complementary market, which integrates with the express and parcels market offering the provision of services for customers that require the collection of items that weigh more than 30kg or that are outside standard dimensions.

  In Portugal, the cargo business operated by express and parcels players currently represents approximately €160 million. (Source*: Value adjusted by CTT based on CEP Market Study 2012 "Assessment of Market Purchase Behaviors" by the Institute of Marketing Research dated February 2012*).

  In Spain, the cargo business currently represents €800 million according to CTT's assessments (Source: *CTT's analysis*).

- ***Logistics***—The logistics business complements and integrates the express and parcels market, providing a solution to customers that require value-added services and integrated solutions such as storage, collection, dispatch, re-packing, re-labeling, quality control, and campaign management. Integrated supply chain solutions offer cross-selling opportunities throughout the value chain.

  In Portugal, the logistics business handled by express and parcels players currently represents approximately €38 million (Source: *Value adjusted by CTT based on CEP Market Study 2012 "Assessment of Market Purchase Behaviors" by the Institute of Marketing Research dated February 2012*).

  In Spain, the logistics business handled by express and parcels players currently represents €330 million (Source: *CTT's analysis*).

Key Market Drivers

In addition to the general key factors identified above that affect the market for postal services, the following specific factors also influence the development of the express and parcels market:

Economic and domestic consumption growth

The express and parcels market has strong potential, its growth is directly related to domestic and global GDP, trade and population growth. This market is an important part of the overall transportation and distribution industry. Growth in domestic consumption generally will have a significant impact on the express and parcels market, especially as a result of the development of e-commerce.

Individual preferences and habits, namely adoption of e-commerce and e-billing

The internet and mobile communications industries allow consumers to use online tools to a greater degree, creating opportunities in the express and parcels market with respect to the growth of e-commerce, which is evolving quickly.

The ongoing digitization of the economy has impacted demand for express and parcels services, with customers displaying different requirements in terms of the speed and guarantee of their deliveries. The growth of the e-commerce market is expected to play an important role across all postal markets.

Quality of service offered

Express and parcels services are vital for certain businesses. The best companies in the market provide customers, both companies and individuals, with express services (including collecting, processing, transporting and distributing documents and goods, national and international) spanning from one hour same day services up until two day services, with guarantee of delivery. They also offer integrated logistics and cargo services. Competitive advantages in this industry also include: (i) a network with broad geographic coverage; (ii) home collection services for all customers with flexible schedules; (iii) reliable online information about the status of shipments; and (iv) flexible delivery services adapted to customers' needs, offering proximity and / or convenience.

The e-commerce segment requires more focus on providing complete information tools. This translates into developing information systems which are integrated with customers (e-logistics) and the resources to track and trace deliveries and offer online tools that are available 24 hours a day.

Finally, the development of solutions of return that are simple, reliable and low-cost will be a critical factor for the development of e-commerce.

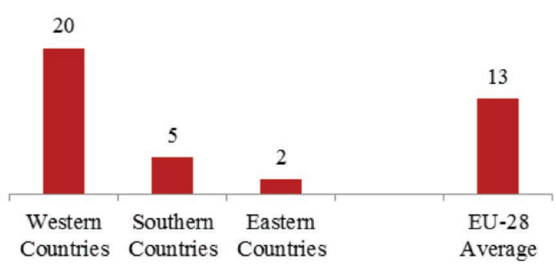
Express and Parcels Market in EU

The express and parcels market can be divided into B2B (parcels sent by businesses to other businesses), B2C (parcels sent by businesses to consumers, primarily related to e-commerce purchasers and mail order catalogues), and C2X (parcels sent by consumers).

According to the S*tudy for the European Commission, Directorate General for Internal Market and Services on the Main Developments in the Postal Sector (2010-2013)*, prepared by WIK-Consult GmbH in contrast to the mail sector, the European express and parcels sector is growing dynamically. Parcels volumes in the EU increased to 6.5 billion items in 2011, having grown by 4% in terms of revenue and 6% in terms of volume since 2009 (Source: *AT Kearney study cited in WIK-Consult GmbH report*).

In 2011, parcels volume per capita among European countries was the highest in Western European countries[4] at 20 parcels, while Southern[5] and Eastern European countries[6] had only five and two parcels per capita, respectively. In the European Union (EU-28), the average was 13 parcels per capita in 2011. The following chart shows parcels per capita by region in 2011.

Parcels per capita by country group (2011)



Source: "Main Developments in the Postal Sector (2010-2013)" by WIK-Consult GmbH dated August 2013 for the European Commission, Directorate General for Internal Market and Services

The demand for express and parcels services is affected by changes in consumer behavior, *i.e.* the current general trend to order goods and services online that must be delivered by postal and parcel carriers. After the drop in revenues and volumes due to the economic downturn in 2008 and 2009, the B2B segment

4 Austria, Belgium, Germany, Denmark, France, Finland, Ireland, Luxembourg, Netherlands, Sweden, United Kingdom, Island, Liechtenstein, Norway and Switzerland.

5 Cyprus, Greece, Spain, Italy, Malta and Portugal.

6 Belgium, Czech Republic, Estonia, Croatia, Hungary, Lithuania, Latvia, Poland, Romania, Slovenia and Slovakia.

stabilized and experienced a moderate growth in 2010 and 2011. Generally, B2B services and particularly express services (services with guaranteed delivery times) are highly correlated to general economic development and developments in trade flows. More companies, more transactions and greater activity promote higher value added services (which provide quicker deliver times and more information).

Moreover, there is a general trend to use deferred, lower priced parcels services instead of relatively expensive express services for domestic and international shipments. This indicates that the customers are price sensitive, although the impact of prices on overall demand is comparatively lower than that of the other two influencing factors: (ii) the economy and (ii) changes in consumer behavior.

E-commerce transactions in goods and services are defined as purchases and sales orders made via websites or systems of electronic data interchange, excluding manually typed e-mails. E-commerce basically includes online sales between consumers (C2C e-commerce), between companies (B2B e-commerce) and between companies and consumers (B2C e-commerce). According to the European Commission, the main sectors that are growing as a result of the e-commerce in the B2C segment include travel agencies, clothing, sales of electronic and cultural goods, financial services, gambling and sports betting. Moreover, the market for online music is growing rapidly. Trade with physical transactions still has a high potential for growth in e-commerce, promoted by easy delivery and return solutions, where PuDo network play an important role.

Globally, Europe is the world's largest e-commerce market, ahead of the United States, with an estimated turnover of €270-280 billion in 2012, followed by the Asia Pacific region, with an estimated turnover of €215-216 billion in 2012 (Source: "*Main Developments in the Postal Sector (2010-2013)" by WIK-Consult GmbH dated August 2013).*

The European Association E-commerce Europe estimates e-commerce turnover of products and services at €312 billion for 2012, 19% higher than in 2011. It further estimates that €277 billion, or approximately 89%, is attributable to transactions within the European Union (Source: *Europe-B2C-Ecommerce-Report-2013 by the European Association of E-commerce, Press Release 22 May 2013*).

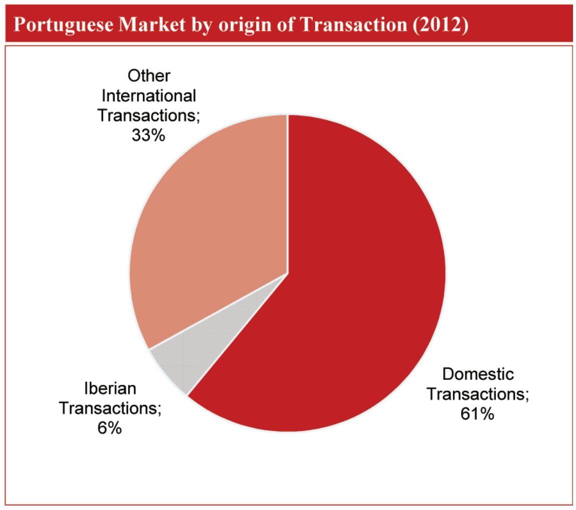
Express and Parcels Sector in Portugal

CTT estimates, based on internal analysis, that the Portuguese express and parcels market was worth approximately €350 million in 2012, with B2B accounting for 79% of the market (Source: *Value adjusted by CTT based on CEP Market Study 2012 "Assessment of Market Purchase Behaviors" by the Institute of Marketing Research dated February 2012*).

The B2C and C2C domestic markets accounted for €199 million in total in 2012, of which 76% related to the B2B segment and 24% to the B2C segment (Source: *Company information; Value adjusted by CTT based on CEP Market Study 2012 "Assessment of Market Purchase Behaviors" by the Institute of Marketing Research dated February 2012*). CTT's estimated market share in B2B in Portugal, measured in value, is around 19% (Source: *Company estimation; Value adjusted by CTT based on CEP Market Study 2012 "Assessment of Market Purchase Behaviors" by the Institute of Marketing Research dated February 2012*).

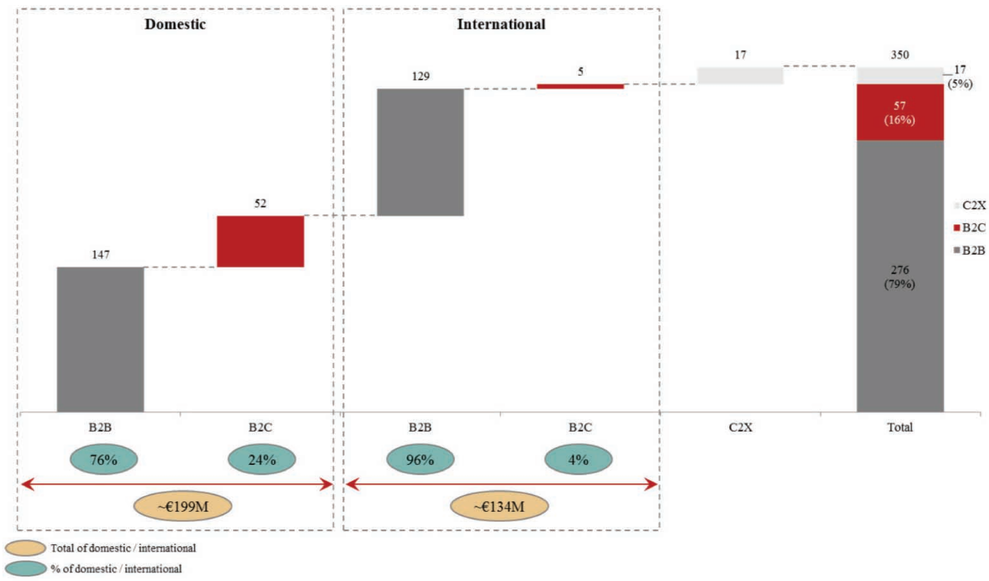
International flows of B2B and B2C parcels accounted for €134 million in 2012, of which 96% corresponded to the B2B segment (Source: *CTT's analysis*). In the same period, the C2X market segment (including domestic and international) accounted for approximately €17 million (Source: *CTT's analysis*).

The following chart shows the percentage of the Portuguese market per origin of the transaction.



Source: CTT's analysis

The following chart presents the estimated value of the Portuguese express and parcels market by segment.

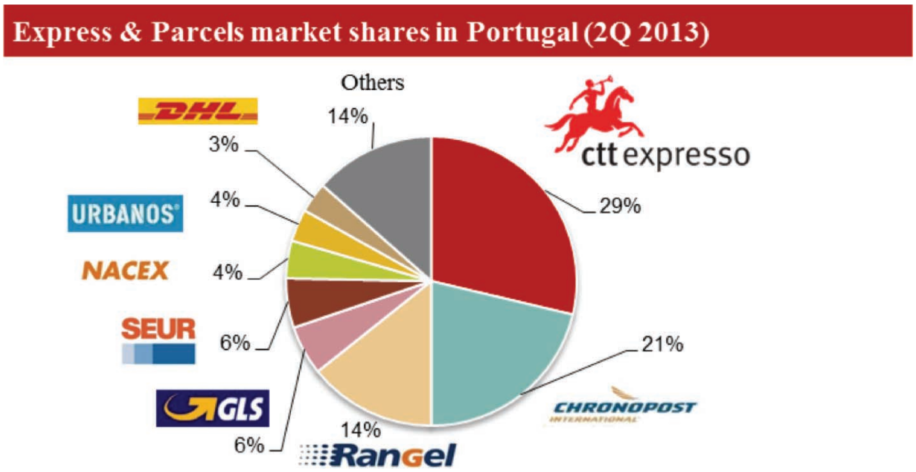


Source: Value adjusted by CTT based on CEP Market Study 2012 "Assessment of Market Purchase Behaviors" by the Institute of Marketing Research dated February 2012

Major global operators, such as DHL, TNT Express, FedEx (in a partnership with Rangel), La Poste (through its subsidiaries Chronopost and Seur) and UPS, account for 51% and 34.5% of the Portuguese B2B and B2C markets, respectively (*Source: CTT's analysis*). These players have a more significant market share in international flows, which is the reason why they have a higher market share in B2B where international flows represent around 47% of this segment (Source: *CTT's analysis*). Other operators active in the market include Nacex, Urbanos, Adicional and MRW. Iberian flow accounted for 34% of the Portuguese international business in 2012 (Source: *CTT's analysis*).

CTT is leader in the Portuguese market, measured in volumes (Source: *ANACOM "Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013*).

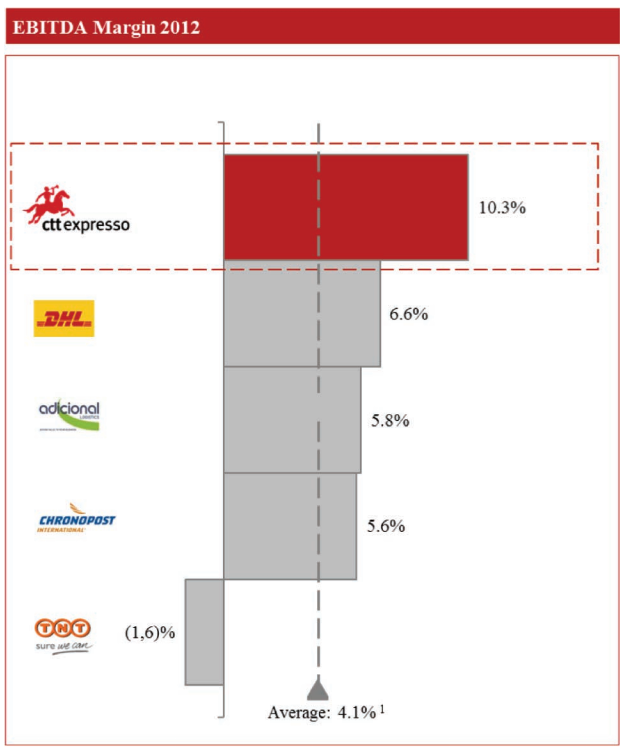
The following chart presents CTT's market share in express and parcels in Portugal during the second quarter of 2013 in volume (domestic and international).



(1) Includes international flow; domestic only market share is higher

Source: ANACOM "Postal Services Statistical Information for the Second Quarter of 2013" of October 2013

The following chart presents EBITDA margins[7] for CTT and its main competitors. From the profitability perspective, CTT Expresso compares positively with its main competitors. It has the highest market share in the Portuguese market, where the comparative size of CTT Expresso is very relevant.



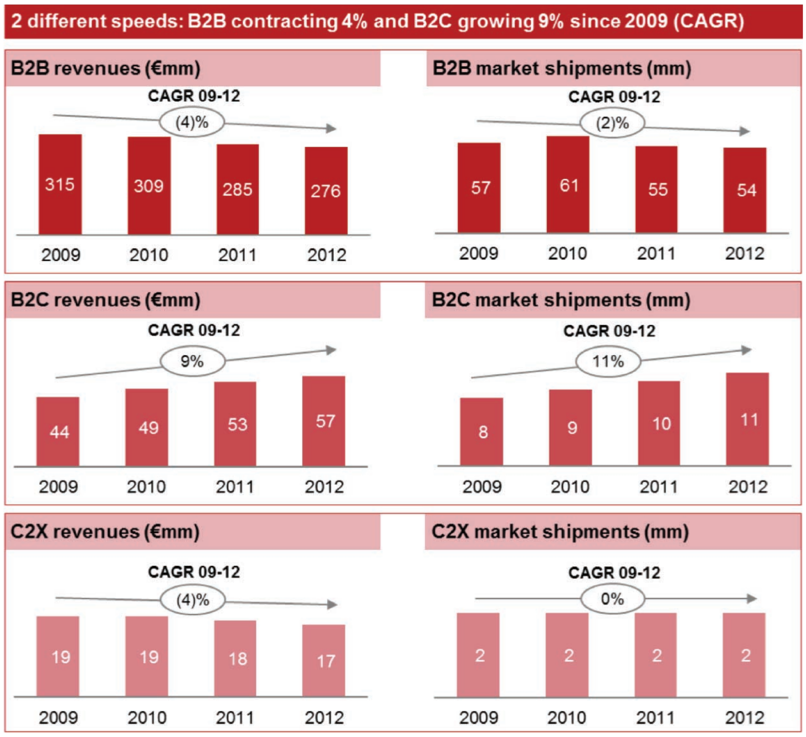
Source: CTT's analysis

(1) Excluding CTT Expresso

Revenues for the express and parcels market have contracted by approximately 3% per year since 2009. Management believes, as shown in the chart below, that this was due to the economic crisis, which resulted in a reduction in B2B volumes as well as a decline in average prices. The reduction in prices was due to demand for cheaper products (lower speed, less features) and customers' increasing negotiation of pricing

7 EBITDA / Operating Income; (EBITDA = Earnings Before Interests, Taxes, Depreciations and Amortizations)

or service levels. The following charts show the revenues and market shipments for the B2B, B2C and C2X markets.

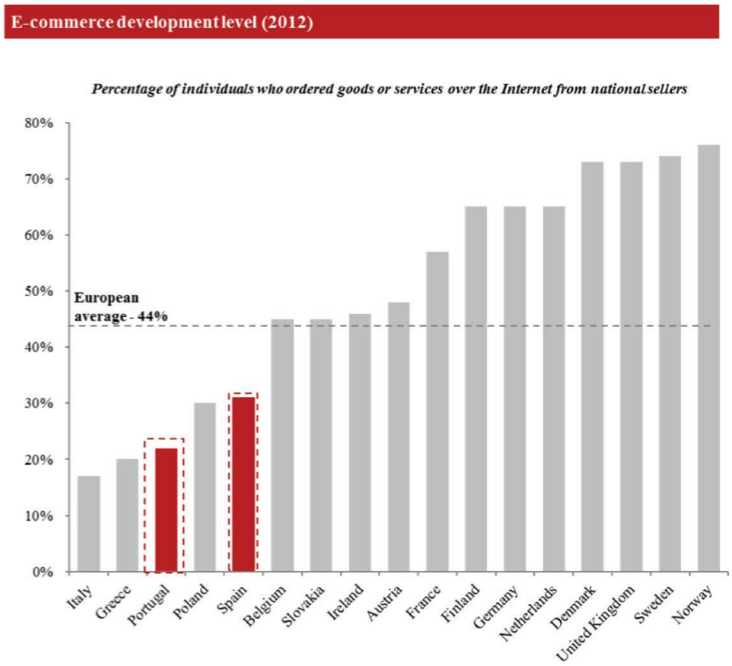


Source: Value adjusted by CTT based on CEP Market Study 2012 "Assessment of Market Purchase Behaviors" by the Institute of Marketing Research dated February 2012.

B2C segment

The B2C segment has increased between 2009 and 2012 (9% compound annual growth rate) in revenues mainly due to a significant increase in volumes driven by higher volumes of e-commerce and by consumer behavior, who tends to seek more convenient solutions. (Source: *Value adjusted by CTT based on CEP Market Study 2012 "Assessment of Market Purchase Behaviors" by the Institute of Marketing Research dated February 2012*). Consumer electronics and clothing are the largest e-commerce segment, and clothing, household goods and books have the strongest growth potential in this market. Management believes that B2C segment will continue to grow in the next five years, driven by its low retail sales penetration in Portugal as compared to other European countries.

The following chart shows the percentage of individuals who ordered goods or services over the Internet from Portuguese sellers.



Source: Eurostat website

The large Portuguese retailers have focused on the profitability of their physical retail network, as a result of the economic crisis and high contraction of private consumption, and have not yet focused on e-commerce. The economic recovery should alleviate this approach as well as the expected entrance of new competitors which will develop their activities through electronic platforms.

B2B segment

The B2B segment contracted at a compound annual growth rate of 4% from 2009 to 2012 in terms of revenues, largely as a result of Portugal's difficult economic conditions. The B2B market has declined in terms of volumes by approximately 1% annually (Source: *Value adjusted by CTT based on CEP Market Study 2012 "Assessment of Market Purchase Behaviors" by the Institute of Marketing Research dated February 2012*) and in price by approximately 3% annually (Source: *Value adjusted by CTT based on CEP Market Study 2012 "Assessment of Market Purchase Behaviors" by the Institute of Marketing Research dated February 2012*). Management believes that B2B segment will recover due to an expected improvement in the economic environment, albeit at a slower pace than B2C. Management also believes that certain industries, such as telecommunications and pharmaceuticals, have attractive growth prospects.

The significant contraction in B2B segment is also explained by the strong downsizing by the banks and their reduced demand for EMS Banca services, a dedicated service provided by CTT. Such downsizing is due to the reduction in the number of branches, cost constraint measures and higher use of electronic means.

Express and Parcels Sector in Spain

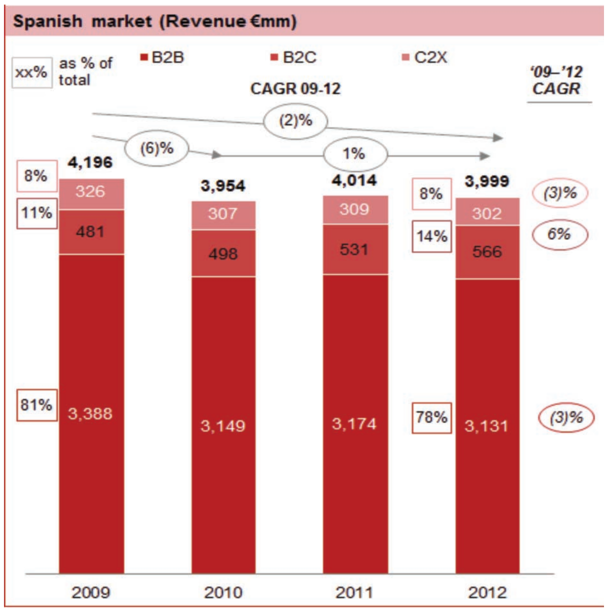
The Spanish express and parcels market amounted to approximately €4 billion in 2012. However, the market has been contracting at a compound annual growth rate of negative 2% since 2009. B2B and B2C volumes have evolved at different rates. The B2B segment has been decreasing at a compound annual growth rate of negative 4% since 2009, due to Spain's difficult economic conditions, although the market has remained relatively steady since 2010 in terms of volume. The B2C segment has grown at a compound annual growth rate of 6%, with volumes driven by an uptake in e-commerce. However, it is notable that in B2C, the higher volume increase in some e-commerce sectors (fashion and books) is offset by an average price decrease, resulting lower revenue increase.

The level of e-commerce penetration of the B2C market is higher in the Spanish market than in the Portuguese market.

The quality of services rendered, such as pricing, collection and delivery time, is key factors in choosing a supplier for both segments. The Iberian wide offer is starting to gain importance in the selection criteria, mainly for Spanish companies with a strong presence in Portugal.

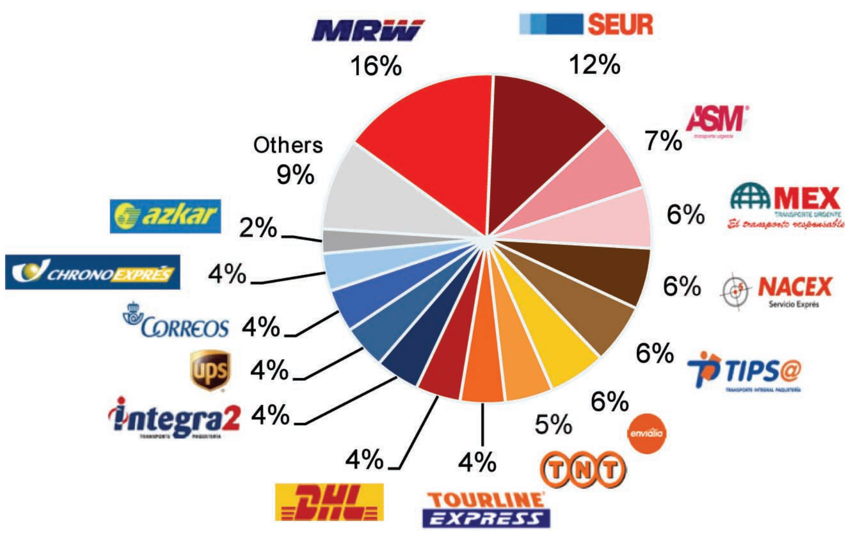
The international express and parcels market in Spain is worth approximately €900 million, with the Portugal-Spain flow representing approximately 9% of the Iberian total market and approximately 2% of the Spanish total market (Source: *CTT's analysis*).

The following chart presents the value of the Spanish express and parcels market by segment.



Source: DBK, CTT's analysis

The following chart shows the market shares of the various operators active in the Spanish express and parcels market for 2012.

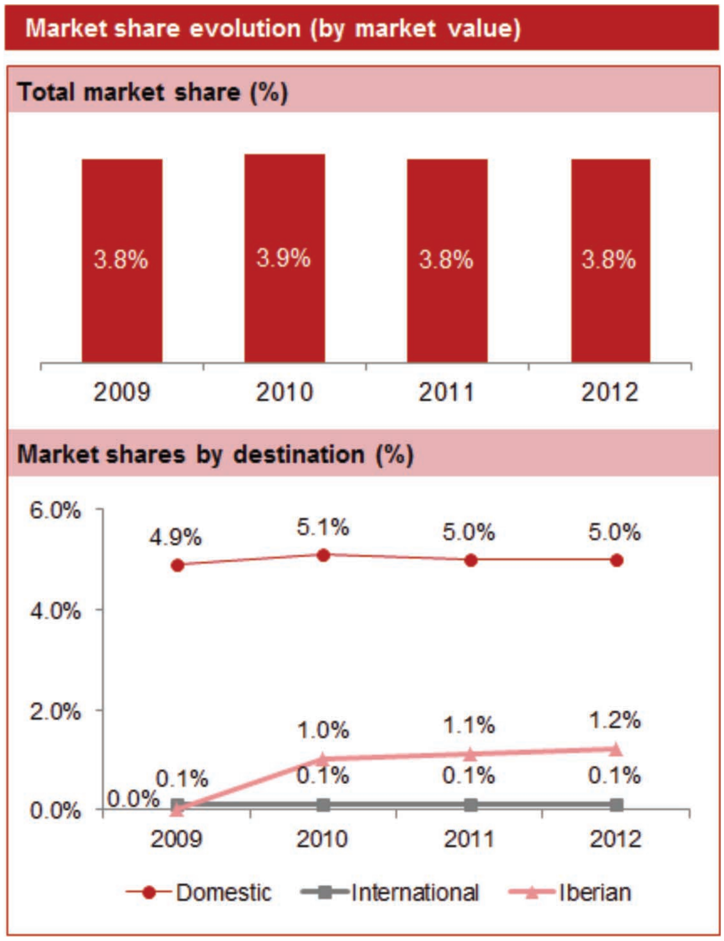


Source: IMR—Iberian CEP 2013—"Assessment of Market Purchase Behaviors", by the Institute of Marketing Research

Major global operators, such as UPS, DHL, TNT and La Poste (through its subsidiary Seur) accounted for approximately 25% of the Spanish parcels market in 2012 (Source: *"IMR—Iberian CEP 2013—"Assessment of Market Purchase Behaviors", by the Institute of Marketing Research*). Other operators active in the market include MRW, Nacex, Tipsa and ASM, amongst others.

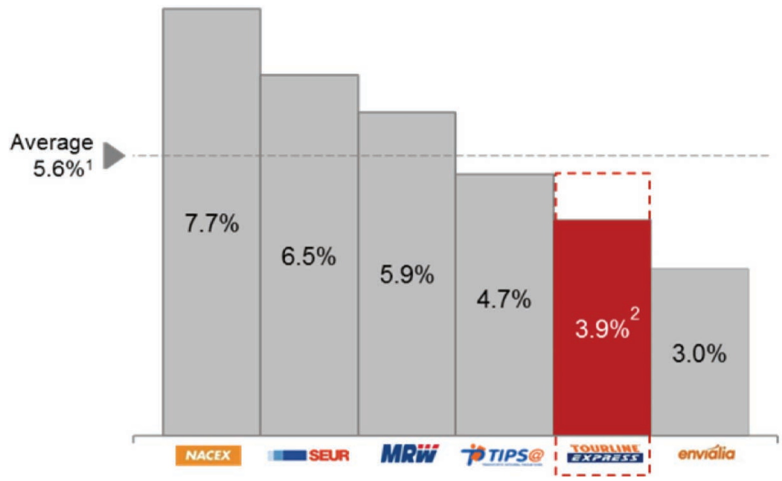
In Spain, major operators develop their activities through networks of franchises, with different levels of dependence. Currently there are more operators relying on their own business than in a franchisee model, especially in major urban areas and large clients.

Touline's market share has remained relatively stable over the past four years.



Source: CTT's analysis

In terms of profitability, Tourline's EBITDA margin[8] is below average. The following chart shows the EBITDA margin for 2011 of several competitors (2012 data is not comparable due to the structural changes that occurred in 2012, which had an impact on EBITDA).



Source: CTT's analysis

(1) Excluding Tourline

(2) Including provisions and impairments

However, the difference in revenues is smaller, as the franchisees' model used by these operators limits the advantages of economies of scale.

B2C segment

The B2C segment has been growing at compound annual growth rate of 6% in revenues since 2009 mainly due to higher volumes driven by an uptake in e-commerce, which partly off-set an average price decrease of around 4% average annual growth rate, which was primarily driven by increased competition (Source: *CTT's analysis*). CTT estimates that the B2C segment will continue growing at similar rates.[8]

B2B segment

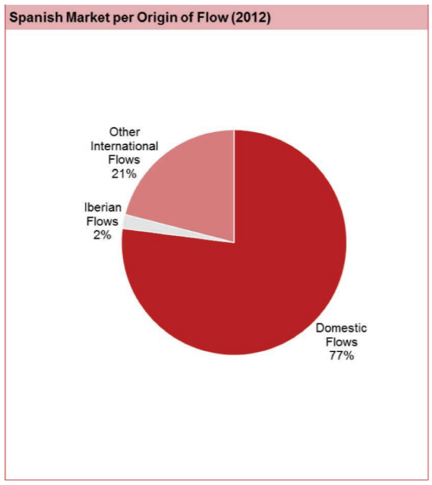
The B2B segment contracted at a compound annual growth rate of 3% in revenue since 2009, primarily due to difficult economic conditions in Spain (Source*: CTT's analysis*). The 3% average annual price decrease was not fully off-set by 1% growth in volumes. (Source*: CTT's analysis*).

International flows

International flows are significant in both Portugal and Spain, especially in the B2B segment, which represents approximately 27% in Spain (Source: *CTT's analysis*). Iberian flows represented 34% of the

[8] EBITDA/Operating Income; (EBITDA = Earnings Before Interests, Taxes, Depreciations and Amortizations)

Portuguese international market and 9% of the Spanish international market in 2012. (Source*: CTT's analysis*). The following chart shows the percentage weight of the market by origin of the transaction.

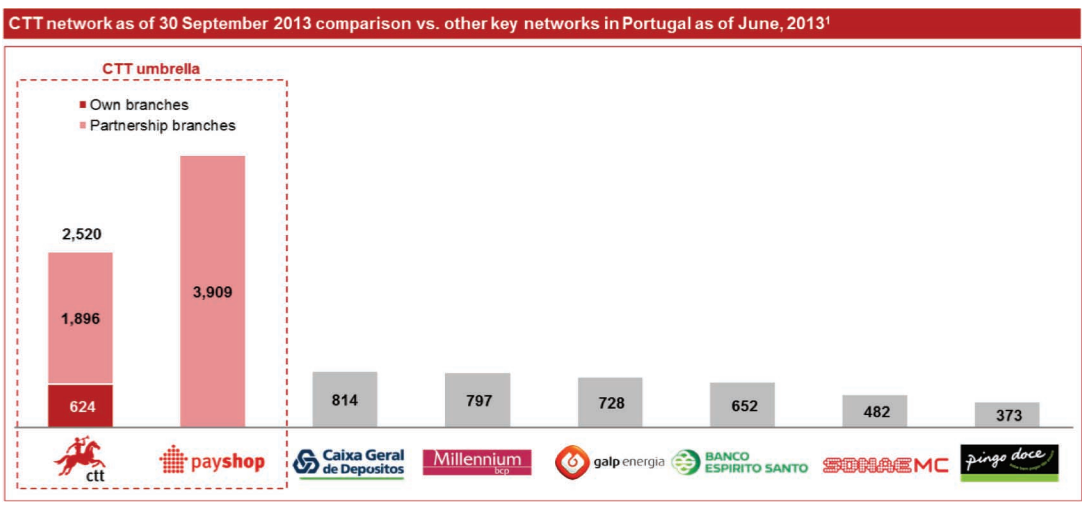


Source: CTT's analysis

Financial Services Market

The financial services industry comprises a variety of services rendered by banks, insurance companies, brokers, payments institutions and many others. In addition, there are several companies that provide financial services, such as major retailers in the consumer credit offering.

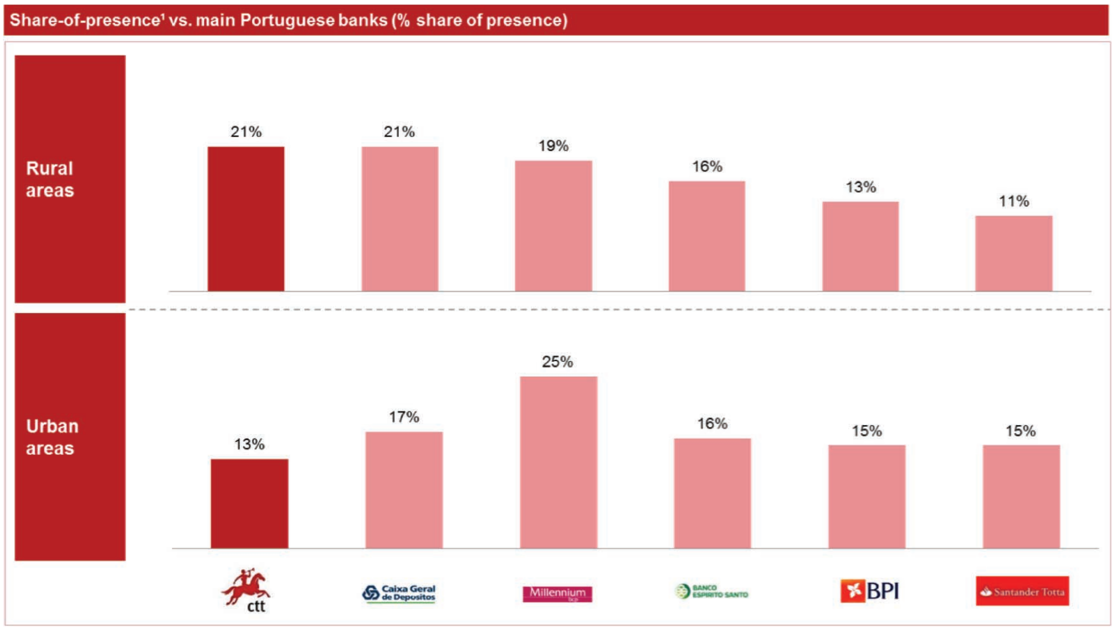
CTT offers financial services that are supported by CTT's high density retail network and Payshop network.



Note: Figures for Galp Energia refer to October 2013

Source: Company information, companies' financial reports and websites

This industry is characterized by a high penetration of banking services and retail points of service (insurance companies, exchange offices, etc.). The charts below show the share-of-presence of the major banks in Portugal both in the urban and rural areas.



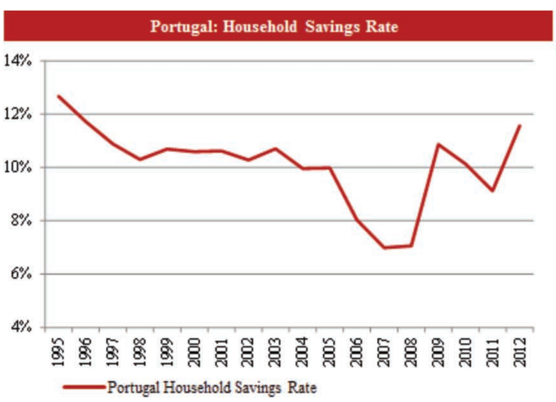
Note: The table above considers only the networks of the 5 main Portuguese banks (in terms of total assets) and CTT's sales points

Source: CTT's analysis

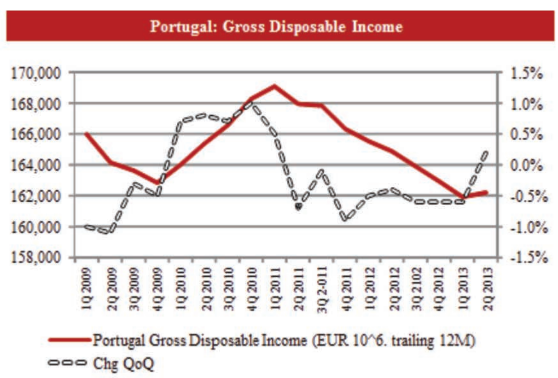
CTT is the fourth biggest financial retailer (Source: *CTT's analysis*), with strong network capillarity allowing a higher density in rural areas, compared with the biggest banks in Portugal (Source: *CTT's analysis*).

Savings and Insurance

The savings rate in Portugal decreased between 1995 and 2008 (Source: *Bloomberg, based on Eurostat*). Despite the growth in 2009 and 2012, in the last year the savings rate was almost equivalent to 1996 and the gross disposable income in the fourth quarter of 2012 was equivalent to the fourth quarter of 2009 (Source: "*Quarterly Annual Accounts by Institutional Sector (Base 2006)—Second Quarter of 2013" by the INE dated 30 September 2013*).



Source: Bloomberg, based on Eurostat



Source: "Quarterly Annual Accounts by Institutional Sector (Base 2006)—Second Quarter of 2013" by the INE dated 30 September 2013

Although the Portuguese financial insurance market has decreased by 40% from 2010 to 2012, CTT grew by approximately 48%, having surpassed some of the largest banking networks (Source: "*Production and Market Shares by Insurance Group in Portugal" by Fidelidade dated December 2012; and "Production and Market Shares by Insurance Group in Portugal" by Fidelidade dated December 2011*").

CTT has a relevant position within the financial insurance market, which covers, amongst others insurance brokerage services, where CTT was the fifth largest life insurance agent in Portugal in 2012 (Source: CTT's analysis, based on "*Production and Market Shares by Insurance Group in Portugal" by Fidelidade dated December 2012*).

The following table shows the capitalization insurance for the years ended 31 December 2012, 2011 and 2010.

Ranking: Capitalization insurance (including "ICAE")—issued premiums in EUR thousands

	2010	2011	2012
Caixa	2,954,953	1,841,640	1,215,725
BES/Tranquilidade	699,446	147,998	1,144,944
Santander	1,008,686	957,001	547,498
Ocidental/BCP	1,018,213	794,892	504,154
CTT	**229,311**	**249,773**	**340,040**
Total	7,924,689	5,294,841	4,728,009

Unit: EUR thousands

Source: CTT's analysis, based on "Production and Market Shares by Insurance Group in Portugal" by Fidelidade dated December 2012 and "Production and Market Shares by Insurance Group in Portugal" by Fidelidade dated December 2011

As of 30 June 2013, CTT's market share in life insurance products (excluding risk products and annuities) was around 8.6%, having reached 12.4% in capitalization insurance products (excluding unit-linked structured products) (Source: *CTT's analysis based on "Production and Market Shares by Insurance Group in Portugal" by Fidelidade dated June 2013*), showing the growing importance of this market for CTT.

Service Payments

In Portugal, there are four possible methods for paying invoices, phone top-ups and other services (donations, tolls and tax payments etc.): Multibanco (ATM), direct debit, payment in-person and bank transfers. Unlike other countries, the ATM network (Multibanco) is unique and is shared by all banks. In terms of in-person networks for payments, there are only two networks with national coverage and both of them are operated by CTT: the retail network and the Payshop network.

Total flows derived from bank transfers, direct debit and ATM payments increased by 2.4% from 2010 to 2012 (Source: *Statistical Bulletin by the Bank of Portugal dated September 2013*). The amount paid and collected in Portugal through the in-person networks totaled €17 billion in 2012, which represented more than 10% of Portuguese GDP (Source: *CTT's analysis based on the Statistical Bulletin by the Bank of Portugal dated September 2013*) and it accounted for about 19% of the global payments transactions volume.

Collections (2012)—Million transactions

Total	**421.2**	**100.0%**
Bank Transfer	13.5	3.2%
Direct Debit	133.1	31.6%
ATM Payments	196.4	46.6%
CTT (Including PayShop)	**78.2**	**18.6%**

Source: CTT's analysis based on the Statistical Bulletin by the Bank of Portugal dated September 2013

As a consequence of the current economic crisis and the banks' cross-selling programs for investors who want a higher interest rate (market segment denominated usually as "affluent"), there is a market segment which is unbanked and avoid the increasing banking fees charged to customers with little financial activity. The convenience and proximity of the physical networks are important in attracting this population.

International Money Orders and Transfers

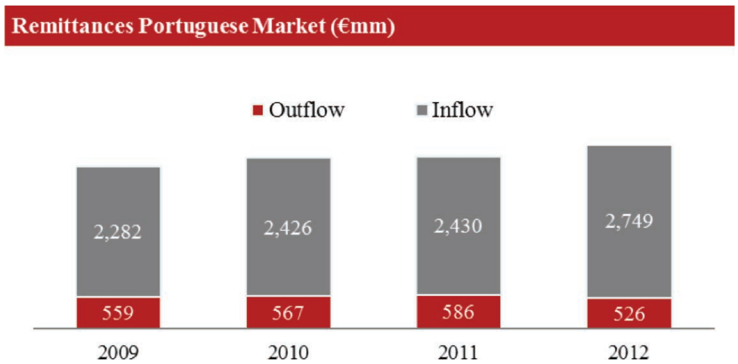
International money orders are a very commonly used method for money transfer between two entities in Portugal or abroad.

Pension payments in Portugal are done mainly through bank transfers to the beneficiaries' accounts. However, there are still a high number of pensioners who receive their pensions through postal orders, a payment method equivalent to a check, which is mailed to the beneficiary.

The Portuguese Government makes payments of other social benefits through bank transfers, letter-checks and postal orders. Social integration income (benefits for those who do not have any other form of income) is paid exclusively through postal orders.

The international transfers and remittances market, which primarily caters to immigrants and emigrants, is expected to tend to grow worldwide with the increasing globalization of the world economy. The geographical relocation of populations is expected to result in increasing flows of funds between countries and regions. The remittances market tends to be stable since when the economy is growing, outflows of funds increase as a result of immigrant populations sending money to their countries of origin, while when the economy is in recession, inflows increase as a result of money received from emigrants.

As demonstrated in the chart below, the remittances market in Portugal has registered an increase in funds inflow, especially in 2012, for the reason described in the previous paragraph, while at the same time, there was a significant reduction of the funds sent abroad as a consequence of a reduction of the immigration.



Source: CTT's analysis and Pordata website

With over four million Portuguese living abroad, Portugal continues to be, in net terms, a remittance recipient country and CTT is a significant player in this market, competing with banks and exchange traders. CTT has partnership agreements with Western Union, Eurogiro and UPU to provide these services. In addition to bank transfers, banks are increasingly entering into partnerships agreements with global transfer operators (such as Western Union and MoneyGram).

	2009	2010	2011	2012
	(EUR thousands)			
Market	2,841,074	2,993,239	3,016,117	3,274,988
CTT	213,789	204,804	200,913	197,244

Source: CTT's analysis and Pordata website

BUSINESS

Overview

CTT is a large logistics operator in Portugal (including express mail and parcels). It is the leader in the Portuguese postal sector, with a 95% market share as of 30 June 2013 (Source: *ANACOM "Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013*) and holds the concession for the USO until 2020. CTT has one of the oldest brands in Portugal and has high levels of recognition across the population, having been voted for nine years as one of the most trusted brands (Source: "*Trusted Brands*" by Reader's Digest). In 2012, 89% of CTT's revenues from sales and services rendered were generated in Portugal. See Note 4 "*Segment Reporting*" to the Consolidated Financial Statements.

CTT offers a wide range of products and services through its four business segments covering three markets: (i) mail, (ii) express and parcels, and (iii) financial services. In Portugal, CTT's services include mail (which includes business solutions and retail offer and other services), express and parcels and financial services (including payment services through Payshop's agent network). CTT also offers express and parcels services in Spain through its subsidiary, Tourline, and in Mozambique through CORRE, a subsidiary 50% owned by CTT and 50% by the national postal services provider, Correios de Moçambique.

CTT operates four separate, but connected, networks: (i) the postal distribution network, whose main activity is the delivery of mail and other products falling within the USO and which is operated directly by CTT; (ii) the Portuguese express and parcels network, which is dedicated to the distribution of express mail and parcels in Portugal and is operated by third parties through outsourcing contracts; (iii) the Spanish express and parcels network, which is dedicated to the distribution of express mail and parcels in Spain and is partially operated through a franchisee model; and (iv) the retail network, through which CTT offers services to both retail and small corporate customers, including mail and parcels collection, acceptance and delivery services, as well as other services, including financial services. The postal distribution network and retail network are together referred to as the "postal network".

As of 30 June 2013, CTT's retail network had national coverage with 2,518 sales points (625 own branches managed by CTT and 1,893 partnership branches operated by third parties). As of 30 September 2013, CTT's retail network served its customers in Portugal through 2,520 sales points, (of which 624 were post offices managed by CTT and 1,896 were postal agencies operated by third parties). CTT had also installed 379 automatic stamp vending machines and 21 automatic mail product vending machines in Portugal, some of which are available 24 hours-per-day. CTT also has 3,909 agents through its wholly owned subsidiary, Payshop. Through its postal distribution network, CTT sorts and distributes postal items through 11 sorting units and 304 postal distribution centres. During the nine months ended 30 September 2013, CTT handled an average of 3.6 million addressed mail items per day and served 5.3 million households in Portugal.

CTT operates its business through the following business units:

- *Mail.* Collection, sorting, transportation and distribution of domestic and international mail, including transactional mail (encompassing non-priority and priority mail, convenience mail, registered mail and international mail outbound and inbound), press mail, USO parcels and advertising mail.
- *Business Solutions*. Mail and document management services, printing and finishing services, digital mail, geographically focused products and other document and archive management services for business customers. This business unit is ancillary to the mail business unit and offers corporate customers solutions and services related to mail products.
- *Express and Parcels Services.* Collection, processing, transport and delivery of express and parcel services (domestic and international) in Portugal, Spain and Mozambique.
- *Financial Services.* Savings and insurance brokerage services (including public savings certificates and public debt targeted at retail investors), payment and collection services (including payment at CTT branches and the Payshop network), international money transfers and money orders (*vales de correio*) as well as other financial products and services.

For the years ended 31 December 2012, 2011 and 2010, CTT had revenues of €714.2 million, €765.8 million and €797.8 million, respectively, and EBITDA of €104.3 million, €113.9 million and €111.7 million, respectively. For the nine months ended 30 September 2013 and 2012, CTT had revenues of €520.0 million and €529.3 million, respectively, and EBITDA of €93.3 million and €82.8 million, respectively.

CTT is wholly owned by the Selling Shareholder, a company controlled by the Republic of Portugal. On 31 January 2013, the Secretary of State of the Treasury transferred 100% ownership of CTT from General

Directorate of the Treasury to the Selling Shareholder pursuant to Order 2468/12—SETF of 28 December 2012.

History and Development

Principal events during CTT's recent history and development include:

1520	On 6 November 1520, Royal Decree of King Manuel I set up the office of Kingdom Post Master, a Royal appointed position. Luis Homem was the first Post Master.
1821	Beginning of postal home delivery service in Portugal.
1853	First post stamp is issued in Portugal (with Queen Rainha D. Maria II image).
1911	General Administration of Posts, Telegraphs and Telephones, a Public Administration body with financial and administrative autonomy, was established.
1969 & 1970	The Public Administration Body was transformed into a state-owned corporation "CTT Correios e Telecomunicações de Portugal EP".
1978	A four digit postcode was introduced in Portugal (expanded to seven digits in 1998).
1992 & 1993	"CTT Correios e Telecomunicações de Portugal EP" was incorporated as a private company (100% owned by the state) and renamed as "CTT—Correios e Telecomunicações de Portugal S.A.". CTT ceased all telecommunications activities conducted by it at the time.
1997	CTT commenced offering express and parcels activities in Portugal.
1999	The 1997 EU Postal Directive was transposed through the Postal Service Law Basis (Law no. 102/99 dated 26 July 1999). Basis for the Concession of USO (Decree Law no. 448/99 dated 4 November 1999) was approved.
2000	On 1 September 2000, the Universal Postal Concession Service Contract was signed between the Portuguese Government and CTT as provided in the Basis for the Concession.
2004 to 2006	CTT acquired 100% ownership of Mailtec Group, Payshop and Tourline. CTT acquired 51% ownership of EAD—Empresa de Arquivo de Documentação, S.A., which provides document management and archive services.
2008	The Third Postal Directive was approved, which established the final timetable for the full opening of the postal market in the European Union.
2010	CORRE—Correio Expresso de Moçambique, S.A. was established and commenced operations on 1 July 2010.
2011	On 22 December 2011, the Parliament approved draft Law no. 35/XII, which established the legal regime governing the provision of postal services in a fully liberalized market.
2012	The new Postal Law (Law No.17/2012 dated 26 April 2012) was passed, which transposed the Third Postal Directive setting forth the legal regime of the provision of postal services in full competition in the national territory, as well as international services to or from Portugal.

2013 . . . .

On 5 August 2013, CTT submitted an application to the Bank of Portugal in relation to the establishment of a postal bank.

The Council of Ministers approved CTT's privatization on 25 July 2013 (Decree Law No.129/2013 published on 6 September 2013).

Approval of the Resolution of the Council of Ministers No. 62-A/2013 dated 11 October 2013, which established the conditions of the public offer for sale and the terms of reference of the direct institutional offer, as well as special purchasing conditions granted to the employees of the Company, and of certain subsidiaries which are in control or group relationship with the Company, namely, regarding the price.

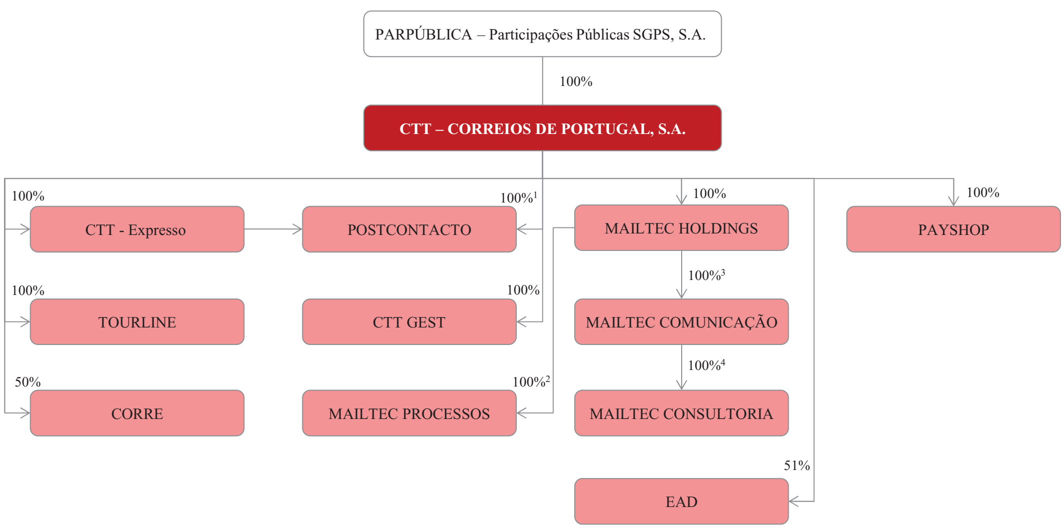
Approval of the Resolution of the Council of Ministers No. 62-B/2013 published on 11 October 2013, which established a special committee for monitoring the privatization process of the Company.

Approval of the Resolution of the Council of Ministers No. 62-B/2013 published on 11 October 2013, which established a special committee for monitoring the privatization process of the Company.

On 27 November 2013, the Bank of Portugal issued its authorization for the establishment of a postal bank, in accordance with the proposal submitted by CTT on 5 August 2013. The authorization is subject to the fulfillment of certain conditions and requirements.

Corporate Structure

The following chart presents the ownership structure of CTT and its subsidiaries as of the date of this Offering Memorandum.



(1) 95% by the Company and 5% by CTT Expresso

(2) 100% through Mailtec Holding SGPS, S.A.

(3) 82.3% by Mailtec Holding SGPS, S.A. and 17.7% by the Company

(4) 90.0% by Mailtec Holding SGPS, S.A. and 10% by the Company

Competitive Strengths

CTT's competitive strengths stem from its history and unique position in the postal services market. In particular, CTT has the following competitive strengths:

- CTT core network (*i.e.*, distribution and retail networks) has a high degree of capillarity; and a nationwide reach.

- Highly trusted brand and strong reputation with consumers.
- Top management team with a long track-record in the mail industry.
- First movers in cash payments solutions.
- Significant economies of scale in CTT's mail and express and parcels operations.

Unique[9] distribution network with high capillarity and strong brand in Portugal

CTT is a company with almost 500 years of history based on a close relationship with the Portuguese population. CTT's post offices are spread all over the country and offer services which include the delivery of mail and parcels, payment solutions (payment of pensions and bills), funds transfers, savings products and insurance, including saving and treasury certificates (public debt). It also includes the distribution network, with a high capillarity, which covers all households and individuals in Portugal. CTT's high quality of service and postal network's coverage of the entire country have contributed to its strong brand identity. Customer surveys undertaken by CTT show that almost 80% of its customers visiting CTT post offices have rated the service they received as "good" or "very good". In 2013 and for the ninth year, Portuguese consumers selected CTT as one of the most trusted brands (Source: "*The Brands of our Confidence*", *by Reader's Digest*). Among those who selected CTT, 86% classified themselves as CTT customers while 71% would recommend CTT's services. In particular, these customers emphasized the following attributes in relation to CTT: experience, knowledge of its customers' needs and the quality and reliability of its services and products. CTT's countrywide retail network, which has higher density in rural areas than any banking institution in Portugal, together with its trusted brand, make CTT's retail network a strong platform for providing high-value services to its customers.

Market leading and profitable[10] mail business in Portugal

CTT has a profitable mail business with attractive profitability when compared to other European operators (as measured by EBITDA margins) due to its efficient operations and ability to adjust its cost structure. During the last three years, CTT has improved its mail EBITDA margins as a result of its continuous restructuring initiatives, other cost savings programs, as well as through the development of financial services and higher integration of the distribution of express and parcels.

Despite the decline in the mail volumes in Portugal, CTT's mail business has continued to deliver relatively stable results due to improved operational efficiency. CTT's mail business unit demonstrates strong profitability in terms of EBITDA even considering that mail prices in Portugal are lower than the European average (Source: *"Main Developments in the Postal Sector (2010-2013)—Country Reports" by WIK-Consult GmbH dated August 2013*) and CTT does not receive any compensation for PSGIs or governmental aid.

CTT has developed expertise in the automation and technical aspects of the mail business, which is a key advantage as compared to its competitors in Portugal. CTT is a leader in the Portuguese postal sector with a 95% market share as of 30 June 2013 (Source: *ANACOM "Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013*). Although there are currently 12 companies (three belonging to CTT) licensed to provide postal services in Portugal, none of these companies has a market share of greater than 1% (Source: *ANACOM "Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013*).

CTT is also a large logistic operator in Portugal (including mail and express and parcels) and has retail and distribution networks with countrywide coverage. As of 30 September 2013, CTT served its clients through 2,520 points of sale of its retail network (of which 624 were post offices managed by CTT and 1,896 were postal agencies operated by third parties) and 3,909 Payshop agents, 11 sorting units[11] and 304 postal distribution centers that are part of CTT's postal distribution network.

Continuous operational efficiency management

CTT has developed a systematic approach to identify and realize cost savings across its operations. Since 2009, CTT has implemented a cost reduction program with the goal of optimizing its operations. As part of

9 Network in Portugal reaching every house and individual through the distribution network with nationwide coverage and high capillarity. A complimentary network of over 2,500 retail stores to provide several services, besides acceptance and delivery postal services.

10 See chart with the net profit and the net margin for the last three years.

11 Includes sorting centres, logistics support centres and international air mail units.

this program, and in order to offset the decline in mail volumes, CTT has reorganized its operations and adjusted its retail network through a reduction of a high number of post offices and postal agencies. CTT has also improved its distribution models and restructured its delivery and sorting units. In addition, since 2010, the age structure of CTT's workforce has contributed to natural attrition, through reforms/retirements, which has enabled CTT to reduce its headcount without incurring in significant restructuring costs. As of 30 September 2013, slightly more than 33% of CTT's work force was over the age of 50.

During 2013, CTT implemented additional cost reduction measures, which included further changes to CTT's delivery network and internalization of several outsourcing activities. The processing, transport and delivery operations were reorganized and the retail network was streamlined and resized via the replacement of a number of CTT's post offices with postal agencies. As a result of these initiatives, CTT reduced its fixed costs and increased its flexibility, while preserving its country-wide network and its quality of service. CTT has also implemented transformation plans across its business units, increasing efficiency, introducing new technologies and improving integration across its networks. Despite these initiatives, CTT has achieved high quality of service levels for the last three years and has exceeded the quality targets defined by Third Postal Directive. Customer surveys undertaken by CTT show that almost 80% of its customers visiting CTT post offices have rated the service they receive as "good" or "very good". CTT intends in the near future to continue to implement cost savings programs focused on developing new technologies and a deeper integration of the postal network with the express and parcels network, as well as enhancing revenue growth through a better use of the retail network to provide other services.

Improving legal framework

CTT benefits from a clear stable framework, which has recently been amended in order to transpose the Third Postal Directive into Portuguese law. Under the existing legal framework, CTT remains the concessionaire of the USO in Portugal until 2020 and is the exclusive operator of reserved activities for reasons of public order and general interest. In 2013 (April and November), CTT increased the average price of services comprising the USO by approximately 4.2% and created for bulk mail sent by business customers two price zones (i) metropolitan areas (*i.e.*, Lisbon and Oporto), and (ii) the rest of Portugal, which has allowed CTT greater flexibility to manage relationships with customers and to better defend its market share in certain key geographic areas.

The proposed amendments to the Postal Law (which are currently being considered by the President of the Portuguese Republic for promulgation and, regarding the second amendment, it is being analyzed by the Assembly of the Portuguese Republic): (i) establish rules for determining the net cost of providing the USO; and (ii) identify the contributors to the compensation fund in respect of the cost of providing the USO, in the event that this net cost represents an unfair burden. The ANACOM's draft projects: (i) provide a definition for unfair financial burden for the provision of the USO; (ii) establish the rules for determining the density of the postal network, and (iii) formulate the rules for special prices and other requirements applicable to the USO provider.

Iberian express and parcels platform

CTT provides a broad range of express and parcels services and products, including the collection, processing, transport and delivery services (both national and international) and complementary logistics and cargo solutions, within and between Portugal, Spain and Mozambique, as well as internationally. Management believes that the express and parcels market in Portugal and Spain will grow during the next five years, in particular in the B2C segment. This growth is expected to be driven primarily by growth in e-commerce in Portugal and Spain, where the volume of on-line shipments is still below the European average (Source: *Eurostat website*). In order to position itself in these growing markets, CTT will continue to focus on improving its express and parcels business by optimizing distribution costs, increasing cross-selling to existing customers and targeting new customers. Management believes the focus on products tailored made to e-commerce, flexible pick-up and drop-off solutions and easy return services are critical for expanding its express and parcels operations in Spain and Portugal. CTT has already implemented some of these measures by (i) merging and upgrading major components of its delivery networks, (ii) renegotiating its outsourcing contracts, and (iii) centralizing and upgrading its sorting operations. CTT has also entered into new arrangements with international postal service providers and with an Iberian retail network in order to expand its PuDo services. In Portugal and Spain, CTT also centralized its commercial and operational activities in order to centrally coordinate its operations and reduce costs.

In Portugal, CTT provides express and parcels services through its subsidiary, CTT Expresso, which operates primarily through its own network and operational centers, but also utilizes CTT's extensive postal network. The Portuguese express and parcels market was valued at €350 million in 2012, having decreased by 1.4% in that same year (Source: *Value adjusted by CTT based on CEP Market Study 2012 "Assessment of Market Purchase Behaviors" by the Institute of Marketing Research dated February 2012)*. Management expects the market to grow during the coming years. The B2C segment has grown steadily during recent years and is expected to contribute to the growth of CTT's express and parcels operations in Portugal. Management believes that CTT Expresso has a significant competitive advantage in Portugal due to: (i) its leading position (29% market share based on volume in the second quarter of 2013) (Source: *ANACOM "Postal Services Statistical Information for the Second Quarter of 2013" dated October 2013*); (ii) large operating scale; and (iii) extensive delivery network.

In Spain, CTT provides express and parcels services through its subsidiary, Tourline. Tourline operates directly part of the network and the rest is operated by local franchisees. The Spanish express and parcels market was valued at €4 billion in 2012 and is expected to grow during coming years (Source: *DBK*). Despite challenging economic conditions, Tourline has been able to maintain a significant presence (with country-wide network coverage) and stable market share, currently 4% of the Spanish express and parcels market (Source: *IMR—Iberian CEP 2013—"Assessment of Market Purchase Behaviors", by the Institute of Marketing Research*). However, Tourline's small operating scale and the need for operational and commercial restructuring have impacted its short-term profitability. Tourline's operations in the B2C segment have been important to CTT's operations in Spain and are expected to continue to have a significant impact in the future. B2C is the segment with a highest expected growth.

Well positioned to expand financial services

CTT offers a wide range of financial products and services to meet its customers' needs, ranging from savings and insurance products to payment solutions and money transfers. These products and services are offered through CTT's retail network, which has high capillarity and nationwide coverage, supported by a trusted brand. As of 30 September 2013, CTT's payment solutions network was also supported by an additional network of 3,909 Payshop agents.

Despite the negative impact the global economic crisis had in CTT, the revenues from financial services remained relatively stable during the previous three years. This was mainly due to the wide range of products and high quality service offered by CTT, as well as the strong relationships CTT has been fostering with its customers for many years. In 2012, CTT's revenues from financial services amounted to €57.7 million (8% of CTT's revenues) and CTT processed over €17 billion in transaction volumes.

The volume of savings products distributed by CTT grew considerably on the nine months ended 30 September 2013 (when compared with the same period in the previous year), due to the competitive interest rate provided by these products, strong brand recognition and cross-selling initiatives undertaken by CTT. In particular, savings products grew to €1.2 billion, a 112% raise compared to the same period of 2012. This performance was due to the competitiveness of the marketed products and the strong commitment of the Retail Network, supported by incentive and promotion programs on savings placement.

Placements of public savings certificates grew by 200.5% as a result of improved returns being offered (EURIBOR +2.75%) by the Portuguese State from 31 August 2012, offered by the State as of 31 August 2012 and in force until 2016.

Comparing the same periods, there was also an 85% increase in capitalization life insurance sales. During the first semester of 2013, CTT's market share in life insurance products (excluding risk products and annuities) and capitalization life insurance products were approximately 8.6% and 12.4%, respectively (Source: *CTT's analysis based on"Production and Market Shares by Insurance Group in Portugal" by Fidelidade dated June 2013*). In 2013, CTT also renewed its partnership agreements with: (i) Fidelidade (one of the leading insurance companies in Portugal) for the distribution of capitalization life insurance products; (ii) IGCP for the distribution of treasury and savings certificates; (iii) Western Union for international money transfers; and (iv) Estradas de Portugal for toll payments. These agreements have stabilized CTT's product portfolio, strengthened the partnerships and adjusted CTT's fees to reflect increased customer demand. In addition, CTT's subsidiary, Payshop (which is registered with the Bank of Portugal as a payment institution), continues to be a very popular option for mobile top-ups and utility bill payments in Portugal.

Skilled management team and employees with extensive experience in the postal services industry

CTT's management team has a long record of experience in the mail and services sector. This team is active and involved in the main international initiatives in the sector—namely IPC, PostEurope and

UPU—that aim to create operating efficiency in the postal sector. Training programs are a key element of CTT's human resources management strategy. As part of this strategy, CTT has implemented staff rotation programs and other training programs, which provide CTT's management team with exposure to all business units and contribute to promote excellence across all business units.

Cash flow generation, liquidity and dividend payout

During the last three years, CTT has demonstrated a good financial performance as illustrated by its stable cash flow (defined as EBITDA minus capital expenditures), and a significant liquidity (liquidity ratio above 100%) and a balance sheet with high levels of cash and cash equivalents (deposits). Given its positive cash position and cash flows, CTT had dividend payout ratio above 90% in the last two years.

As of the date of this Offering Memorandum, CTT's major material liability was the healthcare benefits for retirees, which is a long-term obligation, although still requiring relatively small annual payments. In addition, CTT's various on-going productivity initiatives require only moderate capital expenditure. This is primarily due to the fact that most of CTT's modernization initiatives have been completed over the last three years and also to the non-capital intensive nature of the postal business itself. Based on these factors, as well as in the positive cash position and significant liquidity, CTT has been able to make dividends distributions in the last six years, with an average payout ratio above 80%. See "*Dividend Policy*".

Strategy

CTT's principal objectives are to deliver sustainable growth and improved profitability from each of its business units. To achieve these objectives, CTT has the following key strategies:

Maintain market leadership in mail and parcels and capitalize on economies of scale as a competitive advantage

In order to maintain its market share in Portugal and to improve its EBITDA margins in the mail business unit, CTT has continued to develop an integrated and customer focused portfolio of products and services for its Portuguese mail customers. In particular, CTT aims to provide a one-stop[12] service for its 60 large customers, which accounted for 44% of CTT's sales and services rendered for the nine months ended 30 September 2013.

As part of these efforts, CTT is also reviewing its price structure based on market conditions in order to ensure that its prices are competitive and allow for sustainable EBITDA margins. CTT aims to continue to develop its mail operations in close collaboration with its other business units by capitalizing on synergies across business units. In addition, CTT is focused on promoting its advertising mail capabilities. As a result, CTT intends to demonstrate to its customers the various advantages of paper as a means of advertising communication and increase demand within Portugal to levels typically seen in other European countries, at a time when television loses value as a result of the technological evolution (digital recording).

CTT takes a proactive approach towards its large customers and has established a dedicated sales force that provides high quality customer service and promotes cross-selling of CTT's products. CTT is also considering providing new business solutions that combine its current physical mail platforms with new digital platforms. These services would allow CTT's large customers to seamlessly switch from a physical to an electronic mail platform. As a result of such efforts, CTT hopes to retain its existing customers and attract new customers, as well as diversify its operations.

Promote a regulatory framework that supports the USO sustainability

The recent mail volume declines have resulted in reduced profitability and the need for various cost cutting measures and price increases in the postal industry. Management believes that the postal services industry in Europe should be focused on improving the profitability of the USO in order to assure its sustainability in the future. As part of these initiatives, CTT aims to maximize profitability by using its networks and distribution capabilities to provide a broader range of services to its customers. In particular, CTT uses its retail network to offer financial services to its customers and other services of interest to citizens. CTT has regular discussions with the ANACOM and with the Portuguese State to present its views and proposals regarding cost allocation, quality of service and different ways to take advantage of CTT's networks, including maximizing the profitability of its retail network, reducing idle time and increasing cross-selling opportunities.

[12] Offering of mail services, complemented by the printing and finishing and scanning and archiving services.

The proposed amendments to the Postal Law (which are currently being considered by the President of the Portuguese Republic for their promulgation and, regarding the second amendment, it is being analyzed by the Assembly of the Portuguese Republic) establish rules for determining the net cost of providing the USO and identify the contributors to the compensation fund in respect of the cost of providing the USO, in the event that this net cost represents an unfair burden, protecting the USO provider. Management believes that the amendments are significant in order to maintain a sustainable regulatory framework.

Maintain efficiency through continuous transformation programs

CTT is focused on continuing to improve its operating efficiency and profitability. As part of this strategy, CTT plans to adjust the size of its networks, while maintaining nationwide coverage. CTT plans to reorganize its retail network by (i) reducing geographic overlap, (ii) restructuring its points of sale by introducing new operating and ownership formats with the goal of replacing fixed costs with variable costs; (iii) maximizing store productivity in terms of staff and area utilization, and (iv) increasing branch efficiency to further reduce its cost base.

CTT is also in the process of changing its distribution network by: (i) implementing a new distribution model and reorganizing its distribution centers, (ii) improving its sorting units by increasing automation, (iii) implementing staff related cost reduction initiatives; (iv) increasing transportation and distribution synergies with CTT Expresso and the parcels network; and (v) renegotiating contracts with external suppliers.

On the revenues side, management believes that growth in express and parcels and financial services as well as the new agreement to offer services of general economic interest (PSGIs) will enable CTT to utilize the capacity of its distribution and retail networks that may become available as a result of declines in mail volumes. New sources of revenue for the same cost base are the second lever to maximize efficiency.

Develop the express and parcels business to take advantage of expected market growth, especially in the B2C segment

CTT's express and parcels activities are a fundamental growth driver for CTT, as CTT plans to become one of the leading operators in the Iberian Peninsula and benefit from its growing presence in both the Portuguese and the Spanish markets. CTT plans to grow its operations by focusing on each country on an individual basis, but also by developing synergies between countries and capturing Iberian parcels flows. It also intends to leverage its cargo and logistics services to retain existing customers and capture new express and parcels customers. Finally, CTT hopes to promote its parcels services, particularly in Portugal and Spain, but also in other European countries, and Portuguese speaking African countries, based on increasing flows of goods and business between these countries.

CTT intends to improve its market position by (i) developing a new portfolio of products and services dedicated to the B2C segment that leverages CTT's delivery networks, CTT Expresso and Tourline; (ii) implementing a new pick-up/ drop-off (PuDo) network in addition to CTT's existing points of sale; (iii) increasing commercial synergies between the two markets; and (iv) cross-selling complementary cargo and logistics services.

In Portugal, CTT intends to (i) revise and further develop its customer relationship management systems, (ii) integrate its IT and management information systems, (iii) develop new relationship management tools to create a seamless customer experience and customer profitability view, (iv) exploit synergies with CTT's postal network, (v) revise commercial/sales force objectives and incentives in order to better align them with operating targets, and (vi) optimize operational costs through process reengineering initiatives and renegotiations of outsourcing contracts, maximizing the synergies within the postal network.

In Spain, CTT intends to grow its business and improve profitability by (i) increasing control and centralizing operations, (ii) focusing on the B2C segment where it has greater market presence, (iii) cross-selling complementary cargo and logistics services, and (iv) optimizing operating costs through process reengineering and outsourcing and franchising contracts renegotiations. CTT also has express and parcels operations in Mozambique, taking advantage of the growth of this market and is actively working on other possibilities outside the Iberian Peninsula, including partnerships to capture flows from other European countries.

Strengthen financial services platform and offer a broader range of services

Given the expected continued decline in mail volumes in Portugal, CTT also plans to focus on its financial services portfolio and to dedicate additional resources to develop this business unit in the short to medium term. CTT plans to expand its range of financial products and services, while building on its core capabilities by utilizing CTT's retail network. CTT expects to: (i) further improve its technological and innovative capabilities, (ii) reinforce relationships with its key partners and suppliers, (iii) enhance its range of products and services, (iv) introduce new products and solutions as an alternative to traditional products (*e.g.*, pre-paid cards *vs*. money orders), and (v) launch new financial products.

In addition, CTT aims to partner with local and international counterparties and financial institutions in order to increase its market share by offering new financial services products. Through these partnerships, CTT plans to offer (i) credit products (*e.g.*, credit cards, consumer credit, etc.) and other products (*e.g.*, structured products, risk insurance, etc.), (ii) an integrated solution for managing payments, including retail payments (through CTT's retail network and Payshop) and electronic payments channels (ATM and direct debit), (iii) pre-paid payment cards for meal subsidies or social benefits. In addition, CTT may further expand its financial services offering through a new postal bank. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments*".

Business Units

CTT divides its business into four business units, namely (i) mail services (including retail & other services), (ii) business solutions, (iii) express and parcels services, and (iv) financial services. Business solutions are managed together with the mail services business unit in order to offer to CTT's corporate customers global solutions, covering upstream and downstream mail value-added services.

The following table presents CTT's revenues[13] by business units for the nine months ended 30 September 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010.

	Nine month period ended 30 September (Unaudited)		As of and for the year ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
	(EUR thousands)				
Mail	387,436	398,889	535,957	577,504	613,704
Business solutions	16,143	17,819	22,999	26,055	27,121
Express and parcels	95,063	94,774	127,998	133,917	143,780
Financial services	44,108	43,612	57,673	61,673	60,060
Total	**542,750**	**555,094**	**744,627**	**799,149**	**844,665**

The following table presents CTT's EBITDA by business units for the nine months ended 30 September 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010.

	Nine month period ended 30 September (Unaudited)		As of and for the year ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
	(EUR thousands)				
Mail	65,763	55,348	68,182	71,729	70,801
Business solutions	1,367	1,702	1,708	2,960	2,621
Express and parcels	6,181	6,055	9,144	14,179	17,925
Financial services	19,944	19,678	25,305	25,045	20,323
Total(1)	**93,255**	**82,783**	**104,339**	**113,913**	**111,669**

(1) Excludes impairments and provisions

Mail (USO and Non-USO)

CTT is the USO provider in Portugal. The USO includes transactional mail, press mail and certain parcels. Advertising mail and philately are not part of the USO. The issuance of stamps bearing the word "Portugal" is an exclusive right granted to CTT.

CTT provides services for transporting, sorting and distributing domestic and international mail, including transactional mail (encompassing registered mail, priority (blue) and non-priority mail and convenience mail (green)), parcels, press and advertising mail and philately. During the last three years, CTT has also focused on developing its hybrid mail solutions, which combine physical and digital forms of

13 Excluding intragroup eliminations and central CTT structure.

communication. CTT has also started an environmentally friendly product line that allows customers to purchase pre-paid envelopes and packages that are made from recycled ink and paper as well as an internet based mail product line.

CTT offers transactional mail, parcels and press services as part of its mail business unit. As USO provider, CTT is required to comply with quality of service targets and pricing methodologies stipulated by postal regulation. The ANACOM sets the maximum level CTT is permitted to charge for certain of its USO services, although CTT is allowed to charge less than the maximum level and can provide further discounts to bulk mail customers. CTT submits its price proposal to the ANACOM on an annual basis (including any amendments thereto) at least 30 days before the new prices are scheduled to take effect. If CTT and the ANACOM do not reach an agreement on the prices, the ANACOM could set the new prices, provided it maintains the security, effectiveness and integrity of the network and the USO. CTT provides mail services to Portuguese Government entities through commercial contracts. CTT is able to review the commercial contract, however it offers its services under the USO and therefore there are price restrictions. In particular CTT provides registered mail services to as part of reserved services under the USO in judicial and administrative proceedings.

In addition, CTT is required to ensure that all customers have access to its services within Portugal and that the price structure is transparent, fair and non-discriminatory. CTT does not have any pricing restrictions on services and products that are outside the USO. The following table presents historical operating information for the mail business unit for the nine months ended 30 September 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010.

	Nine month period ended 30 September (Unaudited)		As of and for the year ended 31 December		
	2013	2012	2012	2011	2010
Staff	10,287	11,071	10,312	10,961	11,586
—Retail network	2,749	3,095	2,924	3,107	3,397
—Sorting units and distribution network	7,378	7,783	7,212	7,631	7,929
—Other	160	193	176	223	260
Points of sale (retail)(1):					
—Post offices (owned branches)	624	752	748	783	884
—Postal agencies (partnership branches)	1,896	1,813	1,814	1,778	2,013
Customers per day at post offices	131,397	140,138	139,724	153,902	166,241
Customers per day per post office	211	186	187	197	188
Sorting units2	11	11	11	11	11
Distribution centers	304	330	326	341	353

(1) In 2009, CTT had 1990 post offices (owned branches) and 900 postal agencies (partnership branches).

(2) Includes sorting centres, logistics support centres and international air mail units.

The following table presents volumes by product for the mail business unit for the nine months ended 30 September 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010.

	Nine month period ended 30 September (Unaudited)		Years ended 31 December		
	2013	2012	2012	2011	2010
			(Thousands)		
Transactional mail:	568,900	610,624	809,632	875,861	928,901
—Non-priority mail	457,123	498,427	655,522	710,987	752,767
—Priority mail	23,231	23,410	32,189	40,041	47,858
—Convenience mail	3,101	3,147	4,208	4,537	4,836
—Registered mail	45,183	42,570	59,177	57,428	53,421
—International mail (outbound)	22,191	23,872	31,894	33,684	37,451
—International mail (inbound)	18,070	19,198	26,642	29,184	32,569
Press mail	32,454	35,988	47,988	55,554	59,435
Parcels	252	284	405	405	421
Advertising mail	445,134	459,159	622,042	668,929	707,224
—Direct mail	66,022	76,318	101,301	120,417	135,112
—Geocontacto	2,304	3,388	3,498	5,439	2,169
—Unaddressed mail	376,525	378,673	516,332	541,214	568,280
—Sampling direct	283	780	911	1,859	1,662
Total	**1,046,740**	**1,106,054**	**1,480,066**	**1,600,748**	**1,695,980**

The following table presents revenues by product for the mail business unit for the nine months ended 30 September 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010.

	Nine month period ended 30 September (Unaudited)		Years ended 31 December		
	2013	2012	2012	2011	2010
			(EUR thousands)		
Transactional mail	300,849	303,944	407,829	432,086	452,758
—Non-priority mail	140,963	150,307	197,666	216,813	238,697
—Priority mail	13,399	13,106	18,344	21,018	26,775
—Convenience mail	4,265	4,194	5,611	5,816	6,015
—Registered mail	96,980	93,600	130,088	126,804	118,111
—Special mail and complementary services	6,333	2,646	3,545	3,550	3,576
—International mail (outbound)	28,887	28,758	38,981	40,582	43,198
—International mail (inbound)	10,022	11,332	13,594	17,504	16,387
Press mail	10,046	11,214	15,051	17,760	19,754
Parcels (USO)	5,195	5,183	7,386	6,919	6,948
Advertising mail	25,307	28,370	37,672	44,489	51,715
—Direct mail (addressed)	18,263	21,216	28,055	33,787	39,084
—Unaddressed mail	6,946	6,973	9,464	10,377	12,395
—Geocontacto	81	139	102	223	143
—Sampling direct	17	43	50	102	94
Total mail + USO Parcels(1)	**341,397**	**348,711**	**467,938**	**501,254**	**531,176**

(1) Does not include retail products (lottery, merchandising, telecommunications, packaging, etc.) and revenues from intra-group transactions

Transactional Mail (USO)

In 2012 the transactional mail accounted for revenues of €408 million, corresponding to 76% of the total revenue of the mail business unit.

CTT's transactional mail includes the following product lines, which can be provided on an ad-hoc or contractual basis:

- *Non-priority mail (Correio Normal Nacional).* The collection, sorting, transport and distribution of letters, postcards and packages up to 2kg. These items are delivered within three business days (D+3).

- *Priority mail (Correio Azul Nacional).* The collection, sorting, transport and distribution of letters, postcards and packages up to 2kg. These items are delivered the next business day (D+1).
- *Registered mail (Correio Registado Nacional).* The collection, sorting, transport and distribution of letters, postcards and packages up to 2kg. These items are delivered the next business day (D+1) and provide proof of delivery and shipping insurance. CTT's customers can track their incoming and outgoing orders online at CTT's dedicated website. Customers are offered comprehensive search criteria including order number and date, recipient's name and phone number and delivery postal code. Customers can also have order and delivery status updates automatically forwarded to them by electronic mail.
- *Convenience mail (Correio Verde Nacional).* Envelopes and packages that are pre-paid and can be mailed without further cost to the customers. Prepaid postage makes sending mail fast and easy for businesses and individuals. These items are delivered the next business day (D+1) and can weigh up to 2kg.
- *International Outbound Mail (Correio Internacional Outbound).* The collection, sorting, transport and distribution of all products for international delivery within five business days (D+5) in Europe or within seven business days (D+7) for the rest of the world.
- *International Inbound Mail (Correio Internacional Inbound).* The collection, sorting, transport and distribution of all products that were shipped by international entities to individuals and business located in Portugal.
- *Other Services.* Various postal products, such as packages and sachets.

Press (USO)

In 2012 press mail accounted for revenues of €15 million, corresponding to 3% of the total revenue of the mail business unit.

Press mail (*correio editorial*) includes addressed subscription press mail. Press mail can be delivered within (i) three business days (D+3) within Portugal for economy mail, (ii) five business days (D+5) within Europe or seven business days (D+7) for the rest of the world for priority parcels, and (iii) ten business days (D+10) within Europe or twenty business days (D+20) for rest of the world for economy mail. Press mail includes newspapers, magazines and other periodicals. CTT delivers press mail based on contractual agreements with its business and government customers.

Parcels (USO)

In 2012 parcels accounted for revenues of €7 million, corresponding to 1% of the total revenue of the mail business unit.

Parcels can be delivered to both national and international customers and can weigh up to 20kg (packages weighting more than 20kg are handled by express and parcels business unit). CTT offers proof of delivery, track and trace services, shipping insurance and other services to its customers. Parcels can be delivered within three business days (D+3) for Portugal, five business days (D+5) for Europe or seven business days (D+7) for the rest of the world. According to the USO regulation, parcels weighing up to 10kg dispatched and delivered within Portugal and parcels weighting up to 20kg received from EU member states and delivered within Portugal are part of the USO. CTT also provides additional express and parcels services, which are not part of USO. The express and parcels business unit is tailored to customers that require greater speed and added value to the service, such as CTT's larger customers.

Advertising Mail (Non-USO)

In 2012, advertising mail accounted for revenues of €38 million, corresponding to 7% of the total revenue of the mail business unit

CTT's advertising mail offering allows for the segmentation of specific target audiences as well as support through several stages of an advertising mail campaign. CTT works with its customers to manage the entire mailing process, from data processing, personalization, printing and finishing through to delivery.

Advertising mail allows customers to tailor their messages to the target audience. This allows CTT to analyze the cost effectiveness and profitability of a particular advertising campaign. Advertising mail can also be unaddressed and geo-referenced (*i.e.* sent to a general geographic or socioeconomic group). In this context CTT offers an ECO certification for campaigns made with materials that allow for environmental sustainability.

The following describes the key product and services offered:

- *Direct mail.* Addressed mail sent to a group of customers or prospective customers. Direct mail can be sent nationally or internationally. CTT provides both standard mailing options and customized products.
- *Geocontacto.* Unaddressed mail (*e.g.*, leaflets and samples) that is selectively distributed to certain socioeconomic groups based on consumption behavior within the predefined geographic areas in Portugal.
- *Unaddressed Mail.* Mail that is delivered to all post boxes within a particular area, except for the post boxes with a "Do Not Mail Me" sticker. CTT also provides advice to its customers on geographic areas to be covered by analyzing various socio-demographic variables and data provided by third parties. These additional services are provided by CTT's subsidiary, Postcontacto.
- *Sampling Direct.* Hand delivery services for advertising mail throughout CTT's retail network.

Philately (USO and Non-USO)

In 2012, philately accounted for revenues of €7 million, accounting for 1% of the total revenue of the mail business unit.

CTT is the exclusive issuer of postal stamps bearing the word "Portugal", and produces an average of approximately 23 stamp issues per year. Philately also comprises commemorative and special stamps as well as stamped products for collectors, the gift market and tourists. CTT sells its stamps, stationery products and other related products through its retail network and 2,580 stamp resellers.

Retail & Other Services (Non-USO)

In 2012, retail and other services accounted for €61 million in revenues, or 11% of the total revenue of the mail business unit.

CTT's retail network comprises post offices managed by CTT and postal agencies (managed by third parties under agreement). The retail network is one of the first points between CTT's customers and CTT's postal distribution network. See "*Collection, Sorting, Transportation and Delivery Networks*".

Through its post offices, CTT offers a range of products and services, including courier and express parcels, financial services (savings products, insurance, collection and payments services), philatelic products (books and stamps) and other services and retail products (books, lottery, merchandising, mailboxes, telecommunications products).

In the postal agencies, CTT offers a more limited range of products and services, which consists of mail, express and parcel services, financial services (bill and tax payments), philatelic products (books and stamps) and other services and retail products (books, lottery, merchandising, mailboxes, and telecommunications products).

Mail On-Going Transformation Plan

Management has identified key items necessary to maintain operating performance in a market with declining mail volumes, while benefiting from growth in other areas. Between 2009 and 2012, CTT implemented a cost reduction program followed by a transformation plan in 2013 based on three platforms:

- Continuous improvement of operations, including in (i) sorting and transportation, where CTT aims to increased automation, consolidate sorting activities, reduce weekend and overtime work, and split mail and parcels sorting between specialized centers; and (ii) delivery, where CTT aims to integrate its express and parcels distribution networks (including the network which is currently dedicated to its banking clients in Portugal), introduce new distribution models, increase insourcing and gradually integrate the mail and express and parcels distribution networks based on the capacity available due to the decrease of the mail volumes.
- Optimization of existing retail network, including (i) expanding the range of services offered (including financial services, PuDo services and PSGIs), and (ii) re-sizing the retail network. In 2013, CTT has reduced the retail network by 124 sales points, of which 42 were closed and 82 were transformed into

postal agencies managed by third parties. Such reduction has been implemented with the key criteria of the net margin and geographical overlap of these sales points, maintaining the levels of quality of service. CTT plans to continue to manage its network density and capillarity by converting post offices managed by CTT in to postal agencies, partnership branches.

- Human resources optimization, including (i) reduction in idle time, (ii) reduction in temporary work, (iii) insourcing, (iv) substitution of external suppliers, and (v) other initiatives to reduce unused resources.

The Transformation Plan implementation in the operations and distribution, which began in 2013 and should be expected to be developed and implemented until 2015, represents a deepening of process of rationalization and reorganization that has been implemented in recent years, particularly in 2011 and 2012 and whose main performance drivers are to increase productivity and improve operational efficiency.

Among the initiatives developed by the distribution and operational management in 2011 and 2012, the following stand out:

Distribution network:

- Reorganization of distribution centers and implementation of more efficient operations, in approximately 65% of the total of distribution centers.
- Commencement of a new distribution model—distribution segmented by priorities—during 2011 and extension of the segmented distribution model a total of 156 postal distribution centers (accounting for approximately 75% of mail delivered daily).
- Centralization of the 33 delivery offices (representing less than 9% of operational units) at the end of 2009.
- Suspension of incentive for postmen to purchase motorcycles.
- Renegotiation of 88 contracts for services and reduction of approximately 25% of outsourcing arrangements.
- Rationalization of approximately 30% of collection points (postboxes).
- Internalization of "DTE" manual mail by network base and commencement of internalization of the entire "DTE" network dedicated to the distribution of corporate mail in the distribution center of (Amadora).
- Review of operating hours (start times) for a total of 83 delivery offices allowing the end of the activity in the delivery offices before 6 a.m.

The implementation of these rationalization and reorganization programs in 2011 and 2012 resulted in (i) a 10% reduction in total full-time employees (since 2010), equivalent to 667 full-time employees; (ii) a 9% reduction in the distribution fleet (mostly four-wheel vehicles) (since 2010); (iii) a 9% reduction in the number of delivery postal offices (compared to the end of 2009); (iv) a 30% reduction in the number of collection points (postboxes and mailboxes) (since 2010).

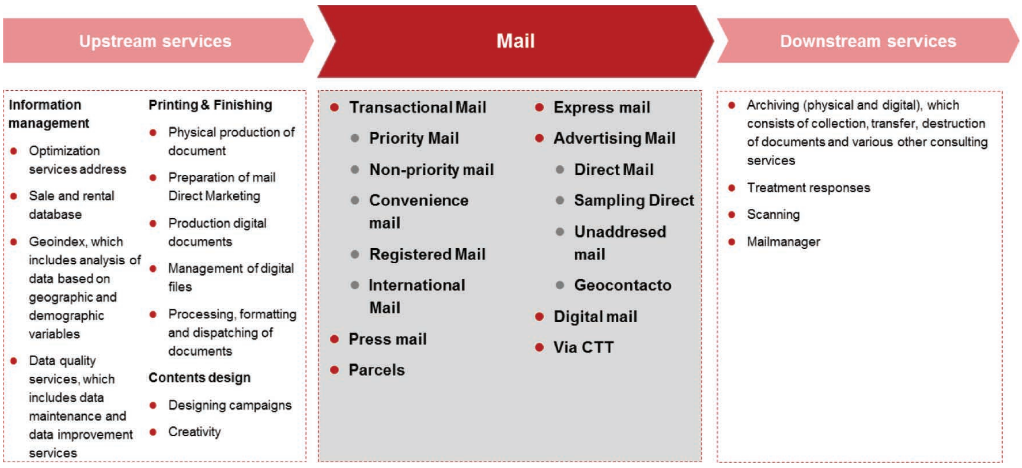
Transportation network and sorting units (production and logistics centers)

- Resettlement and implementation of the new organizational model in the Maia sorting center.
- Rationalization of the model and operational processes of sorting units and reduction of work on Saturdays and holidays.
- Internalization of the sorting of packages from Mailtec to main sorting units and readjustment of the night shift to the morning shift.
- Reduction of outsourcing activities in sorting units, with an emphasis on the videocoding.
- Reorganization of the transport network, with optimization of the "mix" (own fleet vs. outsourcing) and optimization of the post offices collection network.
- Reduction by approximately 10% of the annual cost of the international air mail unit since 2010.
- Renegotiation of agreements with operators of air and maritime transport.
- Reduction of the sorting center vehicle fleet by 15 vehicles.

The implementation of these reorganization and operational efficiency programs developed in 2011 and 2012 resulted in (i) a 7% reduction in total full-time employees (since 2010), equivalent to 86 full-time employees; (ii) a 8% reduction in vehicles at the production and logistic centers (since 2010); and (iii) a reduction of about 17% of the routes/ distances made.

Business Solutions (Non-USO)

Business solutions provide global solutions, covering upstream and downstream mail value-added services. From printing and finishing services, digital communications to document management services (dematerialization, physical and digital file), CTT is able to integrate physical and digital communications.



The following table shows the historical financial information (revenues) for the business solutions business unit for the nine months ended September 30, 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010.

	Nine month period ended 30 September (Unaudited)		Year ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
	(EUR thousands)				
Printing & finishing	9,219	10,284	13,133	14,988	15,727
Document management	3,157	3,433	4,556	5,595	5,228
Other business solutions	3,767	4,102	5,310	5,472	6,166
Total	**16,143**	**17,819**	**22,999**	**26,055**	**27,121**

The following describes the key product and services offered:

- *Printing & Finishing.* Services include: (i) data processing; and (ii) formatting and dispatching of documents (*e.g.*, invoices and advertisements) for distribution by the mail business unit.
- *Document Management.* Services include: (i) incoming mail management, which includes scanning, classifying, indexing and distribution of digital content; and (ii) archiving (physical and digital), which consists of collection, transfer, destruction of documents and various other consulting services.
- *Geographic Solutions.* Services include: (i) geoindex, which includes analysis of data based on geographic and socio-economic variables; (ii) data quality services, which includes data maintenance and data improvement services; and (iii) geomarketing, which is the distribution of advertising directed to specific geographic areas or socio-economic profiles.
- *Digital Communications.* Services include: (i) ViaCTT, which is a digital mail service that allows the recipient to receive free electronic mail. This service is primarily used by the Portuguese Government to deliver to the residents of Portugal various payment notifications and other information; and (ii) secured mail service (e-Stamp), which provides electronic delivery confirmation for digital mail.
- *Proximity Solutions.* Various solutions that rely on CTT's extensive delivery and retail networks and allow for electronic highway tolls payment and meter reading.

• *Applications.* CTT provides integrated digital services to its clients, including: (i) a postal e-Services platform, which is an integrated platform of electronic communication, digital stamps (my-Stamps), electronic cards (my-Cards) and hybrid mail; (ii) hybrid mail, which is an application that allows businesses to send mail directly to their customers, which can then be printed; (iii) STICO, which allows government agencies to manage traffic fines; and (iv) Cyclos, which combines client management and billing solutions for the water and sanitation suppliers with other complementary services provided by CTT.

Express and Parcels Services (Non-USO)

CTT provides express and parcel services (domestic and international) in Portugal, Spain and Mozambique through CTT Expresso, Tourline and CORRE, respectively. This business unit also provides complementary logistics and cargo solutions. The express and parcels services allow for seamless, reliable and efficient collection, processing, transportation and delivery of urgent parcels. Revenue from Portuguese operations (CTT Expresso branded), Spanish operations (Tourline branded) and Mozambique operations (CORRE branded) are recorded within the express and parcels business unit.

The following table presents historical operating information of the express and parcels business unit for the nine months ended 30 September 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010.

	Nine month period ended 30 September (Unaudited)		As of and for the years ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
Revenue (EUR thousands)	**95,063**	**94,774**	**127,998**	**133,917**	**143,780**
—Portugal	54,758	55,893	74,539	80,518	90,424
—Spain	39,078	37,983	51,646	52,276	53,104
—Mozambique	1,227	898	1,813	1,123	252
Total items processed (thousands)	**18,406**	**16,901**	**22,896**	**23,067**	**24,377**
—Portugal	8,728	8,657	11,608	11,896	13,213
—Spain	9,617	8,171	11,185	11,094	11,134
—Mozambique	61	73	103	77	30
Total staff	**1,168**	**1,178**	**1,201**	**1,164**	**1,182**
—Portugal	622	660	658	677	725
—Spain	465	462	480	443	420
—Mozambique	81	56	63	44	37
Branches	**871**	**1,026**	**1,018**	**1,064**	**1,169**
—Portugal (CTT owned branches)	624	752	748	783	884
—Spain (CTT owned branches and partnership branches)	236	264	259	273	279
—Mozambique (CORRE branches)	11	10	11	8	6
Total logistics platforms	**45**	**45**	**46**	**43**	**44**
—Portugal	13	14	14	14	13
—Spain	23	23	23	23	27
—Mozambique	9	8	9	6	4

Portugal

CTT provides domestic and international express and parcel services in Portugal through its wholly owned subsidiary, CTT Expresso. The express and parcels product portfolio includes a wide range of services and solutions for business customers and individuals (including express and parcels services within Portugal and internationally).

CTT offers services with delivery next business day (D+1) (between 09:59 a.m. and 22:00 p.m.) or within two business days (D+2). CTT offers the same services in Portugal and in Spain in order to create a seamless customer experience in these markets. For international flows, CTT has created a range of solutions to address different geographies and service level requirements. CTT provides these solutions in partnership with other international operators and is a member of the UPU and IPC.

The express and parcels product portfolio also includes several other services, such as payment on delivery, shipping of fragile items, Saturday deliveries, proof of delivery, shipping insurance, additional delivery attempts, SMS alert and return services. For its large customers, CTT provides tailor made solutions that are designed according to each customer's specific needs. Its key customers include banking, insurance, footwear and telecommunications companies. CTT has also developed a logistics product line and a cargo product line. Logistics services include storage, pick-up, packaging, dispatch, quality control and project management services and are offered at CTT's warehouse and several small storage locations in Portugal. Cargo services include the shipment of parcels weighing over 30 kg and/or of irregular dimensions and are offered through an outsourced distribution network.

CTT is currently developing e-commerce focused products in order to meet the market demand within the B2B and B2C segments, by developing a wide range of products, such as easy return services tailored to the customers. In addition, through the postal and PuDo networks it is currently developing and its postal network, CTT plans to offer low cost solutions to its customers both within Portugal and internationally. CTT is a partner in the Digital SME Program, which provides e-commerce solution aimed at Portuguese SMEs. This program allows online businesses to monitor and market their products and services on the Internet. The Digital SME Program is an initiative developed by the Portuguese government, in partnership with the IAPMEI (*Instituto de Apoio às Pequenas e Médias Empresas e à Inovação*), ACEPI (*Associação do Comércio Eletrónico e da Publicidade Interativa*) and several Information and Communications Technologies (ICT) service and solution providers.

Spain

CTT provides domestic and international express and parcels services in Spain through its wholly owned subsidiary, Tourline. The express and parcels product portfolio in Spain includes a wide range of services and solutions for business customers and individuals (including express and parcels services within Spain and internationally). CTT maintains full geographic coverage of Spain, with part of its collection and distribution network operated directly by Tourline and the remainder operated by franchisees, partners and distributors.

CTT offers services with delivery next business day (D+1) (between 8:30 a.m. and 22:00 p.m.) or within two business days (D+2). CTT offers the same courier services in Portugal and in Spain in order to create a seamless customer experience in these markets. For international flows, CTT has created a set of solutions to address different geographies and service level requirements. CTT provides these solutions in partnerships with other international operators.

The express and parcels product portfolio also includes several other services, such as payment on delivery, Saturday deliveries, shipping insurance, SMS Alert and return services. For its large customers, CTT provides tailor made solutions that are designed according to the customer's specific needs. CTT has also developed a cargo product line in 2011, which provides for guaranteed two business day deliveries (D+2), independent of the weight. CTT is currently revising its service portfolio in order to further align its Spanish product line with its Portuguese product line.

Mozambique

CTT has been operating in Mozambique since July 2010, through CORRE (Mozambique Express Mail). CTT owns 50% of CORRE's share capital, with the remaining 50% held by the Mozambique postal operator. Revenues from the Mozambique operations (CORRE branded) are recorded within the express and parcels business unit using the integrated consolidation method. CORRE holds a local license from the National Communications Institute and operates under the "Correios de Moçambique" brand.

CORRE provides mail, express and parcel services delivery for customers sending documents and parcels both within Mozambique and internationally. During the last three years, CORRE has expanded its business to all regions of Mozambique.

CORRE distribution network covers all provinces and districts of Mozambique, and its network is complemented by its agreement with Correios de Moçambique, which provide collection and distribution services in more than 100 local post offices.

Express and Parcel Transformation Plan

CTT commenced offering express and parcels services in 1997 with the creation of a parcels business unit, "Correio Urgente". In 2000, CTT established Postlog and subsequently merged this entity with PostExpress, resulting in the creation of CTT Expresso in 2004.

In July 2005, CTT entered the Spanish market through the acquisition of Tourline, aiming to position itself as an Iberian player.

Keeping with its strategy to expand into emerging markets with ties to Portugal, CTT created CORRE, a partnership with national postal operator of Mozambique, in 2010. This was the first partnership model with a local operator in a foreign market. CTT contributes with its expertise to CORRE and its local partner contributes with its infrastructure and network, thereby resulting in a limited capital expenditure requirement from CTT.

The express and parcels business unit responded to market needs and explored new opportunities through the launching of new products and services, improving the information systems and seeking complementary business areas, such as logistic (specialized unit created in 2010) and more recently "*Tourline Cargo*" (service level of D+2 transportation created in 2010) and "*Tourline Opticas*" (specialized service). The express and parcels business unit has been improving its operation efficiency in its support areas through synergies and procedure centralization with CTT.

Quality has been a priority for CTT in its express and parcels offering, as demonstrated by the certifications it has obtained. Since 2004, CTT Expresso has been certified in "Quality Management" (NP EN ISO 9001:2008); since 2009 "Environmental Management" (NP EN ISO 14001:2004) and "Occupational Health and Safety Management" (OHSAS 18001:2007). Since 2009, Tourline has been certified in "Quality Management" (NP EN ISO 9001:2008), and since 2012 it has been certified in "Environmental Management" (NP EN ISO 14001:2004). It is currently undergoing the certification process for "Occupational Health and Safety Management" (OHSAS 18001:2007) and "Security of Supply Chain Management" (NP EN ISO 28000).

Since 2012, CTT has been implementing its Transformation Plan, which has covered each different business unit. The express and parcels business unit in particular has been undergoing a major transformation program.

Improve current business strategic initiatives

CTT is introducing a new Iberian services portfolio to guarantee an integrated Iberian offer, with the main objective of capturing Iberian clients and increasing market share in Iberian parcels flows.

Concerning its B2C offer, CTT intends to develop (i) a product offer intended to cover all customer needs from a low-cost offer to a value added proposal, (ii) an easy return solution, which will be key in relation to the offer for e-retailers, (iii) a PuDo network and last mile distribution network, along with CTT's postal network, which should be able to offer a low cost solution to customers, (iv) an improved IT platform and supporting processes to be able to accommodate its expanded product offer, and (v) an Iberian portfolio of key customers and a commercial approach to address large corporate accounts.

In the parcels business competitive arena, price will play a relevant role although without being the key element. CTT Expresso is able, due to its cost advantage, to price competitively with strategic clients. Its PuDo network, with capillarity and convenience, its last mile coverage countrywide in Portugal and Spain, as well as IT capabilities, will be the critical aspects to increase its market share.

On the B2B segment, CTT is focused on (i) expanding its value added services and (ii) increasing its business share of its corporate clients. In particular, CTT plans to grow its market share in the B2B Mozambique market.

CTT is focused on commercial excellence and plans to: (i) introduce a new pipeline sales management tool/CRM (*Customer Relationship Management*), (ii) revise client segmentation to allow for more detailed commercial information, (iii) reduce impairments to its lowest level, and (iv) revise agreements with franchisees in order to strengthen market positioning.

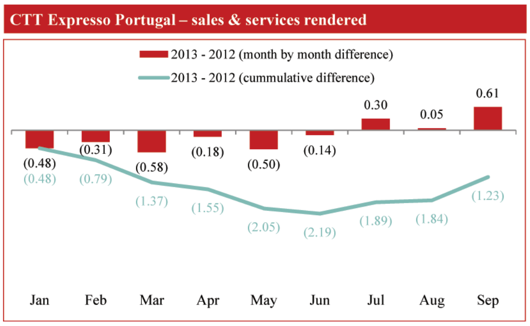
CTT is focused on operational efficiency and plans to: (i) converge operational process between Tourline and CTT Expresso, (ii) continue to renegotiate major outsourcing contracts and adapt them to the demand patterns, (iii) realize synergies where possible within the CTT's distribution network, (iv) decrease costs and improve product features, (v) centralize own operations both in customer care billing and operations into Tourline logistics centers and (vi) in Mozambique, develop customized solutions overseas that promote the growth of revenues, exploiting synergies between CORRE and CTT, based on CTT's sales force and retail network.

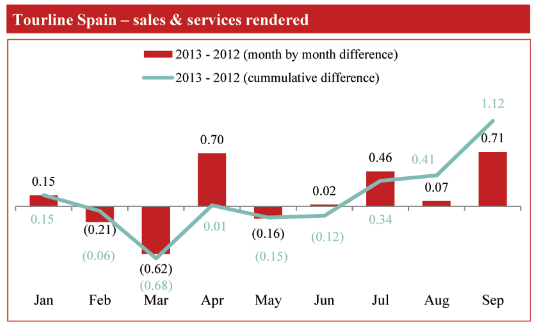
With regards to the support tools and system upgrades, CTT aims to: (i) create a centralized single IT platform both for Portugal and Spain, (ii) implement the second phase of the Business Intelligence project (under development), (iii) in Portugal, create a single customer system across CTT's services, (iv) in Spain, centralize support functions both for own areas and franchisees, and (v) migrate CORRE's accounting and finance services to CTT's platform.

Expand noncore opportunities and strategic initiatives

Continue to use cargo market offering (over 30 kg) in Portugal and in Spain to offer an end-to-end service to corporate clients. To address the market with an integrated offer logistics will continue to be actively promoted in order to increase customer value and retention.

The charts below present the revenues obtained by CTT Expresso and Tourline between January and September of 2013, and shows the result of the initiatives of the Transformation Plan.





Source: Company information

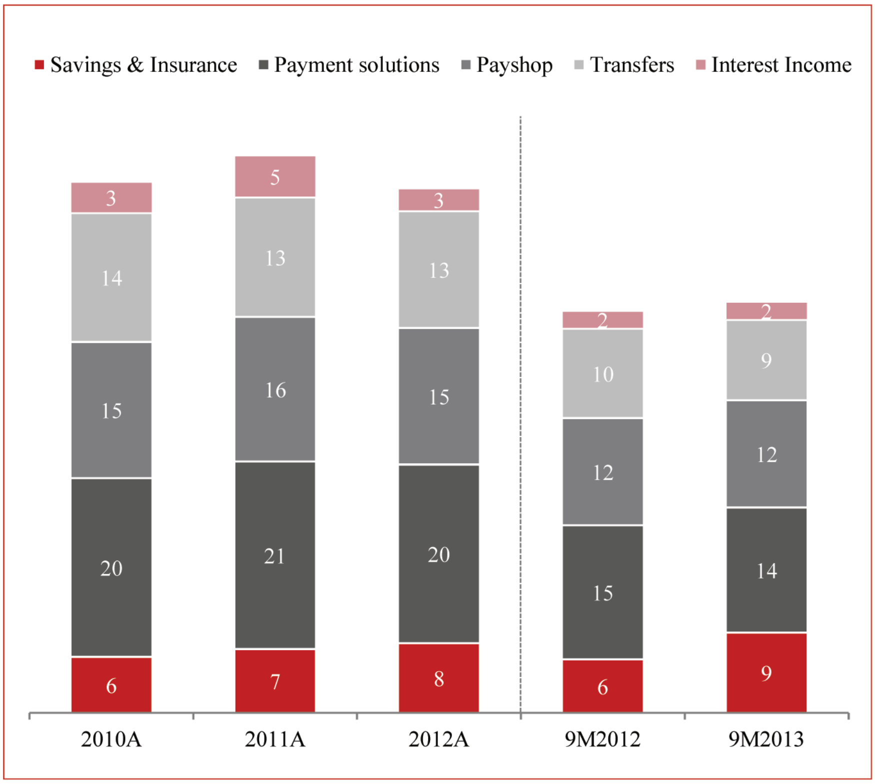
Financial Services (Non-USO)

CTT offers a range of financial solutions, including transactional and savings products, through the CTT's retail network. Financial services can be divided in three main product lines:

- Savings and insurance—brokerage of third party saving and insurance products;
- Payments and collections—"face to face" payment services, including payments through CTT's network and the Payshop network; and
- Money orders and transfers—national and international money orders and transfers.

The following graph shows the breakdown by category of products and services.

Financial Services revenue breakdown[1] (€ mm)



(1) Adjustments from Consolidation & Other Revenues not included

Source: Company information

The development and growth of this business unit depends on the introduction of new products and services as part of the existing product lines or through new product lines. As an example, the toll payment service introduction in 2010 was a key element in long-term sustainability and profitability of the payments and collections product line.

The following table presents financial services business unit historical operating information for the nine months ended 30 September 2013 and 2012 as well as the years ended 31 December 2012, 2011 and 2010.

	Nine month period ended 30 September (Unaudited)		As of and for the years ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
Revenue (EUR thousands)	44,108	43,612	57,673	61,673	60,060
Total points of sale	4,533	4,719	4,714	4,777	4,700
—Post offices	624	752	748	783	884
—Payshop network	3,909	3,967	3,966	3,994	3,816
Staff	103	111	114	112	116
Number of transactions (thousands)	69,432	75,744	99,952	104,602	106,719
—Post offices	31,030	34,603	45,274	48,466	52,816
—Payshop network	38,402	41,141	54,678	56,136	53,903

Savings & Insurance

CTT is the only company that currently sells public saving certificates ("*certificados de aforro*") in Portugal, and does it through its partnership with IGCP. Public savings certificates are issued directly to retail investors and have small minimum subscription amounts (€100). These instruments are non-tradable, but can be inherited. Investors can freely divest after the first three months of subscription (interest is calculated every three months). Public savings certificates can be purchased at CTT post offices.

During 2010 and 2011, in order to promote the financing of domestic banks through deposits, the Portuguese Government reduced the interest rate on this product, which led to a significant increase in redemptions during this period. Since September 2012, the interest rate has been increased and is expected to remain at this new level until 31 December 2016, which has resulted in higher subscriptions during 2012.

Until July 2013, CTT's agreement with IGCP established a fixed service fee for back office costs support of and a commission for each subscription or redemption, independent of the transaction amount. On 15 July 2013, CTT entered into an amendment to the agreement with IGCP for the distribution of public savings certificates with a maximum duration of three years. Currently CTT receives an annual fixed fee, a subscription fee, calculated as a percentage of the amount subscribed, and maintains a service fee for redemptions.

In October 2013, CTT signed a new contract with the IGCP for the sale of treasury certificates, a 5 year term product with a nominal value and increasing interest rates depending on the term, with a higher commission than the savings certificates. These new treasury certificates are competitive and should lead to a substantial increase in subscriptions. The chart below presents a comparison of an illustrative sample of the products offered by these institutions on 15 November 2013.

Savings Products Benchmark [1]

Six Months

Network	Product	Min. investment	Rate
ctt	Certificados Aforro	€100	3.22%
Banco Popular	Depósito Ouro Crescente	€300	2.10%
Millennium bcp	Depósito Estrela [2]	€2,500	2.588%

1 year

Network	Product	Min. investment	Rate
Santander	Depósito Plano Programado [3]	€300	3.25%
ctt	Certificados Aforro	€100	3.22%
Banco Popular	Depósito Ouro Plus	€300	2.30%
Montepio	Poupança Especial	€1,000	2.00%

3 years

Network	Product	Min. investment	Rate
ctt	Certificados do Tesouro Poupança Mais	€1,000	3.75%
ctt	Certificados Aforro	€100	3.22%
Montepio	Super Poupança 2013	€5,000	2.40%
Millennium bcp	Depósito Portugal Crescente [2]	€5,000	2.17%

Five Years

Network	Product	Min. investment	Rate
ctt	Certificado do Tesouro Poupança Mais	€1,000	4.25%
ctt	Postal Valor Mais	€500	3.40%
CA Crédito Agrícola	CA Garantia 5 – Renda (2ª Série) [4]	€2,500	3.30%
Montepio	Capital Certo 2013-2018 [4]	€150	3.14%
BPI	Depósito Especial BPI 5 Anos	€250	2.30%

8 years

Network	Product	Min. investment	Rate
ctt	Postal Valor Crescente III	€500	3.65%
Banco Espírito Santo	Capital Garantido BES [4]	€250	3.00%
BPI	Depósito Especial BPI 8 Anos	€250	2.15%

PPR [5]

Network	Product	Min. investment	Rate
ctt	Postal PPR Garantido	€240	3.22%
Banco Espírito Santo	PPR Garantido BES [4]	€250	3.00%
Millennium bcp	PPR Taxa Garantida 2%+	€1,250	2.00%

(1) Not comprehensive offering sample based on information disclosed in the websites of the respective financial institutions as of November 15, 2013. Unless stated, products are fixed term deposits and rates refer to annual nominal gross interest rates;

(2) Maximum annual return, corresponding to the maximum investment allowed

(3) Corresponds to minimum monthly amounts of € 25 over 12 months

(4) Capitalization insurance products. Rate refers to minimum guaranteed return;

(5) PPR = Retirement Saving Plan. Min. investment refers to minimum single payment and rate refers to minimum guaranteed return

Note: this analysis illustratively compares sovereign debt and private debt subject to the Company's risk, which are not directly comparable
Source: companies' information in their websites

Through its partnership with Fidelidade, CTT offers life insurance products at its post offices. In 2012, CTT was the fifth largest life insurance distributor in Portugal (Source: *CTT's analysis based on "Production and Market Shares by Insurance Group in Portugal" by Fidelidade dated December 2012*). In the first half of 2013, CTT improved its position in the market due to an 85% increase in subscriptions when compared to the same period of previous year. In 2013 CTT also entered into a five years period new exclusivity agreement with Fidelidade, which improved the commission structure of CTT and increased the competitiveness of the range of products. See "*Material Contracts*" for further details of the aforementioned arrangements.

In 2012, CTT increased its market share of the non-life insurance brokerage market, through its partnership with MAPFRE, by launching new products, such as accident insurance policy for senior citizens and sports insurance, which have been very well received by the target market in Portugal.

Payment Solutions

CTT offers its customers bill and other payment options, including utility bills, taxes, fines, toll payment, social security payments, licensing, mobile top-ups and donations. These services allow participating government entities and private companies, such as utilities, to outsource their payment management operations to CTT.

A transaction fee (determined by the service provided) is charged on every payment made to the companies involved in this arrangement, whereas the end-customers don't pay for this service. CTT's payment solution services are the only available payment option for individuals without a bank account in Portugal. In October 2010, CTT launched a new toll payment service option that permits payment through its retail and Payshop networks, aimed at vehicles with foreign license plates. Furthermore, several initiatives were developed together with the Bank of Portugal and SIBS Forward Payment Solutions, which allowed CTT to expand its product and services portfolio. The following should be noted:

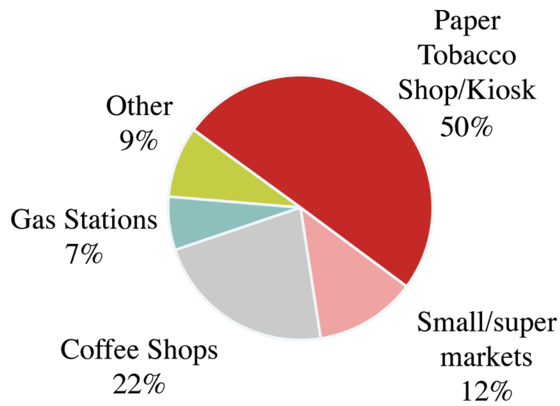
- In 2012, CTT's joined the operational subsystem of MultiBanco, which was a prerequisite for the operation and installation of automatic payment terminals (TPA) in CTT's post offices network and for suppliers to potential customers (Self-Acquiring) and the acceptance of references from MultiBanco (MBSpot), to re-launch collection services in CTT. Both services are delivered directly by CTT without an intermediary bank.
- Operational service with SIBS for the establishment of CTT as an acquirer in the direct interbank network, in conditions comparable to a banking institution, after starting the installation process of the TPA in CTT's post offices, which led to a reduction in costs.
- The operation of the SIBS service with MBSpot for the issuance of payment references that are transmitted to the debtor, which allow payments to creditors in MultiBanco and HomeBanking network. This service had been provided only by banks, which made resale. With the implementation of this service, CTT now has access on equal terms to these services. In this context, CTT may offer integrated payment solutions to its customers without the use of intermediaries.

CTT participates already in the SICOI Checks and Related Documents Clearing system since 2002, allowing the clearing and settlement of the postal orders used by this system for checks.

Payshop Network

CTT's financial services include cash payment services provided by Payshop, one of its wholly owned subsidiaries. The Payshop network allows customers to make payment for everyday services using a national coverage network of approximately 3,909 agents as of September 2013, located at newsstands, supermarkets, coffee shops and gas stations. CTT plans to expand its Payshop network to at least 4,000 agents. Payshop agents receive a fixed fee for each transaction processed based on the contract signed between CTT and individual agent.

The following chart shows the breakdown of the activities provided by the Payshop agents in Portugal.



Source: Company information

Through the Payshop network, CTT's customers are able to top-up their mobile phones (national and international) purchase public transport tickets and pre-paid e-cards. Due to high quality of service and ease of use, Payshop continues to be a very popular option for paying utility bills. This integrated electronic payment system has helped CTT to consolidate its position within the service payment market. In 2012, CTT processed 78.2 million payment transactions (of which 54.7 million were processed through CTT's Payshop network).

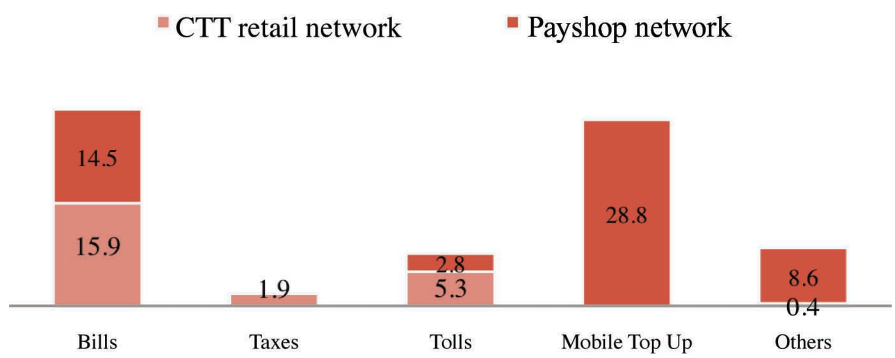
The following two tables show the type of transactions CTT processed in 2012 by its financial services business unit through both CTT retail network and Payshop network.

Collections (2012)

Total	**421.2**	**100.0%**
Bank Transfer	13.5	3.2%
Direct Debit	133.1	31.6%
ATM Payments	196.4	46.6%
CTT (Including PayShop)	**78.2**	**18.6%**

Unit: transactions (millions)

Source: CTT's analysis based on the Statistical Bulletin, by the Bank of Portugal dated September 2013



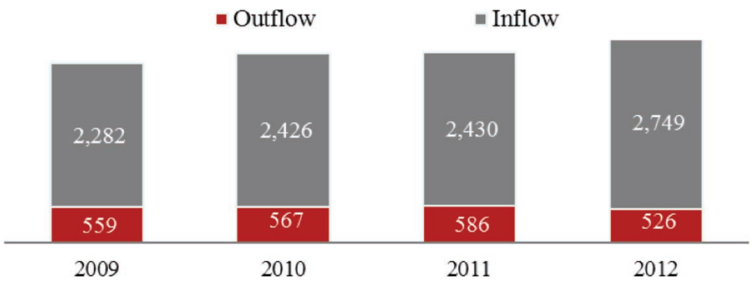
Unit: transactions (millions)

Source: CTT's analysis and Bank of Portugal

Money Transfers and Money Orders

CTT offers worldwide money transfer services and has agreements with Western Union, UPU and Eurogiro. CTT provides secure and fast global remittance service to over 200 countries. In 2013, CTT and Western Union amended the partnership agreement which is now five-year term. It provides an exclusivity regime for CTT, who is entitled to receive commission fees depending on the type of services provided (*i.e.* consumer, commercial or foreign exchange transactions). For this purposes see "*Material Contracts*".

The charts below show the number of international remittances in Portugal (sent and received).



Unit: thousands of transactions

Source: CTT's analysis and Pordata website

Unit: thousands of transactions

Source: CTT's analysis and Pordata website

Over 80% of CTT's national money order customers are comprised of business customers (regular transfers), with the rest comprised of individual customers obtaining services through the retail network. In addition, CTT also processes money orders for its customers receiving pensions and other social benefits (approximately 800,000 payments every month).

Financial Services historical transformation plan

Like many postal operators around the world, CTT's financial services activity dates back to the early 1900's as the postal technologies and infrastructures required to operate and distribute mail and parcels were instrumental to render savings, money order and collect bills, a three pillar product portfolio that has been successfully developed until today. The "*Caixa Economica Postal*" current and check account service was created in 1911 and the money order service in 1912 setting the path to the development of the financial services in the Portuguese postal operator.

CTT has consistently played a key role in the development of the individual savings retail market in Portugal. Adding to the "*Caixa Economica Postal*" current account service, CTT became the Portuguese Treasury's main partner in the distribution of public savings certificates since this instrument's inception in 1966. Based on trust and consistency of CTT's performance of managing the savings of a significant part of the population in Portugal, CTT systematically enlarged the scope of its savings activity to other segments of the individual savings market, namely the distribution of life insurance and mutual funds, since the late 1980's, soon becoming one of the largest life insurance distributors in the Portuguese market. In 2012, CTT set its highest yearly production ever, with over 340 million euro premiums collected and in first semester 2013 the life insurance activity is growing 85% year on year.

In this strategic axis of enlarging the value proposal of its Financial Service's activity, CTT signed MAPFRE insurance group in 2010, allowing the launch of property and casualty insurances as well as individual retirement plans.

CTT's proactive management style of the savings business area was equally applied to the development of its service payments and money order products.

During the last hundred years, CTT has successfully developed its money order services and made it one of the key money transfer instruments in Portugal, both for individuals and corporate customers. In the corporate segment, CTT's money orders became the most widely-used tool for making social benefit payments in Portugal. Although the domestic money order service has long been made compatible with the Portuguese banking system, since 2001, money orders could also be deposited in any bank account and for used for the settlement within the interbank system. CTT also played a proactive role in the development of an international money order product portfolio, both within UPU and Eurogiro. In addition, CTT has been on the forefront of technological developments and innovations in Portugal by introducing new products, such as electronic money orders. In 2013, CTT received "unique contribution for Eurogiro's development" award. CTT currently offers the fastest and highest value electronic money orders in UPU and Eurogiro, allowing for a money transfer to be completed within 15 minutes.

In 1999, CTT signed a partnership agreement with Western Union, one of the worldwide market leaders in the money transfer sector, and thereafter became one of the main Western Union partners in Portugal, a position that still stands presently.

CTT's service payments activity developed and grew side-by-side with the corporate money order business, targeting large, medium and small organizations and leveraging on CTT's branch retail network capillarity to reach individual customers across the country. During the 1990's, CTT added most of the tax payments to its long list of service payments and added social security payments in the early 2000's, becoming one of the largest and most integrated provider of individual and household tax and service payments in the Portuguese market. In 2004, CTT acquired Payshop, an innovative and fast growing service payments network management platform, allowing for a cross-channel approach with CTT's post office branches. In 2010, CTT's service payments activity was enlarged with the payments of electronic road tolls.

Consistent with CTT's ambition to build a stronger position in the financial service's market, CTT is soon to launch an extensive range of credit products, (*i.e.* consumer credits), stepping up in building a broader and more integrated value proposal in the individual segments. The products to be developed, through a partnership with a financial institution specialized in consumer credit, are personal loans and CTT may offer credit cards within this market segment or consumer loans (car, vacation, etc.). In this partnership, CTT only intends to act as a placing agent, assuming no credit risk.

With this current model financial services face some challenges due to the opposing market trends, namely:

- Consumer trend towards online payments and "convenience"
- Companies pushing for e-billings to reduce costs
- New payments of social benefits and pensions only issued by the banks
- Western Union competition increasing
- Savings market growing due to deleveraging economy and banks are increasingly focused on capturing savings
- Government bonds offering attractive remunerations

CTT has two main assets to leverage: (i) its vast retail distribution network with experience in financial services, and (ii) strong brand image. In the event that CTT fulfills all of the conditions and requirements specified by the Bank of Portugal as part of its authorization of the postal bank, dated 27 November 2013, and decides to go forward with this postal bank business model, CTT intends to:

- Be oriented to "no-frills" targeting mass-market consumers (affluent consumers also a target market even if not core target);
- Offer anchored on simple transaction products with a core on savings, with mortgages and consumer loans as a priority on the asset side; SME loans can be added later;
- Have implicit low revenue per client driving need for very lean structures and a very large client base.

PSGIs (Non-USO)

The Portuguese Government intends to create approximately 1,000 Citizen Shop Branches, which will operate based on the model of a one-stop branch. To this end, on 20 September 2013, CTT signed a protocol with the Portuguese State for the installation in CTT's retail network of the Citizen Shop Branches, as a pilot project which will start on 1 December 2013 in the metropolitan area of Lisbon, and which will extend to all of CTT's branches during 2014.

Several services will be offered in the new Citizen Shop Branches, including the renewal of driving licenses, applications for Social Security statements, certificates of land registration or exemption from IMI, delivery IRS statements, enrollment of students in schools, etc.

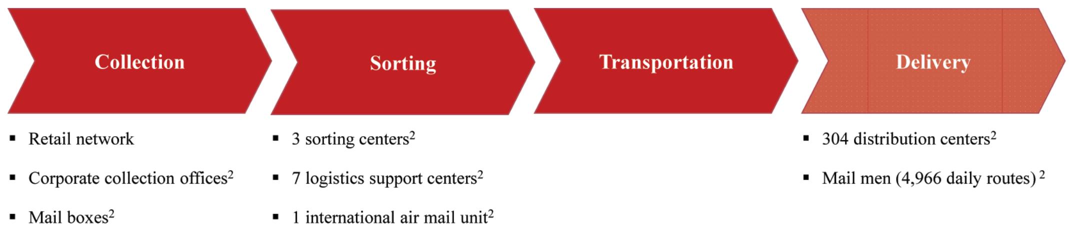
This project is currently integrated in the marketing offer of the retail network.

Collection, Sorting, Transportation and Delivery Networks

Mail Operations in Portugal

CTT's postal network comprises collection, sorting, transportation and delivery activities and is the backbone of CTT's operations in Portugal.

Operating Circuit (CTT Core Network)[1]



(1) As of 30 September 2013

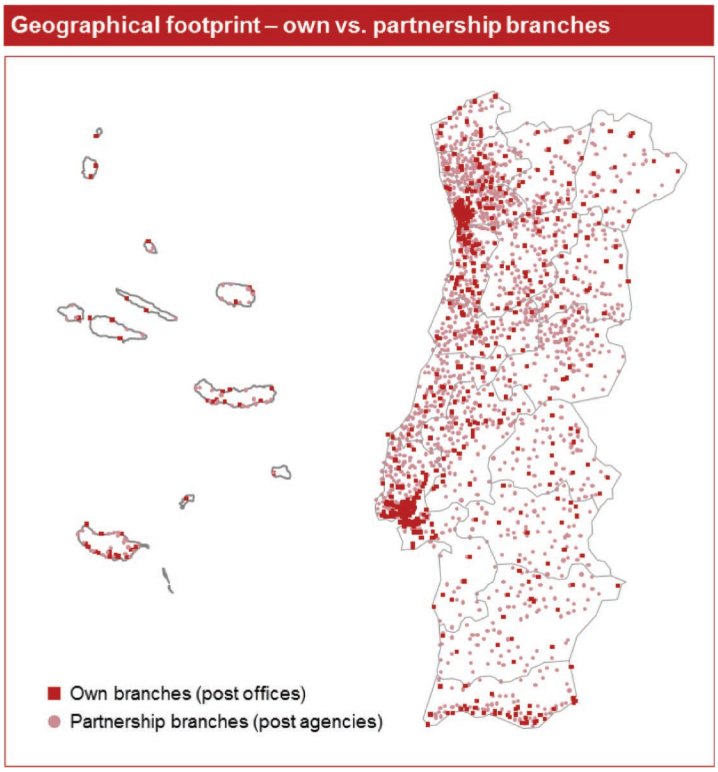
(2) Part of the Distribution Network

Collection Network

Retail Network

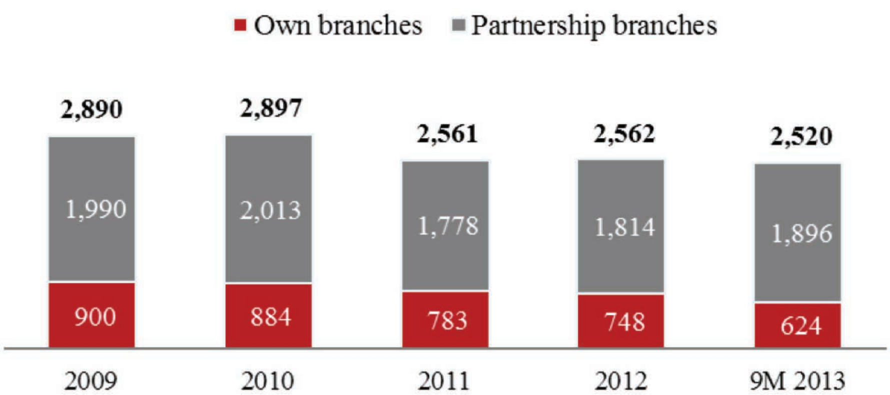
CTT's retail network in Portugal serves CTT's individual retail customers and small corporate customers and provides collection and acceptance of mail services. As of 30 September 2013, the retail network consisted of 2,520 sales points, of which 624 were post offices (managed by CTT) and 1,896 were postal agencies (managed by third parties). In addition to the postal agencies, CTT had installed 379 automatic stamp vending machines and 21 automatic mail product vending machines in Portugal, some of which are available 24 hours-per-day. CTT's medium sized mail customers are able to use CTT's retail network or work directly with the corporate collection office based on their mail volumes.

The following chart shows the location of CTT's own branches and partnership branches in the first half of 2013.



Source: Company information

The following chart shows CTT's own branches and partnership branches.



Source: Company information

In order to reduce its cost base, CTT continues to replace its own branches with postal agencies where justifiable. This process is evaluated on an annual basis.

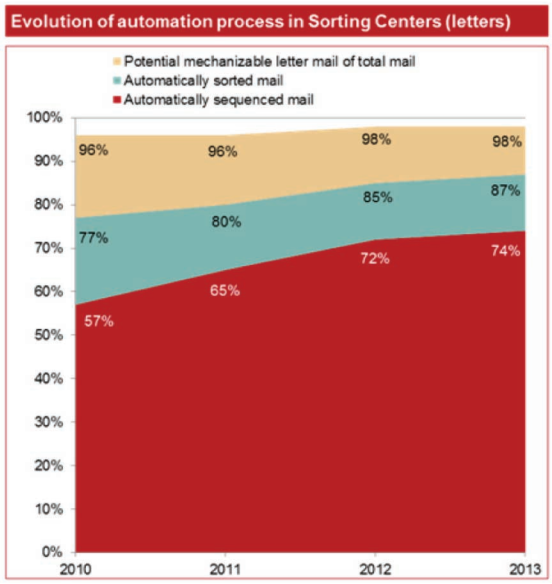
Corporate Collection Offices

CTT's large mail customers are required to deposit mail directly with the corporate collection offices. CTT has four corporate collection offices in Portugal, one of which is located in the corporate mail center and three located in the production and logistics centers.

Sorting Units

In Portugal, CTT operates a sorting network comprised of three sorting units, seven logistics support centers and one international air mail unit. Each sorting center has a dedicated transport center, which is responsible for mail deliveries between the sorting units and between sorting units and distribution offices.

The chart below shows the evolution of the automation process in the sorting units.

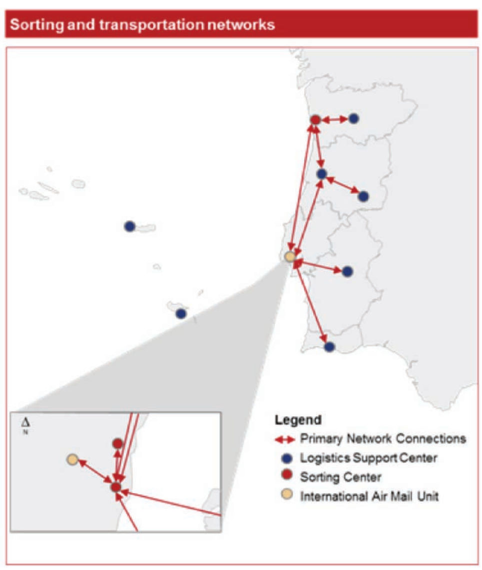


Source: Company information

CTT's sorting units are equipped with the latest optical character recognition technology. Currently, approximately 98% of CTT's potentially mechanized mail is sorted automatically. Since 2010, due to a significant investment in its sorting capabilities (€17 million between 2010 and 2012), CTT had a 12% increase in the amount of mail automatically sorted (currently 87% of total sorted mail) and a 30% increase in the mail that is automatically sequenced in its sorting facilities (currently 74% of total sorted mail).

Transportation Network

CTT's transportation network delivers mail and parcels: (i) from the collection points (retail network and corporate collection offices) to the sorting units; and (ii) from the sorting units to the delivery offices. CTT delivers mail and parcels by van or truck from the sorting units to the delivery offices located near the appropriate postcode sectors, on the basis of on pre-defined routes. The chart below summarizes the sorting and transportation networks.



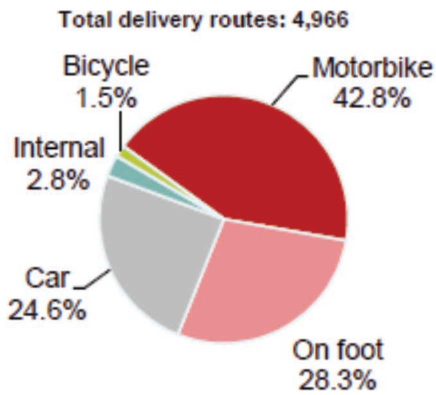
Source: Company information

Delivery Network

The delivery network is the last mile of the distribution network. In order to prepare mail and parcels for delivery, a second sorting process is performed at the delivery offices. The mail and parcels are sorted based on the delivery route and delivered by carriers or made available for pick-up from specified postal agencies and/or post offices. Mail and parcels are delivered by: (i) foot, if the route is less than 9 km, (ii) electrical bike or motorbike, or (iii) delivery van, mainly in rural areas or low density areas.

CTT has implemented a last mile distribution method, enabling it to enlarge routes and increase the volume of mail and parcels to be delivered to each address. The reorganization of the delivery is normally revised every 16 to 12 months to improve efficiency and adjust the geographic coverage to reflect mail volumes.

The chart below provides a breakdown of the vehicles used in the 4,966 delivery routes (30 September 2013).

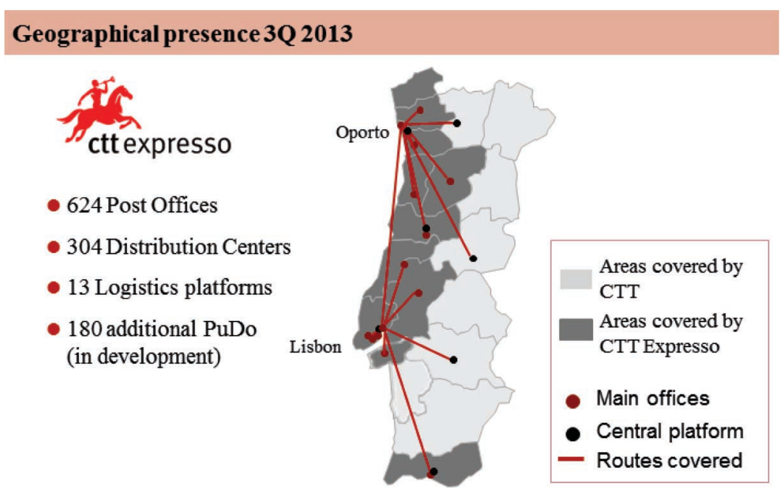


Source: Company information

Express and Parcels Operations in Portugal and Spain

Portugal

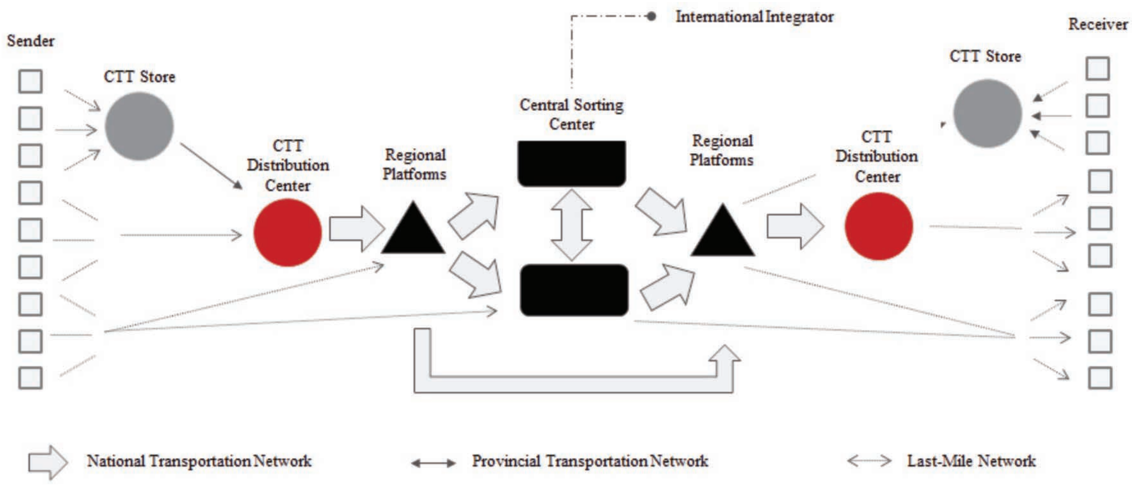
CTT has a full geographic coverage of the Portuguese territory, with part of the collection and distribution network operated directly by CTT Expresso and the remaining operated by CTT postal network. The following chart shows CTT's geographic presence.



Note: Pick Up/Drop Off in development

Source: Company information

The following chart illustrates CTT's collection and distribution network in Portugal.



Logistics Platforms

As of 30 September 2013 CTT operated 13 logistics platforms, which included two automated sorting facilities that cover the most populated areas of Portugal. The logistics centers perform the sorting activities and are responsible for supporting the distribution (pickup & delivery) network.

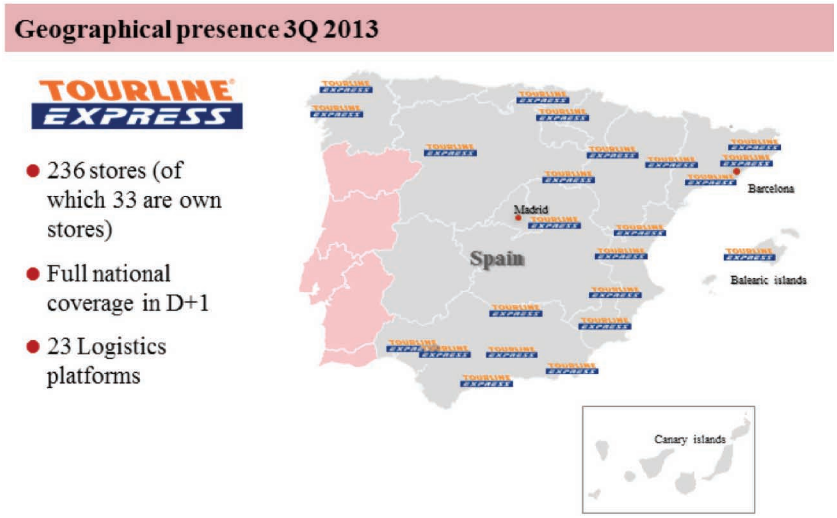
Delivery and Collection Network

CTT Expresso's distribution network handles approximately 80% of the total express and parcels volumes in Portugal, with the remaining volumes handled by CTT's postal network (primarily in less populated areas). This model enables CTT to provide premium service with nationwide coverage without incurring additional distribution costs.

Until 2013, CTT managed two separate distribution networks, one focused exclusively on the banking sector and the other served all other industries and individuals. In early 2013, due to the financial crisis, lower banking activity and increased use of electronic documents, CTT decided to merge the two distribution networks. CTT also has a pick-up/drop-off network (PuDo) that complements its existing delivery capabilities. The PuDo network has 624 own branches/ sales points in Portugal and has extensive nationwide presence. CTT is also in the process of expanding its PuDo network through a partnership with one of the largest retailers in Portugal (with locations in Spain), which should allow CTT to provide extended opening hours and open new PuDo branches inside major shopping centers and neighborhood supermarkets.

Spain

In Spain, CTT has full geographical coverage of the Spanish territory, with part of the collection and distribution network operated directly by CTT and the remainder by franchisees, partners and distributors. The following chart shows the main locations of Tourline.



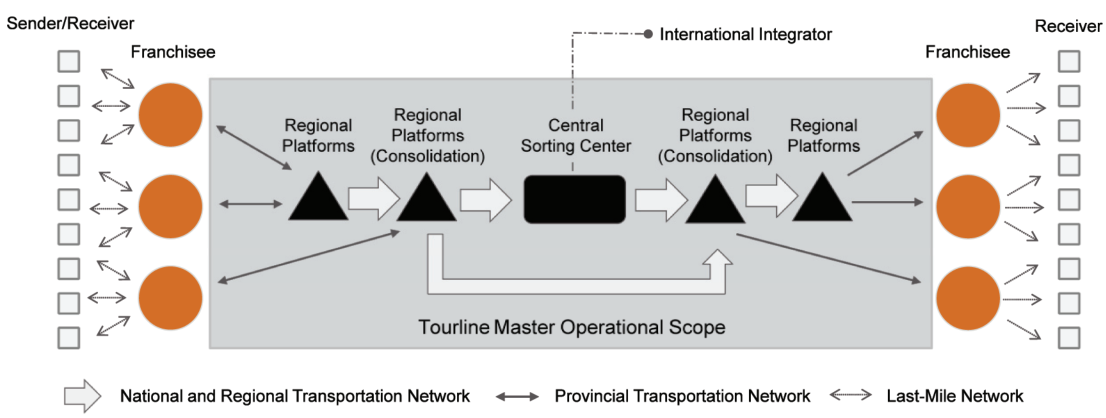
Source: Company information

In the areas not directly controlled by CTT, the operational model is based on three types of relationship:

- *Franchisees.* Franchisees are independent companies, with a contract that gives them the exclusive right to operate in certain geographic areas under the Tourline brand. Within their areas, franchisees are required to distribute and collect express and parcels products distributed by the Tourline network. Franchisees are not allowed to use any other network for their distribution or collection needs.
- *Partners.* Partners are independent companies, with a contract that allows them to operate in a certain geographic area on a non-exclusive basis. Within their areas, partners are required to distribute and collect express and parcels products distributed by the Tourline network. Partners are allowed to use other networks but are required to channel the volumes generated by its clients to the Tourline network. This type of arrangement is used in low delivery density areas and with limited commercial potential.
- *Distributors.* Distributors are independent companies, with a contract that requires them to distribute and collect products generated by the Tourline network. The distributors are not allowed to operate commercially in the geographic areas under the Tourline brand. This type of relationship is used in very low delivery density areas and with no commercial potential.

Franchisee and partners are entitled to set their own prices, although CTT defines the maximum price per service and also collects the following fees: (i) put along fee, which is paid per shipment; (ii) management fees, fixed amount paid per month; and (iii) consumables for all materials provided by CTT. CTT pays a fee to the franchisee, partner or distributor for the deliveries they perform on behalf of CTT.

The following chart shows CTT's collection and distribution network in Spain.



Operational model in areas controlled directly by Tourline

In 2013, Tourline implemented a restructuring process in its directly controlled areas, aimed at increasing efficiency by leveraging economies of scale and increasing control over its operations. As part of this plan, Tourline centralized customer care in a dedicated contact center, centralized billing processes; split commercial activities and operational activities; and merged some of its stores, centralizing distribution activities in operational centers.

Logistics Platforms and Transportation

Tourline is responsible for its own sorting activities, delivery between the logistics platforms and pickup and delivery to franchisees, partners and distributors. Tourline operates 23 logistic platforms, three of which have automated sorting equipment. The transportation network is composed of urgent routes, mainly operated by vans, and slow routes operated by large trucks, which are all outsourced.

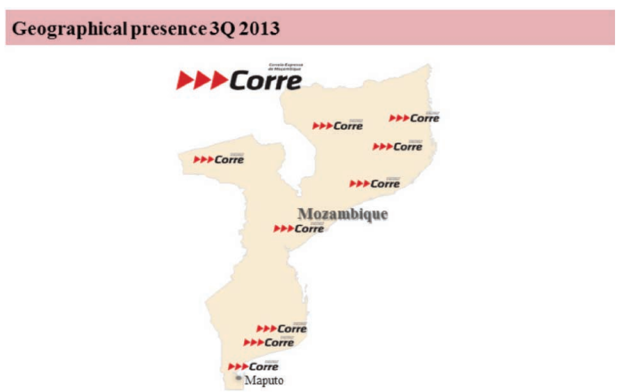
PuDo Network

As of 30 September 2013, Tourline has a pick-up/drop-off (PuDo) network, composed of 236 stores, of which 33 are owned by Tourline and 203 owned by franchisees, and 40 PuDo locations (convenience stores) which are currently being developed.

Mozambique

CORRE currently owns an operating center in Maputo, an exchange office at the Maputo airport, various sorting units and stores in the cities of Beira, Nampula, Tete, Pemba, Lichinga, Xai-Xai and Quelimane. CORRE also collects and delivers products sent by transport operators in Maxixe, located in Inhambane Province. CORRE's distribution network covers all provinces and all districts in Mozambique, and its network is supplemented by its agreement with "Correios de Moçambique", which provides for collection and distribution from more than 100 local post offices.

The growth of CORRE's operations have benefited from the creation of the dedicated collection and distribution networks, as well as the incorporation of logistics and other upstream services and the introduction of express import services. In particular, CORRE operates a networks dedicated to its banking clients, which collects and forwards mail between approximately 500 branches.



Source: Company information

Sales Channels

Retail Network

CTT's retail network in Portugal serves CTT's individual retail customers and small corporate customers. As of 30 September 2013, the retail network consisted of 2,520 sales points, of which 624 were post offices (managed by CTT) and 1,896 postal agencies (managed by third parties). The retail network performs approximately 250,000 transactions per month and has processed approximately 607,000 parcels for the year ended 31 December 2012.

CTT's post offices offer a full range of postal services and also provide various financial services and business solutions. The post offices are operated and centrally controlled by CTT.

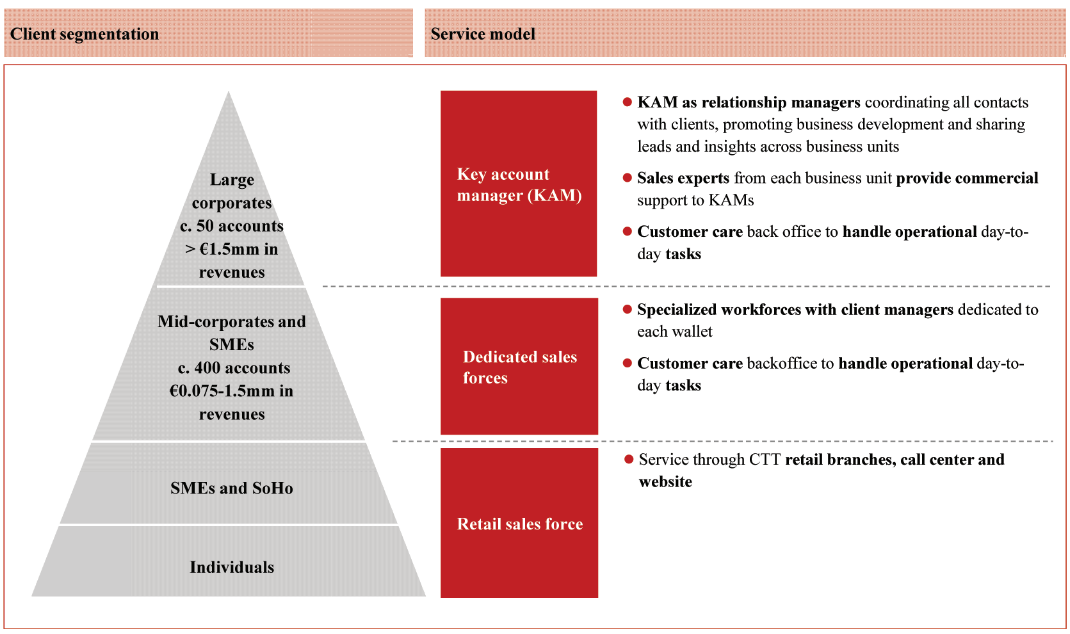
CTT entered into an agreement with the Portuguese Government for the creation of Citizens Bureau areas across CTT's retail network, offering services such as driving license renewal, Social Security declarations and requests, land registry certificates, exemptions from municipal tax for real estate, IRS declarations deliveries, school enrollment for students, etc.

Postal agencies offer some mail services and products, such as stationery, envelopes, packaging for parcels and cards, tax and bill payments, but do not offer any insurance and savings products or business solution services. As part of its agreement with operators of postal agencies, CTT trains all staff, installs the relevant infrastructure and provides CTT's standard marketing materials. Operators of postal agencies are remunerated based on a scheme with a fixed and a variable component. The variable component depends upon sales volumes. In addition to the postal agencies, CTT had installed 379 automatic stamp vending machines and 21 automatic mail product vending machines, some of which are available 24 hours-per-day.

In recent years, CTT has sought to increase the value of its retail network, while also complying with its USO obligations. In 2012, CTT took significant steps towards modernizing its retail network by focusing on increasing its revenue per customer, promoting new products and services and launching promotional campaigns. In addition, CTT has reorganized its retail network by closing post offices and opening postal agencies in low-demand areas, establishing part-time and weekend opening hours and eliminating redundant services. In 2013, CTT has reduced 124 own branches, of which 42 were closed and 82 were transformed into partnership branches. The measures were aimed at maintaining a postal presence throughout the country while improving CTT's cost structure, which was done in order to ensure the financial and commercial viability of its retail network.

Corporate Customers

CTT divides its corporate customers into (i) large corporate customers (annual revenues above €1.5 million), (ii) mid-sized corporate customers and SMEs (annual revenues between €1.5 million and €0.075 million), and (iii) small corporate customers and SOHOs (Small Office/Home Office) customers (annual revenues below €0.075 million). CTT's key corporate customers primarily operate in the banking and insurance industry, government, telecommunications, utilities, remote sales and publishing.



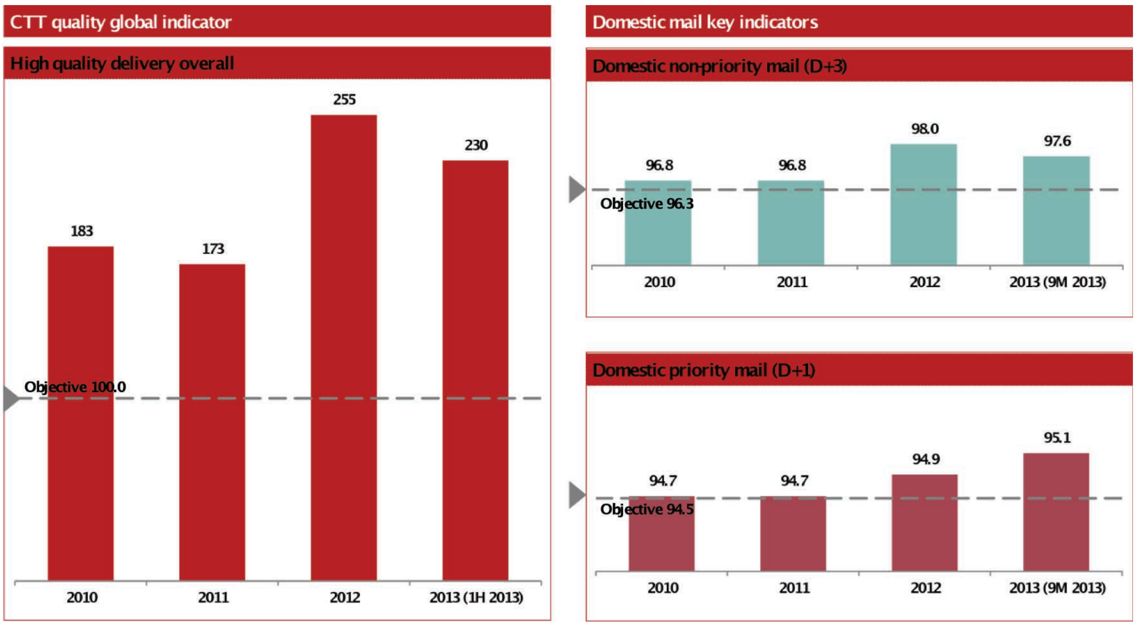
Source: Company information

CTT's small corporate customers, SOHOs and SMEs are served directly by the retail sales force and through the retail branches, call center and website. See "Retail Network". CTT's mid-sized corporate customers and medium enterprises are served by specialized sales staff and have dedicated client managers. Large corporate customers are served directly by key account managers who coordinate all contacts, promote business development and share leads and insights across business units. These managers are supported by sales experts from each business unit as well as back office operations.

Quality of Service and Customer Satisfaction

CTT's operational performance levels continued to be high in 2012, with an Overall Quality Index of 255 points, which considerably exceeded the 100-point target set in the quality convention agreed between CTT and the ANACOM and represents more than 80 point improvement compared with 2011.

In addition, during the three years ended 31 December 2012, 2011 and 2010, CTT exceeded the quality targets set by the Third Postal Directive. These results were achieved in a difficult environment, marked by several labor disturbances in 2012. The following chart shows CTT's operational performance levels.



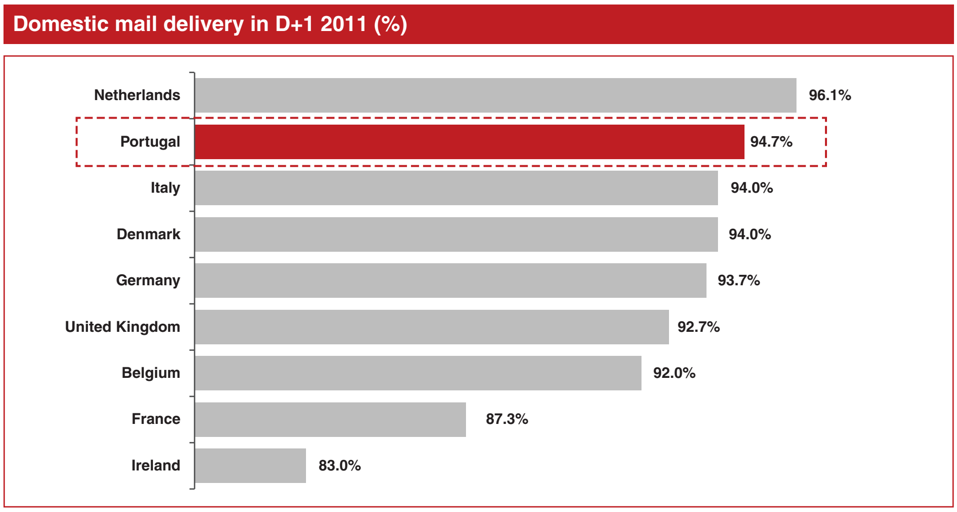
Source: ANACOM—Communications Status 2012 dated July 2013; ANACOM—Report 2011—Communications Status dated July 2012; ANACOM—Report 2010—Regulation, Supervision and Other Activities dated October 2011; and CTT's Analysis

Within the scope of the process of certification of services and with the aim of measuring the quality of service as perceived by the customer, CTT conducted between March and May of 2013 a Mystery Customer (*Cliente Mistério*) study that involved 705 shops and between July and September another study that involved 600 shops. Several variables were assessed, including how the customer is served, the presentation of employees, product knowledge, the information available and the presentation space. The result obtained was quite satisfactory with 99.2% of favorable opinions in the first study and 99.3% in the second. In addition to ensuring uniformity of internal processes, the main objective of the certification of services is to increase the degree of customer satisfaction.

In 2013, with respect to performance in 2012, CTT Expresso received the EMS Performance Awards silver award from the EMS Cooperative, the most prestigious organization in transnational urgent deliveries. It achieved 23rd place among 205 countries in respect to the quality of service in 2012. The site of CTT Expresso was recognized in December 2012 with the Online Trust Seal, accredited by the ACEPI (Associação do Comércio Electrónico e da Publicidade Interativa).

The Committed to Excellence level under the European Excellence Model of EFQM (European Foundation for Quality Management) continued to be ensured by CTT, encompassing the entire distribution network and network of shops in Mainland Portugal and the Autonomous Regions. This recognition is valid until the end of January 2014.

CTT's quality service presents good performance when compared with its main peers.



Source: ERGP—Report on the Quality of Service and the end-user Satisfaction (2012)

CTT Transformation Plans: Continuous Process of Excellence

IT Transformation Plan

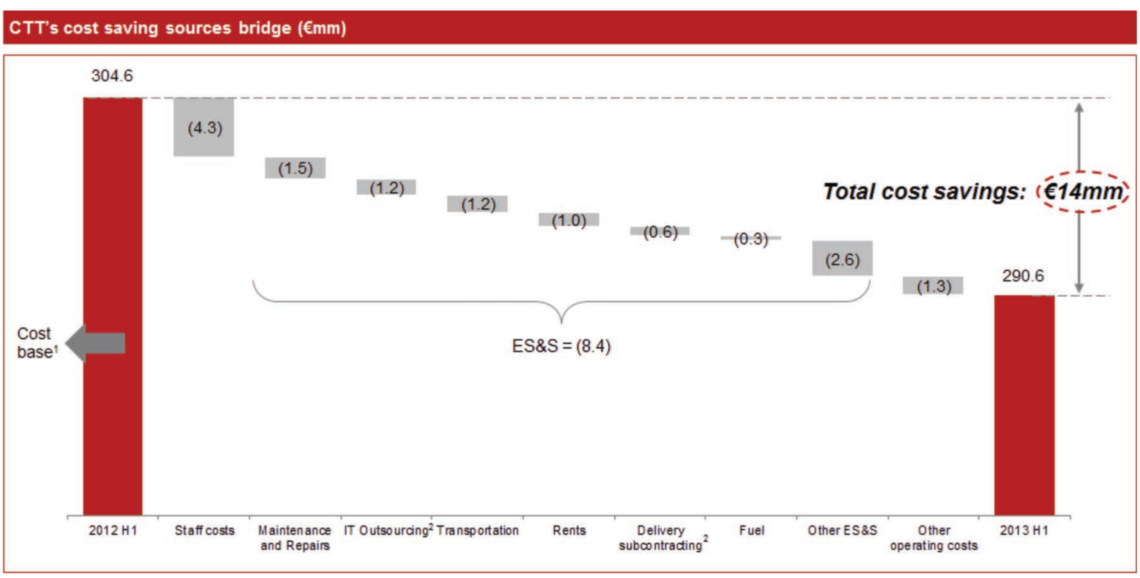
CTT has developed a plan to revamp and transform its IT architecture in order to have a more flexible infrastructure. This plan is being developed with the support of specialized advisors and management believes that cost savings in IT/communications operating expenditures can be achieved.

The current IT plan will be implemented in 2014. In 2015, major savings in IT costs are expected as a result of the end of the 10 year contract with IBM and PT.

Overall Transformation Plan

In the operational and cost side, CTT is continuously adjusting its scale and operations to the mail volumes demand and to the growth of the parcels markets. The continuous adjustments in the distribution networks to deal with market trends were and will be a transformation plan of CTT. Also, retail network profitability will remain under evaluation. The development of new services to be rendered in this network will be taken into account in the efficiency analysis.

The chart below shows the total cost savings from last year, split by individual sources of savings.

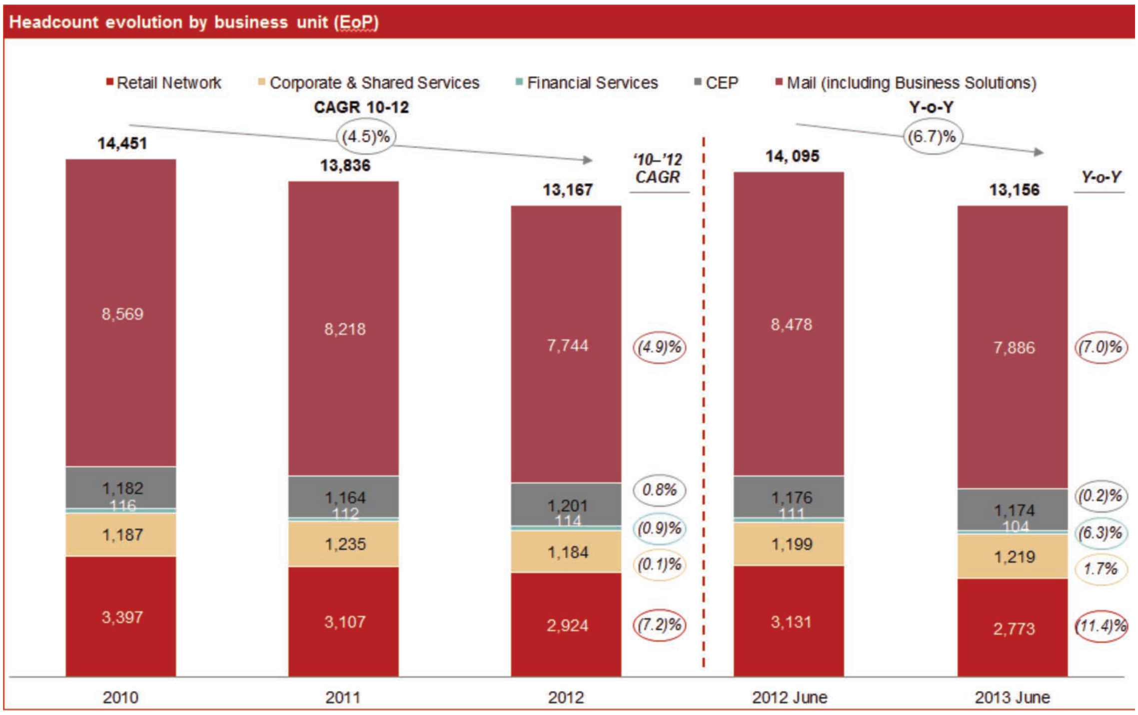


Source: Company information

(1) Operating costs excluding amortization, depreciation, provisions, impairments and non-recurring costs (€1.3 million of non-recurring costs in the first half of 2012 and €6.4 million for the first half of 2013).

(2) Parent Company

The reduction of personnel costs was the highest variation, with a reduction of €4.3 million in personnel costs for the six month period ended 30 June 2013, as compared to the six month period ended 30 June 2012. The chart below shows the evolution of the number of employees per business unit.



Source: Company information

On the revenues side, the development of new products, solutions and the adjustment of the portfolio of businesses are the focus of each business unit with the goal of seeking to lead the market and its trends. In September 2013, CTT had four transformation plans: (i) express and parcels growth project, (ii) postal bank optionality; (iii) postal network and express and parcels network integration analysis; and (iv) IT transformation plan.

Distribution and Operational Management

On 1 January 2013 the Directorate of Operations and Distribution was established for the management of the efficient collection, sorting, transportation and distribution, ensuring the quality of service and compliance with the obligations within the USO, as well as the promotion of synergies with the Company's business areas towards increased efficiency and creation of value.

Within the transformation program, a set of actions and initiatives have been defined by the Directorate of Operations and Distribution to be developed during the timeframe 2013-2015, with a special focus on year 2013.

For the development and implementation of these initiatives, it is intended to achieve reduced operational expenses, increased levels of productivity and improvement of the operational efficiency, and promote synergies within the networks of other business areas. These actions relate to the rationalization and reorganization of the operating cycle and are aggregated into three main areas of activity: sorting, transport and distribution.

Sorting

At the beginning of 2013 a significant change in the organization model of the production and logistic centers was implemented. These production structures started working through manual, automated and logistic lines of production, and adaptable to the different size of several centers.

The actions undertaken under the transformation program include the centralization of the sorting activities of regular mail in the two main production and logistic centers (Lisbon and Maia), the reorganization of activities per shift and greater efficiency in the automation processes. The activities of the production and sorting center located at Taveiro were extended, in particular the MailManager and video code activities which were internalized partially and transferred to this center.

Transport

Amongst the set of initiatives undertaken during the first nine months ended 30 September 2013, the reorganization of national transport networks (networks called "primary" and "secondary") and hiring/ renegotiation of transport services (road, air and sea) could be highlighted.

Rationalization measures of the energy used by the transport and distribution fleet continued to be implemented, and the network for new goods in circulation was prepared.

Distribution

In the first nine months of 2013 the distribution activity was aimed at increasing the operational efficiency through the following four elements:

- Promotion of new distribution models more efficient and oriented to the service standards of the products, through the implementation of targeted distribution priorities;
- Commencement of automatically sequenced mail without any prior manipulation in the distribution center, enabling increased efficiency in internal operations;
- Internalization by the distribution network of the express business mail and parcels;
- Rationalization of physical structures, through centralization and aggregation of postal distribution centers.

Besides the efficiency of the operations, the reliability of the processes and the commitment to excellent quality of service, CTT maintained its focus, during the first nine months of 2013, on promoting the postmen network as a privileged channel/network in terms of proximity to sell products and services.

The new organizational structure of CTT, which entered into force on 1 January 2013, includes Mailtec Processes (a company responsible for the operational management of mailmanager service and of the business center Pinheiro de Fora), within the mail business unit. This joint management allows CTT to promote greater integration of all mail operations with efficiency and internalization gains in the distribution of transactional mail and mailmanager activities, leveraging internal resources available.

Material Contracts

The following are contracts (other than those entered into in the ordinary course of business) which are material to CTT's operations or contain provisions under which CTT has an obligation or an entitlement that is material as at the date of this Offering Memorandum:

Concession Agreement

CTT, as concessionaire, and the Portuguese State, as grantor, entered into a concession agreement on 1 September 2000, as amended on 1 October 2001, 9 September 2003 and on 26 July 2006 and by the Postal Law. The concession covers:

- Universal Service Obligation: (i) the clearance, sorting, transportation and distribution of correspondence, books, catalogues, newspapers and other periodical up to 2 kg; (ii) the clearance sorting, transportation and distribution of postal packages up to 10 kg; (iii) the clearance, sorting, transportation and distribution of registered items and insured items; and (iv) the delivery within the Portuguese territory of postal packages received from other member states of the European Union and weighing up to 20 kg;
- Reserved Services: (i) the right to place on the public highway mail-boxes; (ii) the issuance and sale of postage stamps bearing the word "Portugal"; and (iii) the registered mail service used in court or administrative proceedings. See "*Regulation*".
- The exclusive provision of the special payment orders service which allows the transfer of funds via electronic and physical, national or international, named as postal money orders service.
- The non-exclusive electronic mailbox public service.

In addition to the concessioned services, CTT may also provide other postal services, as well as develop other activities, in particular, those activities which allow the profitability of the universal service network, directly or through the setting up or the participation in companies, or through other forms of intercompany cooperation. Within these activities the provision of public interest and general interest services is included under conditions which will be agreed with the State.

Considering the recent approval of the amendments to the Postal Law (which includes changes to the basis of the concession), pending promulgation by the President of the Republic, the Company will formalize with the Portuguese State any required amendments to the Concession Agreement in order to harmonize it with the Postal Law.

Savings Certificates Agreement with IGCP

CTT and IGCP entered into an agreement for the sale of savings certificates on 30 May 2008, as amended on 13 May and 15 July 2013. The agreement allows CTT to provide certain services on behalf of IGCP, including: (i) opening of new savings accounts; (ii) accepting and processing new subscriptions and receipt of corresponding amounts (iii) processing repayment requests and payment of the correspondent amounts; and (iv) the registry of the above mentioned operations and the performance of various other ancillary services. Under this agreement, CTT receives a fixed annual commission and several variable commissions one dependent on the type of service provided and another dependent on the compliance of certain goals related to the annual net stock of subscriptions versus repayment requests. This agreement was signed for the initial term of three years and could be automatically renewed for successive periods of one year, although it may be terminated at the end of each renewal period by either party upon six months' notice. If IGCP terminates the agreement with a shorter notice period (due to termination of the savings certificates subscription) it shall indemnify CTT for the loss of profit for the remaining period.

Treasury Savings Certificates "Poupanca Mais" Agreement with IGCP

CTT and IGCP entered into an agreement on 8 October 2013 for the sale of treasury savings certificates, which was approved by the Court of Auditors on 31 October 2013. The agreement provides for (i) the sale by the Company of treasury savings certificates; (ii) the acceptance and processing of new subscriptions and receipt of the correspondent amounts; (iii) processing repayment requests and payment of the correspondent amounts; and (iv) the registry of the above mentioned operations and the performance of various other ancillary services. Under this agreement, the Company is entitled to receive a variable subscription fee and several variable fees depending on the maintenance of subscriptions and on the fulfillment of certain objectives (subscriptions vs. cancellations). This agreement was entered into for an initial term of one year and it will be automatically renewed for successive periods of one year up to a maximum term of 3 years, unless terminated by either party by means of a prior notice of at least six months. In the event that IGCP terminates the agreement in breach of the above mentioned six-month prior notice (if the subscription for the treasury savings certificates are suspended), CTT will be entitled to compensation for loss of profit for the outstanding term.

Money Transfer Agreement with Western Union

CTT and Western Union entered into an international representation agreement on 8 October 2007, as amended from time to time, for the provision by CTT, as an agent, of transfer services of Western Union's funds in Portugal. CTT is entitled to receive commissions depending on the type of service provided. Under the terms of the agreement, CTT is subject to an exclusivity regime, which has an exception for the payment and transfer of funds services, which are provided in cooperation with Eurogiro and/or UPU, and services rendered with respect to postal money orders ("*Vales Postais*") and all other services inherent to CTT's legal status namely as a provider of postal payment services. This agreement is in force until 30 June 2018 and could be automatically renewed for successive one year periods, although it may be terminated at the end of each renewal period by either party upon six months' notice with reference to the initial or renewal period. Western Union is entitled to terminate the agreement, inter alia, in the event that: (i) CTT fails to pay its recipients in the ordinary course of business or if it fails to make timely settlement; and (ii) CTT violates exclusivity clauses.

Insurance Distribution Agreement with Fidelidade

CTT and Fidelidade—Companhia de Seguros, S.A. ("Fidelidade") entered into an insurance distribution agreement on 16 July 2013. Under this agreement, CTT is required to distribute and sell Fidelidade's life and health insurance products until 31 December 2018, which is the expiration date of the agreement. CTT may also enter into insurance agreements on behalf of Fidelidade. CTT is entitled to commissions depending on the number of sales, the type of product sold, the maintenance of current portfolio and new portfolios and a fixed annual commission. Under the agreement, CTT is subject to some exclusivity obligations, in particular regarding certain products and provided that Fidelidade presents competitive insurance products, in the terms and conditions set out in the agreement. The agreement will be in force until 31 December 2018 and may be renewed for consecutive two-year periods, if agreed by the parties, and may agreement may be terminated under certain circumstances, such as change of control.

Agreement with the ISS

On 11 January 2013, CTT and ISS entered into a services agreement for the issuance, distribution, payment and control of postal money orders by CTT, which are made by ISS, regarding the payment of pensions and other social benefits. CTT as provider of these services has the right to a fixed commission for every postal money order issued. The agreement will be in force until 31 December 2013 and may be automatically renewed, in the terms provided by law, unless any of the parties terminate the agreement under the terms provided therein. The agreement may also be terminated in certain circumstances.

Agreement with IGCP for tax collection

On 28 July 2004, CTT and IGCP entered into services agreement for the provision by CTT of tax collection services, under which CTT receives a fixed commission per tax collection. The agreement was entered for a period of one year, automatically renewable for successive one year periods. This agreement is particularly relevant due to the position of CTT as a provider of tax collection services.

Toll Fees Agreement

Since October 2010, following the introduction of the toll collection system, exclusive for electronic means, CTT has made available the provision of several toll collection services and complementary services, which were contracted with several concessionaires of routes subject to tolls and with Estradas de Portugal and which jointly represent a significant part of the revenues in CTT's financial services, including the following:

- *CTT/Estradas de Portugal*

  CTT and Estradas de Portugal entered into an framework agreement, on 12 July 2013, regarding the payment account of Estradas de Portugal, and the provision of services in the scope of the anonymous pre-payment and prepaid toll fees for foreign-registered vehicles, with effects (i) regarding the payment account of Estradas de Portugal on 15 October 2010 and (ii) the trade of prepaid toll fees for foreign-registered vehicles by Estradas de Portugal on 9 December 2011. This agreement was amended on 12 July 2013, retroacting to 1 July 2012, in order to regulate the automatic payment service—Easy toll—operated by Estradas de Portugal based on CTT's toll collection system. The agreement was entered with undetermined term and may be terminated by any of its parties upon 60 days prior notice.

- *CTT/Ascendi*

  CTT and Ascendi entered into a service agreement on 14 October 2011, with effects beginning on 15 October 2010, for a one year period renewable except if terminated by any of its parties upon three months prior notice, for the provision of toll collection services and complementary services regarding the concessions of Costa de Prata and Grande Porto. Under this agreement, CTT is entitled to a fixed setup fee and to a variable fee for each collection act. The agreement may be terminated in the terms set out above, as well as if the Ascendi's concession ends, and CTT will not be entitled to any compensation.

- *CTT/Via Livre*

  CTT and Via Livre entered into a service agreement on 29 July 2011, with effects beginning on 15 October 2010, for a three year period renewable for successive one year periods unless terminated by any of its parties upon three months prior notice, for the provision of toll collection services and complementary services regarding the concession of Norte Litoral. Under this agreement, CTT is entitled to a fixed setup fee and to a variable fee for each collection act. The agreement may be terminated in the terms set out above, as well as if the Via Livre's concession ends, and CTT will not be entitled to any compensation.

- *CTT/AELO*

  CTT and AELO entered into a service agreement on 20 April 2012, with effects beginning on 7 December 2011, for a three year period renewable for successive one year periods unless terminated by any of its parties upon three months prior notice, for the provision of toll collection services and complementary services regarding the concession of (i) IC-36-Leiria Sul (IC 2) Leiria Nascente; and (ii) IC 2—Variante Batalha. Under this agreement, CTT is entitled to a fixed setup fee and to a variable fee for each collection act. The agreement may be terminated in the terms set out above, as well as if the AELO's concession ends, and CTT will not be entitled to any compensation.

- *CTT/AEBT*

  CTT and AEBT entered into a service agreement on 5 April 2013, with effects beginning on 26 April 2012, for a three year period renewable for successive one year periods unless terminated by any of its parties upon three months prior notice, for the provision of toll collection services and complementary services regarding the concession of (i) IC-32 Palhais/Coina; and (ii) IC 32—Casas Velhas/Palhais. Under this agreement, CTT is entitled to a fixed setup fee and to a variable fee for each collection act. The agreement may be terminated in the terms set out above, as well as if the AEBT's concession ends, and CTT will not be entitled to any compensation.

- *CTT/Via Verde*

  CTT and Via Verde entered into a service agreement on 28 July 2011, with effects beginning on 9 September 2010, for a two year period, automatically renewable for successive one year periods, unless terminated by any of its parties upon three months prior notice, which set out the terms of the distribution by CTT of Via Verde's identifiers made available by Via Verde Portugal, as well as the provision of the services of reception, analyses and allowance regarding the adherents on Via Verde's positive discrimination regime. Under this agreement, CTT has the right to receive an amount for each identifier sold, as well as an amount for the provision of the positive discrimination regime. The agreement may be terminated in the terms set out above.

In addition to the above mentioned agreements where CTT assumes the position of service provider, and which may be considered as material contracts, in the outlooks activity perspective, of the created revenue, or of CTT's strategic position, CTT is also a party in several agreements, as an acquirer of services or goods, which may be considered as material due to the special dependency of CTT on some suppliers, for the purposes of CTT business and operations. The following agreements shall be included:

Outsourcing Agreement between CTT and Companhia IBM Portuguesa S.A. ("IBM")

CTT and IBM entered into an agreement for the outsourcing of IT services and for the management of its infrastructure, on 18 March 2004, with effects beginning on 31 March 2004, and valid until 31 December 2014. The agreement is renewable, upon a prior 12 months communication of this intention given to the other party, without prejudice of the possibility of extension of the duration of the agreement by CTT, upon prior communication to IBM (within 90 days from the term of the agreement), provided that a negotiation phase for the renewal is still occurring. This agreement is a key agreement in CTT's activity since it covers the provision of the relevant information technology services, namely, infrastructure management services of CTT. CTT may terminate the agreement through written communication to IBM provided that it does not happen before three years from the beginning of the agreement, and the effective date of the termination should occur within 180 days to one year after the reception by IBM of the termination notice.

Outsourcing Agreement between CTT and PT-Prime-Soluções Empresariais de Telecomunicações e Sistemas, S.A., ("PT PRIME")

CTT and PT PRIME entered into an agreement for the outsourcing of IT services for the management of its network, with effects beginning on 17 May 2004, and valid until 31 December 2014. The agreement covers the provision of a wide range of CTT's services and goods, namely the management services of its telecommunication network including base and support services as well as the transmission of CTT's assets to PT PRIME. The agreement may be terminated in case of default or serious breach of any obligation, by any of the parties. Termination will be effective through a registered letter with acknowledgment of receipt, and will produce effects in 90 days after the receipt by the receiver, save if during that period the default ceases to occur. In any case, it is provided that CTT can file for early termination without it constituting any breach of the agreement, upon 6 months prior notice to PT PRIME, and provided that CTT pays the following amounts to PT PRIME (i) until the end of the fourth year and in the tenth year, the outstanding amount; (ii) in the fifth year 40% of the outstanding amount; (ii) in the sixth to the end of the eighth year 10% of the outstanding amount; and (iv) in the ninth year 50% of the outstanding amount.

Software Licensing and Support Services Agreements with Escher Group

CTT and Grupo Escher entered into a licensing agreement for the provision of software relating to Riposte and Webriposte licenses which support the NAVE system used in CTT's own branches and in some postal agencies; and an agreement for the provision of specialized technical consulting services, relating to the provision by Escher Group of support services within those licenses. These agreements were terminated on 30 October 2013 and 30 April 2013 respectively, and the Company entered into a new agreement with Escher Group on 31 October 2013, which includes both the software licensing and the specialized technical consulting services, which will be in force until 31 December 2015.

Technical Support Software Licenses Agreement entered between CTT and ORACLE PORTUGAL—Sistemas de Informação Lda. ("ORACLE")

CTT and ORACLE entered into an agreement on 31 December 2012 with effects beginning on 1 January 2013 for the ORACLE licenses technical support, valid for one year period, being in force until 31 December 2013, which will be renewed until 31 December 2014. The agreement's scope is the acquisition of technical support services for the ORACLE's software licenses, licensed by Oracle, which include the program update services, security and correction alerts, tax, legal and regulation updates, Script and new patches updates, 24 hours/ 7 days a week technical assistance services, access to client's support systems and non-technical services during the ordinary working hours. The agreement may be terminated upon serious and continuous default by any of the parties of the obligations provided in the agreement or in the applicable law, without prejudice of the due compensation. In any case the termination can only be resorted to after the default has been notified to the defaulting party and provided that the party does not cease the default within 15 days from the reception of the notice. Should the default continue the termination will be effected through registered letter with acknowledgement of receipt, containing the causes and grounds for the termination and producing its effects on the reception date.

HR Access's Software Support Agreement entered between CTT and HR Access Solutions BV ("HR Access")

CTT and HR Access entered into an agreement beginning on 14 June 2013 for the support of HR Access's software, valid until 31 December 2013, and renewable for one year periods. The agreement will cease should CTT default on any payment obligation of CTT, in the period of 30 days after having been formally notified to these purposes, or if any of the parties materially breaches the terms and conditions of the agreement, and is not able to repair the breach within a 30 days period, counting from the notice of the breach by the non-breaching party. This agreement could be renewed until 31 December 2014.

Technical Assistance Agreement entered between CTT and Solystic SAS ("SOLYSTIC")

CTT and SOLYSTIC entered into a technical assistance agreement on 2 January 2005 with effects beginning on 1 January 2005 and valid until 31 December 2013. The scope of the agreement is the provision of technical assistance services to the main mail sorting equipment of CTT's facilities (Lisboa, Vila Nova de Gaia, Coimbra and Guia). The Company notified SOLYSTIC about is intention to terminate this agreement and the technical assistance services were included in the agreement entered into on 23 December 2010 referred to below.

Supply and Maintenance Agreement for Mail Sorting Machines entered between CTT and SOLYSTIC

CTT and SOLYSTIC entered into an agreement for the acquisition of mail sorting machines for follow-up function, where SOLYSTIC acts as a supplier and CTT as acquirer and service provider. The scope of the agreement is the supply of four mail sorting machines for the follow-up function in order to set up: (i) two machines in the Mail Operational Center of the South; (ii) one machine in the Mail Operational Center of the North; (iii) one machine in the Mail Operational Center of Castelo Branco; as well as the supply of perishables and spare parts and the provision of maintenance services. The agreement entered into force on 23 December 2010 for the period of one year counting from the beginning of the provision of maintenance services regarding the machine which definitive acceptance by CTT occurred the last. The agreement is automatically and successively renewable for one year periods (to the maximum of three years), unless if the agreement is unilaterally terminated by any of the parties upon a prior 90 days' notice counting from the end of the period concerned. This agreement will include from 1 January 2014 the technical assistance services referred to above, including the provision of full maintenance services.

Software Solution Supply Agreement (Improvement OCR Phase 2) between CTT and SOLYSTIC

CTT and SOLYSTIC entered into an agreement for the supply of software solutions that will allow the improvement of the addresses recognition rate in the mail indexation machines, which are equipped with an optical character recognition system, as well as for the provision of the development, implementation, licensing and transportation services. SOLYSTIC acts as supplier and service provider and CTT as acquirer. The agreement was entered into and began in 1 July 2013, will remain valid until the full fulfillment of all the contractual obligations by the parties, and may not exceed 320 days counting from the date of the beginning of the agreement.

Service Provision Agreement for Maintenance with Beumer Group

CTT Expresso entered into agreements for the provision of maintenance services with Beumer Group Technology SL regarding two sorting machines acquired by it. One of the agreements relates to the sorting machine located in the Operational Centre of Perafita (OPE), and the other to the sorting machine located in the Supply Market of Lisbon Region (MARL). Both agreements were renewed on 1 August 2013, will remain valid until 31 July 2014.

Employees

As part of the modernization program, CTT has reduced its workforce and thereby reduced its costs, which has been facilitated by natural attrition/retirement. As of 31 December 2012, CTT employed 13,167 employees, compared to 14,451 employees as of 31 December 2010.

The structure of CTT's workforce presents an opportunity for further productivity improvements. As of 30 September 2013, slightly more 33% of its workforce was over the age of 50 and the average age was 44.5 years. As of 30 September 2013, CTT had 2,196 employees 55 years old or older, which were eligible to apply for early retirement. This is expected to permit further reductions in the number of employees over the next several years through natural attrition (which includes retirement due to age or physical inability to work, voluntary departures and death) rather than through redundancies.

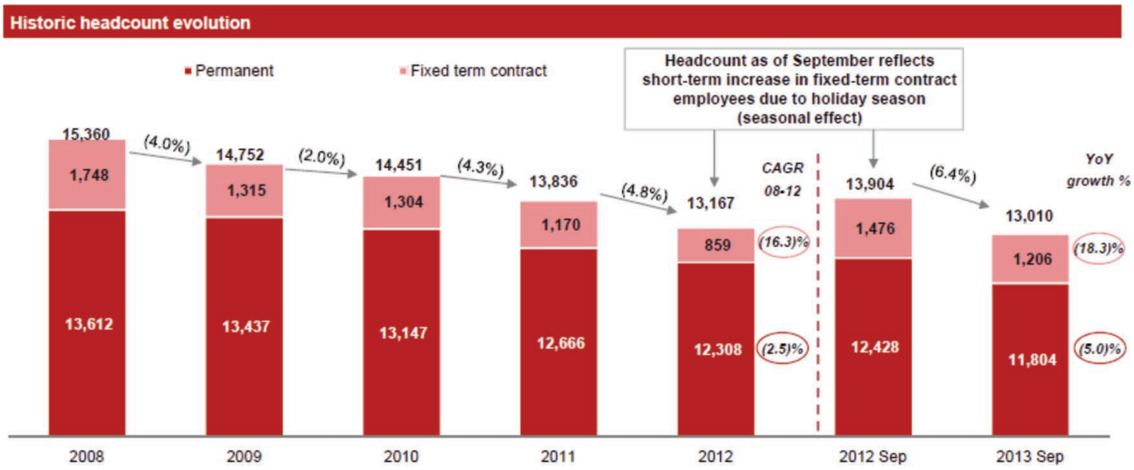
The following table provides a breakdown of employee numbers as of the nine months ended 30 September 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010.

	Nine month period ended 30 September (Unaudited)		As of and for the years ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
Portugal:					
Permanent Staff	11,408	12,068	11,938	12,315	12,791
Fixed Term Contracts	1,056	1,318	686	1,034	1,203
Spain:					
Permanent Staff	364	366	346	339	343
Fixed Term Contracts	101	126	134	104	77
Mozambique:					
Permanent Staff	32	24	24	12	13
Fixed Term Contracts	49	32	39	32	24

The following table provides a breakdown of average permanent full-time employees by business units as of the nine months ended 30 September 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010.

	Nine month period ended 30 September (Unaudited)		As of and for the years ended 31 December		
	2013	2012	2012	2011	2010
Mail	10,287	11,071	10,312	10,961	11,586
Business solutions	333	347	356	364	380
Express and parcels	1,168	1,178	1,201	1,164	1,182
Financial services	103	111	114	112	116

The following chart shows the historic headcount evolution for the periods indicated.



Source: Company information

Labor Relations

Labor relations differ in each of the countries in which CTT operates. In Portugal, a significant portion of CTT's full-time employees are organized into labor unions. CTT undergoes periodic negotiations with the unions and typically enters into 24 months collective bargaining agreements with the representatives of all labor unions.

In 22 March 2013, CTT signed a collective bargaining agreement with 12 unions with regards to the salaries and other monetary and employment matters, which was published in the Official Bulletin of Work and Employment no. 15 dated 22 April 2013 and entered into force on 27 April 2013. The agreement sets out that it will expire in 18 months, except for the provisions regarding salaries and other monetary matters, which will expire in 12 months from the effective date of 27 April 2013. In recent cases, the Supreme Court of Justice and the Constitutional Court have held that collective bargaining agreements in place at companies subject to privatization will only expire in accordance to the law. This is based on the special protection granted by the Constitution and by article 19 of Law no. 11/90 of 5 April 1990, as amended.

Salaries and Pensions

CTT employees' retirement pension liabilities are not supported by the company as they were transferred to the Portuguese State in 2003.

Until 1947, the retirement scheme applicable to the personnel of the then Administração-Geral dos Correios, Telégrafos e Telefones was the public administration scheme. Nonetheless, that year, through the Decree-Law 36.610 dated 24 November 1947, a new scheme was defined, through which the Administração Geral became responsible for the received retirement discounted quotas and, accordingly, for the costs of its personnel retirement pensions.

However, in 1947, the transfer of responsibilities from the Caixa Geral de Aposentações to the Administração-Geral dos Correios, Telégrafos e Telefones was carried out without the transfer of the corresponding mathematic reserves, which generated, from the beginning, a deficit in the CTT personnel retirement pensions coverage.

The above mentioned situation, that remained unchanged during the reshuffle of the communications sector, has been inherited by several companies with its roots in the Administração-Geral dos Correios, Telégrafos e Telefones.

In 1988, CTT' personnel pensions fund ("**Pensions Fund**") was established to ensure that the charges allocated to CTT arising from the pensions scheme developed and carried out by Caixa Geral de Aposentações were met.

In the aftermath of CTT's demerger, which resulted in Portugal Telecom, S.A. establishment in December 1992, the liabilities of CTT in the referred scheme were ring-fenced under the Decree-Law 122/94 dated 14 May 1994.

In 1988, the Council of Minister Resolution 42-A/98 dated 11 March 1998 considered that the State had the obligation to provide for the insufficiencies of CTT's Pensions Fund guaranteeing CTT responsibilities in relation to employees, due to the initial and final responsibility in its deficit coverage. Accordingly, the amounts needed to cover the retirement pensions of CTT personnel who were retiring until the date of 31 December 1996 were credited to the Pensions Fund.

Despite the above efforts, it was not possible to ensure an adequate coverage of liabilities vis-à-vis the retirement pensions of the Pensions Fund.

Acknowledging this fact, the Decree-Law 246/2003 dated 8 October 2003, took what was considered to be the natural measure- the extinction of CTT's Pensions Fund and returned to Caixa Geral de Aposentações the responsibility for the payment of the retirement pensions of CTT's personnel who had subscribed the Caixa Geral de Aposentações scheme, retired or not, with effects from 1 January 2003.

As a consequence of the extinguishing of the CTT's Pensions Fund, the Company transferred in December 2003 to Caixa Geral de Aposentações and to Direção Geral do Tesouro the value corresponding to the respective assets as of 1 January 2003, plus accrued income and increase of value until the date of its effective delivery.

In 2011, 2012 and 2013, CTT was restricted by mandatory provisions of the State Budgets for those years and by Portuguese Government Guidelines on remuneration policies and operating cost reductions, applicable to the public sector. In addition to including such measures as salary reduction and the prohibition on pay increases, the 2012 State Budget also resulted in the suspension of the Holiday and Christmas bonuses (articles 20 and 21 of law 64-A/2011 dated 30 December 2011). Upon the completion of the Offering, CTT will no longer be a state-owned company and therefore the above mentioned measures will no longer apply. As such, CTT will be obliged to pay to its employees full salaries (without reductions) as well as the full Christmas and holiday bonuses.

CTT's employees who are members of *Caixa Geral de Aposentações* ("**CGA**") and employees who are beneficiaries of the Portuguese state social security system (recruited as permanent staff of CTT after 19 May 1992 and before 31 December 2009) are entitled to the health care benefits established by CTT's Social Work Regulation. These benefits are extended to all permanent workers of the company, whether they are still working, or if they are pensioners, on pre-retirement or retirement, to his/her relatives, spouses or descendants. Employees hired by the company after 31 December 2009 are only entitled to the benefits provided for in the Social Work Regulation while they are actively employed by CTT.

Health care benefits include the full payment of the benefits usually granted to the social security beneficiaries ("*abono de família e outras prestações complementares*") to the employees who are members of the CGA. All the former current CTT's employees, its employees in a suspension of the work contract situation/pre-retirement and natural attrition/retirement employees can be beneficiaries of the CTT's Social Work Regulation. In certain conditions, the employees' relatives may enter into an adherence agreement. The beneficiaries shall pay a contribution varying between 1.5% and 2%, calculated over the relevant employee's fixed monthly remuneration and seniority allowances. The employees' relatives shall also pay varying between 1.5% and 2%, calculated over the amount received. There are exemptions of contributions. Regarding the healthcare plan is majority funded by CTT but is also co-funded by its beneficiaries. The management of the healthcare plan is ensured by the HR Department, which in turn, has hired Portugal Telecom—Associação de Cuidados de Saúde ("**PT-ACS**") to provide the health care services.

Health care liabilities amounted to €258.4 million as of 30 September 2013 (€252.8 million as of 31 December 2012) of which €174.0 million (€167.3 million as of 31 December 2012) related to retired employees and €84.4 million (€85.5 million as of 31 December 2012) related to past services of current employees.

Properties, Plant and Equipment

CTT uses, as owner and/or under financial leasing arrangements, as well as under lease agreements, use of space, free assignment or concessions, 1,088 properties, located in Portugal, Spain and Mozambique.

All the properties used by CTT are characterized, by reference to the use of the respective properties, as well as the purpose for which they are intended, as follows:[14]

Type of Properties	
Shops/Post Offices ("EC")	413
Postal distribution center / support distribution centers ("CDP/CAD")	305
Mail center operating / production and logistics centers ("COC/CPL")	3
Properties for several purposes[15]	367
Total	**1,088**

In Portugal, and through the Company, Mailtec Comunicação, EAD and CTT Expresso, CTT was the owner and/or financial lessor of approximately 462 properties as of 30 September 2013, as follows:[16]

	Shops/EC	CDP/CAD	COC/CPL	Several	Total
The Company	**173**	**170**	**2**	**111**	**456**
—Properties co-owned by CTT	5	—	—	1	6
—Properties subject to a financial lease	—	—	1	—	1
Mailtec Comunicação	**—**	**—**	**—**	**1**	**1**
EAD	**—**	**—**	**—**	**4**	**4**
—Properties subject to a financial lease	—	—	—	3	3
CTT Expresso	**—**	**1**	**—**	**—**	**1**
—Properties subject to a financial lease	—	1	—	—	1
Total	173	171	2	116	462
Buildings or autonomous units					455
Plots of land					7
Total					**462**

As of 30 September 2013, CTT's real estate assets in Portugal included 455 buildings or autonomous units (443 owned by the Company, six co-owned by CTT and Portugal Telecom SGPS, S.A., and six owned by certain subsidiaries of the Company) and seven plots lands, a total of 462 properties.

14 It should be noted that some of the properties used by CTT are intended to be used for more than one purpose (*e.g.* stores / post offices and simultaneously postal distribution centers / distribution support centers). For the purposes of this Offering Memorandum, and with reference to the characterization of the use of the property with two or more uses, CTT has adopted the following criteria: (i) where the property is also intended for the operation of a mail center operating / production and logistics center, it was recorded as such, (ii) where the property is also intended for the operation of postal distribution center / support distribution center—and is not included in (i)—it was recorded as such, (iii) whenever the property is also intended for the operation of a store / post office—and is not included in (i) and (ii) above—it was recorded as such, (iv) all properties owned by CTT (except those held by the Company) and for which it has not been possible to determine the appropriate use, were recorded as properties for several purposes.

15 The category of "properties for several purposes" (by reference to the purpose for which the property is intended) covers all properties not included in any of the other categories in particular, those that are intended for housing, postal services provided by third parties (outsourcing), offices and other administrative services and parking, as well as (partially or completely) vacant properties.

16 The Company owns property only in Portugal. All properties located in Spain and / or Mozambique are owned by third parties and used respectively by the companies Tourline and CORRE.

The total net book value of the properties owned by CTT amounted to approximately €205.2 million[17] as of 30 September 2013, of which:

- 15 properties, each with a net book value superior to €1.5 million, represent approximately 40% of the total net book value (approximately €79.2 million); and
- 40 properties (including the 15 referred to in the previous paragraph) with a total net book value of approximately €103 million, represent approximately 50% of the total net book value of the real estate owned by CTT. CTT leases 626 real estate properties and has 11 free concessions.

Of the properties owned by CTT, 11 have immaterial encumbrances registered (one of which corresponds to a mortgage (property of EAD with mortgage in favor of the Company) and the remaining 10 have other types of encumbrances, such as easements, etc.).

Within the scope of CTT's plans to reorganize its real estate portfolio, approximately 70 properties, with a total net book value of approximately €26 million, are for sale and/or lease.

With respect to the other 455 properties owned by the Company, as well as the 626 owned by third parties for which there is the option of subletting, the Company (as lessor) has executed 184 lease contracts, which generate a monthly income of approximately €276,000 and total annual income of approximately €3,314,500 per annum, of which around €91,000 corresponds to intra-group contracts.

CTT uses[18] approximately 626 properties, of which (i) 557[19] are located in Portugal, (ii) 56 in Spain and (iii) 13 in Mozambique. In Portugal, as of 30 September 2013, the average duration of the contracts ranged between six months and one year, notwithstanding some contracts have longer durations, and can be characterized as follows:

	Shops/EC	CDP/CAD	COC/CPL	Several	Total
CTT	239	134	1	156	530
Mailtec Comunicação	—	—	—	2	2
Mailtec Consultoria	—	—	—	1	1
EAD	—	—	—	7	7
CTT Expresso	—	—	—	14	14
PostContacto	—	—	—	2	2
PayShop	—	—	—	1	1
CORRE	—	—	—	13	13
Tourline	—	—	—	56	56
Total	**239**	**134**	**1**	**252**	**626**
Properties located in Mozambique	13				
Properties located in Spain	56				

A limited number of lease agreements expressly provide that in the event that the Portuguese Government ceases to own 50% of the CTT's share capital, CTT will be obliged to procure the issuance in favor of the relevant lessor of a revolving bank guarantee on demand (*garantia bancária à primeira solicitação*), for an amount equivalent to 6 to 24 monthly rent payments (depending on the agreement). Upon completion of the Offering, CTT may have to provide guarantees amounting to approximately €18 million under its outstanding lease agreements.

The vast majority of CTT's leases were entered into before the entry into force of the New Urban Lease Regime, approved by Law no. 31/2012 dated 14 August 2012, which entered into force on 12 November 2012 (the "**NRAU**") and are subject to the long-term contracts regime either long-term contracts or contracts with an indefinite term. As a result of the entry into force of the NRAU, lessors may: (i) update the rents payable under the relevant lease; (ii) change the lease's applicable regime to the regime for the fixed-term contracts under the NRAU and/or (iii) terminate the contract or oppose its renewal. There is therefore a risk that the total amount of rent payable by CTT will increase in the short to medium term.

17 This amount does not include the net accounting value of the 2 properties owned by the Companies Mailtec Comunicação and EAD.

18 The reference to the use by CTT of properties owned by third parties includes any properties leased by CTT, properties subject to a contract for the use as a shop and/or space, rendering of services including the use of a space, concession, as well as all properties used by the Company under the Protocol signed between the Company and Portugal Telecom SGPS, S.A.

19 Approximately 41 contracts that grant the use of properties owned by third party will terminate, by means of notice by CTT, by 31 December 2013.

As of 30 September 2013, CTT paid a monthly total amount of rent and/or remuneration for its leased properties of approximately €2.17 million and total annual rental expense of €26.1 million.

As a result of the entry into force of the NRAU, all lease contracts referred to in the preceding paragraph and that may be the subject to an extraordinary revision of rent can also be converted into fixed-term contracts, and will be deemed to be contracts for a period of five years if CTT and the respective lessors do not agree on the applicable period.[20] According to an assessment made by the Company in January 2013, an annual increase in rents of approximately €900 thousand was estimated. As of 30 September 2013, only 21 leases had been subject to extraordinary rent updating.

As to the transition to fixed term contracts under the NRAU, all lease contracts referred to in the paragraph above and that may be the subject to an extraordinary updating of rent due may also be converted into fixed term contracts, and will be deemed to be contracts of 5 year term if CTT and the respective lessors do not agree on the applicable period.

The NRAU establishes that the lessor may terminate a lease agreement, with a prior notice of five years, in the event of a change of control in the lessee (transfer *inter vivos* of a shareholding or shareholdings that result in change of ownership change with a new entity holding more than 50%). However, NRAU does not make it clear whether that termination right shall also apply in the case of an indirect transfer of shares. Considering that CTT is the lessee in approximately 85% of its lease agreements, lessors are likely to exercise such termination right upon completion of the Offering.

With regards to the termination of the lease contracts subject to the rules on contracts of undetermined duration and executed between 1 October 1995 and 27 June 2006, the lessor may terminate them by giving the respective lessee two years' notice. In approximately 15% of leases the title is a promissory lease contract, of which about half were entered into before 1 May 2000 (when the execution of such lease agreements was subject to a public deed in order to be valid).

Furthermore, certain properties owned and/or used by CTT have no use license or its use (when applicable) is inconsistent with that license. Consequently, CTT may be subject to legal proceedings and it may be required to pay fines between €1,500 and €250,000. It may also be subject to ancillary sanctions, such as the seizure of assets, close of business in specific areas (municipalities) up to a maximum term of four years and the elimination of certain subsidies.

With respect to any environmental issues which may affect the use of the CTT properties, in March 2002 the Municipality of Amadora issued—in favor Mailtec Comunicação, and with reference to the licensing of an industrial property located in the property leased by the said company and intended for printing—a certificate to authorize the location of an industrial printing plant on the plot of land where its industrial unit is located. Since May 2002, the plot of land in question has had a license for use as warehouses and offices. On the other hand, and with reference to the same property, a license for operation of the industrial establishment was issued by the Regional Directorate of the Economy—Lisbon and Tagus Valley (DRE- LVT) in 2003. In 2009, the DRE-LVT authorized the alteration of the industrial establishment concerned, imposing a condition on the same, namely, the need to obtain the use license from the Amadora Municipal Council (for industrial use). The maintenance of industrial activity at the site will depend on the approval, by the City of Amadora, of the change of the current licensed uses (offices and warehouses), to include industrial use. Mailtec Comunicação has not yet applied to the Amadora Municipal Council for the change of the use license to include industrial use.

As of 30 September 2013, Tourline paid monthly rents/remuneration for its leased properties of approximate €129,000, which corresponded to total annual rent of approximately €1.55 million. The average duration of the respective contracts ranged from 6 months to 10 years, with certain contracts having longer duration.

As of 30 September 2013, CORRE paid monthly rents/remuneration for its leased properties of approximate €20.6 thousand per month, which corresponded to total annual rent of approximately €247,200. The average duration of the respective contracts ranged from 12 and 36 months, with certain contracts having longer duration.

[20] Except if the parties agree otherwise and/or the lessor opposes to the renewal and/or the respective company of CTT terminates the contract at any moment, the lease contracts that transfer to the NRAU as limited duration leases shall be renewed for equal and successive periods of time.

Equipment

CTT owns a fleet composed of trucks for transportation of mail and goods, without prejudice to contracting transportation services from third parties to complement the use of its own fleet. With regard to the light goods and passengers vehicles that CTT has at its service, CTT as a rule resorts to entering into operational leasing agreements for 4 years periods. CTT also has its own fleet of motorcycles for use in the home delivery of mail.

The majority of the equipment used by CTT in its daily activities, including mail sorting machines, optical reading machines (OCR), computers for individual use (desktop or laptop PCs), are the property of CTT, which maintains with its suppliers maintenance contracts, as well as, if applicable, the software licenses required for the proper functioning of such equipment.

CTT also owns a set of IT servers, currently housed in the data center of Portugal Telecom Picoas, under a contract to provide accommodation and support for IT infrastructure services signed with PT PRIME in 2011 (renewed in 2013), valid until February 2014

Additionally, under the contracts for outsourcing information technology and communications currently in force and with the providers IBM and Portugal Telecom respectively, a very broad set of server printers and communication equipment is used. Under these contracts, on the expiry date (31December 2014 in both cases) CTT acquires ownership of the assets, with the inherent transfer costs.

See Notes 5., 7., 25. and 35 of the Financial Statements on the net value of tangible assets and investment properties, assets in finance leases and CTT's liabilities regarding such finance and operational leases.

Environmental matters

CTT is legally bound to prevent, reduce or repair environmental damages arising from its activities and may be required to incur additional expenditures in order to assure full compliance with its obligations. However, CTT's activities are essentially non-industrial in nature and therefore its direct ecological footprint is limited.

CTT's main environmental impact relates primarily to the following activities: (i) consumption of fuel and electricity; (ii) emission of atmospheric pollution, particularly greenhouse gases produced by the fleet and buildings, and (iii) direct and indirect waste (particularly resulting from the use of paper). Other environmental impacts might be mentioned, particularly noise pollution and water consumption.

CTT has obtained Civil Liability Insurance in order to cover its environmental liabilities arising from Portuguese environmental legislation (Decree Law no. 147/2008 of 29 July) and is fully covered against: (i) the damages caused to protected species and natural habitats, and (ii) damages caused to water and soil contamination due to pollution that creates a significant risk to human health. CTT's three main mail operating centers are also ISO Standard 14001 certified (North, Lisbon and Centre). As of the date of this Offering Memorandum, CTT has all of the required environmental certificates for its operations. In addition, CTT has also implemented an environmental management system, which allows it to identify environmental risk and impacts and regularly updated its operations in accordance with the latest requirements methodologies.

As of the date of this Offering Memorandum, CTT does not have any environmental liabilities or obligations that could have a material adverse effect on its finance or operations.

Insurance

CTT and each of its subsidiaries are the holders of a wide portfolio of insurance mandatory by the legislation in force and which, in general, is intended to insure (i) risks inherent to the activity carried on by each company, particularly with regard to civil liability arising from such activity, (ii) the assets (movable and immovable) owned by each company, and (iii) employees allocated to the activity of each operating unit.

With respect to the main activity of CTT, the following insurance policies are significant (i) coverage of work accidents and complementary coverage attributed to employees, (ii) civil liability coverage (including environmental) to cover, inter alia, damage and injuries caused to third parties, (iii) multi-risk, which covers almost all of the risks of direct property damage that the insured property may suffer, and (iv) transport of goods.

The CTT companies (excluding EAD) pay annual insurance premiums of €2.8 million, of which the most significant amount (€2 million) is payable by the Company, as the group company with more considerable assets and also because it appears as beneficiary of policies that insure the activity and/or assets of the other group companies (*e.g.*, insurance policies required to cover liabilities and environmental responsibility).

The vast majority of CTT's fleet—which is of vital importance to carrying on its business—is insured under operational leasing contracts for vehicles, so the management of the compulsory civil liability insurance of these vehicles is outside the sphere of CTT.

In terms of claims, the claims communicated by CTT in recent months are essentially related to traffic accidents and work accidents.

CTT's properties are fully covered by the insurance required by law. Furthermore, and although not mandatory, there is a very significant set of properties, in which are included the most relevant for the operational activity of CTT, such as the centers of production and logistics (Cabo Ruivo and Maia), which are also covered by multi-risk insurance.

Intellectual Property

CTT relies on a combination of trademark, service mark and domain name registrations, copyright protection, patent protection and contractual restrictions to protect its technologies, brand names and logos, marketing designs and internet domain names.

CTT's intellectual property portfolio consists of more than 120 Portuguese trademarks, as well as a number of international and European trademarks, which have been registered with regards to several types of goods and services.

Based on the rights deriving from its trademark registrations, CTT has registered more than 40 domain names.

There are no material contingencies that could impact CTT's intellectual property rights.

What stands out, in particular, is the brand "CTT" which is the basis of all CTT's offer and is a key part of its business strategy with direct impact on its results, making it possible to strengthen the presence of CTT with its customers and project its credibility, strengthen the trust relationship in the Group and create a sense of loyalty.

Information Technology & Data Protection

Information and communication systems and technology is a key component of the products and services provided to customers, and underpin both the efficiency of the operations and the back office processes. CTT's reliance on IT to perform in compliance with growing legislative changes, security obligations and the integration of the supply chain make the IT department increasingly critical. Efficient and up-to-date IT systems are a strategic necessity and prerequisite for delivering service and winning contracts with most customers.

CTT has invested and continues to invest in its IT systems to support its increasing business in market sectors that require enhanced IT support. CTT intends to standardize for cost efficiency when the standardization is possible. However, the postal activity usually requires the customization of the products and services in order to adapt them to the needs of the business. In particular, CTT has invested substantial resources in developing its billing, customer service and traffic management functions and has also developed a new customer web application.

CTT is subject to the personal data protection legislation in the context of the pursuit of its activities, this issue being of great importance, mainly in relation to customers and employees of CTT.

CTT complies with all data protection legislation relevant to its operations and has submitted several notifications to the National Commission for Data Protection ("**CNPD**"). CTT has received authorization to handle sensitive data as part of its operations, including video monitoring, call recording, management of the clinical and occupational medical programs, control of biometrics data, control of traffic and location data, and debt recovery. CTT's activities are restricted by such authorizations and notifications and CTT does not use or process any personal data for purposes not authorized by CNDP. However, some types of data processing activities can be exempt from these notification and authorization requirements, provided that CNDP has determined in advance that CTT has fulfilled the necessary conditions for an exemption permit. CTT continuously monitors personal data protection legislation and adopts its operations and procedures to reflect the most recent legislative changes, in particular regarding the use of cookies.

Research and development policies

With more than five centuries of existence, CTT has been able to adapt its portfolio to market changes, not only as a result of the continued strengthening of relationships with their customers, but also by the high quality and talent of its staff.

In order to face market changes, such as electronic substitution, globalization, liberalization and privatization, CTT has implemented a set of policies for R&D and innovation with the purpose of becoming a communications platform that combines physical and digital messages exchanged between citizens, economic agents and the public administration.

From 2009 until 2012, CTT has created a Forum for Innovation and Creativity, which allowed CTT's employees to submit ideas for new products or services and suggest improvements. CTT has established a committee that selects some of these ideas and suggestions and then presents them at CTT's quarterly meetings, which are open to all employees, for evaluation based on economic viability and possible implementation.

In addition, CTT and its innovation department promote business intelligence analysis, both nationally and internationally, maintaining, for example, updated information on key initiatives implemented by CTT's competitors. This information is disclosed to various business units and also allows CTT to explore new business opportunities internally.

Additionally, CTT is member or participates in the governing and advisory boards of several industry associations related to e-commerce (ACEPI), emerging technologies (CEDT), the promotion of electronic communications (APDC) and innovation (COTEC). In the past, CTT has participated in projects and trials involving new technologies and business models as part of these organizations.

CTT has also focused its medium-term innovation objectives on the diversification and development of non-traditional businesses, such as developing a range of services that facilitate outsourcing of business activities, expanding its financial services product range, developing a complete e-commerce focused product range and improving the efficiency of its network operation.

During the financial years ended 31 December 2012, 2011 and 2010, CTT invested €1.8 million, €12.4 million and €12.8 million, respectively, in research, development and innovation.

Since 2010, CTT has developed the following innovative projects:

- In 2010, CTT launched a new portfolio of products related highway toll collection (post-paid and pre-paid payment systems and systems based on electronic devices), introduced a new set of digital mail handling services aimed at the corporate customers segment, launched a project to build the most complete and detailed national database of geocoded and classified addresses, and opened a new production and logistics center in Porto, which has several new sustainability features.
- In 2011, CTT opened to the public the first self-service post office (open 24/7), which allows customers to send and receive postal items and parcels (both registered or unregistered), purchase products and pay their bills. CTT also launched new services: e-direct platform for mail advertising that integrates online and offline campaigns, new services for E-ID citizen card holders, personalized stamps and online ticket sales.
- In 2012, CTT introduced new stamp issues, which allow customers to read a 2D code printed on the presentation card with their mobile phone and access a website, which contains additional information about the stamp issue. CTT also initiated the development of an e-commerce solution for SMEs that sell online products, launched a new toll system for vehicles registered abroad (TOLLCARD), developed a new business process outsourcing service for the municipalities, with special emphasis on the billing cycle, and expanded its electronic mailbox platform (ViaCTT) to one million registered users.

In 2013, CTT launched an application for Android and iOS phones and Windows8 tablets that give CTT's customers ability to search for postal items (registered and parcels), search for postcodes and addresses, consult the amount of tolls owed for a given registration platform and to find the closest CTT's sales point.

CTT has also developed contacts with the universities in order to introduce new stamp technology. A detailed innovation project plan is still being developed, which constitutes a first step towards the implementation of a future CTT's Innovation Management System.

Legal Proceedings

CTT is involved in several legal proceedings relating to the normal conduct of its business, such as claims for loss of goods, delays in delivery, trademark infringements, subcontracting and employment issues, as well as civil and infringement liability. As of the date hereof, CTT did not have any pending legal proceeding which involved a claim for greater than €320,000, except as provided below:

- Claim brought by the Democratic Union of the Communication and Media Employees (SINDETELCO) against CTT on 29 April 2011 regarding the reduction of remunerations and freezing of career progression of its members. The Court of First Instance ruled against CTT. In response, CTT appealed to the Constitutional Court which considered, on 26 April 2011, the matter in question and ruled that CTT's action were constitutional and accordingly remanded the case to the Court of First Instance to render a decision in conformity with the constitutionality ruling. Until the present date the decision by the Court of First Instance is pending, but it is likely, from the perspective of the Company, that the Constitutional Court's ruling rejects SINDETELCO's claim. Therefore it is considered that there is no risk for CTT in this legal action.
- Claim brought by the National Union of Postal and Telecommunications Employees (SNTCT) against CTT on 17 September 2012 regarding the amounts that CTT had deducted or would deduct from the corresponding remuneration, holiday and Christmas bonuses of the employees part of SNTCT. CTT received a ruling in its favor on 22 January 2013, although SNTCT appealed against this decision. Until the present date there has been no final decision issued by the Superior Court although considering the opinion of the Constitutional Court a ruling in favor of CTT is probable. This legal action has the possibility of appeal to the Supreme Court of Justice considering that the procedure value is of €30,000.01. CTT has recorded provisions to cover the full amount of these outstanding claims. See Note 27 "*Provisions, guarantees provided, contingent liabilities and commitments*" to the Adjusted Audited Consolidated Financial Statements, "*Risk Factors—Risks Relating to CTT's Business and Industry—The amount provisioned by CTT in respect of labor contingencies may be insufficient to cover its actual liabilities*." and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Results of Operations—Provisions—Provision for judicial proceedings and labor contingencies".*
- Crime-proceedings under which Mailtec Communication was made suspect on 11 July 2011, due to facts occurred before its acquisition by CTT, and allegedly committed by a member of the board of directors at the material time, and related to an advantage obtained regarding the 2001 income tax . These facts, according to the files that made the company a suspect, may be deemed as qualified tax fraud and money laundering. This crime-proceeding is under investigation.

In addition to the above claims, the following proceeding is currently pending:

- Not Specified Conservatory Injunction/ Summon for the prohibition of behavior, started on 4 November 2013, on the 3rd Unit of the Administrative Court of the District of Lisbon by Associação Movimento Revolução Branca, and others, through a popular action proceeding, against Parpública, the Ministry of Finance, and with reference to which the Company is a opponent, in order to condemn the defendants to refrain from any action for the transfer of the share capital of the Company. The Company was summoned on 12 November 2013 to oppose to the claim within ten days. Such injunction does not imply an automatic suspensive effect, so the privatization process will continue until the court's decision and even after the decision (in case of rejection of the injunction) even if it is appealed.

REGULATORY MATTERS

The postal industry is heavily regulated, including by national, EU and global regulatory bodies. CTT is therefore subject to significant regulations in Portugal and in other jurisdictions. This section is intended to provide a general overview of the regulations—at a national, EU and international level—applicable to CTT's activity and business or that may have an impact on the company's activity and business. This section is not intended to be a comprehensive description of the applicable regulations. You should read this section in conjunction with "Risk Factors".

Status as an Autonomous State Owned Sector Enterprise

CTT operates primarily in the postal sector, along with secondary involvement in the financial services sector. As a result, its activities are subject to government regulation on a number of fronts.

Given the nature of the services it provides, and given that, until the completion of the Offering, the entirety of CTT's share capital has been held by the Selling Shareholder, a state-owned company, CTT qualifies as a state-owned company under Portuguese law (Decree-Law no. 558/99 of December 17, as amended). As a public company, CTT is obliged to promote access to basic services, due to the fact that postal services are considered to be basic services pursuant to the Law no. 23/96 of July 26, as amended. Article 20 of Decree-Law no. 558/99 of December 17 and article 55 of Decree-Law no. 133/2013 of October 3 provide that access to basic services shall be provided on equal terms to all the users and further provide that CTT must maintain efficient management of the postal network.

Along with the Portuguese legal framework applicable to state-owned companies, CTT is also subject to applicable national and European competition laws and to general commercial laws, in accordance with articles 7 and 8 of Decree-Law no. 558/99 of December 17.

As a state-owned entity, CTT was required to report certain financial information to the Minister of Finance and to the Minister responsible for the postal sector. For non-publicly held companies, such information would only be required to be reported to the company's shareholders.

In its capacity as the designated USO provider, CTT must also provide certain financial information concerning the provision of the USO to the national regulatory authority responsible for the postal sector, the ANACOM.

Upon completion of the Offering, the Selling Shareholder will no longer hold the majority of the Company's share capital and voting rights, although it will continue to hold a stake of at least 30.00% of the Company's share capital. The Selling Shareholder will not have any right to control the Company.

Therefore, in accordance with Decree-Law n.º 133/2013 of 3 October, which will enter into force upon completion of the Offering, the Company will no longer be qualified as a public company. However, due to a portion of the Shares continuing to be held by the Selling Shareholder, the Company may be qualified as a non-controlled company, under and for the purposes of the above mentioned Decree-Law.

The incorporation of non-controlled companies in the state-owned enterprise sector applies solely to the public shareholding, namely in which refers to its registry and control, as well as the exercise of shareholder's rights, which shall be exercised according to the principles set out in the above mentioned Decree-Law and other applicable legislation.

Key Legislation on Postal Services

European postal markets have undergone dramatic change in recent years, a development that has been driven by technological advancements and increased competition. It is as a result of this profound transformation of the sector that a regulatory framework for the postal sector became a necessity in order to ensure universal services, consumer protection, and to achieve a gradual and controlled liberalization of the postal market.

EU background

The debate regarding the introduction of a single postal services market in Europe started in the early 1990s and was aimed at establishing the provision of a universal postal service across the EU through the definition (to the extent necessary) of a standard reserved area for correspondence and, simultaneously, at ensuring the liberalization of the sector. To achieve this, the focus on the debate was on establishing conditions for access to the markets for licensed operators, introducing independent regulators in each member state, setting quality standards and establishing clear principles on pricing. These discussions led to the 1992 Green Paper and subsequently to the First Postal Directive (Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997, the "**First Postal Directive**").

The First Postal Directive was aimed at guaranteeing a universal postal service encompassing a minimum range of services of specified quality to be provided in all member states at an affordable price for the benefit of all users, irrespective of their geographical location in the EU.

In light of the above, the First Postal Directive established common rules concerning: the conditions in which postal services should be rendered; the provision of a universal postal service within the EU; criteria defining the services which may be reserved for universal service providers and conditions governing the provision of non-reserved services; a sustainable remuneration scheme ensuring that universal services are rendered; tariff principles and transparency of accounts for universal service providers; the setting of quality standards for the universal service and the introduction of a system to ensure compliance with those standards; the harmonization of technical standards; and the creation of independent national regulatory authorities.

The European Council, meeting in Lisbon, on March 2000, set out two decisions applying to postal services, whereby action was requested of the European Commission, the European Council and the member states in accordance with their respective powers. In doing so, the European Council took into account treaty provisions relating to services of general economic interest and the undertakings entrusted with operating such services.

Thereafter, the European Commission undertook a thorough review of the EU postal sector, including by commissioning studies on economic, social and technological developments, and consulted extensively with interested parties. This culminated in the adoption of the Second Postal Directive (Directive 2002/39/EC of the European Parliament and of the Council dated 10 June 2002, the "**Second Postal Directive**") in 2002.

The Second Postal Directive amended the First Postal Directive to further open postal services to competition, and also provided for the reduction of the threshold weight for services reserved to universal service operators to (i) 100 grams or three times the public tariff for the item of correspondence of the first weight-step of the fastest standard category from 1 January 2003 and to (ii) 50 grams or two and a half times the tariff for the basic weight from 1 January 2006. The Second Postal Directive also strengthened the transparency of accounting rules and rules for handling complaints and imposed a prohibition on cross-subsidization of universal services outside the reserved sector with revenues from services falling within the reserved sector (except to the extent that those cross-subsidies are shown to be strictly necessary to fulfill specific universal postal services obligations).

Since the adoption of the Second Postal Directive, European postal markets have undergone dramatic change, which has been driven by technological advancements and increased competition resulting from deregulation. In its conclusions concerning the mid-term review of the Lisbon Strategy, the European Council of March 2005 re-emphasized the importance of establishing an internal market for postal services in order to foster growth and create more and better jobs, and the important role that effective services of general economic interest have to play in a competitive and dynamic economy. These conclusions were considered applicable to postal services as an essential instrument of communication, trade, and social and territorial cohesion.

Following these conclusions, in the Resolution of 2 February 2006 on the application of the Postal Directive, the European Parliament highlighted the social and economic importance of efficient postal services and their important role within the framework of the Lisbon Strategy, indicating that reform measures undertaken until such date had brought about significant positive developments in the postal sector, along with increased quality, greater efficiency and improvements in meeting users' needs. In its Resolution, the European Parliament requested that the European Commission, in view of sometimes divergent developments in the provision of the universal service across member states, concentrate its efforts in particular on the quality of the universal service provided and on its future funding, and to propose a definition, scope and appropriate financing for the universal service.

The final establishment of the internal market in postal services in the EU was achieved in legislative terms in 2008 with the adoption of Third Postal Directive (Directive 2008/6/EC of the European Parliament and of the Council of February 20, the "**Third postal Directive**"), which provides for the full market opening and liberalization of European postal services.

The Third Postal Directive provides the regulatory framework for defining, amongst others, the conditions governing the provision of postal services, the USO and tariff principles, fixing common rules for transparency of accounts for universal service providers, as well as setting up and ensuring compliance with service and technical standards. It further imposes on member states the requirement to guarantee the provision of high quality services (by setting quality standards for the universal service and establishing a system to ensure compliance with those standards) and affordable universal postal services throughout the EU, as well as the establishment of common rules on the financing of universal services under conditions that guarantee the permanent provision of universal services.

With respect to the USO, the Third Postal Directive provides for the right to a universal service, which is defined as involving not only the permanent provision of a postal service of specified quality at all points in the relevant member state's territory[21] but also at affordable prices for all users.

To this end, the Third Postal Directive provides that member states must ensure that the density of access points takes into account the needs of users, and that the universal service shall be guaranteed at least five working days a week (at least one clearance and one delivery to home or business premises).

The Third Postal Directive also provides strict guidelines in respect of pricing of universal services, by requiring that the prices for each of the services forming part of the universal service comply with certain principles based on fairness and transparency.

In summary, under the EU regulations on postal services, member states:

- must ensure that the density of points of contact and of access points takes into account the needs of users and that the USO is guaranteed at least five working days a week, with at least one clearance and one delivery to home and business premises;
- may designate one or more companies as USO providers to cover the entire national territory, subject to a periodic review;
- must ensure that the provision of USO complies with "essential requirements," including the need for confidentiality of correspondence, security of the network with regards the transport of dangerous goods, respect for the terms and conditions of employment and social security schemes and data protection, environmental protection and regional planning;
- must ensure that the USO is offered as an identical service to all users under comparable conditions, made available without discrimination, provided on an uninterrupted basis and evolves in response to the technical, economic and social environment and the needs of users;
- may introduce authorization procedures, including individual licenses, in order to ensure compliance with the essential requirements and the provision of the USO (for postal services outside the scope of the universal service, member states may introduce general authorization procedures to guarantee compliance with the essential requirements);
- may provide compensation methodologies (on a transparent, non-discriminatory and proportional basis) in favor of USO provider(s) if they claim and prove that the provision of the universal postal service has resulted in an unfair burden (as defined by the mentioned Regulator) on them;
- must ensure that prices for the services forming part of the provision of the USO are affordable such that all users have access to the cost-oriented, transparent and non-discriminatory service conditions;
- must ensure that whenever USO providers apply special tariffs, for example for services for business, bulk mailers or consolidators of mail from different users, they shall apply the principles of transparency and non-discrimination with regard to both the tariffs and the associated conditions;
- must ensure that the USO provider(s) maintain separate accounts within their internal accounting systems in order to clearly distinguish between services that are part of the universal postal service and services that are not part of the universal service;
- must ensure that quality of service standards regarding universal postal services are set and published in order to guarantee postal services of high quality (in particular, quality standards shall focus on routing times and on the regularity and reliability of services); and

21 Member states shall ensure that quality-of-service standards are set and published in relation to universal service in order to guarantee a postal service of good quality. Quality standards shall focus, in particular, on routing times and on the regularity and reliability of services (Article 16).

- shall take steps to ensure that users and USO providers are regularly given sufficiently detailed and up-to-date information by the USO or providers regarding the particular features of the universal service offered, with special reference to the general conditions of access to these services as well as to prices and quality standard levels.

Portuguese Postal Regulation

The Third Postal Directive was transposed into Portuguese law in 2012 through the publication the Postal Law. The regulator of the postal service sector continues to be the ANACOM.

The Postal Law is currently in the process of being amended and further developed by a draft Decree Law ("**Draft Decree-Law**") to be enacted, and a draft law to be approved by the Assembly of the Portuguese Republic ("**Draft Law**").

The Postal Law distinguishes between services that fall within the USO and other postal services, as follows:

USO	Other Postal Services
• Correspondence up to 2 kg	• Express mail services[22]
• Catalogues, books, newspapers and other periodicals up to 2 kg	• Catalogues, books, newspapers and other periodicals above 2 kg
• Postal parcels up to 10 kg	• Postal parcels above 10 kg
• Postal parcels received from other member states of the European Union and weighing up to 20 kg	• Direct mail (*e.g.*, items of correspondence comprising an identical message which is sent to a significant number of addressees, exclusively for advertising, marketing or publicity purposes).
• Services for registered items and insured items	

Although the main purpose of the Postal Law is the achievement of a sustainable and efficient provision of the universal postal service, the Postal Law also regulates the provision of other liberalized postal services which are not part of the USO.

As mentioned, the Postal Law, in line with the Third Postal Directive, specifies the conditions for the provision of postal services under a full competition regime (including the services that fall within the scope of the USO), and aims to guarantee a sustainable and efficient provision of a universal postal service. The Postal Law defines the rights and interests of users, especially consumers, and is aimed at ensuring the existence, availability, accessibility and quality of the universal service, as well as its economic and financial sustainability and feasibility.

The Postal Law contains provisions in relation to the following:

- maintenance of CTT as the designated provider of the USO throughout the Portuguese territory until 31 December 2020;
- maintenance of the USO for correspondence/letters, books, newspapers and other periodicals up to 2 kg and parcels up to 10 kg, as well as registered and insured items. The universal service also covers the delivery within the national territory of postal parcels received from other member states of the European Union and weighing up to 20 kg;
- exclusion from the scope of the USO of the direct mail service, which was included in the USO under previous legislation;
- CTT is the exclusive provider until 31 December 2020 of the following services: (i) the issuance and sale of postal stamps bearing the word "Portugal"; (ii) the acceptance and delivery of registered mail for judicial and administrative procedures; and (iii) the placement of letter boxes on the public highway intended for the deposit of postal items; and
- establishment of quality standards and price setting rules for the provision of the USO.

22 Added value services, characterized by a role of additional characteristics, such as: predefined delivery deadlines; registered postal items; guarantee of provider liability, by means of insurance through which the sender is previously aware of how he may be compensated of damages suffered; tracking and tracing of postal items along the provider's operational circuit, allowing the identification of the delivery status and the provision of information to the customer.

USO under the Law

The Postal Law ensures the existence and provision of the USO, which shall meet the following needs:

- provision of a postal service at affordable prices for all users;
- provision of appropriate quality standards, namely as regards routing times, density of access points, regularity and reliability of services;
- service provision under conditions of equality and non-discrimination;
- continuity of the service provision, save for situations of force majeure;
- development of the service provision in response to the technical, economic and social environment and to the needs of users; and
- compliance with obligations related to the universal service provision to which the Portuguese State is bound at international level.

As such, according to the Postal Law, the USO comprises a postal service, of a national and international scope, for postal items, and also for catalogues, books, newspapers and other periodicals up to 2 kg and postal parcels up to 10 kg, as well as services for registered items and insured items and the delivery within the national territory of postal parcels received from other member states of the European Union and weighing up to 20 kg.

USO providers shall guarantee one clearance and one delivery of postal items covered by the USO at least once a day every per working day, save in exceptional circumstances or geographical conditions previously defined by the ANACOM.

Upon expiry of the above mentioned concession period, the USO provision may be ensured through the following mechanisms: (i) efficient market operation, under an individual license regime and (ii) designation of one or more postal service providers to provide different elements of the universal service or to cover different parts of the national territory. The mechanisms adopted shall be the most efficient and appropriate to guarantee the availability of the USO throughout the Portuguese territory and such mechanisms shall respect the principles of transparency, non-discrimination and proportionality, ensuring the continuity of the provision of the USO as a factor of social and territorial cohesion. In the case of designation of one or more providers, their appointment shall be for a sufficiently long period to guarantee a return on their investments and shall take the form of a concession contract complying with the Portuguese public procurement code ("*Código da Contratação Pública*").

Quality

The Postal Law provides for the setting by the ANACOM of quality of service parameters (compatible with quality standards settled for intra-community services and the remaining international services) and the performance objectives associated with the provision of the USO, related in particular to routing times, the regularity and reliability of services, as well as rules on their measurement, monitoring and disclosure. According to the Draft Decree-Law, such quality of service parameters shall be determined by the ANACOM for a term of at least 3 years.

Non-compliance with legal and regulatory obligations relating to quality of service permit the ANACOM to apply mechanisms to compensate users of the USO, based on principles of proportionality, adequacy, non-discrimination and transparency. The breach of quality of service standards can also lead to the application of a fine of between €10,000 and €1 million by the ANACOM and, based on the seriousness of the offense and the fault of the operator, the suspension of the relevant activity or ultimately the interdiction of exercising the respective activity for a maximum period of two years.

The Postal Law further provides that USO providers must have a system for measuring quality of service that is compliant with the ANACOM's rules regarding the measurement of quality of service. This performance monitoring shall be carried out at least once a year by an independent external entity and the results of this monitoring shall be the subject of a report published at least once a year by USO providers.

Furthermore, the ANACOM must ensure that quality of service statistics are submitted to audits and other control mechanisms carried out independently by external entities, in order to ensure the accuracy and comparability of data provided by the USO providers.

Notwithstanding the above and considering that the quality of service parameters referred to above have not yet been established by the ANACOM, the quality convention concluded between the ANACOM and CTT, on 10 July 2008, as amended on 10 September 2010, remains temporarily in force.

Pricing

The Postal Law imposes the general principle that the provision of the USO shall be at affordable prices for all users. The pricing of the postal services forming part of the USO shall comply with the following principles: (i) accessibility for all users; (ii) cost-orientation, giving incentives for an efficient USO provision; and (iii) transparency and non-discrimination.

Special prices and associated conditions of the postal services that make up the USO, applied by USO providers, namely services for businesses, bulk mailers or consolidators of mail from different users, shall: (i) take into account the costs avoided, as compared to the standard service covering the four operations making up the postal service, (ii) be applied equally, regardless of the type of beneficiary and (iii) be available to users who send mail under similar conditions, in particular, individual users and small and medium-sized enterprises.

The Postal Law provides that the ANACOM shall establish the criteria governing the determination of prices of postal services that make up the USO and the provider shall notify the ANACOM on an annual basis of prices to be applied for postal services making up the USO provision, including any amendment thereto, at least 30 days prior to the date on which such prices are applicable. The Draft Decree-Law sets forth that the ANACOM shall determine such criteria for a term of at least three years and, in respect of special prices, the notification to the ANACOM shall be made only prior to the entry into force of the prices.

Furthermore, and in addition to the above, in respect of the prices for the postal services that make up the USO provision, the ANACOM may:

- determine, for duly substantiated reasons relating to the public interest, that the price of postal items weighting less than 50g shall comply with the uniform tariff principle, with a uniform tariff being applied throughout the national territory, without prejudice to the right of USO providers to conclude individual agreements on special prices with users;
- impose price control mechanisms, including price caps, to the extent necessary to promote effective competition or to protect the interests of users;
- determine that some postal services for the use of blind and partially-sighted persons are provided free of charge; and
- amend prices for postal services that make up the USO, as well as the amendment or removal of conditions associated with prices, taking into account the quality of service provided, to the extent necessary to promote effective competition or to protect the interest of users.

Following the enactment of the Postal Law, the ANACOM carried out a public consultation concerning the criteria governing the establishment of prices for postal services that make up the USO. Based on the public consultation, the ANACOM on 29 July 2013 issued a draft decision to which the criteria governing the setting of prices for services comprising the USO will be applicable from 1 January 2014 for a period of two years, that is, until 31 December 2015.

For the purposes of the application of the project decision the ANACOM considered the following types of service, in their different formats, weight steps and presentation forms:

- priority-mail/blue mail, in the outbound national and international service;
- non-priority mail/ regular mail, in the outbound national and international service;
- convenience mail in the outbound national and international service;
- outbound economic cross-border mail;
- outbound prime priority/blue cross-border mail;
- outbound business mail international service;
- registered items and ensured items in the outbound national and international service;
- judicial notices and summons postal services (reserved services);

- books, newspapers and other periodicals mailing services in the outbound national and international service; and
- parcels service, in the regular parcels modality, for the outbound national and international service.

In the draft decision the ANACOM decided that the pricing criteria for postal services that make up the USO shall be based on a price cap mechanism, applicable from 1 January 2014 to 31 December 2015.

For the reserved services (judicial notices and summons postal services), the weighted average price increase permitted each year shall not be greater than IPC + FCIPC − 0.4% (depending on the Consumer Price Index) in average nominal terms, for the years 2014 and 2015. For this purpose, IPC means the Consumer Price Index and FCIPC means the adjustment factor for the Consumer Price Index. The weighted average range is obtained using the proportion of gross invoicing for each format and weight category for the relevant reserved service in the previous year.

For correspondence items, books, newspapers and other periodicals mailing services, the weighted average price increase permitted in 2014 shall not be greater than IPC + 0.5% in average nominal terms. The weighted average price increase permitted in 2015 shall not be greater than (IPC + FCIPC) + 0.5% + FCQ, in average nominal terms. For this purpose, IPC means the Consumer Price Index; FCIPC means the adjustment factor for the Consumer Price Index and FCQ means the adjustment factor for volume. The weighted average range is obtained using the proportion of gross invoicing for each format, weight category and means of rendering of services in the previous year. Without prejudice to the foregoing, in the case of services with negative margins, the prices notified by CTT for the following year shall result in an increase in the margin. In addition, the annual price increase for non-priority/regular mail items weighing up to 20g included in the USO but not covered by the pricing applicable to bulk mailers shall not be greater than 15% in nominal terms, in each of the years 2014 and 2015.

For senders of bulk mail included within the USO (including consolidators or other intermediaries that aggregate items of multiple users), prices must comply with transparency and non-discrimination principles, and must also take into account the avoided costs when offering discounts. These prices shall also be applied in a similar manner, regardless of the type of customer, and shall also be applied to users who send mail in similar conditions, especially individual users and small and medium-sized enterprises.

Costs of Universal Service and Compensation

CTT is entitled to be compensated for the net cost of the USO in the event that such costs represent an unfair financial burden as defined by the ANACOM.

The Postal Law provides that the ANACOM must define: (i) the methodology for calculating the net cost of the USO in accordance with the principles set forth in the Postal Law; as well as (ii) the concept of unfair financial burden and the terms governing its determination, including the criteria used. The unfair burden of the USO shall be calculated on a net cost basis, *i.e.*, as the difference between the net cost for a designated USO provider of operating with the USO obligation and the net cost of the same postal service provider operating without the USO.

In calculating the net cost of USO ("**NCUS**"), the Postal Law provides that the following elements should be taken into account:

- the tangible and intangible benefits that accrue to the USO provider (the guidelines contained in the Third Postal Directive specify that the calculation of the NCUS must take into account all relevant data, including all intangible benefits and all the benefits of market accruing to a postal service provider designated to provide the USO);
- the right of the USO provider to obtain a reasonable profit, represented by the cost of capital relating to investments needed to provide the USO, which should reflect the risk incurred; and
- appropriate incentives to the respective USO provider to fulfill the USO obligations in an economically efficient way.

As such, the Postal Law provides that the calculation of the NCUS is based on the cost imputable to:

- the elements of the USO necessarily provided at a loss or under cost conditions falling outside normal commercial standards (this may include, *inter alia*, the provision of postal services across a specific geographical area including single prices for such geographical area, and the provision of certain free services to the blind and visually impaired); and

- the specific end users or groups of end users who, taking into account the cost of providing the specified service, the revenue generated and any geographically uniform prices imposed by the ANACOM, can only be served with at a loss or under cost conditions falling outside normal business practices. This category includes users or user groups that would not be served by a company that did not have an obligation to provide the USO.

Based on the above rules set forth in the Postal Law, the ANACOM issued on 5 July 2013 a project decision on the methodology to be used for calculating the net cost of NCUS covering postal services. According to this project decision, the ANACOM considered that the NCUS results from the sum of the loss components, that is, should any component present a positive margin this value shall not be used to offset any negative margins determined in other(s) component(s).

According to the ANACOM, this approach respects the logic underlying the calculation of the NCUS, where one should take into account the costs of services that would not be rendered by an entity that does not have the USO obligations. A service that earns positive margins would, in principle, also be similarly provided by an operator governed exclusively by commercial criteria. The methodology used by the ANACOM follows the method known as the "**Commercial Approach**"(CA), which measures the profits obtained by the provider with the USO obligations, less the profits of the provider without the USO obligations. The steps required to proceed to the calculation of the net cost are as follows:

- Step 1—Identification of USO;
- Step 2—Definition of the counterfactual scenario;
- Step 3—Calculation of the difference between the costs in the situation with USO and the costs in the scenario without universal service (counterfactual) (a);
- Step 4—Calculation of the difference between revenue in the situation with USO and revenues in scenario without USO (counterfactual) (b);
- Step 5—Identification and accounting of intangible benefits and market (c);
- Step 6—Consideration of the right of the provider to make a reasonable profit (d);
- Step 7—Calculation of Net Cost = (a) − (b) − (c) + (d)

Once the cost has been calculated, CTT must notify the ANACOM of such cost and must submit a formal compensation request. If the ANACOM concludes that the NCUS represents an unfair burden, it shall communicate its decision to the Portuguese Government and the compensation will be given by means of a mechanism for sharing the cost among licensed postal service providers, through a compensation fund. This fund must be established by Decree Law and shall be financed by part or all of the licensed postal service providers who provides postal services covered by the USO.

The amendment of the Postal Law to achieve this is currently being considered by the Portuguese Government. This amendment provides that the compensation fund should be co-financed by all USO providers or by providers of services that may be considered by the users as permutable services with services covered by the USO. For these purposes, a service would be considered to be permutable with services covered by the USO if, from the user's point of view, such service demonstrates sufficient substitutability with the services covered by the USO, considering their intended purposes, the applicable tariffs and their respective characteristics, namely, their added value despite such services not having all the characteristics of the services comprising the USO, particularly regarding delivery frequency or the coverage of all the national territory. The ANACOM is responsible for determining the services interchangeable with the services covered by the scope of the USO.

As regards the concept of unfair burden, on 5 July 2013, the ANACOM published a project decision establishing that the provision of the USO will only represent an unfair burden when one the following conditions is met:

- the market share of the USO, in terms of revenues generated by the provision of the universal postal service, is less than 80%; or
- the value of the NCUS is equal or above 3% of the revenues obtained with the provision of the USO.

In addition, the provision of the USO will only represent an unfair burden when the value of the NCUS is equal or above €2.5 million.

Cost Accounting System

Under the Postal Law, CTT must maintain a cost accounting system that allows a separation of accounts between each of the services and products which are part of the USO and those which are not, in order to allow namely the calculation of the NCUS. The cost accounting system shall also allow separation between costs associated with the various operations making up the postal service. The cost accounting system—which must be approved by the ANACOM—must allow common costs, which cannot be directly assigned to a particular service or product, to be allocated as follows:

- whenever possible, common costs shall be allocated on the basis of direct analysis of the origin of the costs themselves;
- when direct analysis is not possible, common cost categories shall be allocated on the basis of an indirect linkage to another cost category or group of cost categories for which a direct assignment or allocation is possible;
- the indirect linkage referred to in the preceding point shall be based on comparable cost structures;
- when neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated on the basis of a general allocator computed by using the ratio of all expenses directly or indirectly assigned or allocated, on the one hand, to each of the USO services and, on the other hand, to the other services; and
- common costs, which are necessary for the provision of both universal services and non-universal services, shall be allocated appropriately, with the same cost drivers being applied to both categories of services.

Each year, the ANACOM must publish a statement concerning compliance of the cost accounting systems applied by USO providers and of the results obtained.

Licensing

Pursuant to the Postal Law, the provision of postal services is subject to the individual license regime in the case of services covered by the scope of the USO, or to the general authorization regime for all other services.

The amendment of the Postal Law to achieve this is currently being considered by the Portuguese Government. This amendment would extend the individual license regime to services which from the user's point of view are considered to be permutable with services comprising the USO. For these purposes, a service would be considered to be permutable with services covered by the USO if, from the user's point of view, such service demonstrates sufficient substitutability with the services covered by the USO, considering their intended purposes, the applicable tariffs and their respective characteristics, namely, their added value despite such services not having all the characteristics of the services comprising the USO, particularly regarding delivery frequency or the coverage of all the national territory. The ANACOM is responsible for determining services interchangeable with the services covered by the scope of the USO.

The provision of postal services subject to an individual license or general authorization may be carried out by natural persons who have registered their activity with the Portuguese Tax Authority as well as by regularly set up companies, with their principal or secondary establishment in Portugal, whose corporate object includes the provision of postal services. Legally constituted postal service providers established in a member state of the European Union or of the European Economic Area may also provide postal services in Portugal.

The individual license regime foresees that a license is granted for a period of 10 years (automatically renewable for such period) and must specifically cover the following elements: identification of services covered; geographic area of action; time-limit to start up operations; rights and obligations of the provider; period of validity and expiry date of the license.

With respect to individual licenses, the same are issued by the ANACOM and the following elements must be provided by the applicant:

- documentation for the full identification of the applicant, in particular commercial certificates;

- description of activities already pursued within the scope of postal services, where applicable;
- information on agreements concluded or to be concluded with third parties for the provision of the intended postal services;
- description of the project to be implemented, namely the nature, characteristics of the service and covered areas, postal network over which it will operate, levels of quality of service to be ensured and measures expected to be implemented to ensure the operation, reliability and quality of the postal service;
- date on which the activity is expected to start; and
- information on the technical and human capacity required to guarantee compliance with the essential requirements provided for in the Postal Law.

The ANACOM shall reject an application for an individual license where: (a) it fails to observe the requirements imposed by the Postal Law or fails to deliver the required elements; (b) the applicant party is suspended or prevented from pursuing the respective activity due to failure to comply with the obligations arising from the Postal Law; and (c) the applicant party is a company that, directly or indirectly, holds a share in, controls, is a subsidiary of or is controlled by a natural or legal person in the situation referred to in (b).

Individual licenses terminate by expiry or revocation. The following situations shall be considered grounds for license expiry: (a) termination of the activity on the part of the license holder; (b) extinction of the legal person holding the license; or (c) occurrence of any event that makes it impossible to further pursue the concerned activity. A license may be revoked by decision of the ANACOM in case of failure by the licensed entity to comply with the provisions of the Postal Law or with the conditions set out in the license.

The general authorization regime is simpler, involving the submission by the applicant to the ANACOM of the following information: (i) elements that enable its full identification; (ii) description of the service it intends to provide; (iii) geographic area of action; (iv) postal network over which it will operate; (v) date on which the activity is expected to start; and (vi) intention to establish itself in Portugal, in case it does not wish to pursue its activity under a regime of free provision of services in this country.

Within 10 days after the submission of the above elements, the ANACOM will issue a statement certifying the entry of the applicant in the register of postal service providers.

The license is transferable upon the ANACOM's previous consent and the new entity must comply with every requirement under the Postal Law and to ensure the rights and obligations provided therein are fully complied with. The license expires in case of ceasing of operations or dissolution of the company or absolute inability to carry out the activity.

Access to networks and elements of the postal infrastructure

According to the Postal Law, USO providers shall ensure access to their networks under transparent and non-discriminatory conditions, by means of agreements to be concluded with postal service providers which so request. For this purpose, the USO network is the postal network over which the USO is provided.

Where postal service providers do not reach an agreement on access conditions, any of the parties may appeal to the ANACOM, which shall issue a duly grounded binding decision that sets out the terms and conditions imposed, including prices, without prejudice to the possibility of judicial review or to other out-of-court settlement procedures.

In this case, the ANACOM may determine the terms and conditions for access, including prices, when this is necessary to ensure effective competition or the interests of users, and where the following conditions exist:

- the lack of access to elements of the postal infrastructure hinders entry into the market of the postal service provider concerned;
- access is without prejudice to the security, effectiveness and integrity of the network or to the provision of the USO.

Where necessary to ensure effective competition or the interests of users, the ANACOM shall:

- order USO providers to adequately publish the terms and conditions for granting access to the network, including prices;
- define the terms and conditions for access to USO networks, information to be published pursuant to the preceding point, as well as the form and manner of publication; and
- determine amendments to terms and conditions already published, at any time and when necessary, with retroactive effect.

Further to the above, the Postal Law also provides that postal service providers may negotiate and conclude an agreement between each other on access to parts of their respective postal infrastructure or to services they provide, namely the postcode system, address database, post office boxes, information on change of address, re-direction service and return to sender service. When the parties do not reach an agreement on access to the elements of its postal infrastructure and services, any of the parties may appeal to the ANACOM, which is then entitled to impose to the postal service providers, the conditions for access, under transparent and non-discriminatory conditions, whenever necessary to protect the interest of users or to promote effective competition.

Where there are USO providers with postal networks that separately are not able to cover the entire national territory, the ANACOM is entitled to impose conditions that ensure the interoperability of the various networks, in order to guarantee the universality of the service.

An amendment to the Postal Law is currently being considered by the Portuguese Government. This amendment includes provisions intended to regulate the access to postal services providers' networks, for the protection of the provision of the USO. The imposition of such measures by the ANACOM shall be preceded by an analyses aimed at accessing their necessity and their impact on the market, and shall obey to the proportionality principle and only be applied should it be revealed necessary to ensure the provision of the USO.

Other public services entrusted to CTT

Certain other public services are imposed on CTT or entrusted to CTT on the basis of the concession Contract and contractual obligations provided for in Postal Law in several agreements executed between CTT and the Portuguese authorities, like the postal orders and electronic mailbox service.

The provision of the non-reserved public service of electronic mailbox is provided in the Resolution of the Cabinet of Ministers no. 50/2006 of May 5, and defined in article 4 the Decree-Law no. 112/2006 of June 9, and allows adherents to this service to receive via electronic or by both electronic and physical means, written communications or other coming from services or organizations of the direct, indirect or autonomous of the State, as well as coming from independent administrative entities and from courts including namely judicial notifications and summons, pursuant to administrative or judicial processes of any nature, invoices, acknowledgment of receipts, correspondence, and addressed publicity.

The scope of CTT's concession includes the provision by CTT in an exclusivity regime of the special payment orders services which allows the transference of funds via electronic and physical means, nationally or internationally, named as money orders service ("*Vales Postais*").

The Draft Decree-Law, which amends the Basis of the concession, provides that the grantor for public interest purposes, may commit to the CTT the exploration of other services subject to agreed conditions which will be also integrated in the amended concession contract.

Rent of the Concession Contract

CTT shall pay to the Portuguese State a rent of 1% of its revenues arising from the services subject to the concession, which are provided in exclusivity. The Draft Decree-Law establishes the elimination of such rent.

Claw back of the Concession

The concession will be in force until 31 December 2020. The Portuguese State may claw back the concession based on public interest grounds, provided that a term of at least 15 years has elapsed as from the beginning of the concession. In this case, and according to the current concession contract, CTT shall be entitled to compensation equal to the value of the assets of the concession at the date of the claw back, since they were included in the public postal network of the concessionaire, after deducting the relevant depreciation and amortization. In addition, the Company will be entitled to an extraordinary compensation corresponding to the number of years outstanding until the end of the concession multiplied by the average of the current net income of the five years prior to the claw back notice. The Draft Decree-Law provides for changes on these purposes and maintains the right to the extraordinary compensation for claw back purposes. Additionally the contract and the Basis of the concession establish that upon the term of the concession, all assets belonging to the public and private domain of the Portuguese State shall revert, automatically and free of charge, to the Portuguese State.

Termination of the Concession

The Portuguese State may terminate the concession in case of serious, continuous and irremediable default of CTT's obligations, namely upon the occurrence of the following events:

- The deviation from the scope of the concession;
- The breach of the law applicable to the activity object of the concession, as well as the breach of any clause provided in the concession contract;
- CTT's dissolution;
- The unfounded opposition to the supervision carried by the ANACOM, as well as the repeated and unfounded disobedience to the legitimate decisions of the ANACOM;
- The refusal to proceed to the required conservation and maintenance of the facilities and equipment of the postal network;
- The refusal or impossibility of the concessionaire to resume the concession after the seizure (*Sequestro*) by the Grantor, as well as if the concessionaire resume the concession but the circumstances that founded seizure by the Grantor are maintained;
- Failure to comply with judicial or arbitral decisions.

Upon the occurrence of any of the above mentioned events, the Portuguese State will notify CTT such that within a reasonable period, it may comply with its obligations and correct or repair the consequences of its acts in a reasonable established period, except in cases of irremediable failure. Should CTT fail to correct or repair the consequences of its failure to comply in the terms determined by the State the State may terminate the concession through sent notification to CTT.

In the event of termination, all assets and rights affected in a permanent and necessary way by the concession will be clawed back by the Portuguese State without compensation and without prejudice of any civil liability on the part of CTT or sanctions provided by law or in the concession.

Regulatory supervision

CTT is subject to supervision by the ANACOM, which is the authority holding regulatory, monitoring and enforcement powers in the postal service sector, under the Postal Law and its Statutes, approved by Decree-Law no. 309/2001 dated 7 December 2001.

The ANACOM is an independent body, separated from the Portuguese Government at organic, financial and functional levels, which is endowed with the means required to perform its tasks. The ANACOM is responsible for:

- representing the Portuguese State in international bodies and international cooperation;
- supervising the market, which involves ensuring the implementation and monitoring of legislation, as well as implementation by operators of the provisions of their respective authorizations or licenses; ensuring the existence and availability of a universal postal service and protecting customer interests (in conjunction with the competent authorities); and
- regulating the market: protecting user's interests, guaranteeing network access to operators, promoting competition and granting licenses.

Under the Postal Law, the ANACOM is specifically responsible for:

- preparing and approving regulations required for the implementation of the regime established in the Postal Law (*e.g.*, setting the quality of service parameters and performance objectives; establishing the criteria governing the setting of prices of postal services that make up the USO; approving analytic accounting systems; defining the concept of unfair financial burden, as well as terms governing its determination, namely the criteria used; defining the methodology for calculating the NCUS; approving the procedural rules, models and forms required to provide postal services);

- representing the Portuguese State in international organizations, within the scope of postal services, under its statutes;
- issuing individual licenses for the provision of postal services;
- issuing statements proving the entry in the register of postal service providers;
- overseeing the USO provision; and
- enforcing legal and regulatory provisions concerning postal services, as well as the application of relevant penalties.

CTT has extensive duties of disclosure and notification to the ANACOM. In particular CTT must provide the ANACOM with all information related to its activity, including: (i) financial information, (ii) information concerning the provision of postal services and (iii) contracts or agreements concluded with third parties regarding the access to its network.

The ANACOM has broad inspection powers, including the power to perform audits, to ask for the release of relevant documents, objects and business records and to conduct a search of CTT's premises for the purposes of enforcing the postal legislation.

On the other hand, the ANACOM is obliged to make available and update information that contributes to an open and competitive market, in particular information on the following matters: application of the regulatory framework; rights, obligations, procedures, fees and decisions concerning the individual license and general authorization regimes; register of postal service providers; levels of quality of service provided by USO providers and by other companies providing postal services covered by the scope of the USO; mechanisms for lodging complaints; complaints received and handled by USO providers and by other postal service providers; information on the NCUS and on contributions made to the compensation fund, where it has been set up and is effectively operating; statistical data on volumes, human resources and other market data.

The ANACOM is also in charge, at the request of the parties by way of a binding decision, to settle any dispute between postal service providers connected to the obligations arising under the Postal Law or regulations and determinations issued by the ANACOM, without prejudice to the possibility of judicial review or other out-of-court settlement procedures.

Any dispute arising from the concession contract shall be settled by an arbitral court.

International Postal Regulation

UPU

The UPU is a specialized agency within the United Nations framework, comprising 192 members. It is responsible for the regulation of cross-border postal services (letter mail and parcels services) and sets the rules for international mail exchanges and makes recommendations to stimulate growth in mail volumes and to improve the quality of service for customers. The common rules applicable to cross-border postal services are laid down in the UPU Convention and its regulations, which govern the relationships between designated postal operators and the member states.

The mission of the UPU is to stimulate the lasting development of efficient and accessible quality universal postal services as well as financial services in order to facilitate communication between the inhabitants of the world by:

- guaranteeing the free circulation of postal items over a single postal territory composed of interconnected networks;
- encouraging the adoption of fair common standards and the use of technology;
- ensuring cooperation and interaction among stakeholders;
- promoting effective technical cooperation; and
- ensuring that customers' changing needs are met.

It should be noted that the UPU obliges its member countries to ensure through designated operators that "*all users/customers enjoy the right to a universal postal service involving the permanent provision of quality basic postal services at all points in their territory, at affordable prices*".

Basic postal services in the meaning of UPU rules include the acceptance, handling, conveyance and delivery of cross-border letter-post items which are:

- priority items and non-priority items up to 2 kg;
- letters, postcards, printed papers and small packets up to 2 kg;
- literature for the blind up to 7 kg;
- special bags containing newspapers, periodicals, books and similar printed documentation for the same addressee at the same address called "M bags" up to 30kg; and
- postal parcels up to 20 kg.

The UPU Convention, the Letter Post Regulations and the Parcel Post Regulations embody the rules applicable throughout the international postal service relating to the letter post and parcel post services. The UPU agreement regarding Payment Postal Services and the respective regulations regulate the financial services between the member countries party to those agreements.

In September 2012, the 25th UPU Congress approved the Doha Postal Strategy (which corresponds to the UPU's reference document for the period 2013 to 2016), according to which the following four goals were approved:

- Goal 1—Improve the interoperability of the international postal networks, through the following programs: (a) enhance quality of service, reliability and efficiency of the postal networks; (b) increase postal integrity and security and facilitate customs processes; (c) develop adequate standards and regulations; (d) stimulate the use of information and communication technologies to improve access and performance; and (e) promote addressing in national postal systems;
- Goal 2—Provide technical knowledge and expertise related to the postal sector, to be achieved through the following initiatives: (a) increase awareness of the role of the postal sector; (b) strengthen members' capacity to implement and manage their universal service; (c) provide market and sectorial research in response to customer and stakeholder needs; (d) develop statistical and analytical/cost accounting procedures; and (e) provide information and expertise to foster cooperation among stakeholders;
- Goal 3—Promote innovative products and services (developing the 3-D network), by adopting the following programs: (a) modernize and diversify postal products and services; (b) stimulate market growth through the use of new technologies; (c) facilitate e-commerce; and (d) continue development of postal networks along three dimensions;
- Goal 4—Foster sustainable development of the postal sector, by means of: (a) improving remuneration systems between designated postal operators; (b) strengthening the UPU's capacity to respond appropriately to changing needs in the market; (c) stimulating the inclusion of all segments of the population through greater and/or targeted access to postal services; and (d) promoting environmental awareness and social responsibility.

Portugal is a long-standing member of the UPU and CTT, as the designated postal operator based on the Postal Law and the concession contract, is responsible for exercising the rights and obligations arising from UPU regulations, such as the operation of the international letter postal service and international parcel service, insofar as they apply to the designated postal operators in relation to its customers and to other non-Portuguese designated postal operators.

CTT must comply with the tariffs set by supranational bodies or international treaties with regards to certain obligations. In the Convention, the UPU has established an international system for mutual payments for the delivery of cross-border letter mail, known as the terminal dues system. The purpose is to compensate the destination country's public postal operator ('*designated operator*' according to the UPU terminology) for delivering international letter post. A compensation scheme with similar purposes exists for parcel mail, known as inward rate system.

The regulatory framework between designated operators defined by the UPU Convention and Regulations supports CTT´s offer of international mail and parcels, namely in terms of product specifications, operational procedures and responsibility between operators.

The UPU plays an essential role in establishing a worldwide terminal dues system, managing the rules and tariffs for the payment of the costs incurred by the Designated Postal Operators for the international mail received and distributed.

UPU terminal dues system defines the remunerations of international mail flows between CTT and the vast majority of designated operators outside the European Union.

REIMS Agreements

The system of Remuneration of International Mail Services (REIMS system) was established in April 1999, between the majority European postal operators, as a response to the higher quality of services standards provided in the First Postal Directive, and the inherent increase of costs of service on mandatory deliveries of cross-border mail. The UPU system for the remuneration on mandatory deliveries on cross-border mail was considered insufficient in which refers to the cost-orientation. Thus, in order to provide the European postal operators, in their mandatory cross-border mail transactions, with appropriate compensation for the delivery of cross-border mail, European postal operators have entered into the REIMS Agreements with the support of the IPC which has been crucial to the arrangement (as the administrator of the agreements, as the facilitator of negotiations and as the chair of steering committees and working groups).

The REIMS II Agreement contemplates two core principles:

- the remuneration on mandatory cross-border mail items delivery, known as "terminal dues", must be linked to actual costs and the receiving country's domestic postal rates are accepted as a proxy for costs.
- payment of the terminal dues will only be made in full if a guaranteed level of service quality is met (the agreement has qualified for two exemptions by the European Union under its competition rules).

CTT was a member of REIMS II Agreement until 1 January, 2009, and left this Agreement mainly due to:

- the undermining of CTT's financial position, resulting from the gap between its domestic tariffs and the domestic tariffs of the remaining operators;
- the significant change in the global profile of mail exchange between CTT and REIMS partners, due to the change in the geographical perimeter of the agreement´s scope; and
- the change in CTT´s costumers needs with regards the relevancy of price *vis-à-vis* speed.

Currently CTT is a member of REIMS East Agreement—an agreement that defines remuneration and quality of service levels with between REIMS II Parties and a set of eight designated operators from East Europe—and REIMS IDM Agreement—an agreement which sets rules for the cross-border direct mail between the European postal operators. Note that, the impact of the REIMS East Agreement on CTT is relatively low nowadays since the East Operator to which CTT mostly exchanged cross-border mail—Poland Postal Operator—is no longer part of this.

Bilateral Agreements on Termination Dues

Bilateral agreements on terminal dues have as a scope the determination of the remuneration of the mandatory delivery of cross-border mail items (*i.e.*, terminal dues) between the parties, and exclude the general UPU regime, or the regime of a multilateral agreement (*e.g.*, REIMS Agreement).

CTT has entered into bilateral agreements on terminal dues with both, postal operators that were former parties of REIMS II Agreement and with other postal operators. Since CTT left REIMS system on 2009 (except REIMS East Agreement and REIMS IDM Agreement) the importance of bilateral agreements on terminal dues, with postal operators that were former parties of REIMS II agreement increased, and for this purposes CTT has entered into (and is currently negotiating) bilateral agreements within this scope with the large majority of its European peers.

The bilateral agreements on terminal dues establish, as a rule, that the terminal dues are cost based (therefore the domestic tariffs are considered for the purposes of the calculation of the applicable terminal due rates) and index the remuneration of the inbound cross-border mail the quality of service provided by the postal operators (which may lead to a bonus or a penalty in the settlement of accounts).

According to the UPU applicable the items per kilogram (IPK) is a variable determinant to calculate the remuneration in cross-border mail. In some cases, postal operators enter into bilateral agreements, to set the applicable IKP to the weights exchanged between the signatory operators.The signature of bilateral agreement on IPK allows the exemption of sampling operations of the inbound cross-border mail. The agreements between CTT and SingPost and Correios de Macau are currently in force.

Delivery of items covered by these bilateral agreements and the relevant procedures are determined by reference to the UPU Convention and REIMS agreements.

Bilateral agreements on Cross-Border Parcels

The inward land rates are the remuneration on the handling and distribution of cross-border parcels by the receiving postal operator and are defined in the UPU. The Bilateral Agreements on inward land rates define specific bilateral remuneration regarding the exchange of cross-border parcels between the signatory operators. CTT has entered into Bilateral Agreements on inward land rates with the following entities: Deutsche Post AG, PPP Post International, Correos y Telegrafos, La Poste, ABX Transport World Pack, Sweden Post Ltd., Norway Post and PPT.

The cross-border parcels impossible to deliver and which are returned to the sender operator are subject to the payment of a rate per returned parcel by the sender operator. The Bilateral Agreements on Returned Cross-Border Parcels have as a scope the definition of bilateral remuneration for returned parcels between postal operators and based on the Recommendation PO/CP 15 of PostEurop and different from the defined by UPU. The Bilateral agreements on Returned Parcels with following entities are currently in force: Makedonska Posta; La Poste Polonaise; ParcelForce Worldwide; Post Danmark; La Poste; and Albanian Postal Enterprise.

Exprès Service Agreement

CTT has also entered into on 23 December 1999 (as amended on 26 June 2003) with some European Postal operators, an Agreement named "Exprès Service Agreement" for the delivery of cross-border LC/AO items weighing up to 2 kg tendered as Exprès items. The participation of CTT in this Agreement allows the offer under the Agreement of the cross-border priority express mail services, named "*Correio Azul Internacional Prime*", as well as the distribution of items derived from other operators. Such items shall be distributed under a common logo—"*Exprès Items"* and this Agreement sets the applicable rules for the provision of those "*exprès*" services between the operators, namely regarding, operational procedures, quality standards and pricing.

EMS Cooperative

CTT EXPRESSO is member of the EMS Cooperative which was created in 1998, by the UPU Postal Operations Council, and is structure for the development of EMS (Express mail services). The Cooperative aims to promote cooperation between member postal organizations to allow them to provide their customers with a high quality EMS service on a global basis. According to the EMS Cooperative Statutes, only designated postal operators that are members of the UPU can join the EMS Cooperative. It is currently in force the EMS Guidelines for 2013 (Resolution no. C 60/2012 of the Congress), which provides, among others, rules for the exportation, transport and distribution of EMS products as well as quality standards and procedures on the sorting of EMS products.

Agreement for the Delivery of Day-Certain Cross-Border Parcels

The Agreement for the Delivery of Day-Certain Cross-Border Parcels is a multilateral Agreement that was entered with between some postal operators, and regulates mainly the transportation and delivery cross-border parcels, for the development of an international cross-border expedited parcel service providing for the ensured delivery on a certain day. The currently in force Agreement for the Delivery of Day-Certain Cross-Border Parcels is dated of 17 October 2006 and CTT Expresso is a Party to this Agreement.

Transport Regulations

In addition to the above mentioned regulations CTT's operations, given their nature, are also subject to various transport regulations at national, European and international levels. Therefore, different sets of rules apply depending on the nature of the goods being transported, whether the transport is national or international, the role carried out by CTT (carrier or intermediary), and whether the transport takes place within or outside the framework of the universal postal service.

Road Transportation

The carriage of goods by road is regulated at the international level by the Convention on the Contract for the International Carriage of Goods by Road (CMR) (Geneva, 19 May 1956) ("**CMR Convention**"), at the European level by the Regulation (EC) no. 1072/2009 dated 21 October 2009 and at the national level by the Decree-Law no. 257/2007 dated 16 July 2007 (as amended by Decree-Law no. 137/2008 dated 21 July 2008 and Decree-Law no. 136/2009 dated 5 June 2009).

As a rule CMR Convention applies to every contract for the carriage of goods by road in vehicles for reward, when the place of taking over of the goods and the place designated for delivery are situated in two different countries, of which at least one is a contracting country, irrespective of the place of residence and the nationality of the parties. However, CMR Convention also provides that the regime shall not be applicable to carriage performed under the terms of any international postal convention, such as UPU Convention, which means that, whenever CTT acts as a carrier of goods pursuant to the scope of services provided in the UPU Convention, as described above, the CMR Convention and its rules shall not be applicable.

Having as basis a similar principle, both European and Portuguese regulations on carriage of goods shall not apply to the services provided by CTT under the universal postal service under specific conditions. However, when CTT and its subsidiaries, act as carriers of products and services not included in the universal postal service and mixed transport (*i.e.* products and services included in the universal postal service and products and services not included in the universal postal service) by road at national and European level, the above mentioned regulations shall apply and therefore, they shall comply with the rules set out in the European and Portuguese road transport regulation, fulfill several conditions to be qualified as road transport operators and obtain access to the road market. In particular, they shall obtain a licence which allows CTT to carriage of goods by road, being mandatory for CTT and its subsidiaries in order to allow that type of transportation at national and European level.

For this purposes, the following licenses were issued by the Portuguese Regulator on Transports ("*Instituto da Mobilidade e dos Transportes*" or "**IMTT**"): (i) licence no. 666412 issued in the benefit of CTT on 15 January, 2013, which allows CTT to carry of goods by road for hire or reward for journeys carried out within the territory of the European Community; and; (ii) licence no. 4940/2000 issued in the benefit of CTT Expresso on 13 April, 2013, which allows CTT Expresso to carry of goods by road for hire or reward for journeys carried out within the Portuguese territory.

In addition, CTT must perform its activities in strict compliance with traffic regulations, as defined in different national and international legislation and regulation. These relate, among others, to road traffic, conditions for transport, offences, technical conditions of vehicles, registration of vehicles, driving license and compulsory insurance, among others. CTT shall also comply with various national and international transport legislation related to overloading of vehicles, truck drivers' driving and resting times, and cargo security.

Air Transportation

Pursuant to air transportation, and contrarily to what occurs to the carriage of mail by road, CTT does not perform the carriage of mail by air, which is performed by air companies, thus, for this purposes CTT acts solely as a mail dispatcher. Therefore, and although CTT does not act, strictly speaking, as air carrier, CTT has to comply with severe security rules due to the handling of mail, as set out below in "*Security Regulations*".

The handling and air carriage activity of mail and cargo is regulated in the EU level by Regulation (EU) no. 300/2008 dated 11 March 2008 and Regulation (EU) no. 185/2010 dated 4 March 2010, and at the national level by the Decree-Law no. 275/99 dated 23 June 1999 (as amended by the Decree-Law no. 208/2004 dated 19 August 2004, Decree-Law no. 216/2009, dated 4 September 2009 and Decree-Law no. 19/2012 of 27 January 2012).

Since CTT performs as a mail dispatcher operating in Lisbon at CTT's postal customs warehouse in Lisbon airport ("*Entreposto Postal Aéreo*") (the "**EPA**"), and provided that CTT is obliged to comply with the below mentioned air security regulations CTT inquire the Portuguese Regulator—INAC ("*Instituto Nacional da Aviação Civil*"), if for the purposes of the provided in the Decree-Law no. 275/99 dated 23 June 1999 (as amended by the Decree-Law no. 208/2004 dated 19 August 2004, Decree-Law no. 216/2009 dated 4 September 2009 and Decree-Law no. 19/2012 dated 27 January 2012) CTT needed any licence for its activity in the Lisbon airport, namely the dispatch of mail and parcels to the handlers for the posterior transportation by air. According to the notice issued by INAC dated 12 November 2012, CTT is exempt of any licence for the purposes of the above mentioned rules, although the handling on cargo and mail regime is set of therein.

However since the new security standards are being implemented by both UPU and UE. See "*Security Regulations*". CTT has submitted to the Portuguese Safety Airports Authority ("**ANSAC**) an application for its qualification as a Regulated Agent for the purposes of the Regulation (EU) no. 185/2010 of 4 March 2010 and the ISAC 06-04 dated 6 June 2007, in order to ensure security controls in respect of mail for the purposes of those regulations. Note that the qualification of CTT as a Regulated Agent is currently solely dependent on the approval of a refurbishment works in CTT's warehouse on Lisbon airport.

Other Regulation

Security Regulations

With the increase of the travelling of cross-border mail, and to ensure the security of everyone involved in mail dispatch from beginning to end and air transportation, and the highlighted importance of such measures since the 11 September 2001 terrorist attacks and the interception of two parcel bombs sent from Yemen to the U.S. in 2010. The UPU reacted immediately on behalf of its members and their designated operators, instituting a dialogue with the relevant international organizations including U.S. Transportation Security Agency ("**TSA**"), the World Customs Organization ("**WCO**"), the International Air Transport Association ("**IATA**"), the International Civil Aviation Organization ("**ICAO**") and others. These dialogs conduct to a new security model for safe transportation by air which was introduced by the new UPU Convention Doha 2012, and which will enter in force in 2014.

One of the main measures implemented by the UPU Convention Doha 2012, is the mandatory observation of the UPU security standards, in contrast to the regime currently in force that only provides that the designated operators to "adopt and implement a proactive security strategy at all levels of postal operations" and does not oblige (but solely recommends) the postal operators to observe the above mentioned security standards. Therefore, in the beginning of 2014 CTT shall mandatorily comply with the following UPU security standards: (i) Generic Security Measures—which establish minimum physical and process security requirements applicable to the postal facilities (within the postal network) where dispatches are prepared, where aviation security screening is completed, and where mail items transit prior to their dispatch via air; and (ii) Office of exchange and international airmail security—which establishes minimum requirements for mail screening security standards that shall be implemented by at each office of exchange or airmail unit or where mail is tendered to air carriers.

The above mentioned UPU new security regulation framework, as well as the EU and national rules on security on cross-border mail, apply to CTT as mail dispatcher. For this purposes, and in addition to the UPU security regulations, specific regulations apply at the international level (the primary source of international regulation comes from the International Civil Aviation Organization, a UN agency) at EU level (Regulation (EU) no. 300/2008 dated 11 March 2008 and Regulation (EU) no. 185/2010 dated 4 March 2010) and at national level (Regulations on Safety of the Security Aviation ("**ISAC**") no. 06-04 dated 6 June 2007). These regulations provide that all cargo and mail are subject to security controls prior to being loaded onto aircraft. CTT has taken several security measures such as the use of x-ray screening equipment, enhanced screening methods and investment in intelligence-led security processes in CTT facilities in Lisbon airport.

Finally, within the scope of the transport of hazardous materials, CTT, like other Postal operators, is obliged to comply with the applicable regulations (54th edition of Manual of IATA "International Air Transport Association" on dangerous goods), and the remaining European and national legislation, so it is subject to an on-going training process covering all areas that relate to air transport (acceptance, processing, EPA and CTT Express). This training program will in principle, be concluded by the end of 2013.

Customs Regulations

Regarding the procedures on the transport of mail and parcels and customs security within European Union, the public postal operators enjoy simplified procedures. In fact, as a rule the EU Customs Code (Regulation (EC) no. 2913/92 dated 12 October 1992, as amended) imposes compliance with the requirement of the "summary declarations" that regulate pre-arrival and pre-departure information. "Summary declaration" means that, before or at the time of the event on the transport of goods brought into or out the customs territory of the Community, a person informs the customs authorities, in the prescribed form and manner that goods are to be brought into or out of the customs territory of the European Union. However, the implementing provisions of the EU Customs Code (Regulation (EC) no. 2454/93 dated 2 July 1993, as amended) provide for an exception for the postcards and printed matters and goods moved under the rules of the UPU Convention.

Furthermore a new Union Customs Code, which aims to adapt the custom legislation in order to serve, but also governs the electronic customs environment, is being developed and will include new security, safety and clearance parameters. Moreover, a new system with comparable features for cargo and express mail is under negotiation between postal operators and the UPU and in coordination with the WCO, ICAO and IATA. Such a system will require information to be provided prior to departure.

For cargo, new cargo data reporting requirements have been introduced for all goods entering, passing through or leaving the EU for security risk analysis (the requirements differ in terms of import or export and by mode of transport). These requirements consist of a "pre-advanced notification" before entry of the good into the country or before departure from the country of different information relating to the good.

National legislation also specifies the respective responsibilities and obligations of customs and of the postal service in connection with customs treatment of postal items. In addition, in 31 December 1999 CTT has entered into an agreement with the Portuguese Customs and Consumer Special Taxation State Department ("**DGAIEC**") in order to set out specific rules on their cooperation regarding customs responsibilities. This agreement provides simplified procedures for CTT as a postal operator, as well as the centralization of all the entrance of cross-border mail items (mail and parcels) on Portuguese territory in a department in the Lisbon airport, and the establishment of specific rules for the cooperation (CTT/ DGAIEC) on the supervision and control of the clearance procedures on postal items.

Energy Rationalization

The rationalization of energy in the field of road transport is regulated by Decree-Law no. 58/82 dated 26 February 1982, which was further regulated by Ruling-Decree no. 228/90. These regulations oblige CTT to carry out an energy audit of its fleet and create a consumption rationalization plan and respective annual reports. These documents must be prepared by a technician accredited for the purpose by the Directorate General for Energy and Geography (DGEG).

CTT has complied with these regulations and its entire fleet is duly audited and licensed by the competent Authorities.

Competition and State Aid Laws

Antitrust

CTT is subject to EU and national competition rules. Articles 101 and 102 of the Treaty on the Functioning of the European Union (the "**TFEU**") are directly applicable in Portugal. These provisions prohibit agreements or concerted practices between undertakings that could affect trade between member states and that have the object or effect of restricting or preventing competition (Article 101), as well as abusive behavior by a company having a dominant position in a relevant market (Article 102).

Law 19/2012 of May 8 (the "**Portuguese Competition Act**") contains almost identical provisions to Articles 101 and 102 of the TFEU that are applicable provided that the Portuguese market, or a substantial part thereof, is affected. The Portuguese Competition Act further prohibits a company to abuse the economic dependence under which any of its suppliers or customers may find itself, due to lack of an equivalent alternative, to the extent that such a practice affects the way the market or the competition structure operates.

Therefore, CTT must refrain from entering into agreements or engaging in concerted practices with other companies that may have the object or effect of restricting or preventing competition. Moreover, being the historical universal postal operator in Portugal, CTT may be found to have a dominant position in certain markets in which it operates. While having a dominant position is not as such unlawful, CTT must not abuse that position. The following conducts may, *inter alia*, be deemed as abuses of dominant position: discriminatory practices, predatory pricing and unreasonable refusal to hire.

At the EU level, the European Commission can impose fines of up to 10% of CTT's national and worldwide consolidated total turnover, as well as interim measures, in case of infringement of competition rules. The Portuguese Competition Authority can impose fines of up to 10% of CTT's turnover in the financial year prior to the decision, as well as interim measures. This rule does not clarify whether the turnover to be considered relates to the Portuguese or worldwide activity. In its final decision, the Portuguese Competition Authority can also impose behavioral or structural measures necessary for ceasing the prohibited practices or their effects. The Portuguese Competition Act also sets forth the possibility of the Portuguese Competition Authority imposing a ban, for a maximum period of two years, on the right to take part in public procurement procedures, in those cases where the practice that has led to an administrative offence punishable with a fine has occurred during or because of such procedures. CTT may also be subjected to fines or interim measures imposed by competition authorities in other jurisdictions where it is active in case of infringement of competition rules.

Certain vertical agreements set forth certain non-compete or exclusivity obligations. Such clauses are included in contracts which are not material, and they relate mainly to CTT's subsidiaries.

State aid

Compensation from the Portuguese State to CTT for the performance of certain public service missions may constitute state aid, in which case it will be subject to EU state aid law, specifically Articles 106-109 of the TFEU.

To qualify as state aid, a measure needs to have the following features: (i) there has been an intervention by the state or through state resources which can take a variety of forms (*e.g.,* grants, interest and tax reliefs, guarantees, government holdings of all or part of a company, or providing goods and services on preferential terms, etc.); (ii) the intervention gives the recipient an advantage on a selective basis, for example to specific companies or industry sectors, or to companies located in specific regions; (iii) competition has been or may be distorted; (iv) the intervention is likely to affect trade between member states.

Despite the general prohibition of State aid set forth by the TFEU, it is recognized that in some circumstances government intervention is necessary for a well-functioning and equitable economy. Therefore, the TFEU leaves room for a number of policy objectives for which State aid can be considered compatible.

In the case of CTT, under the concession agreement between the Portuguese State and CTT and under the Postal Law, the latter was entrusted with the performance of certain public service missions (the USO and other PSGIs). Public service missions are economic activities that public authorities identify as being of particular importance to citizens and that would not be supplied (or would be supplied under different conditions) if there were no public intervention. Therefore the entities entrusted with such missions may be compensated by the public authorities where revenues accruing from the provision of these services do not allow the costs related to them to be covered.

The mechanisms for compensation of the services deemed as unreasonable arising from the USO obligations are set forth on the basis of the USO concession and the Postal Law. A draft law has been approved by the Council of Ministers, which amends the contributing mechanisms to the compensation fund to finance the USO.

Government decisions of compensation are subject to scrutiny by the Commission. In case there is overcompensation the Commission may order the recovery of the exceeding amount. The recoverability of the amounts received in breach of the competition rules is limited to aid received within the previous ten years, unless any event has occurred within this period which interrupts such term.

The Commission has issued several decisions between 2010 and 2013 accepting compensation in other postal services operators in the EU.

Individual Restrictive Practices Rules

Decree-Law no. 370/93 of October 29, as amended by Decree-Law 140/98 of May 16, prohibits a number of individual practices which restrict trade, irrespective of the market power held by the company in question.

The practices prohibited by such regulation are the following: (i) application of discriminatory prices or conditions of sale to economic agents; (ii) refusal to provide price listings and conditions of sale to retailers or users; (iii) sales of goods or services below costs to any economic agent or consumer; (iv) refusal to sell goods or to render services; and (v) application of abusive business practices *vis-à-vis* a supplier.

In case of infringement of the above mentioned rules, fines of up to €15,000 may be applied (€30,000 in case of multiple infringements).

Decree-Law 370/93 of October 29 is currently under revision and shall be repealed very soon. The new law has already been approved by the Council of Ministers on 30 October 2013, and is now pending to be published.

Financial Regulation

Introduction

CTT is authorized to (i) act as an insurance mediator, (ii) provide payment services, and (iii) sell savings and treasury certificates.

In addition, its subsidiary Payshop is authorized as a fully licensed payment institution provides payment services, including payment of telecommunication services, mobile phones top up, transport tickets and others.

The above indicated activities and services are carried out in a heavily regulated environment (both at national and EU level) and its exercise depends on specific authorizations, licenses and registries and / or certain agreements being entered into for each type of activity.

In addition to authorization and registry requirements, when providing these financial services, CTT and Payshop are also subject to business conduct rules and to the oversight by the competent supervising authorities (the Bank of Portugal, the CMVM and the Portuguese Insurance Authority, as applicable), in order to ensure, *inter alia*, the provision of appropriate information to clients, the confidentiality of their personal data, the correct execution of their orders and, more broadly, the strict protection of their best interests. In addition, CTT and Payshop must also comply with anti-money laundering regulations.

Legal and regulatory framework applicable to each business area

Insurance Distribution

Insurance distribution is a regulated activity, at both a national and an EU level. The applicable legislation and regulations define essentially (i) the requirements for the registration as an insurance reseller and (ii) how the insurance reseller activity should be carried out by duly registered insurance mediators.

Decree-Law no. 144/2006 of July 31 is the main regulation concerning insurance distribution in Portugal. This regulation transposed Directive 2002/92/EC of the European Parliament and of the Council of December 9. This legal regulation is further complemented by Regulatory Notice no. 17/2006-R of the Portuguese Insurance Authority of December 29.

Other regulations applicable to insurance distribution include Decree-Law no. 72/2008 dated 16 April 2008 (as amended), which regulates insurance agreements, and Regulatory Notice no. 15/2009-R of the Portuguese Insurance Authority dated 12 January 2009, which establishes financial reporting principles applicable to insurance mediators.

CTT is registered (under number 407261271) with the Portuguese Insurance Authority as an insurance agent (one of the three types of insurance mediators) since 27 December 2007 and is authorized to sell both life insurance and non-life insurance policies.

In order to register as an insurance mediator, CTT had to meet a set of legal and regulatory requirements applicable to insurance mediators and, in particular, to insurance agents. In brief, an entity wishing to become a registered insurance mediator under Portuguese law must (i) be incorporated under the laws of Portugal, as a limited liability company and must (ii) have members of its corporate bodies responsible for insurance distribution, qualified to adequately carry out such activities, with recognized repute and be free of any occupation that is fundamentally incompatible with insurance distribution. As an insurance agent, CTT must also (iii) have the proper technical, commercial, administrative and individual accounting and economic-financial structure to carry out insurance distribution and (ii) have the proper professional liability insurance in the terms set out in the law.

Insurance agents like CTT must also enter into a written agreement with each of the insurance companies they represent. These agreements must, themselves, comply with certain minimum requirements, further detailed in the mentioned Regulatory Notice no. 17/2006. CTT has, in particular, the following legal rights towards insurance companies it provides distribution services to (i) the right to request all information necessary to carry out its activity, (ii) the right to be informed of the termination of any insurance agreements it mediated, and (iii) the right to timely receive the remuneration concerning insurance distribution services rendered. As of the date of this Offering Memorandum CTT has agreements with both Fidelidade and MAPFRE for the distribution of them products as better detailed in "*Business—Material Contracts*".

In the performance of its activities as an insurance agent, CTT is also subject to a number of business conduct rules, under the oversight of the Portuguese Insurance Authority, which include (i) ensuring the provision of appropriate information to clients on the services offered (by complying with information duties specially conceived to regulate insurance distribution) and (ii) abiding by confidentiality duties regarding the personal data of clients. CTT is further bound by certain information duties before the Portuguese Insurance Authority and to pay to the latter a yearly fee.

Finally, in its capacity of insurance agent, CTT is further subject to (i) general provisions concerning consumer protection and (ii) the duties applicable to financial entities with regard to anti-money laundering and terrorism financing, set forth under Law no. 25/2008 of June 5 and in the Regulation (CE) no. 1781/2006 of the European Parliament and of the Council of November 15, and the remaining complementary rules.

Money transfers and payment services

CTT is authorized to provide payment services both directly and through its subsidiary Payshop. The payment services provided by CTT focus essentially[23] in the transfer of funds, collection of bills, tolls, and fines regarding traffic offences, payment services. CTT is also entitled to the provision of issuance and payment of postal orders under the concession agreement (namely referent to pensions and other social benefits). On the other hand, Payshop provides payment services related to the payment of bills, mobile phones top up, transport tickets and other similar services.

The main regulation regarding the rendering of payment services is Decree-Law no. 317/2009 of October 30, as amended, which transposed Directive 2007/64/EC of November 13. These legal regulations establish, in particular, (i) the rules for the access of payment services providers to the market and the conditions to access and pursuing the payment institutions activity (ii) prudential requirements, (iii) information duties towards users of such services, and (iv) the rights and obligations of payment services for users and providers.

Other relevant regulations regarding the payment services include: (i) Regulation (CE) 1781/2006 of November 15 on information on the payer accompanying transfers of funds, for prevention, investigation and detection of money laundry and financing terrorism purposes; and (ii) Regulation (CE) 924/2009 of September 16 on cross-border payments in the Community.

In addition, CTT and PayShop are also subject to the Legal Framework of Credit Institutions and Financial Companies and to the rules issued by the Bank of Portugal, as far as applicable to them, including in particular, the rules of conduct to prevent money laundering and terrorist financing, and the information duties to both clients and the regulator.

The rendering of payment services on a professional basis is subject to the exclusivity principle and typically may only be provided by authorized and registered entities (in particular payment institutions, electronic money institutions and credit institutions) subject to the oversight of the Bank of Portugal. However, Article 7 of Decree-Law no. 317/2009 expressly allows the entity that is the concessionaire of the universal postal service to render payment services without the need to be registered with the Bank of Portugal. As such, CTT does not need to comply with the licensing, registry and prudential requirements imposed by the above mentioned Decree-Law in order to render payment services to its customers and it is not under the supervision of the Bank of Portugal in what concerns compliance with such rules.

The exception set forth in article 7 of Decree-Law no. 317/2009 only benefits CTT and not other companies of CTT Group, therefore Payshop in order to be entitled to render payment services had to obtain an authorization and its registration with the Bank of Portugal as a payment institution (currently registered under number 8701).

[23] CTT is a Western Union's agent providing the transfer of funds service and other accessory services and is also part of Eurogiro and UPU. For this purposes CTT entered into bilateral agreements with other payment postal services providers from other States, which set out the applicable rules for the transfer of funds between them.

In its capacity as a payment institution, Payshop has to abide by certain requirements imposed by the aforementioned legal regulation and other ancillary laws and regulations, in particular relating to (i) regulatory capital, (ii) corporate governance, (iii) identification, management, control and communication risks systems (iv) internal controls, and (v) management and supervising bodies' suitability and professional experience.

In addition, when rendering payment services a set of business conduct rules set forth in Decree-Law no. 317/2009 shall be complied under the oversight of the Bank of Portugal. These include, in particular, obligations to (i) provide clear, free, appropriate information to clients on the services offered (by complying, specially, with information duties conceived to regulate payment services), (ii) abiding by both specific and general provisions concerning consumer contracting, (iii) obeying specific duties regarding the content and execution of the payment services agreements, (iv) observing the rules applicable to the reporting of non-authorized payment orders, (v) complying with specific rules concerning the reimbursement of certain payment operations and (vi) abiding by the rules applicable to the execution of the payment orders received (including concerning the handling of the amounts transferred, the deadlines for the execution of such transfers and the liability that may arise from the execution of the orders received). The breach of some of these obligations may be deemed an especially serious offence and may lead to a fine in a range between €10,000 and €5,000,000.

CTT and Payshop must further abide by confidentiality duties and by the applicable data protection rules concerning the personal data of clients—and must namely notify the terms of data processing to the National Data Protection Committee. CTT is also bound to the compliance of the rules regarding the postal payment services set out in the UPU Conventions and Regulations.

Savings and Treasury Certificates

CTT markets and distributes savings certificates and treasury certificates. Both types of certificates are nominative book-entry securities representing sovereign debt that are fully refundable (upon their maturity or earlier under the conditions set out for each of the certificates) and expressed in euro. These types of certificates were especially conceived to attract household savings and, consequently, they can only be held by individuals and are transferrable following the death of their holder.

Treasury certificates were created by Council of Ministers Resolution no. 40/2010 of June 11. However, the subscription of treasury certificates has been suspended by Instruction no. 2-A/2012 dated 30 August 2012. The redemption of the suspended treasury certificates can be made directly at CTT's counters.

Recently, other treasury savings certificates ("*Certificados do Tesouro Poupança Mais*") were created by Council of Ministers Resolution no. 62/2013 dated 19 September 2013, which are debt instruments, intended for household savings, with a guaranteed fixed rate. The subscription of these treasury savings certificates is being performed directly at CTT's counters as from 31 October 2013.

As regards savings certificates, the same are still available for subscription (Series C Savings Certificates, created by Ordinance no. 73-A/2008 dated 23 January 2008). The series B Savings Certificates created by Decree-Law no. 172-B/86 dated 30 July 1986 and the series A Savings Certificates created by Decree-Law no. 43 454 of 30 December 1960 may no longer be subscribed—although they may still be reimbursed.

CTT was initially authorized to distribute and market savings certificates by Decree-Law no. 43 575 dated 30 March 1961, which was afterwards replaced with Regulatory Decree no. 37/79 dated 29 June 1979. Currently, and according to Decree-Law no. 122/2002 dated 4 May 2002, the distribution and marketing of Portuguese savings certificates can be made by any entity (be it of a financial nature or not) that has specifically agreed upon the provision of such services with the Portuguese Treasury and Debt Management Agency ("*Agência de Gestão da Tesouraria e da Dívida Pública—IGCP, E.P.E.*") (the "**IGCP**"), which is the public entity responsible for the integrated management of cash, funding and the direct debt management, which includes, under the applicable law, the debt of public corporations whose financing is ensured through the state Budget. It is also responsible for coordinating the financing of autonomous administrative and financial services and funds, in accordance with Decree-Law no. 200/2012 dated 27 August 2012.

CTT has entered into consecutive protocols with IGCP under which the rights and obligations of CTT, as a distributor of savings certificates and treasury certificates, are established.

Under the aforementioned protocols, CTT is fully authorized to (i) open specific "savings accounts" concerning the amounts paid following the subscription of certificates, (ii) accept and process subscription requests regarding both types of certificates under subscription, (iii) print and award both types of certificates to their subscribers, (iv) receive and deliver to IGCP the amounts paid upon the subscription of both types of certificates, (v) accept and execute redemption requests and (vi) execute all necessary proceedings necessary for the issuance of certificate duplicates, issue of periodical statements and update the savings-accounts.

The protocols further establish CTT's right to fees for the services provided in regard to the distribution and marketing of both savings certificates and treasury certificates. CTT is expressly forbidden to receive any fees or other amounts from subscribers as remuneration for its services in connection with the certificates.

The protocols signed with IGCP also set forth a series of organization and business conduct obligations to CTT. CTT is, in particular, bound to (i) award IGCP with a list of all the employees that cooperate with CTT in the distribution and marketing of savings certificates, (ii) abide by the procedures, manuals and instructions that specifically regulate the distribution and marketing of both types of certificates (and that are either given directly by IGCP or previously approved by IGCP), (iii) abide by strict confidentiality duties regarding any data obtained upon the provision of services related to both types of certificates, (iv) comply with the general duties and mechanisms regarding money laundering and terrorism financing, set forth in the applicable laws and regulations, both at a national and at a EU level (informing IGCP of the adopted mechanisms) and (v) physically archive all the supporting documentation concerning both types of certificates. CTT is further liable for any damages caused to the holders of savings and treasury certificates or to the Portuguese State following any protocol breach.

Other Regulatory Matters

Tax—VAT

In Portugal, the provision of universal postal services is VAT exempt. The aforementioned exemption stems from the sixth VAT Directive (currently VAT Directive 2006/112) for public postal service (Art. 132, 1, (a) VAT Directive 2006/112).

In this regard it should be noted that the European Court of Justice (the "ECJ") ruled in 2009 (ECJ, April 23, 2009, C-357/07, TNTPost UKLtd.) that the concept of public postal service in the sixth VAT Directive must be interpreted to cover all postal operators, whether public or private, who undertake to provide, in an EU member state, all or part of the services provided in the universal postal service obligations. This implies that the VAT exemption should be applied to the supply of the universal postal services by operators in their capacity as designated universal postal service providers in respect of such services (which are not telecommunication services and supply of goods incidental thereto. The ECJ also ruled that the VAT exemption does not apply to supplies of services (or of goods incidental thereto) for which the terms have been individually negotiated.

In Portugal, CTT applies VAT to all postal services outside of the scope of the USO.

If the exemption of VAT for postal services covered by the USO is abolished in the near future, CTT has to apply VAT (currently levied in Portugal at a 23% standard rate) to all postal services provided (including for the exempted postal services covered by the USO) and this may result in a loss of turnover earned from customers that are unable to recover part or all of the VAT on their expenditure (*e.g.*, private individuals, public authorities when undertaking operations in the context of its public powers, banks and insurance companies, some real estate companies and some holding companies).

Data Protection, Direct Marketing and Mail Secrecy

Data Protection

CTT companies are subject to personal data protection legislation in relation to the processing of personal data in the context of carrying out its business activities (*e.g.*, for the purposes of employee, customer or supplier management and administration, CCTV, calls recording and advertising) or when it communicates personal data to a third party.

The processing of personal data (defined as any information of any type and nature, regardless of the medium in which it is found, including sound and images, relating to an identified or identifiable individual, the "data subject") is essentially regulated by Article 35 of the Portuguese Constitution, which establishes a framework for data protection regulation and sets out the principles regarding access to personal data, restrictions on processing sensitive data. This provision is further developed by Law 67/98 dated 26 October 1998 (the "**Personal Data Protection Law**"), which implemented the EU Data Protection Directive in Portugal (Directive 1995/46/EC dated 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data).

Portuguese Personal Data Protection Law, which defines personal data processing activity broadly ("*any operation or set of operations which is performed upon personal data, with or without automated means, such as collection, recording, organization, storage, adaptation or alteration, retrieval, consultation, use, disclosure by transmission, dissemination or otherwise making available, matching or cross-referencing, blocking, erasure or destruction of data*"), applies to any processing of personal data, but only to data regarding individuals (natural persons).

Under Portuguese Data Protection Law, processing of personal data may only be carried out if: (i) the data subject clearly provides consent; or (ii) the data processing activity is required for one of the following purposes: (a) performance of a contract to which the data subject is a party, or of prior acts related to such a contract and requested by the data subject; (b) compliance with a legal obligation of the data controller; (c) protection of the vital interests of the data subject, where the data subject is personally or legally incapable of providing consent; (d) performance of a task carried out in the public interest, or in the exercise of official authority vested in the data controller or in any third party to whom the data has been disclosed; or (e) pursuing the legitimate interests of the data controller or of a third party to whom the data has been disclosed, except where such interests should be overridden to protect the fundamental rights, freedoms and guarantees of the data subject.

Furthermore, personal data must be: (i) processed lawfully and in good faith; (ii) collected for specified, explicit, and legitimate purposes, and not be subsequently processed in a way which is inconsistent with such purposes; (iii) adequate, relevant and not excessive in relation to the purposes for which they are collected and subsequently processed; (iv) accurate, and where necessary, kept up to date, with adequate measures taken to ensure that data which are inaccurate or incorrect, having regard to the purposes for which they were collected or further processed, are erased or rectified; and (v) kept in a form which permits identification of their subjects for no longer than is necessary for the purposes for which they were collected or are subsequently processed.

Moreover, transfers of personal data to countries outside of the European Economic Area are subject to rigorous requirements. As general rule, the transfer of personal data to such countries must be authorized in advance by the Portuguese Data Protection Authority (Comissão Nacional de Protecção de Dados) (the "**CNPD**"), in order to ensure a proper protection to the data subjects. It is the responsibility of the CNPD to decide whether or not a country outside of the European Economic Area confers an adequate level of protection of the personal data.

Nevertheless, transfers of personal data are possible, without the need of prior authorization from the CNPD, when: (i) the data subject has given his express consent to said transfer; (ii) the transfer is made from a country considered by the European Commission as providing an adequate level of protection; (iii) contractual clauses approved by the European Commission are used; or, (iv) the receiver is located in the USA and has adhered to the rules of "Safe Harbour".

The CNPD is an independent administrative body that carries out its attributions and competencies under the Portuguese Parliament and is the regulatory authority competent for controlling and supervising data protection matters. CTT companies have regular interactions with the CNPD on data protection issues arising in the normal course of its business. In principle, a data controller must notify CNPD before carrying out any processing of personal data. Certain types of processing may be, however, exempted from notification, insofar as the CNPD so determines and provided the data controller complies with the conditions set forth in the Exemption Authorizations issued by CNPD.

The infringement of the rules set forth by the applicable legislation in the matters of Personal Data Protection may be punished with fines (up to €30,000.00), and may raise civil and/or criminal liability (up to four years) as well as ancillary sanctions (*e.g.,* temporary or definitive prohibition of data processing).

Recently, with the enactment of Law no. 46/2012 (which amended Law no. 41/2004 of August 18, concerning Personal Data Processing and Privacy Protection in the matters of Electronic Communications, which implemented the EU Directive No 2002/58/CE of July 12 in the Portuguese legal system) new legal rules concerning direct marketing and the use of cookies and other similar data storage mechanisms have been established, determining that the infringement of said rules (*e.g.*, obligation of prior and enlightened consent by the user of the website or obligation of prior consent for direct marketing purposes made by electronic communications means) may result in fines that amount up to €5,000,000.00.

It should be further noted that, on 25 January 2012, the EU Commission published a Draft Regulation with respect to the reform of the EU data protection framework. The Draft Regulation, currently in the European Parliament for discussion, would substantially tighten the data protection regime, including by requiring explicit consent for the processing of personal data, which would need to be evidenced by a statement or clear affirmative action, and by introducing fines of up to 2% of the annual worldwide turnover of the relevant entity for non-compliance with these requirements.

Direct Marketing

For the purposes of direct marketing, under Article 12, paragraph b) of the Portuguese Personal Data Protection Law the data holder is entitled to: (i) the right of opposition consisting in the possibility of objecting, by request and free of charge, to the processing of his personal data obtained for the purposes of direct marketing or other forms of prospecting; (ii) the right to be informed prior to the moment the personal data shall be communicated or used by third parties by the first time; and (iii) to be expressly provided the right to oppose, free of charge, such communications or use (the so called "opt-out" system).

Whereas for physical mail the "opt-out" system applies, the use of automated communication or call systems and electronic communication (*e.g.*, fax, automated calling systems, e-mail, SMS, EMS, MMS and other similar applications) for direct marketing purposes is subject to the prior consent of the addressee (the so called "opt-in" system). The "opt-in" system is not applicable to legal persons, according to Article 13-A of Law no. 41/2004 of August 18, as amended by Law no. 46/2012 of August 29.

Law no. 41/2004 of August 18, as amended by Law no. 46/2012 of August 29, also establishes the legal obligation of companies, directly or through organizations that represent them, to maintain an up-to-date list of the people that expressly give their consent to receiving direct marketing. These lists must also include customers who do not object to receiving this type of communication, when a mere absence of objection is sufficient for the processing of the data in question to be lawful. Moreover, the above mentioned Law determines that the Consumer's General Directorate (*Direcção-Geral do Consumidor*) must maintain a list of legal entities that object to receiving direct marketing, imposing on the companies that carry out the sending of unsolicited email for the purposes of direct marketing, the obligation to consult said list on a monthly basis. The disrespect of the consent rule in direct marketing made by electronic communications is punishable with a fine that may amount up to €25,000.00 for individuals, and of €5,000,000.00 for legal persons.

Mail Secrecy

As a postal operator, CTT is also subject to postal secrecy legislation. The secrecy of letters is protected by Article 8 of the European Convention on Human Rights and Article 34 of the Portuguese Constitution. The confidentiality of correspondence is also an "essential requirement" under the Third Postal Directive.

The Postal Law further specifies that the inviolability and secrecy of postal items and data protection shall cover namely: (a) the prohibition to open sealed postal items or to read any postal items, even when they are not enclosed in sealed wrappings, as well as the simple opening of sealed postal items; and (b) the prohibition to disclose to third parties the contents of any message or information one may have duly or unduly become aware of, as well as the identities and relations between senders and addressees and their addresses.

Furthermore, the Portuguese Criminal Code imposes, in a general way, criminal sanctions on persons who, without consent, dispose of any sealed parcel, letter or any other writing which is not addressed to them or become aware, by technical means, of its contents as well as the disclosing of said contents, within or outside the context of carrying out its professional duties. If said acts are executed by employees of postal operators, the Portuguese Criminal Code establishes harsher criminal sanctions.

The Postal law also considers as a requirement for rendering postal services the inviolability of mail secrecy (with the exceptions provided for in the criminal law and other applicable regulations), the confidentiality of the information transmitted or gathered and the protection of personal data and private life.

Registered E-Mail Legislation

Portuguese Law on Electronic Documents and Digital Signature was enacted by Decree-Law no. 290-D/99 dated 2 August 1999 (amended by Decree-Law no. 88/2009 dated 9 April 2009), and determines that electronic documents (defined as a document elaborated by means of electronic processing of data) communicated by means of electronic communications are deemed to be sent and received by the recipient if said transmission occurs upon the electronic address defined by both parties and is therein received. Besides providing that the certification of digital signatures activity does not require any administrative prior authorization but demanding that the control of reliability and security conditions to be ensured by the certifying entities, the above mentioned Decree-Law furthermore determines that the communication of an electronic document, accompanied by a qualified electronic signature, by means of telecommunications ensuring the effective reception, is equivalent to registered postal remittance and, if said reception is confirmed by message of confirmation from the recipient to the sender, it is equivalent to registered postal remittance with acknowledge of receipt.

CTT is offering in Portugal a system which is ran by one of its subsidiaries, Mailtec Consultadoria and consists in an electronic postal box named ViaCTT, which allows the reception of mail sent by the entities that adhered to this service, in digital format and without costs for the recipient, provided that the owner of the electronic post box has authorized it.

This system is included within the framework of the postal public service and guarantees the integrity and confidentiality of the documents, by the use of digital certificates of authenticity, under the above mentioned Law on Electronic Documents and Digital Signature.

E-Invoicing

As a result of the implementation of several EU Directives (Directive no. 2010/45/EU dated 13 July 2010 which amends EU Directive no. 2006/112/EC dated 28 November 2006, incorporated in Portugal by Decree-Law no. 197/2012 dated 24 August 2012 which amends Decree-law no. 196/2007 dated 15 May 2007), Portuguese VAT legislation was modified in different stages to permit e-invoicing. E-invoices may be sent in any electronic form. The legislative steps taken to permit e-invoicing may result in further decreases of paper invoicing.

Environmental Laws

CTT 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.

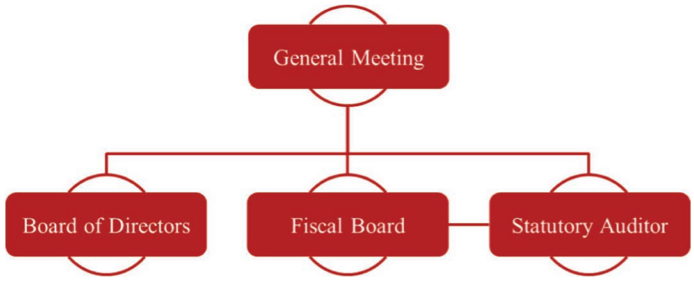
However, CTT's activities are essentially non-industrial in nature, and the incorporation in the material inputs in its process of rendering services is relatively reduced, therefore its direct ecological footprint is limited. When the carbonic intensity of the company is compared with its impact in terms of added value as a proxy to its ecological footprint, the results were approximately 1/6 of the national average (taking into consideration the following variables: CTT CO2 emissions, Portugal CO2 emissions, CTT Gross Value Added and GDP) (Sources: *CTT's analysis, Sustainability Report externally verified by PwC, 2012; Portuguese Environment Agency, National Emissions Inventory by the Environmental Institute, 2010 (latest data available); INE, 2012*).

The environmental impact of the postal sector results from CTT'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: (i) depletion of fossil fuel reserves through the consumption of fuel and electricity; (ii) climate change, derived from emissions of atmospheric pollution, particularly emissions of greenhouse gases produced by the fleet and buildings; (iii) depletion of natural resources due to the consumption of paper (mainly an indirect impact); and (iv) direct and indirect waste (particularly resulting from the use of paper, a basic product for communication in a physical format). Other environmental impacts are (i) noise emissions and (ii) water consumption. Lastly, as an owner and operator of a sizeable road fleet, CTT could be exposed to liability in case of a major road incident involving CTT's vehicles. In more general terms, environmental contingencies could affect CTT's reputation, revenues and profitability.

In terms of environmental policy, CTT's priority is to cover and master all the aspects of legal conformity, and it has taken on commitments to continuously improve the environmental performance, and it has underwritten Liability Insurance for the purpose of ensuring the coverage of environmental liabilities in accordance with Decree-Law no. 147/2008 of July 29, which implemented into the Portuguese legal system Directive regarding the administrative responsibility to prevent and repair environmental damages, namely, (i) damages caused to protected species and natural habitats and (ii) damages caused to water and soil contamination due to pollution that creates a significant risk to human health. The taking out of the said insurance policy implied exhaustive identification of environmental risks, mitigation measures and associated costs. Various mitigation measures have been developed and analyzed.

As of the date of this Offering Memorandum, CTT does not have any current environmental liabilities or obligations that could have a material effect on its finance and operations.

The corporate governance regime of the Company is currently composed of the General Meeting of Shareholders, the Board of Directors, the Fiscal Board and the Statutory Auditor, as set forth below.

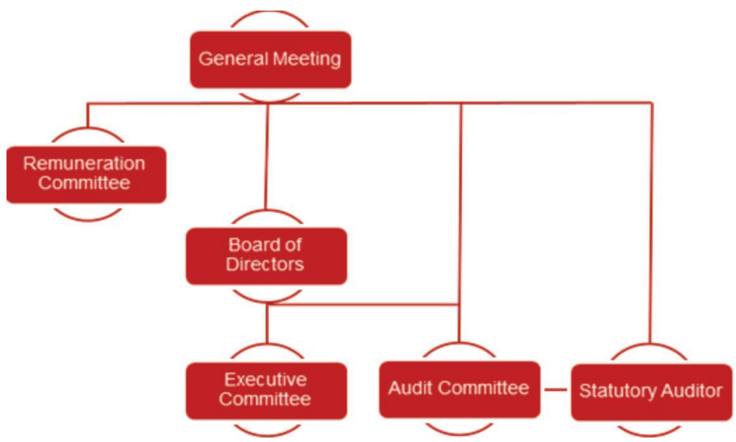


The Board of Directors and the Fiscal Board (including their respective Chairmen), the Board of the General Meeting as well as the Statutory Auditor are elected by the General Meeting of Shareholders. The Statutory Auditor is elected following a proposal by the Fiscal Board.

CTT and the Selling Shareholder have a firm intention to ensure that the Company's corporate governance is aligned with its shareholder structure after the Offering and progressively accommodates market leading corporate governance practices. Accordingly, the Selling Shareholder approved several changes to the corporate governance of the Company.

The Selling Shareholder has a firm intention to call the General Meeting of Shareholders to make these changes effective as soon as possible upon completion of the Offering and not later than 28 February 2014.

Once such changes enter into force, CTT's corporate governance will follow the Anglo-Saxon model and shall comprise: (i) the General Meeting of Shareholders; (ii) a Board of Directors elected by the General Meeting (including its Chairman), which will be composed of five executive directors, and six non-executive directors with four of them being deemed to be independent directors; (iii) an Audit Committee (including its Chairman) composed of non-executive directors, elected by the General Meeting; (vi) a Statutory Auditor elected by the General Meeting following a proposal by the Audit Committee; and (iv) a Remuneration Committee elected by the General Meeting. This expected corporate governance regime is set forth below:



General Meeting of Shareholders

The General Meeting of Shareholders is responsible for, *inter alia*, (i) the appraisal of the report of the Board of Directors, discussing and approving the balance sheet, the accounts and the opinion of the Fiscal Board and deciding on the allocation of profits for the financial year, (ii) approving any amendments to the Articles of Association, (iii) approving the compensation of the corporate bodies; (iv) appointing the remuneration committee and (iv) deciding upon any other issue for the General Meeting is convened.

The Board of the General Meeting shall be composed of a Chairman and a Vice Chairman, elected for a term of office of three years at the General Meeting and assisted by the Company Secretary.

Since 12 November 2013, the Board of the General Meeting of CTT has been composed of the following members: Júlio de Castro Caldas (as Chairman); and Francisco Maria Freitas de Moraes Sarmento

Ramalho (as Vice-Chairman). These members of the Board of the General Meeting were appointed to complete the term for the period 2012 to 2014. All members comply with the independence tests applicable to the Board of General Meeting of listed companies in Portugal.

As noted above, the Selling Shareholder has a firm intention to call the General Meeting of Shareholders to approve changes to the corporate governance of the Company as soon as possible upon completion of the Offering and not later than 28 February 2014. At this General Meeting of Shareholders, shareholders will be requested to re-elect the current members of the Board of the General Meeting for the term to 2014 to 2016.

Board of Directors

The Board of Directors is responsible for the management of CTT's operations and has overall authority over CTT's business, as well as powers to represent the Company in all matters. Currently, all members of the Board of Directors are executive directors. The Board of Directors has assigned different areas of responsibility amongst its members in strategic, operational and day to day management matters, as described below.

Pursuant to the Articles of Association, the Board of Directors may be composed of five to fifteen members. The Board of Directors currently has five members. Members of the Board of Directors are appointed for three-year terms and may be re-elected (one or more times) in accordance with applicable law. As noted above, the Selling Shareholder has a firm intention to call the General Meeting of Shareholders to approve changes to the corporate governance of the Company as soon as possible upon completion of the Offering and not later than 28 February 2014. At this General Meeting of Shareholders, shareholders will be requested to approve an increase in the number of members of the Board of Directors to 11 members for the period from 2014 to 2016, including the appointment of a Chairman. The six new members of the Board of Directors shall be non-executive directors, with four of them being deemed to be independent directors according to the criteria set out in Regulation 4/2013 of the CMVM. The five current members of the Board of Directors will continue in their roles.

This proposal will allow the Board of Directors to include the current executive team, which will continue to provide experience, knowledge and independence *vis a vis* the shareholders, while at the same time including non-executive directors, who have diverse backgrounds and experience in the management of listed companies and/or companies of similar stature to the Company.

After these corporate governance changes come into force, the Board of Directors will mainly be responsible for (i) areas not delegated to executive committee under applicable law, the Articles of Association and the Company's internal charter, including strategic areas, (ii) the supervision of management in matters such as governance, evaluation and compensation through the non-executive directors' role; and (iii) the setting up of internal committees. Notwithstanding any delegation of authority to the executive committee, the Board will remain competent to decide on all delegated matters and may revoke fully or partially any delegation of powers.

The Selling Shareholder and CTT will procure that the Company progressively follows best practice with respect to Board organization, delegation of executive powers, specialized committees and the roles of the Chairman and the CEO following the completion of the Offering.

The Board of Directors is currently composed of five members, appointed for the period from 2012 to 2014: Francisco José Queiroz de Barros de Lacerda (Chairman and CEO); Manuel Cabral de Abreu Castelo-Branco (Vice-Chairman and Deputy CEO); André Manuel Pereira Gorjão de Andrade Costa (CFO); Dionizia Maria Ribeiro Farinha Ferreira; and Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo.

Name	Position	Date Appointed	Age
Board of Directors:			
Francisco de Lacerda	PCA & CEO—Chief Executive Officer	24.08.2012	53
Manuel Castelo-Branco . .	Vice-Chairman of the Board of Directors	24.08.2012	45
André Gorjão Costa	CFO—Chief Financial Officer	24.08.2012	40
Dionizia Ferreira	Executive Member of the Board of Directors (*Vogal*)	24.08.2012	47
Ana Maria Jordão	Executive Member of the Board of Directors (*Vogal*)	24.08.2012	57

Biographical information of the members of the Board of Directors

Francisco de Lacerda

Mr. de Lacerda was appointed to the Board of Directors on 24 August 2012. Mr. de Lacerda had a 25 year banking career and was a CEO and held other top management positions in listed financial institutions in Portugal and internationally, including in Investment, Corporate and Retail Banking department of Banco Mello and Millennium BCP, one of the largest Portuguese banks. He was an Executive Member of the Board of Millennium BCP (from 2000 to 2008), managed Nova Rede (from 2000 to 2001), the main retail network of the bank, and was a deputy-chairman of the Millennium Bank in Poland (from 2000 to 2003). He was also responsible for group's operation in Europe (from 2003 to 2007) and for the Investment Bank (from 2005 to 2007). He was a deputy-CEO in Poland of the Millennium BCP in Europe and a member of the supervisory board, 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 a member of the board of directors of Millennium BCP Investments and Millennium BCP Foundation. Since 2008, he held various positions with large Portuguese listed entities, including CEO of CIMPOR—Cimentos de Portugal, an international cement group operating in 12 countries and one of the 5 leading companies in market cap at NYSE Euronext Lisbon (from 2010 to 2012) and as a board member of EDP Renováveis, before joining CTT in 2012. Mr. de Lacerda holds a degree in Business Administration from Universidade Católica Portuguesa, where he was an assistant professor from 1984 to 1985.

Manuel Castelo-Branco

Mr. Castelo-Branco was appointed to the Board of Directors on 24 August 2012. Mr. Castelo-Branco has worked in several companies, including Unilever-Elida Fabergé, Personal Care, Sara Lee Foods Portugal, Sonae Distribuição-Continente/Worten and COTY Benckinser Group. From 2000 to 2007, he was a managing director of Media Capital Telecomunicações and, from 2010 to 2012, he was strategic and business advisor of Saudi Oger Group—Holding, Lebanese/Saudi. Mr. Castelo-Branco holds a degree in business management from the Universidade Católica Portuguesa and he graduated from Harvard Business School in 2006.

André Gorjao Costa

Mr. Gorjão Costa was appointed to the Board of Directors on 24 August 2012. Mr. Gorjão Costa has developed his professional experience in the Mergers, Acquisitions and Structured Finance department in Banco Santander de Negócios Portugal, taking part in several transactions. He joined the Corporate Finance team at Banco Santander in 1996 and led their cross-border M&A team, being responsible for several acquisitions in LATAM (Finca Finchman for Sogrape in Argentina, Serrana and Cisafra for Cimpor and Sonae in Brazil). Mr. Gorjão Costa created the Global Clients Department of Santander in Portugal and was responsible for managing Santander relationships with major corporate clients in Portugal. In this role, he advised Sonae in the acquisition of Modelo Continente from Carrefour and the acquisition of 33.34% of Galp Energia by Americo Amorim Group. From 2007 to 2012, he was a managing director of Credit Markets at Santander Global Banking and Markets in Portugal, before joining CTT in 2012. Mr. Gorjão Costa holds a degree in economics from the Faculdade de Economia in the Universidade Nova de Lisboa (1996), with specialization in business.

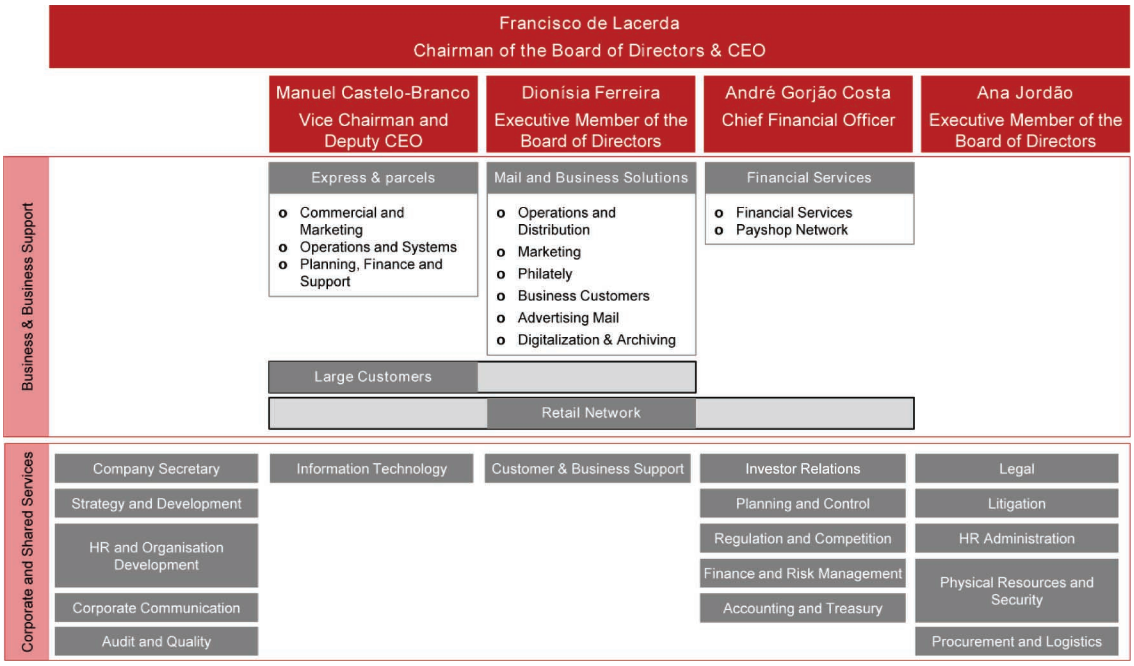
Dionízsia Ferreira

Ms. Ferreira was appointed to the Board of Directors on 24 August 2012. She started her professional career as Commercial Manager at Dun & Bradstreet in 1988 and has worked at Barclays Bank, Banco Mello and Banco Comercial Portuguese. From 2003 to 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 optimization of products and services portfolio and for preparing the launch of Banco Postal. Over the past five years, she worked as Chief Executive Officer of Payup—Business Development, S.A., Coordinating Director of Barclays Bank PLC New Branches (Permanent Representation) (from 2009 to 2011) and Head of the Divestment of Banco Popular Portugal, S.A. (from 2011 to 2012). Ms. Ferreira holds a degree in business management from Instituto Superior de Economia e Gestão.

Ana Maria Jordão

Ms. Jordão was appointed to the Board of Directors on 24 August 2012. She was in the public administration from 1978, were she held several positions, as Deputy Secretary of State for Defense, Deputy State Secretary for the Budget, Deputy Secretary General of the General Secretariat of the former Ministry of Planning and Territorial Administration, Head of Office of the Secretary of State for Fiscal Affairs, Member of the Supervisory Commission of the Securities Market and Director-General of the General Directorate of Customs and Special Consumption Taxes. During the past five years, she was Director of Administrative and Financial Services (from 2006 to 2011) and Deputy Secretary General of Parliament (from January to July 2012). Ms. Jordao holds a degree in law from the Faculty of Law of Universidade Classica de Lisboa (1977).

The Board of Directors has established a set of internal support structures, for the performance of their functions:



Compensation

As at the date hereof, the Directors of the Company (a public company) are considered public officials according to the provisions set forth in Decree-Law 71/2007 dated 27 March 2007, as amended, and their compensation is established in accordance with Decree-Law 8/2012 dated 18 January 2012, the resolution 36/2012 issued by the Council of Ministers on 26 March 2012 and the resolution 16/2012 issued by the Council of Ministers on 14 February 2012, as well as Law 12-A/2010 dated 30 June 2010, Law 64-B/2011 dated 30 December 2011, Law 66-B/2012 dated 31 December 2012 and Law 64-B/2011 dated 30 December 2011, amongst others.

The aggregate remuneration and other benefits paid to members of the Board of Directors of the Company during the year 2012 amounted to €510,455.51 (excluding other benefits in addition to those mentioned in the tables below). This amount includes the remuneration of the Board of Directors, which was composed of three members until 24 August 2012 and by five members after that date.

This aggregate amount includes:

	Remuneration of the Board		
Between 1 January 2012 and 24 August 2012	**Vice-Chairman Pedro Coelho**	**Member Carlos Dias Alves**	**Member Duarte d'Araújo**
Annual fixed remuneration	€85,830.03	€81,061.70	€81,061.70
Life insurance	€9,936.86	€10,991.60	€6,796.31
Travel accident insurance	€118.88	€118,88	€118.88
Other insurances (civil liability)	€309.26	€309.10	€309.10

Between 24 August 2012 and 31 December 2012	Remuneration of the Board				
	Chairman Francisco de Lacerda	**Vice-Chairman Manuel Castelo-Branco**	**Member André Gorjão Costa**	**Member Ana Jordão**	**Member Dionizia Ferreira**
Annual fixed remuneration	€51,818.76	€46,661.70	€44,083.40	€44,083.40	€44,083.40
Meal Subsidy	€380.03	€380.03	€380.03	€380.03	€380.03
Travel accident insurance	€35.68	€35.68	€35.68	€35.68	€35.68
Other insurances (civil liability)	€136.80	€136.80	€136.80	€136.80	€136.80

After the listing of the Shares, and to the extent decided by the General Meeting of Shareholders and the competent corporate bodies, the Selling Shareholder shall use its best efforts to adopt a compensation policy in line with best practice, as well as with relevant market benchmarking, in particular aiming at aligning the management team's interests with the interests of the Company, by means of a compensation policy based on performance and non-excessive risk taking.

In this context, under number 12 of Resolution 72-B/2013, the regulations on compensation in force in the public sector as per Resolution 16/2012 of the Council of Ministers will not apply to the Company. After the Offering, CTT will no longer be a public company, but will continue to be classified as a company under privatization (until the sale of the remaining shares held by the Portuguese State), and will also become a listed company.

The framework applicable to the Company will allow for the approval and implementation of a remuneration policy that is in-line with the aforementioned benchmarking, recommendations and best practices applicable to listed companies, including transparency and the requirement to align management's interests with the long-term interests of the Company.

Fiscal Board and Statutory Auditor

The Fiscal Board is responsible for overseeing the Company's activities pursuant to applicable law and the Articles of Association, supervising the independence of the Statutory Auditor and the statutory audit, monitoring the process of preparation and disclosure of financial information, as well as internal control systems, internal audit and risk management systems.The Fiscal Board is composed of a chairman, two effective members and one alternate member, each appointed for a three-year term with the possibility of being re-elected (one or more times) in accordance with applicable law and the Articles of Association.

The Statutory Auditor (which may have an alternate) is appointed by the General Meeting following a proposal by the Fiscal Board and is responsible for reviewing the accounts of the Company and performing all the necessary reviews for the purposes of the statutory audit and the legal certification of accounts.

As noted above, the Selling Shareholder has committed to call the General Meeting of Shareholders to approve changes to the corporate governance of the Company as soon as possible upon completion of the Offering and not later than 28 February 2014. At this General Meeting of Shareholders, shareholders will be requested to elect the members of an Audit Committee composed of three directors, including its Chairman, in compliance with the applicable independence and expertise requirements for the term of office from 2014 to 2016.

Since 12 November 2013, the Fiscal Board of the Company has been composed of the following three members, and one alternate member: António Sarmento Gomes Mota (Chairman), Elsa Maria Roncon

Santos and Diogo Leite de Campos (members) and Sara Alexandra Ribeiro Pereira Simões Duarte Ambrósio (alternate). These members were appointed to complete the term for the period 2012 to 2014.

Name	Position	Date Appointed	Age
Supervisory Board:			
António Sarmento Gomes Mota	Chairman	12.11.2013	55
Elsa Maria Roncon Santos	Member of the Supervisory Board (*Vogal*)	12.11.2013	62
Diogo José Paredes Leite de Campos . .	Member of the Supervisory Board (*Vogal*)	12.11.2013	68
Sara Alexandra Ribeiro Pereira Simões Duarte Ambrósio	Deputy Member of the Supervisory Board (*Vogal suplente*)	12.11.2013	42

António Sarmento Gomes Mota and Diogo Leite de Campos are independent members of the Fiscal Board.

Since 24 October 2012, the activities of the Statutory Auditor are carried out by PricewaterhouseCoopers & Associados, SROC, Lda. (Statutory Auditor) and José Manuel Henriques Bernardo (alternate Statutory Auditor). They have been appointed to complete the term for the period 2012 to 2014.

Biographical information of the members of the Fiscal Board

Antonio Sarmento Gomes Mota

Mr. Sarmento was appointed to the Fiscal Board on 12 November 2013. He was a director at ISCTE Business School (from 2003 to 2012) and chairman at INDEG/ISCTE (from 2005 to 2012). Since 2005, he has been a professor at ISCTE Business School and, in 2013, he also became a professor at the Lisbon MBA program at NOVA/CATÓLICA. He has also been vice-chairman of the Instituto Português de Corporate Governance since 2010. Mr. Sarmento is, amongst others, the chairman of the Fundo de Contra Garantia Mútua (since 1999), member of the general and supervisory board of EDP (since 2009), chairman of the board of directors of Grupo Soares da Costa, SGPS (since 2013) and a member of the Remuneration Committee of Portugal Telecom (since 2013). Mr. Sarmento holds a degree in business management from Instituto Superior de Economia e Gestao, an MBA and a doctorate in business ddministration from Faculdade de Economia da UNL.

Elsa Maria Roncon Santos

Ms. Roncon was appointed to the Fiscal Board on 12 November 2013. She is currently the chairman officer of the General Assembly of Parpública (Participações Públicas (SGPS) S.A), chairman of the Steering Committee of Fernave—Formação Técnica, Psicologia Aplicada e Consultoria em Transportes e Portos, SA, and representant of the corporate section of the government in the Social and Economic Counsel. Previously she has held several positions, including director general of Treasury and Finance, chairman of the Steering Committee of the Support Fund for the Payment of the National Health Service, chairman of the Steering Committee of the Rehabilitation Fund and Asset Preservation and chairman of the Joint Commission of the Portuguese Fund to Support Investment in Mozambique. Ms. Roncon holds a degree in economics from the Instituto Superior de Economia de Lisboa.

Diogo Leite de Campos

Mr. de Campos was appointed to the Fiscal Board on 12 November 2013. Mr. de Campos is a professor at the Faculty of Law of Coimbra and Universidade Autónoma de Lisboa. He was a director at the Bank of Portugal from 1994 to 2000 and a chairman of the Advisory Board of the CMVM between 1994 and 2000. He is a lawyer (partner) at Leite de Campos, Soutelinho & Associados—Sociedade de Advogados, RL. (Lisboa) and Rolim, Viotti e Leite de Campos (Brasil). He is an executive member of the Fiscal Board in Banco Santander Consumer, an executive director in RES SGPS and Member of the Committee for the privatization of the insurance sector of CGD. Mr. de Campos holds a law degree from the Universidade de Coimbra, a doctorate in law from the Universidade de Coimbra and a PhD from the Université de Paris IX.

Sara Alexandra Ribeiro Pereira Simões Duarte Ambrósio

Ms. Ambrósio was appointed to the Fiscal Board on 12 November 2013. She was the chairman of the General Meeting of SIEV—Sistema de Identificação Eletrónica de Veículos, SA from 2009 to 2011, and she is currently the secretary of the General Meeting of APS—Administração do Porto de Sines, SA (from 2013 to 2015), and a member of the Audit Committee of the APSS—Administração dos Portos de Setúbal e Sesimbra, SA (from 2013 to 2015). Ms. Ambrosio holds a law degree from the Universidade Autonoma de Lisboa, a postgraduate degree in European studies from ISEG and a political science degree from the Faculty of Law da Universidade de Lisboa.

Compensation

The remuneration of the members of the Fiscal Board is set forth in accordance with Law 64-B/2011 dated 30 December 2011 and Law 55-A/2010 dated 31 December 2010, amongst others.

In 2012, the remuneration of the members of the Fiscal Board amounted to €74,924.78 and the remuneration of the Statutory Auditor amounted to €81,320.28.

Remuneration of the Fiscal Board

Between 1 January 2012 and 24 august 2012	**Chairman Pedro Guerreiro Costa**	**Member Carlos Dores Costa**	**Member Maria de Lurdes Castro**
Annual fixed remuneration	€19,073.34	€14,304.97	€14,304.97
Between 24 August 2012 and 31 December 2012	**Chairman Elsa Roncon Santos**	**Member Fernanda Martins(1)**	**Member Maria de Lurdes Castro(2)**
Annual fixed remuneration	€10,896.60	€8,172.45	€8,172.45

(1) In office until 12 November 2013.

(2) In office until 12 November 2013.

Remuneration Committee

The General Meeting of Shareholders may appoint a Remuneration Committee responsible for establishing the corporate bodies' compensation, composed of two or more members appointed for a three-year term with the possibility of re-election (one or more times).

As noted above, the Selling Shareholder has a firm intention to call the General Meeting of Shareholders to approve changes to the corporate governance of the Company as soon as possible upon completion of the Offering and not later than 28 February 2014. At this General Meeting of Shareholders, shareholders will be requested to appoint the members of a remuneration committee for the term of office from 2014 to 2016. This is expected to facilitate the Company's compliance with best practice regarding of compensation committees, in particular in respect to their independence *vis a vis* senior management and the adequacy of their knowledge and experience.

The Selling Shareholder intends for the Company's remuneration policy to allow it to attract and retain highly qualified management, which will contribute to the fulfillment of the Company's long-term strategic goals.

Senior Management

The following table sets forth the Company's senior management:

Name	Position
Alberto Alves Maria Pimenta	Strategy and Development Director
Ana Rita Baião Matos	Accounting and Treasury Director
Antónia Ascensão Rato	Regulation and Competition Director

Name	Position
António Manuel Borges Vaz	Head of Operations of CTT Expresso and Tourline and Member of the Board of Directors of these companies
António Augusto Labrincha Correia Marques	Human Resources and Organization Director
António Pedro Ferreira Vaz da Silva	Retail network and Retail Marketing Director
Carla Salomé Preto Martins Marques da Cruz	Head of Direct Mail and Manager of Postcontacto
Fernando Manuel Costa Afonso	Procurement and Logistics Director
Filipe Jacinto Flores Ribeiro	Large Customers Director
Graça Maria Porto Temudo Pires de Oliveira	Mail Marketing Director
Helena Maria Gameiro Carreira Rodrigues	Member of the Board of Directors of PayShop
Hernâni Joaquim Mateus dos Santos	Operations and Distribution Director
Isabel Maria Lemos Lourenço	Head of Unaddressed Mail in Postcontacto and Member of its Board of Directors
João Manuel da Costa Araújo	Head of the Financial and Administrative Departments in Mailtec, and Member of the Board of Directors of Mailtec SGPS, Mailtec Comunicação and Consultoria
João Domingues dos Santos da Cunha Leal	Head of the Financial and Administrative Departments in CTT Expresso and Tourline, and Member of the Board of Directors of CTT Expresso, Tourline, and CORRE
João Pedro Namora Gonçalves	Corporate Customers Director
José Eduardo Dias de Mendonça David	Information Technology Director
Julieta Aurora Barracho Gomes Jorge Cainço	Audit and Quality Director (includes the Compliance and Inspection departments)
Laura Maria Falcão da Costa	Customer Services and Business Support Director
Luís Miguel Soares Rodrigues	Physical Resources and Security Director
Maria da Graça Farinha de Carvalho e Sousa Góis	Company Secretary and Head of the Secretariat General and Legal department
Maria Helena Henriques Camacho	Planning and Management Control Director
Maria Margarida Jarego Colaço da Silva	Litigation Director
Maria Teresa Geraldes Caetano	Finance and Risk Management Director
Miguel Alexandre Ferreira Amaral Salema Garção	Communication and Institutional Marketing Director
Paulo José Carteiro Veiga	Member of the Board of Directors of EAD
Pedro Miguel Lourenço Salvador	Head of the Commercial Department of Tourline and Member of the Board of Directors of CTT Expresso and Tourline
Peter Iordanov Tsvetkov	Head of Investors Relations
Raul Manuel Matias Moreira	Philately Director
Sílvia Maria Correia	Financial Services Director and Member of the Board of Directors of PayShop

The application of the Decree-Law no. 71/2007 dated 27 March 2007, as amended, regarding the termination of service of the employees as public officials will no longer apply to the members of the Board of Directors of CTT following the completion the Offer, since CTT will no longer be qualified as a public company.

After the Offering, the Selling Shareholder will hold 30.00% of the Company's issued and outstanding share capital, assuming that neither the Put Option nor the Call Option is exercised. The Selling Shareholder will not have any right to control the Company.

PRINCIPAL AND SELLING SHAREHOLDER

As of the date of this Offering Memorandum and following the reduction of share capital and stock split which occurred on 30 October 2013, the Company's share capital was €75,000,000.00, consisting of 150,000,000 Shares of nominal value of €0.50. All of the Shares are held by the Selling Shareholder.

The following table sets forth certain information regarding the beneficial ownership of the Shares (i) prior to the Offering; (ii) as adjusted to give effect to the Offering, assuming the Put Option and the Call Option are not exercised; and (iii) as adjusted to give effect to the Offering, assuming the Put Option and/or the Call Option is exercised in full.

	Beneficial ownership prior to the Offering		Beneficial ownership after the Offering (assuming Put Option and Call Option are not exercised)		Beneficial ownership after the Offering (assuming Put Option and/or Call Option is exercised in full)	
	(Number)	(%)	(Number)	(%)	(Number)	(%)
Owner						
The Selling Shareholder	150,000,000	100%	45,000,000	30%	54,545,455	36.36%
Public Float	0	—	105,000,000	70%	95,454,545	63.64%
Total	**150,000,000**	**100%**	**150,000,000**	**100%**	**150,000,000**	**100%**

The existence of the Call Option will ensure that the Selling Shareholder holds a long position in respect of 36.36% of the Company's issued and outstanding share capital during the entirety of the stabilization period.

PARPÚBLICA Participações Públicas (SGPS), S.A., is a holding company incorporated under the laws of Portugal and controlled and wholly owned by the Republic of Portugal (Sociedade Gestora de Participações Sociais) with its outstanding public share capital regulated by Decree Law 209/2000, September 2. Its corporate purpose is to:

- Management of companies in process of being privatized or pending to be privatized;
- Restructuring of companies under management;
- Management of companies in its portfolio in which the Portuguese state special rights;
- Management of public assets through specific purpose vehicles; and
- Providing support to the Minister of Finance in the management of state-owned companies or companies which hold concessions over general interest services.

RELATED PARTY TRANSACTIONS

In accordance with the IFRS, the Company is required to disclose all related party transactions, as defined in IAS 24 "*Related Party Disclosures*", necessary to draw attention to the possibility that its business, financial condition, results of operations, profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such related parties. In addition, the Company's subsidiaries are required to comply with applicable Portuguese law with respect to related party transactions. During the periods covered by the Financial Statements and to the date of this Offering Memorandum, CTT has entered into a number of transactions with related parties. See Note 42 to the Adjusted Audited Consolidated Financial Statements and of the Interim Consolidated Financial Statements. Management believes that its related party transactions are made on arm's length terms in all material respects. The following related party transactions are considered to be significant for CTT.

According to the Company's internal rules on financial reporting, the parties related to CTT are the Portuguese State, through the Ministry of Finance, and other shareholders of companies in which CTT has a stake, the associated companies, joint ventures, and the members of the Board of Directors, the General Meeting of Shareholders and the Statutory Audit Board.

The terms or conditions applied between CTT'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 nine months ended 30 September 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010, the following transactions took place with related parties:

	Nine months ended 30 September 2013				
	Current accounts receivable	Current accounts payable	Revenues	Dividends	Costs
			(EUR)		
Ministry of Finance					
Other shareholders CTT's companies	—	—	—	50,000.000	—
Associated companies	2,915	51,142	14,911	—	53,789
Jointly controlled	38,377	15,043	179,476	—	145,425
Members of the					
Board of Directors	—	—	—	—	803,509
General Shareholders Meeting	—	—	—	—	1,260
Audit Board	—	—	—	—	153,225
Executive officers	—	—	—	—	2,461.880
Total	41,292	66,185	194,387	50,000.000	3,619.088

	Nine months ended 30 September 2012		
	Revenues	Dividends	Costs
		(EUR)	
Ministry of Finance			
Dividends	—	53,876,585	—
Other shareholders CTT's companies			
Associated companies	16,996	—	74,323
Jointly controlled	182,807	—	132,830
Members of the			
Board of Directors	—	—	409,184
General Shareholders Meeting	—	—	—
Audit Board	—	—	110,619
Executive officers	—	—	2,794,581
Total	199,803	53,876,585	3,521,537

	Year ended 31 December 2012				
	Current accounts receivable	Current accounts payable	Revenues	Dividends	Costs
			(EUR)		
Ministry of Finance					
Other shareholders CTT's companies	—	—	—	53,876,585	—
Associated companies	2,894	34,198	9,923	—	126,775
Jointly controlled	40,654	14,920	246,672	—	183,662
Members of the					
Board of Directors	—	—	—	—	648,156
General Shareholders Meeting	—	—	—	—	970
Audit Board	—	—	—	—	217,838
Executive officers	—	—	—	—	3,916,196
Total	43,548	49,118	256,595	53,876,585	5,093,597

	Year ended 31 December 2011				
	Current accounts receivable	Current accounts payable	Revenues	Dividends	Costs
			(EUR)		
Ministry of Finance	—	—	—	—	—
Dividends	—	—	—	36,056,944	—
Other shareholders CTT's 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 Shareholders Meeting	—	—	—	—	970
Audit Board	—	—	—	—	242,804
Executive officers	—	—	—	—	4,832,403
Total	90,731	51,927	290,840	36,056,944	5,925,637

	Year ended 31 December 2010				
	Current accounts receivable	Current accounts payable	Revenues	Dividends	Costs
			(EUR)		
Ministry of Finance	—	—	—	—	—
Dividends	—	—	—	21,311,449	—
Other shareholders CTT's companies					
Associated companies	2,777	51,248	38,247		127,625
Jointly controlled	59,794	—	266,215	—	2,735
Members of the					
Board of Directors	—	—	—	—	1,071,124
General Shareholders Meeting	—	—	—	—	580
Audit Board	—	—	—	—	230,230
Executive officers	—	—	—	—	4,682,522
Total	62,571	51,248	304,462	21,311,449	6,114,816

CTT has availed itself of the exemption available in paragraph 25 of IAS 24, and therefore has not provided detailed disclosure of its transaction with the Portuguese State and related parties.

A summary of CTT's transactions with the Portuguese State and its related parties is included below:

- CTT sells and renders services to the Portuguese State and its related entities.
- CTT collects various payroll taxes and other taxes on behalf of the Portuguese State and it is liable to pay Portuguese Corporate Tax on profits earned and Social Security Taxes on behalf of the employees on its payroll.
- CTT accounts for VAT in Portugal.

- CTT incurs costs as a result of services provided by several Portuguese State related parties, these costs are:
  - energy costs;
  - water supply costs; and
  - air transportation costs.

The transactions and balances between subsidiaries are eliminated in the consolidation process and are not disclosed in this section.

DESCRIPTION OF SHARE CAPITAL AND APPLICABLE PORTUGUESE LAW

CTT's issued share capital consists of €75,000,000, represented by 150,000,000 Shares with a nominal value of €0.50 each. The Company does not hold treasury shares.

All Shares are fully paid and registered with the CVM (*Central de Valores Mobiliários*), a Portuguese central securities depositary and in CTT's register of shareholders. Shares are in registered form and are ordinarily held in book-entry form. The General Meeting of Shareholders may resolve to alter the form in which the Shares are represented.

There are no other securities issued by the Company.

According to the Articles of Association, the Company may issue bonds and other debt securities, preferred shares without voting rights, redeemable or not, as well as warrants or any other securities.

The competence to decide on the issuance of the securities listed above belongs to the General Meeting of Shareholders, except in the case of bonds that are not convertible into Shares or that do not carry the right to subscribe for Shares. For these types of securities, the competence belongs to the Board of Directors.

Evolution of Share Capital

The value of the initial share capital of the Company was established by Decree-Law n. ° 87/92 of 14 May, which changed the Company from a public company into a limited company with public share capital. The initial value of the share capital was €374,098,422.00, represented by 75,000,000 registered shares with a nominal value of €4.99 each.

In January 1993, its share capital was increased against reserves amounting to €299,278,738.00, which was followed by a demerger, giving rise to Portugal Telecom, S.A., with a share capital of €586,087,529.00. After these transactions, the share capital of the Company was €87,289,632.00.

In 1998, through a share capital increase against cash (€446,294,445.00), the Company's share capital was increased to €533,584,077.00, of which €236,929,001.00 were fully paid up.

In 2001, a redenomination of share capital to euros was made, as well as a capital increase against €216,197.60 reserves, so the share capital amounted to €533,800,274.97 of which 237,525.00 was fully paid up represented by 106,974,003 shares with a nominal value of €4.99.

By means of the Decree-Law n. ° 246/2003 of 8 October, the share capital of the Company was reduced to €87,325,000.00, as a result of the transfer by the Company of liabilities related to retirement pensions of the employees assigned to Caixa Geral de Aposentações as well as of the transfer of assets of its pension funds to Caixa Geral de Aposentações, with effect as of 1 January 2003.

On 30 October 2013, the share capital of the Company was reduced to its current value of €75,000,000.00 after a stock split and a reduction in the nominal value of the Shares from €4.99 to €0.50. As a result of the stock split and the reduction in nominal value, 150,000,000 Shares are now outstanding.

All shares of the Company are ordinary shares.

Information Rights

According to the Portuguese Securities Code, the Portuguese Companies Code and the Articles of Association, all Shares grant information rights.

In accordance with the Portuguese Companies Code, any shareholder who holds shares representing at least 1% of the share capital may have access, alleging a justified reason and at the headquarters of the Company, to: (a) the management reports and accounting documents for the last three years, including the opinions of the supervisory board, the audit committee and the general and supervisory board, as well as the reports of the statutory auditor in accordance with the law; (b) summons, the minutes and the attendance lists of the general meetings of shareholders and bondholders held in the last three years; (c) the total remuneration paid to the members of the governing bodies during each of the last three years; (d) the total amounts paid to the 10 or 5 employees of the Company with the highest remuneration in each of the last three years; and (e) the registration document in respect of the shares.

The accuracy of the information referred to in subparagraphs (c) and (d) above shall be certified by the Statutory Auditor, if the shareholder so requests.

Access to the above documentation may be made personally by the shareholder or by its representative, and shareholders may be assisted by a chartered accountant or other expert.

With respect to the information to be provided by issuers of shares admitted fro trading on a regulated market, which will be the case for the Company after the Completion of Offering, a term of at least 21 days shall elapse between the calling and the holding of the General Meeting of Shareholders.

In accordance with the Portuguese Securities Code, the Portuguese Companies Code and the Articles of Association, the Company, as an issuer of shares admitted to trading on a regulated market shall also provide its shareholders with the following documents, amongst others, as of the date of the summons, at the Company's registered office and on its website and shall publish the summons and proposals for the meeting on the CMVM's website:

(i) the summons for the General Meeting;

(ii) the number of Shares and voting rights as of the date of publication of the summons as well as the totals per category of Shares, if applicable;

(iii) the forms required for a shareholder to be represented by proxy at the General Meeting and to vote by mail, provided that the Articles of Association establish this possibility;

(iv) other documents to submit to the General Meeting;

(v) the names of the members of the management and supervisory bodies, as well as the composition of the Board of the General Meeting;

(vi) other companies in which the members of the governing bodies hold corporate positions, with the exception of professional companies;

(vii) the proposed resolutions to be submitted to the General Meeting by the Board of Directors as well as reports or grounds for of such notifications;

(viii) when members of the corporate bodies are to be elected, the names of the candidates, their professional competences, their professional activities rendered during the last five years, including services rendered to the company or in other companies and the number of shares held in the share capital of the company; and

(ix) the management report, the financial accounts, other accounting documents, including the legal certification of the accounts, the opinion of the supervisory board and the annual report, to be provided during the annual General Meeting.

In the event that the Company's website does not include the forms listed in paragraph (iii) above due to technical reasons, the Company will send them free of charge and in a timely manner to any shareholders who request them.

In accordance with the Portuguese Companies Code, shareholders are entitled to be provided with true, complete and clear information in order to enable them to form a reasoned opinion on the matters being discussed. This obligation also applies to relations between the Company and its affiliates. The information required shall be provided by the authorized corporate body, unless it could cause serious damage to the Company or its affiliates, or could imply a violation of the secrecy obligation imposed by law.

In accordance with the Portuguese Companies Code, the holders of shares representing at least 10% of the share capital may request from the management body, in writing, to be provided with written information regarding corporate matters. The information requested may only be denied in the cases provided for by law.

The Portuguese Companies Code entitles shareholders to whom false, incomplete or non-explanatory information has been provided or whose provision has been refused, to initiate judicial proceedings against the Company.

Given that, after the completion of the Offering, the Company will be an issuer of shares admitted to trading on a regulated market, its shareholders will have the information rights set forth in Portuguese Securities Code and in the CMVM Regulation no. 5/2008 on information obligations.

Voting Rights of the Shares

According to the Portuguese Securities Code, shareholders of companies whose shares are admitted to trading on a regulated market may discuss and vote in the General Meeting of Shareholders if on the record date corresponding to 0 hours (GMT) of the 5th trading day prior to the meeting date, such shareholders hold shares which grant the right to at least one vote, as set out in the law and the Articles of Association, and have complied with the legal formalities set out in the summons for the General Meeting of Shareholders.

Also, the exercise of the above rights is not prejudiced by the transfer of the shares after the record date, nor by their blockage, between such date and the date of the General Meeting of Shareholders.

Shareholders are entitled to one vote per Share held. Matters are decided at the shareholders' meeting by a simple majority of votes. However, resolutions for the amendment of the Articles of Association, reorganization, dissolution or merger of CTT, and certain other matters mandated by Portuguese law, require the approval of two-thirds of votes cast at a shareholders' meeting. For such matters, a quorum of not less than one-third of the share capital entitled to vote must be present. If the quorum requirement is not met at the first meeting, then such matters may be approved at a later date upon the second calling of such meeting by (i) a two-thirds majority of the votes cast at the meeting or (ii) a simple majority of the votes cast if at least one-half of the share capital is represented.

Without prejudice to the above, generally resolutions must be approved by the majority of the votes cast, including resolutions concerning:

- the election of members of the Board of the General Meeting;
- the election of members of the Statutory Audit Board of the sole auditor; and
- the application of CTT's annual profits.

Members of the Board of Directors, including the Chairman, are elected by the majority of the votes. One director may be nominated by a group of minority shareholders, or an individual minority shareholder, if such shareholder(s) hold at least 10%, but not more than 20%, of the Company's share capital.

Under the Portuguese Companies Code, a company may not vote its treasury stock. Treasury stock will not be counted towards a quorum or for purposes of determining a majority of votes cast. The Company's purchase of its own shares must be approved by its shareholders in accordance with the Articles of Association. Under Portuguese law, a Portuguese company may not, except in certain limited circumstances, purchase more than 10% of its nominal share capital as treasury stock.

A shareholder who has more than one vote cannot divide its votes in order to vote differently on the same proposal. However, shareholders who hold Shares, on a professional basis, in their own name but on behalf of their clients may vote differently in accordance with the provisions of Portuguese Securities Code.

The holders of Shares representing at least 2% of the share capital may request the calling of a General Meeting, and the inclusion of items on the agenda of the General Meeting and, may make proposals on matters already included in the agenda.

Shareholders' Meetings

An annual shareholders' meeting must be held before 31 May of each year. CTT must publish a notice on the websites of the CMVM and CTT, as well as in the official publications of the Minister of Justice, announcing the meeting at least 21 days before the meeting is scheduled to take place. At the annual shareholders' meeting, the annual accounts, including a report on CTT's activities during the previous year and any proposal for the payment of dividends, are presented to the shareholders for approval.

The Portuguese Companies Code sets forth rules for initiating judicial procedures on the basis of nullity or annulment of the resolutions by the governing bodies.

The claim for the declaration of nullity of the resolutions of the General Meeting may be proposed by any holder of Shares or, in certain cases, by the Fiscal Board, with no limitation period for the filing of such declaration. The claim for annulment may be brought by any holder of Shares who has not voted favorably the approved proposal, or has subsequently approved the resolution, expressly or tacitly and by the Fiscal Board. The claim for annulment is subject to a limitation term of 30 days from (i) the date on which the General Meeting was held; (ii) the third day following the date on which the written resolution was sent; or

(iii) the date on which the holder of Shares knew that a matter not included in the agenda was discussed at the meeting.

Prior to or simultaneously with the filing of a claim for the declaration of nullity or annulment, the holder of Shares may require, as precautionary procedure, the judicial suspension of the corporate resolutions. In the case of public companies (such as the Company following the completion of the Offering), in the event that Shares representing more than 10% of its share capital are sold, the suspension of the corporate resolutions may only be requested by shareholders who hold Shares representing at least 0.5% of the share capital.

The Decisions of the Board of Directors may also be declared invalid, at the request of any director, the Fiscal Board or at the request of any holder of shares entitled to vote, within one year as from the date of knowledge of the irregularity, and no later than three years from the date of the resolution.

Dividends on the Shares

All Shares carry the same right to receive dividends. The holder of record of Shares on the date of payment of that dividend is entitled to receive that dividend. The settlement of a trade, and the transfer of record ownership, of shares traded on Euronext Lisbon takes place on the third day after the trade. As a result, any person making a trade for the purchase of shares during the three-day period prior to the record date for a dividend payment will not be entitled to receive such dividend.

Under Portuguese law and the Articles of Association the Company must allocate at least 5% of its annual net profit to a legal reserve until the reserve equals 20% of the Company's share capital and, except pursuant to a resolution passed by a vote representing three-quarters of the Company's outstanding share capital to the contrary, the Company must distribute half of distributable profit for the year. The Company's legal reserve currently meets this requirement.

Portuguese law also prohibits the payment of dividends when a company's net worth is less than the sum of its share capital, the legal reserve and other similar reserves established by Portuguese law or by the articles of association of the company. The payment of a dividend would also be illegal under Portuguese law if, following the payment, the company's net worth would become smaller than such sum.

Each dividend must be approved by a majority of the votes cast at a shareholders' meeting. The Board of Directors, subject to certain conditions, including the consent of Fiscal Board or Audit Committee, as applicable, and the certification of an independent auditor, may also authorize the payment of interim dividends.

The above right shall become effective to shareholders on the date shareholders resolve to distribute dividends, which in general occurs at the annual General Meeting of Shareholders held during the first five months of the financial year, except if resolved otherwise by shareholders.

In accordance with the Portuguese Companies Code, dividends become payable 30 days after the date of resolution, except if a deferral of such payment is approved by the shareholders and without prejudice to any legal rules which prohibit the payment of dividends prior to the fulfilment of certain formalities.

In accordance with Portuguese law, the right to dividends shall expire and such dividends, interest and any other income shall be lost in favour of the Portuguese State if, during a period of 5 years, the persons entitled to the above rights have not exercised or attempted to exercise such rights.

Transfer of Shares and Limitations on Shareholdings

There are no restrictions on the transferability of the Shares. Under the Portuguese Securities Code, any person making a purchase or sale of shares that results in that person either owning or no longer owning at least 2%, 5%, 10%, 15%, 20%, 25%, 33⅓, 50%, 66⅔, and 90% of CTT's voting rights must notify CTT and the CMVM within four trading days.

In addition, pursuant to the CMVM Regulation no. 5/2008 (as amended by CMVM Regulation no. 5/2010), holders of long positions in the Company, as defined in the abovementioned regulations, of 2%, 5%, 10%, 15%, 20%, 25%, 1/3, 40%, 45%, 1/2, 55%, 60%, 2/3, 70%, 75%, 80% 85% and 90% of the share capital must also inform the Company and the CMVM within 4 days as from the negotiations about that situation.

Pursuant to the Portuguese Companies Code, companies holding Ordinary Shares corresponding to a participation equal to or greater than 10% of the share capital of the Company shall notify the Company of all acquisitions and disposals while maintaining a 10% shareholding in the Company's share capital.

Regarding the disclosure regime pertaining short selling and in accordance with Regulation no. 236/2012 of the European Parliament and of the Council, of 14 March 2012, on short selling and certain aspects of credit default swaps, holders of short positions relating to 0.2% of issued share capital of the Company and each 0.1% above that, must disclose this to the CMVM. Public disclosure thereof is required to holders of short positions relating to 0.5% of the share capital of the Company and each 0.1% above that.

There are no restrictions under Portuguese law with regard to the percentage of Shares that a non-Portuguese resident may own in CTT.

The Articles of Association do not include a provision aimed at delaying, deferring or preventing a change of control in the Company. However, they do not set forth any restrictions on the transfer of Shares or limits to the voting rights.

Given that all of the Shares are ordinary shares, they all grant the same political and economic rights, and there are no Shares with special rights or privileges or which grant plural voting.

Potential mandatory takeover bids

Pursuant to article 13 of the Portuguese Securities Code, a company will be considered to be a Portuguese public company ("sociedade aberta") if, among other things, it issues shares that may be transferred in a public sale or exchange offer in an amount exceeding 10% of its share capital addressed specifically to people resident or established in Portugal. Following the completion of the Offering, the Company will become a public company ("sociedade aberta") and will become subject to a legal framework that includes mandatory or voluntary takeover bids, squeeze-outs and the loss of public company status. The legal framework applicable to mandatory takeover bids is set out in the Portuguese Securities Code, which includes the amendments approved by the rule that implemented in the Portuguese legal system the provisions set out in the Directive 2004/25/EC, of the European Parliament and Council of 21 April 2004, in respect of takeover bids. In accordance with article 187 of the Portuguese Securities Code, a natural or legal person is obliged to launch a tender offer over all shares and other securities issued by a public company that grant the right to subscribe or acquire its shares, if its voting rights exceed, directly or pursuant to paragraph 1 of Article 20 of the Portuguese Securities Code, one-third or one-half of the voting rights corresponding to the share capital of such company. It may not be mandatory to launch a tender offer if the natural or legal person whose ownership exceeds one-third of the voting rights provides evidence to the CMVM of an absence of control of the company.

Pre-emptive Rights

Upon the issuance of additional Shares by the Company for cash, and against reserves, all holders of Shares have a right to subscribe pro rata to their existing holders for such Shares, unless if such right is limited by a resolution of the General Meeting of Shareholders. The preemptive rights of shareholders to subscribe for Shares are freely transferable.

In accordance with the Portuguese Companies Code, shareholders have also pre-emptive rights over the subscription of bonds convertible into shares and over bonds that grant the right to subscribe for Shares, on the same conditions applicable to share capital increases against cash.

Liquidation of Rights

The Shares carry pro rata rights to share in CTT's assets upon its liquidation.

Portuguese Reporting and Disclosure Requirements

Under Portuguese law, CTT is required to publish, among other things:

- annual reports which include a management report and audited financial statements;
- semi-annual reports which include audited financial statements and projections, material information on CTT's activities and performance and factors that may potentially influence future performance;
- unaudited quarterly information in respect of CTT's activities, results and economic and financial information; and

- non-public information that investors would consider relevant to an evaluation of CTT or the price of shares, certain information concerning outstanding bonds and changes in the composition of its board of directors and its statutory audit board.

Liability in Respect of Subsidiaries

Under Portuguese law, CTT is ultimately liable for the debts of its wholly-owned subsidiaries.

TAXATION

Introduction

This chapter summarises the Portuguese tax rules, in force as at the date of this Offering Memorandum, applicable to the income arising from the ownership, disposal and gratuitous acquisition of shares (*ações*) of a Portuguese tax resident company object of a public offer and admitted to trading on the NYSE Euronext Lisbon stock market managed by Euronext Lisbon.

The tax framework described is subject to changes in law and practices (and the interpretation and application thereof) at any moment, including the ones included in the IRC Reform Proposal and the State Budget Proposal for 2014, which may result in following amendments having to be made to the relevant tax regime described below:

i. The surcharge of 3.5% is maintained, in similar terms to the one applied in 2013, which will focus on the taxable income and is application to income subject to special IRS tax rates (including capital gains on securities) on the portion exceeding the annual value of the minimum wage;

ii. The solidarity tax is also maintained, in similar terms to the one applied in 2013;

iii. Residents in other European Union member state or European Economic Area with which there is exchange of information on tax matters can now opt to be taxed as a resident in Portugal in relation to the income of any category of IRS, including capital gains on securities (not just the income in categories A, B and H, as currently);

iv. The waiver or refund of withholding tax (total or partial) under a convention to avoid double taxation will be possible solely by submitting a model form. The model form will have to be approved by order of the Government member responsible for finance, and should be accompanied by a document issued by the competent authorities of the State of residence, certifying its residence for tax purposes during the relevant period and that is subject to income tax in that State;

v. The option to aggregate the income subject to tax withholding and autonomous rates will imply the inclusion of all the incomes (exempt or subject) for which there is such an option;

vi. The corporation tax rate will be gradually reduced (*ie* excluding state and municipal overtax) from 25% to 23% in 2014 and 21% in 2015, with the ultimate goal of establishing it between 17% and 19% in 2016 (the state and municipal overtax will be abolished in 2018);

vii. A simplified regime will be (re)introduced for the taxation of corporate income tax applicable to small companies, non-exempt or subject to a special tax regime, which conduct primarily an activity of a commercial, industrial or agricultural;

viii. The participation percentage will be reduced from 10% to 5% for the purpose of eliminating the double taxation of profits;

ix. The profits and reserves made available by a Portuguese resident entity to entities resident in a country with whom Portugal has a convention for the avoidance of double taxation are only exempt from withholding tax if the beneficiary is subject to a tax rate equal or higher than 60% of the corporate tax rate;

x. The adoption of a participation exemption regime applicable to the distribution of profits and reserves and to the capital gains by IRC taxpayers is contemplated.

This chapter does not contain a comprehensive description of all of the tax considerations that may be relevant to any particular investor in the shares, including tax considerations that arise from rules of general application or that are generally assumed to be known to investors. Potential investors should seek individual advice about the implications of the acquisition, ownership and disposal of the shares, in light of their specific circumstances and countries other than Portugal, taking into consideration the rules of a Convention to prevent Double Taxation ("**Convention**").

Portuguese tax resident individuals

Income arising from the ownership of shares

Profits of the Company made available to the owners of shares are liable for Personal Income Tax (Imposto sobre o Rendimento das Pessoas Singulares—"**IRS**"). IRS is withheld, at a 28% rate, when the profits are made available. This withholding will be made by the Portuguese resident entity which pays or puts the income available to the shareholders.

Alternatively, the owners of shares may opt for declaring such income in their tax returns, together with the remaining items of income derived. In that event, only half of the income arising from the ownership of shares shall be liable for tax at the rate resulting from the application of the relevant progressive tax brackets for the year in question, up to 48%, plus a 3.5% surtax (*sobretaxa extraordinária*) on income exceeding the annual value of the minimum wage and a solidarity tax (*taxa adicional de solidariedade*) of up to 5% on income exceeding €250,000 (2.5% on income below €250,000, but exceeding €80,000). In this case the IRS will be withheld on account of the final tax due.

Investment income (including interest) paid or made available to accounts opened in the name of one or more accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35%, unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

Capital gains and capital losses arising from the disposal of shares for consideration

The annual positive balance between capital gains and capital losses arising from the disposal of shares (and other assets indicated in the law) for consideration, deducted of the costs necessary and effectively incurred in such disposal, is taxed at a special 28% IRS rate. Alternatively, the owners of shares may opt for declaring such income in their tax returns, together with the remaining items of income derived. In that event, the capital gains shall be liable for tax at the rate resulting from the application of the relevant progressive tax brackets for the year in question, up to 48%, plus a 3.5% surtax (*sobretaxa extraordinária*) on income exceeding income exceeding the annual value of the minimum wage and a solidarity tax (*taxa adicional de solidariedade*) of up to 5% on income exceeding €250,000 (2.5% on income below €250,000, but exceeding €80,000).

In any case (with or without aggregation of income) the tax due will only be calculated on final terms after the delivery of tax return.

Losses arising from disposals for consideration in favour of counterparties residents in a country, territory or region subject to a clearly more favourable regime, as listed in Ministerial Order no. 150/2004 dated 13 February 2004, as amended by Ministerial Order no. 292/2011 dated 8 November 2011, are disregarded for purposes of assessing the positive or negative balance referred to in the previous paragraph.

In the assessment of the positive or negative balance between the capital gains and losses resulting from transactions made in the same year, the taxpayer can take into account any pending negative balances arising from transactions with the same nature, on the previous two years, provided the taxpayer has opted for the aggregation of income.

The acquisition value of a given stock, in the case of shares listed on the stock exchange, is equivalent to the purchase price as supported by documents or, failing that, to the lowest stock quote recorded in the two years prior to the date of disposal. The expenses effectively incurred with the disposal of shares can be added to its acquisition value. A method of first in, first out (FIFO) will be applied in the case of the sale of shares within a portfolio.

Gratuitous acquisition of shares

The gratuitous acquisition (per death or in life) of shares by Portuguese tax resident individuals is liable for Stamp Tax at a 10% rate. Generally, the shares' taxable value is the market price on quotation on the date of transmission. Spouses, ancestors and descendants avail of an exemption from Stamp Tax on such acquisitions.

Subscription Rights

The mere allocation and exercise of subscription rights will not be subject to taxation. However, income from the sale of subscription rights issued to shareholders during capital increases are qualified for tax purposes as capital gains and taxed at 28% when performed by resident individuals.

Non-resident tax individuals

Income arising from the ownership of shares

Profits of the Company made available to the owners of shares are liable for IRS. IRS is withheld, at a 28% rate, when the profits are made available. This represents a final withholding, releasing the owners of the shares from the obligation to disclose the above income to the Portuguese tax authorities and from the payment of any additional amount of IRS. This withholding will be made by the Portuguese resident entity which pays or puts the income available to the shareholders.

The above rate may be reduced pursuant to a Convention in force between Portugal and the country where the owner of the shares is a resident for tax purposes, provided that both substantial and formal conditions on which the application of such benefit depends are duly observed. In broad terms, according to Portuguese tax law the formalities consist in the certification of the tax residence of the owner of the shares in specific forms.

If the shareholder is an entity resident in a country, territory or region subject to a clearly more favourable tax regime, as listed in the Ministerial Order no. 150/2004 dated 13 February 2004, as amended by Ministerial Order no. 292/2011 dated 8 November 2011, the withholding tax rate is increased to 35%, as well as to payments made to accounts opened in the name of one or more account holders on behalf of undisclosed third parties, unless the beneficial owner of such income is identified, in which case the general rules apply.

Investment income (including interest) paid or made available to accounts opened in the name of one or more accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35%, unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

Capital gains and capital losses arising from the disposal of shares for consideration

The annual positive balance between capital gains and capital losses arising from the disposal of shares (and other assets indicated in the law) for consideration, deducted of the costs necessary and effectively incurred in such disposal, is taxed at a special 28% IRS rate.

Capital gains arising from the disposal of shares for consideration are exempt from taxation, unless the alienator is resident for tax purposes in a country, territory or region subject to a clearly more favourable tax regime, listed in the Ministerial Order no. 150/2004 dated 13 February 2004, as amended by Ministerial Order no. 292/2011 dated 8 November 2011 or if the assets of the company, whose shares are sold, are composed in more than 50% by real estate located in Portugal.

Capital gains arising from the disposal of shares for consideration by an alienator resident for tax purposes in a country with which there is a Convention in force with Portugal may be excluded from taxation. In some Conventions, the exclusion from taxation does not apply if the majority of the assets of the Portuguese tax resident company are represented by real estate or rights *in rem* in immovable property within the Portuguese territory.

Gratuitous acquisition of shares

The gratuitous acquisition (per death or in life) of shares by non-Portuguese tax resident individuals is not liable for Portuguese Stamp Tax.

Subscription Rights

The mere allocation and exercise of subscription rights will not be subject to taxation. However, income from the sale of subscription rights issued to shareholders during capital increases are qualified for tax purposes as capital gains and may, in the case of individuals and non-residents without a permanent establishment in Portugal, benefit from the same exemption regime for capital gains mentioned above under certain conditions.

Corporate entities resident for tax purposes in Portugal

Income arising from the ownership of shares

Profits of the Company made available to the owners of shares are liable for Corporate Income Tax (*Imposto sobre o Rendimento das Pessoas Colectivas*—"***IRC***"). IRC is withheld, at a 25% rate, when the profits are made available. This withholding will be made by the Portuguese resident entity which pays or puts the income available to the shareholders and represents an advance payment on account of the final IRC liability. IRC is levied on the taxable basis (computed as the taxable profit deducted of tax losses carried forward) at a rate of up to 25%. A municipal surcharge, at variable rates according to the decision of the municipal bodies, up to 1.5% of the taxable profit may also apply. Moreover, corporate taxpayers are also subject to a State surcharge of 3%, for a taxable income from €1,500,000.00 to €7,500,000.00, or of 5%, for a taxable income exceeding €7,500,000.00.

If the owner of the shares is not taxed under the tax transparency regime and holds shares representing at least 10% of the share capital, profits made available by the Company will be disregarded for purposes of computing the taxable profit, provided the shares are held for a minimum uninterrupted period of one year. If this holding period has already elapsed prior to the date on which the profits are made available, the owner is exempt from the withholding at a 25% rate referred to in the previous paragraph. In the event the minimum one-year holding period only elapses after such date, the IRC withheld will be refundable.

There is no obligation to withhold tax, partially or entirely, on profits of the issuer made available to taxpayers globally exempt from IRC (for instance: the State and other corporate entities subject to administrative law; corporate entities recognized as having public interest and charities; pension funds; retirement savings funds, education savings funds and retirement and education savings funds; venture capital funds; and shares savings funds, provided that, with respect to all the above funds, they are organised and operate in accordance with Portuguese law) or which benefit from a total or partial exemption on the profits made available by the Company, assuming that proof of such exemption is presented to the entity responsible for the payment.

An autonomous taxation, at a 25% rate, applies to profits distributed by the Company to entities which avail of a total or partial exemption from IRC (that includes investment income, in the case of a partial exemption) if the shares are not held by those entities for the minimum period of one year, which may be completed after the date on which the profits are made available.

The withholding tax rate is increased to 35% when dividends are paid or made available to accounts opened in the name of one or more account holders on behalf of unidentified third parties, unless the beneficial owner of such income is identified, in which case the general rules described above apply.

On the other hand, if the shares are registered in the sphere of their holders in accordance with the fair value method, the adjustments (positive and negative) compete for the calculation of taxable income, provided that (i) the shares have a price formed on a regulated market and (ii) the taxpayer does not own, directly or indirectly, an equity interest greater than 5%.

Capital gains and capital losses arising from the disposal of shares for consideration

Capital gains and capital losses are taken into consideration for purposes of computing the taxable profit for IRC purposes. IRC is levied on the taxable basis (computed as the taxable profit deducted of tax losses carried forward) at a rate of up to 25%. A municipal surcharge, at variable rates according to the decision of the municipal bodies, up to 1.5% of the taxable profit may also apply. Moreover, corporate taxpayers are also subject to a State surcharge of 3%, for a taxable income from €1,500,000.00 to €7,500,000.00, or of 5%, for a taxable income exceeding €7,500,000.00.

For purposes of computing capital gains and capital losses, the cost of acquisition of shares held for at least two years prior to a disposal for consideration is updated through the application of inflation indexes approved annually by Ministerial Order of the Ministry of Finance.

When, under the special tax neutrality for IRC, there is room for appreciation of the shares received by the same amount by which the former were recorded, one must considered, for purposes of applying the coefficients of devaluation, the date acquisition of the date of the latter.

In case of a disposal for consideration of shares representing at least 10% of the share capital, uninterruptedly held for a minimum period of at least one year, only 50% of the annual positive balance between capital gains and capital losses is taken into consideration for purposes of computing the taxable profit, provided the following conditions are met:

(a) The proceeds of the disposal are reinvested, between the beginning of the tax year preceding that of the disposal and the end of the second tax year counting from that of the disposal: (i) in the acquisition of shares in the share capital of companies or civil corporate bodies (*sociedades civis*) with commercial purpose, in both cases provided they are also held for a minimum holding period of one year; and/or (ii) in the acquisition, production or construction of tangible fixed assets, non-consumable biological assets or investment properties allocated to business activity, except for second hand assets purchased from an IRS or IRC taxpayer with whom there is a special relationship, as defined by law.

(b) The shares sold must have been held for a period not less than one year and shall correspond to at least 10% of the equity of the subsidiary, the parties acquired capital be held for the same period;

(c) The counterparties in the disposal for consideration or the acquisition of shares cannot be: (i) either entities with domicile, legal seat or place of effective management in a country, territory or region subject to a clearly more favourable tax regime, listed in the Ministerial Order no. 150/2004 dated 13 February 2004, as amended by Ministerial Order no. 292/2011 dated 8 November 2011; and/or (ii) entities with whom there is a special relationship, as defined by law, except where the disposal represents a contribution in kind to the share capital in the beneficiary entity, in which case reinvestment will be considered fully realised if the value of the shares in the beneficiary entity is not lower than the fair market value of the shares transferred to it.

Only 50% of the negative balance between capital gains and capital losses arising from the disposal of shares for consideration, as well as of other losses or negative net variations in worth in relation to the shares (such as supplementary payments), are considered for purposes of computing the taxable profit.

If the reinvestment does not occur until the end of the second tax year following the one in which the disposal took place, the portion of the positive balance between capital gains and losses not yet included in the taxable profit is added to the taxable profit of the year, increased by 15%.

Losses arising from the disposal for consideration of shares held for less than three years are not deductible for purposes of computing the taxable profit, if the shares have been purchased from entities: (i) with whom there is a special relationship, as defined by law; (ii) with domicile, legal seat or place of effective management in a country, territory or region subject to a clearly more favourable tax regime, listed in the Ministerial Order no. 150/2004 dated 13 February 2004, as amended by Ministerial Order no. 292/2011 dated 8 November 2011 or (iii) resident within the Portuguese territory and herein subject to a special tax regime.

In addition, losses arising from the disposal for consideration of shares are also not deductible for purposes of computing the taxable profit if the alienator has undergone, less than three years prior to the date of the disposal, a transformation (including amendments to its object clause or corporate purpose) which gave rise to a change of the tax regime applicable to those losses. Moreover, the part of capital losses related to a shareholding in a subsidiary that benefited from a tax-free dividend distribution made in the previous four years is not deductible.

Capital gains arising to a pure holding company (*sociedade gestora de participações sociais—"**SGPS**"*) or a venture capital company (*sociedade de capital de risco—"**SCR**"*), from the disposal for consideration of shares held for at least one year, as well as the financing costs incurred to support their acquisition, are not taken into consideration for purposes of computing their taxable profit. This holding period is extended to three years in the case of shares purchased from entities:

- with whom there is a special relationship, as defined by law;
- with domicile, legal seat or place of effective management in a country, territory or region subject to a clearly more favourable tax regime, listed in the Ministerial Order no. 150/2004 dated 13 February 2004, as amended by Ministerial Order no. 292/2011 dated 8 November 2011; or
- resident within the Portuguese territory and herein subject to a special tax regime.

Capital gains arising to SGPS and SCR from the disposal for consideration of shares held for less than one year, as well as the financing costs incurred to support their acquisition, are also not taken into consideration for purposes of computing their taxable profit in case the SGPS or the SCR has undergone, less than three years prior to the date of the disposal, a transformation which gave rise to a change of the tax regime applicable to those capital gains and financing costs.

Capital losses arising to an SGPS or SCR from the disposal of shares held for at least one year are not deductible for purposes of computing their taxable income (in the exceptional cases where they are allowed to dispose of the shares within one year from their acquisition, the general rules restricting or denying the deductibility depending on the relevant counterparties set forth in the previous paragraphs apply).

Gratuitous acquisition of shares

The gratuitous acquisition of shares is not subject to stamp duty.

The positive net variation in worth, not reflected in the profit and loss account of the financial year, arising from the gratuitous transfer of shares to Portuguese tax resident corporate entities liable for IRC, even if exempt therefrom, or to permanent establishments to which it is imputable, is taken into consideration for purposes of computing the taxable profit for IRC purposes.

IRC is levied on the taxable basis (computed as the taxable profit deducted of tax losses carried forward) at a rate of up to 25%. A municipal surcharge, at variable rates according to the decision of the municipal bodies, up to 1.5% of the taxable profit may also apply. Moreover, corporate taxpayers are also subject to a State surcharge of 3%, for a taxable income from €1,500,000.00 to €7,500,000.00, or of 5%, for a taxable income exceeding €7,500,000.00.

Subscription Rights

The mere allocation and exercise of subscription rights will not be considered facts subject to taxation. However, income from the sale of subscription rights issued to shareholders during capital increases are qualified for tax purposes as capital gains and subject to taxation under the general IRC when performed by legal persons resident or non-resident legal persons with a permanent establishment in Portugal.

Corporate entities not resident for tax purposes in Portugal

Income arising from the ownership of shares

Profits of the Company made available to the owners of shares are liable for IRC. IRC is withheld, at a 25% rate, when the profits are made available. This represents a final withholding, releasing the owners of the shares from the obligation to disclose the above income to the Portuguese tax authorities and from the payment of any additional amount of IRC. This withholding will be made by the Portuguese resident entity which pays or puts the income available to the shareholders

The above rate may be reduced pursuant to a Convention in force between Portugal and the country where the owner of the shares is a resident for tax purposes, provided that both substantial and formal conditions on which the application of such benefit depends are duly observed. In broad terms, according to Portuguese tax law the formalities consist in the certification of the tax residence of the owner of the shares in specific forms.

Profits of the Company made available to entities which comply with the requirements of article 2 of Directive no. 90/435/EEC dated 23 July 1990, and which hold, for an uninterrupted period of at least one year, shares representing at least 10% of the share capital are exempt from IRC (this applies to investors resident for tax purposes in both the European Union and the European Economic Area, in the latter case if the member state is bound to provide administrative cooperation on taxation equivalent to that which exists within the EU). If this holding period has already elapsed prior to the date on which the profits are made available, the owner is immediately exempt from the withholding tax at a 25% rate referred to in the previous paragraph. In the event the minimum one-year holding period only elapses after such date, the IRC withheld will be refundable. For both the exemption at source or refund purposes it is necessary to comply with some formalities required by Portuguese tax law, consisting in broad terms in the certification of the compliance of all the conditions mentioned above through specific documentation. This exemption also applies to entities resident in Switzerland, in accordance with the agreement between the Swiss Confederation and the EU, if, among other conditions, such entities hold a participation in a Portuguese company of at least 25% for a minimum period of two years.

The exemption referred to in the preceding paragraphs depends on the obtainment of a statement, certified by the competent authorities of the European Union member state, the European Economic Area or the Swiss Confederation, stating that the beneficiary achieves the conditions laid down in Article 2 of Directive no. 2011/96/EU of the Council dated 30 November 2011, with the necessary adjustments, if applicable.

At the request of the beneficiary of the proceeds, the tax withheld and paid may be refunded to the extent that is higher than that resulting from the application of the general tax rates applicable in another member state of the European Union or the EEA Space, since in the latter case there is an obligation for administrative cooperation in tax equivalent to that established in the European Union and which are the conditions laid down in Article 2 of the Directive 2011/96/UE of the Council dated 30 November 2011. In this case, all taxable income will be considered, including income obtained in Portuguese territory.

If the shareholder is an entity resident in a country, territory or region subject to a clearly more favourable tax regime, as listed in the Ministerial Order no. 150/2004 dated 13 February 2004, as amended by Ministerial Order no. 292/2011 dated 8 November 2011, the withholding tax rate is increased to 35%.

The withholding tax rate is increased to 35% when dividends are paid or made available to accounts opened in the name of one or more account holders on behalf of unidentified third parties, unless the beneficial owner of such income is identified, in which case the general rules described above apply.

Capital gains and capital losses arising from the disposal of shares for consideration

The annual positive balance between capital gains and capital losses arising from the disposal of shares (and other assets indicated in the law) for consideration, deducted of the costs necessary and effectively incurred in such disposal, is taxed at a 25% rate.

Capital gains arising from the disposal of shares for consideration are exempt from taxation, unless:

(i) the alienator is directly or indirectly held, in more than 25%, by Portuguese tax resident entities;

(ii) the alienator is resident for tax purposes in a country, territory or region subject to a clearly more favourable tax regime, listed in the Ministerial Order no. 150/2004 dated 13 February 2004; or

(iii) the assets of the company, whose shares are sold, are composed in more than 50% by real estate located in Portugal.

However, a convention for the avoidance of double taxation between Portugal and the country where the purchaser is resident for tax purposes may avoid the taxation of the referred capital gains. Notwithstanding, this evaluation must be made on a case-by-case basis.

In addition, capital gains arising from the disposal of shares for consideration by an alienator resident for tax purposes in a country with which there is a Convention in force with Portugal may be excluded from taxation. In some Conventions, the exclusion from taxation does not apply if the majority of the assets of the Portuguese tax resident company are represented by real estate or rights *in rem* in immovable property within the Portuguese territory.

Losses arising from disposals for consideration in favour of counterparties subject to a clearly favourable tax regime in the country, territory or region where it is a tax resident, listed in the Ministerial Order no. 150/2004 dated 13 February 2004, as amended by Ministerial Order no. 292/2011 dated 8 November 2011, are disregarded for purposes of assessing the positive or negative balance referred to in the previous paragraph.

Gratuitous acquisition of shares

The positive variation in worth arising from the gratuitous acquisition of shares by corporate entities not resident for tax purposes in Portugal and without a permanent establishment to which they are imputable is taxed at a 25% rate.

United States Federal Income Taxation

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a description of the material United States federal income tax consequences to U.S. Holders (as defined below) of the acquisition, ownership and disposition of Shares. This description addresses only the United States federal income tax consequences to holders that are initial purchasers of the Shares pursuant to the offering and that will hold such Shares as capital assets. This description does not address tax considerations applicable to holders that may be subject to special tax rules, including, without limitation:

- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt entities;
- certain former citizens or long-term residents of the United States;
- persons that received the Shares as compensation for the performance of services;
- persons that will hold the Shares as part of a "hedging," "integrated" or "conversion" transaction or as a position in a "straddle" for United States federal income tax purposes;
- partnerships (including entities classified as partnerships for United States federal income tax purposes) or other pass-through entities, or holders that will hold the Shares through such an entity;
- U.S. Holders (as defined below) whose "functional currency" is not the U.S. dollar; or
- holders that own directly, indirectly or through attribution 10.0% or more of the voting power or value of the Shares.

Moreover, this description does not address the United States federal estate, gift, alternative minimum tax or net investment income tax consequences, or any state, local or non-U.S. tax consequences, of the acquisition, ownership and disposition of the Shares.

This description is based on the United States Internal Revenue Code of 1986, as amended (the "Code"), existing, proposed and temporary United States Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. Each of the foregoing is subject to change, which change could apply retroactively and could affect the tax consequences described below. There can be no assurances that the U.S. Internal Revenue Service will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of the Shares or that such a position would not be sustained.

For purposes of this description, a "U.S. Holder" is a beneficial owner of Shares that, for United States federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if such trust has validly elected to be treated as a United States person for United States federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more United States persons have the authority to control all of the substantial decisions of such trust.

If a partnership (or any other entity treated as a partnership for United States federal income tax purposes) holds Shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to its tax consequences.

Based on certain estimates of the Company's gross income and gross assets and the nature of its business the Company expects that it will be classified as a passive foreign investment company (a "PFIC") for the taxable year ending 31 December 2013. The Company's classification as a PFIC may result in material adverse consequences for you if you are a U.S. taxable investor. See "—Passive Foreign Investment Company Considerations."

You should consult your advisor with respect to the United States federal, state, local and non-U.S. tax consequences of acquiring, owning and disposing of Shares.

Passive Foreign Investment Company Considerations

A non-U.S. corporation will be classified as a PFIC for federal income tax purposes in any taxable year in which, after applying certain look-through rules, either

- at least 75% of its gross income is "passive income"; or
- at least 50% of the average quarterly value of its gross assets (which may be determined in part by the market value of the Shares, which is subject to change) is attributable to assets that produce "passive income" or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents, gains from commodities and securities transactions, the excess of gains over losses from the disposition of assets which produce passive income, and includes amounts derived by reason of the temporary investment of funds raised in offerings of the Shares. If a non-U.S. corporation owns at least 25% by value of the stock of another corporation, the non-U.S. corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation and as receiving directly its proportionate share of the other corporation's income. If the Company is classified as a PFIC in any year with respect to which a U.S. Holder owns the Shares, the Shares generally will continue to be treated as shares in a PFIC with respect to such U.S. Holder in all succeeding years during which the U.S. Holder owns the Shares, regardless of whether the Company continues to meet the tests described above (including if the Company is not classified as a PFIC for the taxable year ending 31 December 2014).

Based on certain estimates of the Company's gross income and gross assets and the nature of its business, the Company expects that it will be classified as a PFIC for the taxable year ending 31 December 2013. In addition, one or more of the Company's subsidiaries may be classified as a PFIC for the taxable year ending 31 December 2013. Because PFIC status must be determined annually based on tests which are factual in nature, the PFIC status of the Company (and any of its subsidiaries) in future years will depend on the income, assets and activities of the Company (and such subsidiaries) in those years. There can be no assurance that the Company (or any subsidiary) will not be considered a PFIC for any taxable year and the Company does not intend to make a determination of its or its subsidiaries' PFIC status in the future. A U.S. Holder may be able to mitigate some of the adverse U.S. federal income tax consequences described below with respect to owning the Shares if the Company is classified as a PFIC, provided that such U.S. Holder is eligible to make, and successfully makes, a "mark-to-market" election described below for the taxable year in which its holding period begins.

If the Company was a PFIC, and you are a U.S. Holder, then unless you make one of the elections described below, a special tax regime (the "Excess Distribution Regime") will apply to both (a) any "excess distribution" by the Company to you (generally, your ratable portion of distributions in any year which are greater than 125% of the average annual distribution received by you in the shorter of the three preceding years or your holding period for the Shares) and (b) any gain realized on the sale or other disposition of the Shares. Under the Excess Distribution Regime, any excess distribution and realized gain will be treated as ordinary income and will be subject to tax as if (a) the excess distribution or gain had been realized ratably over your holding period, (b) the amount deemed realized in each year had been subject to tax in each year of that holding period at the highest marginal rate for such year (other than income allocated to the current period or any taxable period before the Company became a PFIC, which would be subject to tax at the U.S. Holder's regular ordinary income rate for the current year and would not be subject to the interest change discussed below), and (c) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. Certain elections may be available that would result in an alternative treatment of the Shares. If the Company is determined to be a PFIC, the Excess Distribution Regime described in this paragraph would also apply to indirect distributions and gains deemed to be realized by U.S. Holders in respect of any of the Company's subsidiaries that also may be determined to be PFICs.

If the Company is a PFIC for any taxable year during which a U.S. Holder holds the Shares, then in lieu of being subject to the tax and interest charge rules discussed above, a U.S. Holder may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such Shares are "regularly traded" on a "qualified exchange." In general, the Shares will be treated as "regularly traded" for a given calendar year if more than a de minimis quantity of the Shares are traded on a qualified exchange on at least 15 days during each calendar quarter of such calendar year. However, under a special rule for fourth quarter initial public offers, if the company initiates a public offering of the Shares in the fourth quarter of the calendar year, the Shares will be treated as "regularly traded" if the Shares are regularly traded on a qualified exchange, other than in de minimis quantities, on the greater of 1/6 of the days remaining in the quarter in which the offering occurs, or 5 days. Although the IRS has not published any authority identifying specific exchanges that may constitute "qualified exchanges," Treasury Regulations provide that a qualified exchange is (a) a United States securities exchange that is registered with the Securities and Exchange Commission, (b) the United States market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or (c) a non-U.S. securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such non-U.S. exchange has trading volume, listing, financial disclosure, surveillance and other requirements designed to prevent fraudulent and manipulative acts and practices, to remove impediments to and perfect the mechanism of a free and open, fair and orderly, market, and to protect investors; and the laws of the country in which such non-U.S. exchange is located and the rules of such non-U.S. exchange ensure that such requirements are actually enforced and (ii) the rules of such non-U.S. exchange effectively promote active trading of listed stocks. Application has been made for the Shares to be admitted to trading on Euronext Lisbon, which is a Portuguese regulated market managed by Euronext. However, no assurance can be given that Euronext Lisbon will be treated as a "qualified exchange" or that the Shares will meet the requirements to be treated as "regularly traded" for purposes of the mark-to-market election. In addition, because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the Excess Distribution Regime with respect to such holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes, including stock in any of the Company's subsidiaries that are treated as PFICs.

If a U.S. Holder makes an effective mark-to-market election, such U.S. Holder will include in each year that we are a PFIC as ordinary income the excess of the fair market value of such U.S. Holder's Shares at the end of the year over such U.S. Holder's adjusted tax basis in the Shares. Such U.S. Holder will be entitled to deduct as an ordinary loss in each such year the excess of such U.S. Holder's adjusted tax basis in the Shares over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder will not mark-to-market gain or loss for any taxable year in which the Company is not classified as a PFIC. If a U.S. Holder makes an effective mark-to-market election, in each year that the Company is a PFIC any gain such U.S. Holder recognizes upon the sale or other disposition of such U.S. Holder's Shares will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount of previously included income as a result of the mark-to-market election.

A U.S. Holder's adjusted tax basis in the Shares will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. Holder makes a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the Shares are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. U.S. Holders are urged to consult their tax advisers about the availability of the mark-to-market election, and whether making the election would be advisable in their particular circumstances.

U.S. Holders could also mitigate some of the adverse U.S. federal income tax consequences of the Company being classified as a PFIC by making a "qualified electing fund election," however, the Company does not intend to provide the information necessary for U.S. Holders to make qualified electing fund elections if it is classified as a PFIC. U.S. Holders should consult their tax advisors to determine whether any of these elections would be available and if so, what the consequences of the alternative treatments would be in their particular circumstances.

If a U.S. Holder owns Shares during any year in which the Company is a PFIC, the U.S. Holder generally will be required to file an IRS Form 8621 with respect to the Company, generally with the U.S. Holder's federal income tax return for that year.

U.S. Holders should consult their tax advisors regarding whether the Company is a PFIC and the potential application of the PFIC rules.

Distributions

Subject to the discussion above under "Passive Foreign Investment Company Considerations," if you are a U.S. Holder, the gross amount of any distribution that the Company pays you with respect to the Shares before reduction for any non-U.S. taxes withheld therefrom generally will be includible in your income as dividend income to the extent such distribution is paid out of the Company's current or accumulated earnings and profits as determined under U.S. federal income tax principles. To the extent that the amount of any cash distribution exceeds the Company's current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of your adjusted tax basis in the Shares and thereafter as capital gain. The Company does not expect to maintain calculations of its earnings and profits under U.S. federal income tax principles. Therefore, if you are a U.S. Holder you should expect that the entire amount of any cash distribution generally will be reported as dividend income to you; provided, however, that distributions of Shares to U.S. Holders that are part of a pro rata distribution to all of the Company's shareholders generally will not be subject to U.S. federal income tax. Non-corporate U.S. Holders may qualify for the lower rates of taxation with respect to dividends on Shares applicable to long-term capital gains (*i.e.*, gains from the sale of capital assets held for more than one year), provided that certain conditions are met, including certain holding period requirements and the absence of certain risk reduction transactions. Moreover, such reduced rate shall not apply if the Company is a PFIC for the taxable year in which it pays a dividend, or was a PFIC for the preceding taxable year. Dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders.

If you are a U.S. Holder, dividends that the Company pays you with respect to the Shares will be treated as foreign-source income, which may be relevant in calculating your foreign tax credit limitation. Subject to certain conditions and limitations, non-U.S. tax withheld on dividends may be deducted from your taxable income or credited against your U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends that the Company distributes generally should constitute "passive category income," or, in the case of certain U.S. Holders, "general category income." A foreign tax credit for foreign taxes imposed on distributions may be denied if you do not satisfy certain minimum holding period requirements. The rules relating to the determination of the foreign tax credit are complex, and you should consult your tax advisor to determine whether and to what extent you will be entitled to this credit.

The amount of any dividend income paid in euros will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you should not be required to recognize exchange gain or loss in respect of the dividend income. You may have exchange gain or loss if the dividend is converted into U.S. dollars after the date of receipt. Exchange gain or loss will be treated as U.S.-source ordinary income or loss.

Sale, Exchange or Other Disposition of Ordinary Shares

Subject to the discussion above under "Passive Foreign Investment Company Considerations," if you are a U.S. Holder, you generally will recognize an amount of gain or loss on the sale, exchange or other disposition of the Shares equal to the difference between the amount realized on such sale, exchange or other disposition and your tax basis in the Shares, and such gain or loss will be capital gain or loss. The tax basis in a Share generally will equal the U.S. dollar cost of such Share. If you are a non-corporate U.S. Holder, capital gain from the sale, exchange or other disposition of Shares generally will be eligible for a preferential rate of taxation applicable to capital gains, if your holding period for such Shares exceeds one year. The deductibility of capital losses for U.S. federal income tax purposes is subject to limitations under the Code. Any such gain or loss that a U.S. Holder recognizes generally will be treated as U.S.-source income or loss for foreign tax credit limitation purposes.

If a Portuguese tax is imposed on the sale or other disposition of the Shares, your amount realized will include the gross amount of the proceeds of the sale or other disposition before deduction of the Portuguese tax. Because your gain from the sale or other disposition of the Shares will generally be U.S.-source gain, and you may use foreign tax credits to offset only the portion of U.S. federal income tax liability that is attributable to foreign-source income, you may be unable to claim a foreign tax credit with respect to the Portuguese tax, if any, on gains. You should consult your tax adviser as to whether the Portuguese tax on gains may be creditable against your U.S. federal income tax on foreign-source income from other sources.

Disposition of Foreign Currency

Foreign currency received as dividends on the Shares or on the sale or retirement of a Share will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including upon exchange for U.S. dollars) will be U.S.-source ordinary income or loss.

Backup Withholding Tax and Information Reporting Requirements

U.S. backup withholding tax and information reporting requirements may apply to certain payments to certain holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, the Shares made within the United States, or by a U.S. payor or U.S. middleman, to a holder of the Shares, other than an exempt recipient (including a payee that is not a U.S. person that provides an appropriate certification and certain other persons). A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, Shares within the United States, or by a U.S. payor or U.S. middleman, to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. Any amounts withheld under the backup withholding rules will be allowed as a credit against the beneficial owner's U.S. federal income tax liability, if any, and any excess amounts withheld under the backup withholding rules may be refunded, provided that the required information is timely furnished to the IRS.

Foreign Asset Reporting

Certain U.S. Holders who are individuals are required to report information relating to an interest in the Shares, subject to certain exceptions (including an exception for shares held in accounts maintained by financial institutions). U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of the Shares.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of the Shares. You should consult your tax advisor concerning the tax consequences of your particular situation.

PLAN OF DISTRIBUTION

The Selling Shareholder is offering 105,000,000 Shares in the Offering. The Offering comprises: (i) the Institutional Offering, which is an offering of 84,000,000 Shares to institutional investors within and outside Portugal; and (ii) the Retail Offering, which is a public offering in Portugal of 21,000,000 Shares by way of a separate Portuguese language prospectus to retail investors and CTT's employees in Portugal. In the Offering, as part of the Institutional Offering, 9,545,455 Option Shares are being sold by the Selling Shareholder to the Underwriters for the purpose of conducting stabilization activities in the Shares. The Offer Price is €5.52 per Share.

In the United States, the Shares are being offered and sold only to QIBs in reliance on Rule 144A. Outside the United States, the Shares are being offered and sold in reliance on Regulation S. Certain restrictions that apply to the distribution of this Offering Memorandum and the Shares are set forth under "*Transfer Restrictions*".

Assuming that the maximum number of Shares is sold to CTT's employees and that neither the Put Option nor the Call Option is exercised, the Selling Shareholder will receive net proceeds of approximately €571.5 million, reflecting the deduction of underwriting commissions (which will be in the maximum amount of €4.9 million), as well as certain expenses incurred in connection with the Offering. CTT will not receive any of the proceeds from the sale of the Shares offered by the Selling Shareholder, although it will pay approximately €4 million (excluding VAT) in expenses incurred in connection with the Offering.

Subject to the terms and conditions set out in the institutional underwriting agreement dated 3 December 2013 (the "**Institutional Underwriting Agreement**") among the Company, the Selling Shareholder and the Underwriters, the Selling Shareholder has agreed to sell to the Underwriters, and the Underwriters have severally, and not jointly, agreed to procure purchasers for, or, failing which, to purchase themselves from the Selling Shareholder, the Shares to be sold in the Institutional Offering. The Selling Shareholder and the Underwriters have also entered into a direct sale agreement dated 3 December 2013 (the "**Direct Sale Agreement**") in relation to the Institutional Offering.

The following table sets forth the number of Shares that the Underwriters have agreed severally, and not jointly, to purchase in the Institutional Offering.

	Number of Shares	Number of Option Shares	Total Number of Shares
Caixa—Banco de Investimento, S.A	33,504,546	4,295,454	37,800,000
J.P. Morgan Securities plc	33,504,545	4,295,455	37,800,000
Banco Bilbao Vizcaya Argentaria, S.A	3,722,727	477,273	4,200,000
Banco Espírito Santo de Investimento, S.A	3,722,727	477,273	4,200,000
Total	**74,454,545**	**9,545,455**	**84,000,000**

The Company and the Selling Shareholder have given the Underwriters customary representations and warranties under the Institutional Underwriting Agreement, including in relation to CTT's business, the Shares and the contents of this Offering Memorandum and the Portuguese language prospectus. The Selling Shareholder has also given the Underwriters customary representations and warranties under the Institutional Underwriting Agreement in relation to, among other matters, its title to the Shares being sold by it in the Offering.

The Institutional Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent. In addition, the Joint Global Coordinators may terminate the Institutional Underwriting Agreement in certain circumstances prior to the Closing Date. Pursuant to Article 11 of the Resolution of the Council of Ministers dated 11 October 2013, the Selling Shareholder may terminate the Direct Sale Agreement based on public interest reasons prior to the settlement of the Shares, with the prior authorization of the Ministry of State and Finance. See "*Risk Factors—The Institutional Offering may be terminated by the Selling Shareholder based on public interest reasons prior to the settlement of the Shares.*" In the event that the Direct Sale Agreement is terminated by the Selling Shareholder, the Institutional Underwriting Agreement will automatically terminate.

The Company and the Selling Shareholder have agreed in the Underwriting Agreement, subject to the terms thereof, to indemnify the Underwriters against certain liabilities in connection with the sale of Shares. In addition, the Selling Shareholder and the Company have agreed to reimburse the Underwriters for certain of their expenses.

The Retail Offering is being made pursuant to a separate retail placement agreement dated 18 November 2013 (the "**Retail Placement Agreement**") among the Company, the Selling Shareholder and a syndicate of Portuguese financial institutions led by Caixa—Banco de Investimento, S.A. The offering to CTT's employees will comprise up to 5,250,000 Shares, representing 3.5% of the Company's share capital, or 25% of the Retail Offering. CTT employees purchasing Shares in the Retail Offering will be able to purchase such Shares at a 5% discount to the Offer Price.

Put Option and Stabilization

In connection with the Offering, the Stabilizing Manager or any agent or other person acting on its behalf may effect stabilization transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail. Such stabilization activities may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the admission to trading of the Shares is made and, if begun, may be ended at any time, but must end no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilizing Manager or any agent or other person acting on its behalf to effect stabilizing transactions, and there can be no assurance that stabilizing transactions will be undertaken.

In the Offering, 9,545,455 Option Shares are being sold by the Selling Shareholder to the Underwriters for the purpose of conducting stabilization activities in the Shares. In connection with the sale of the Option Shares, the Selling Shareholder has granted to the Stabilizing Manager on behalf of the Underwriters the Put Option, exercisable within 30 calendar days of the admission to trading of the Shares, to sell to the Selling Shareholder up to 9,545,455 Shares which have been purchased in the market as a result of stabilization activities. The Underwriters have also granted the Selling Shareholder the Call Option, exercisable on the 30th calendar day following the admission to trading of the Shares, to purchase from the Stabilizing Manager on behalf of the Underwriters 9,545,455 Shares, which can be satisfied by the delivery of Shares acquired in stabilization activities.

Lock-Up Provisions

The Company has agreed that neither it, nor any of its subsidiaries or other affiliates from time to time, nor any person acting on its or their behalf will, from the date of the Institutional Underwriting Agreement until 180 days after the date the Institutional Underwriting Agreement is entered into, without the prior consent of the Joint Global Coordinators, such consent not to be unreasonably withheld or delayed: (i) issue, offer, sell, assign, contract to sell, contract to sell or issue, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Shares; or (ii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above. The foregoing limitation shall not apply to any Shares issued or options to purchase or subscribe for Shares granted pursuant to employee stock option plans and liquidity reinvestment plans. For the avoidance of doubt, the foregoing limitation shall not restrict the Company's ability to acquire its own Shares.

The Selling Shareholder has agreed that, subject to certain exceptions, neither it, nor any of its subsidiaries or other affiliates from time to time, nor any person acting on its or their behalf will, from the date of the Institutional Underwriting Agreement until, in the case of all Shares sold in the Offering other than the Option Shares, 270 days after the date the Institutional Underwriting Agreement is entered into, without the prior written consent of the Joint Global Coordinators such consent not to be unreasonably withheld or delayed: (i) offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities; (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of any Shares; or (iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, whether any such transaction described above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

In the case of the Option Shares, the Selling Shareholder has agreed that, to the extent the Put Option and/or the Call Option are exercised, any Shares which it holds as a result of such exercise shall also be subject to the foregoing restrictions, except that such restrictions shall apply from the date of the Institutional Underwriting Agreement until 90 days after the date the Institutional Underwriting Agreement is entered into.

Selling Restrictions

No action has been or will be taken in any jurisdiction, other than Portugal, that would permit a public offering of the Shares, or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Offering, in any jurisdiction where action for such purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, nor may this Offering Memorandum or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

United States

The Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Shares are being offered and sold outside of the United States in reliance on Regulation S. The Underwriting Agreement provides that Underwriters may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Shares within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Shares an offer or sale of Shares within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each a "**Relevant Member State**") an offer to the public of any Shares may not be made in that Relevant Member State unless a prospectus has been approved by the competent authority in such Relevant Member State or passported and published in accordance with the Prospectus Directive as implemented in such Relevant Member State, except that the Shares may be offered to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to any legal entity which is a qualified investor as defined under the Prospectus Directive;
- by the Underwriters to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the publication by the Company, the Selling Shareholder or any Underwriters of a prospectus pursuant to Article 3 of the Prospectus Directive and each person who initially acquires Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with the Underwriters, the Company and the Selling Shareholder that it is a "qualified investor" within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression "an offer of Shares to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that Member State. The expression "Prospectus Directive" means Directive 2003/71/EC (and any amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

United Kingdom

Offers of the Shares pursuant to the Offering are only being made to persons in the United Kingdom who are "qualified investors" or otherwise in circumstances which do not require publication by the Company of a prospectus pursuant to section 85(1) of the U.K. Financial Services and Markets Act 2000.

Any investment or investment activity to which this Offering Memorandum relates is available only to, and will be engaged in only with, persons who (i) are investment professionals falling within Article 19(5) or (ii) fall within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or other persons to whom such investment or investment activity may lawfully be made available (together, "relevant persons"). Persons who are not relevant persons should not take any action on the basis of the Offering Memorandum and should not act or rely on it.

Portugal

No offer or sale of Shares may be made in Portugal except in circumstances that will result in compliance with the rules concerning marketing of shares and the laws of Portugal generally. In particular, the offer or sale of Shares to the public in Portugal in the context of the Retail Offering are subject to the approval by the CMVM of the Portuguese language prospectus and publishing of such Portuguese language prospectus in accordance with the Prospectus Directive as implemented in Portugal.

No approval has been or will be requested from the CMVM that would permit a public offering of any of the Shares pursuant to this Offering Memorandum. Each Underwriter has represented and agreed that no Shares have been or may be offered or sold to 150 or more addressees who are not Portuguese Qualified Investors (as defined in Article 30 of the Portuguese Securities Code) and no offer has been preceded or followed by promotion or solicitation to unidentified investors, public advertisement or publication of any promotional material. This Offering Memorandum and the offer of Shares pursuant to this Offering Memorandum are only intended for Qualified Investors, within the meaning of Article 30 of the Portuguese Securities Code.

TRANSFER RESTRICTIONS

As a result of the following restrictions, purchasers of the Shares are advised to contact legal counsel prior to making any resale, pledge or transfer of the Shares.

The Offering is being made in accordance with Rule 144A and Regulation S. The Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and, accordingly, may not be offered or sold within the United States except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and to persons outside the United States in offshore transactions in accordance with Regulation S. Terms used in this section that are defined in Rule 144A or Regulation S are used herein as so defined.

Rule 144A Shares

Each purchaser of Shares pursuant to Rule 144A under the Securities Act, by its acceptance of delivery of this Offering Memorandum, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser (i) is a qualified institutional buyer, as defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such Shares has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, registration under the Securities Act, (iii) is acquiring such Shares for its own account or for the account of a qualified institutional buyer and (iv) if it is acquiring such Shares for the account of one or more qualified institutional buyers, it has sole investment discretion with respect to each such account and it has full power to make (and does make) the acknowledgements, representations and agreements herein on behalf of each such account.

2. The purchaser is aware that the Shares purchased pursuant to Rule 144A under the Securities Act have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, registration under the Securities Act, only in transactions not involving any public offering in the United States and are restricted securities within the meaning of the Securities Act.

3. In the future, if the purchaser decides to offer, resell, pledge or otherwise transfer the Shares purchased pursuant to Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, registration under the Securities Act or the Ordinary Shares represented thereby, such Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legends, which the Shares purchased pursuant to Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, registration under the Securities Act will respectively bear unless otherwise determined by the Company in accordance with applicable law:

   THE SHARES (THE “SHARES“) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT“), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“QIB“) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF APPLICABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTIONS PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR THE RESALE OF THE SHARES. FOR SO LONG AS THE SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(A)(3) UNDER THE SECURITIES ACT, IT WILL NOT DEPOSIT SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF

SHARES ESTABLISHED AND MAINTAINED BY A DEPOSITARY BANK OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY.

4. The Company, the Selling Shareholder, the Underwriters and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prospective purchasers are hereby notified that the sellers of Shares purchased in this Offering may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act.

Regulation S Shares

Each purchaser of Shares offered in reliance on Regulation S under the Securities Act, by its acceptance of delivery of this Offering Memorandum, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

(i) The purchaser is, at the time of the offer to it of Shares and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act.

(ii) The purchaser is aware that such Shares have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S.

(iii) Any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognized by the Company in respect of such Shares.

(iv) The Company, the Selling Shareholder, the Underwriters and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

LEGAL MATTERS

The validity of the Shares and certain matters governed by Portuguese Law will be passed upon by A.M. Pereira, Sáragga Leal, Oliveira Martin, Júdice & Associados—Sociedade de Advogados, RL, Lisbon Portugal, as CTT's Portuguese counsels and for the Underwriters by Linklaters LLP, as Portuguese counsel to the Underwriters.

Certain other matters governed by U.S. law will be passed on for CTT by White & Case LLP, as CTT's U.S. counsel, and for the Underwriters by Linklaters LLP, as U.S. counsel to the Underwriters.

INDEPENDENT AUDITORS

The Adjusted Audited Consolidated Financial Statements included in this Offering Memorandum have been audited by PricewaterhouseCoopers, independent accountants (*Revisor Oficial de Contas Efetivo e Auditor Externo do Emitente*), as stated in their reports appearing herein. PricewaterhouseCoopers with registered offices at Rua Sousa Martins, 1 - 3º, 1069-316 Lisbon is registered with the Chartered Accountants Institute (*Ordem dos Revisores Oficiais de Contas*) under number 183 and with the CMVM under number 9077.

INDEX TO FINANCIAL STATEMENTS

Limited Review Report Prepared by Auditor Registered with the Securities Market Commission (CMVM) on the Consolidated Financial Information

Introduction

1 In accordance with the Portuguese Securities Market Code (CVM), we present our limited review report on the consolidated financial information for the nine-month period ended 30 September 2013 of CTT—Correios de Portugal, S. A. comprising consolidated balance sheet (which shows total assets of Euro 1,171,363,832 and total shareholders' equity of Euro 264,733,377, including non-controlling interests of Euro 1,674,652 and a net profit of Euro 45,169,483), consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the period then ended, and the corresponding notes to the accounts.

2 The amounts in the consolidated financial statements are derived from the respective accounting records.

Responsibilities

3 It is the responsibility of the Board of Directors: (a) to prepare consolidated financial information which present fairly, in all material respects, the financial position of the companies included in the consolidation, the consolidated results and the consolidated comprehensive income of their operations, the changes in consolidated equity and the consolidated cash flows; (b) to prepare historical financial information in accordance with International Accounting Standard 34—Interim Financial Reporting as adopted by the European Union and which is complete, true, up-to-date, clear, objective and lawful as required by the CVM; (c) to adopt appropriate accounting policies and criteria; (d) to maintain appropriate systems of internal control; and (e) to disclose any significant matters which have influenced the activity, financial position or results.

4 Our responsibility is to verify the financial information included in the documents referred to above, namely as to whether it is complete, true, up-to-date, clear, objective and lawful, as required by the CVM, for the purpose of issuing an independent and professional report based on our work.

Scope

5 Our work was performed with the objective of obtaining moderate assurance about whether the financial information referred to above is free from material misstatement. Our work was performed in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors, planned according to that objective, and consisted: (a) primarily, in enquiries and analytical procedures, to review: (i) the reliability of the assertions included in the financial information; (ii) the appropriateness and consistency of the accounting principles used, as applicable; (iii) the applicability, or not, of the going concern basis of accounting; (iv) the presentation of the financial information; (v) as to whether the consolidated financial information is complete, true, up-to-date, clear, objective and lawful; and (b) of substantive tests of unusual significant transactions and of those for which contradictory information has been obtained.

6 We believe that the work performed provides a reasonable basis for the issue of this limited review report on the consolidated financial information.

PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.
Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal
Tel +351 213 599 000, Fax +351 213 599 999, www.pwc.com/pt
Matriculada na Conservatória do Registo Comercial sob o NUPC 506 628 752, Capital Social Euros 314.000

Conclusions

7 Based on the work, which was performed with the objective of obtaining a moderate level of assurance, nothing has come to our attention that leads us to conclude that the consolidated financial information for the nine-month period ended 30 September 2013 contain material misstatements that affect its conformity with International Accounting Standard 34—Interim Financial Reporting as adopted by the European Union and that it is not complete, true, up-to-date, clear, objective and lawful.

25 October 2013

PricewaterhouseCoopers & Associados
—Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

José Pereira Alves, R.O.C.

9 month report
2013

Consolidated Accounts

CTT—CORREIOS DE PORTUGAL, S.A.

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

Euro

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

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

CTT—CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED INCOME STATEMENT FOR THE PERIODS ENDED 30 SEPTEMBER 2013 AND 30 SEPTEMBER 2012

Euro

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

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

CTT—CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIODS ENDED 30 SEPTEMBER 2013 AND 30 SEPTEMBER 2012

Euro

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

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

CTT—CORREIOS DE PORTUGAL, S.A.

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

Euro

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

CTT—CORREIOS DE PORTUGAL, S.A.

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

Euro

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

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

TABLE OF CONTENTS

CTT—CORREIOS DE PORTUGAL, S.A.

Notes to the consolidated financial statements

(Amounts expressed in Euro)

1. INTRODUCTION

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

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

Decree-Law no. 49.368 of 10th November 1969 established the state-owned company CTT—Correios e Telecomunicações de Portugal, E. P., which started operating on 1st January 1970. By Decree-Law no. 87/92, of May 14, CTT—Correios e Telecomunicações de Portugal, E. P. was transformed into an entity subject to the private law with the statute of a state-owned public limited company. Finally, with the incorporation of the former Telecom Portugal, S.A. through a spin-off from Correios e Telecomunicações de Portugal, S.A. under Decree-Law no. 277/92 of 15 December, the Company's name was changed to the current CTT—Correios de Portugal, S.A., which is fully owned by the Portuguese State.

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

These consolidated financial statements were approved by the Board of Directors on October 25, 2013.

1.2 Business

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

Law no. 102/99 of 26 July defined the general basis for the establishment, management and operation of mail services on national territory, as well as the international services with origin or destination on national territory, and ensured the continuity of the universal service in compliance with the public postal administration services mission.

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

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

Hence, the scope of the regulated services was further narrowed in 2006 which included, up to 2011, mail service for letters weighing up to 50 grams and priced up to 2.5 times the reference tariff (1st class mail, in the case of Portugal). The contract has an initial term of 30 years and is subject to renewal for successive periods of fifteen years. Under the terms of the Decree-Law referred above, as payment for the concession, CTT must annually pay the Portuguese State, a rent corresponding to 1% of the revenues

1. INTRODUCTION (Continued)

related to the concession of services rendered on an exclusive basis to the Portuguese State. Decree-Law no. 112/2006 of 9 June changed the basis of the concession of the Universal Postal Service, with the concessionaire being entrusted with the public electronic mailbox services, and adapting the concession contract to the regulatory mail services environment, as well as giving the Company the degree of flexibility needed to enable it to operate in an increasingly liberalised and competitive sector. The amendments to the concession contract were signed on 26 July 2006.

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

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

As the Universal Postal Service incumbent operator, CTT is a provider of universal services, whose quality parameters, performance targets and pricing methodology should comply with the terms stipulated under the quality agreement and price agreement, signed on 10 July 2008 between CTT and ICP-ANACOM (in force during the three-year period 2008-2010, renewed for successive one-year periods).

It should be noted that, although the process of amendment of the concession contract is still in progress, namely concerning its term, which was stipulated as 20 years by Law no. 17/2012, of 26 April, it is foreseen that the concession contract will continue to ensure the provision of a universal quality service, with full coverage of national territory. At present, the universal service includes the following services, of national and international scope: a postal service for letter mail (excluding direct mail), books, catalogues, newspapers and other periodicals up to 2 Kg; a service for postal parcels up to 10 Kg, as well as the delivery, on national territory, of postal parcels received from other European Union countries weighting up to 20Kg; a service for registered items and for insured items.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of presentation

The consolidated financial statements were prepared under the assumption of going concern basis and are prepared under the historical cost basis, in accordance with the International Financial Reporting

(Amounts expressed in Euro)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards, as adopted by the European Union as at 30 September 2013. These standards include the IFRS issued by the International Accounting Standards Board ("IASB"), or the IAS issued by the International Accounting Standards Committee ("IASC"), as well as the respective interpretations—IFRIC and SIC, issued, respectively, by the International Financial Reporting Interpretation Committee ("IFRIC") and by the Standing Interpretation Committee ("SIC"). Hereinafter, these standards and interpretations are generally referred to as "IFRS".

These unaudited interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements and International Accounting Standard ("IAS") 34, Interim Financial Reporting, and the accounting policies applied in these interim unaudited consolidated financial statements are based on IFRS as issued, outstanding and effective on September 30, 2013. In addition to the standards that became effective as of 1 January 2013 and which are set out in the accounting policies adopted in the preparation of the consolidated financial statements as at 30 September 2013 and described in Note 2.2 through Note 2.28, there are additional issued standards and interpretations, described in Note 2.1.2, which did not became mandatory in the year starting on 1 January 2013.

2.1.1 New standards or amendments adopted by the Group

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

- The CTT Group adopted IAS 19—Employee benefits (revised) issued by the International Accounting Standards Board (IASB) in June 2011, and adopted by the European Union through Regulation no. 475/2012 of the European Commission. This adoption had no impact on the consolidated financial statements of CTT Group.
- The CTT Group adopted IFRS 13—Fair Value Measurement. This adoption had no impact on the consolidated financial statements of CTT Group.

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

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

Description	Effective date*
New effective standards	
IFRS 9—Financial instruments: Phase 1—classification and measurement	indeterminate
IRFS 10—Consolidated financial statements	1 January 2014
IFRS 11—Joint agreements	1 January 2014
IFRS 12—Disclosure of interests in other entities	1 January 2014
Amendments to the standards	
Financial holding entities—amendments to IFRS 10, IFRS 12 and IAS27: holdings exemption	1 January 2014
IAS 32 (amendment)—Financial instruments: Offsetting of financial assets and financial liabilities	1 January 2014
IAS 36 (amendment)—Disclosures in the recoverable amount of non-financial assets	1 January 2014
IAS 39 (amendment)—Novation of derivatives and Continuation of Hedge Accounting	1 January 2014
Effective interpretations	
IFRIC 21 "*Levies*"	1 January 2014

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 9 (new), Financial instruments—classification and measurement (to be applied in financial years beginning on or after 01 January 2015). This standard is still awaiting adoption by the European Union. This is the first phase of IFRS 9, which foresees two categories of measurement: Amortised cost and fair value. All equity instruments are measured at fair value. A financial instrument is measured at amortised cost only when the entity holds it to receive contractual cash-flows and these cash-flows represent the nominal value and interest. Otherwise, financial instruments are valued at fair value through results. CTT Group will apply IFRS 9 in the financial year it becomes effective.

IFRS 10 (new), 'Consolidated Financial Statements' (to be applied in the EU to financial years that begin on or after 01 January 2014, at the latest). IFRS 10 substitutes all the principles associated with the control and consolidation included in IAS 27 and SIC 12, altering the definition of control and the criteria applied in determining control. The basic principle that the consolidated accounts present the parent company and its subsidiaries as a single entity remains unchanged. CTT Group will apply this standard in the financial year it becomes effective. This adoption will not impact the consolidated financial statements of CTT Group.

IFRS 11. (new), 'Joint Arrangements' (to be applied in the EU to financial years that begin on or after 01 January 2014, at the latest). IFRS 11 focuses on the rights and obligations of the joint arrangements rather than their legal form. Joint arrangements may be Joint Operations (rights over assets and obligations) or Joint Ventures (rights over the net assets by application of the equity method). Proportional consolidation is no longer allowed in the measurement of jointly controlled Entities. CTT Group will apply this standard in the financial year it becomes effective. This adoption will not impact the consolidated financial statements of CTT Group.

IFRS 12 (new)—'Disclosure of interests in other entities' (to be applied in the EU to financial years that begin on or after 01 January 2014). This standard sets the requirements for disclosure for all the types of interests in other entities, including joint ventures, associated companies and unconsolidated structured entities in order to assess the risk and the financial impacts associated with the interest of the entity. CTT Group will apply this standard in the financial year it becomes effective. This adoption will not impact the consolidated financial statements of CTT Group.

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

IAS 27 (revision 2011) 'Separate Financial Statements' (to be applied in the EU to financial years that begin on or after 01 January 2014, at the latest). IAS 27 was revised after the publication of IFRS 10 and contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. CTT Group will apply this standard in the financial year it becomes effective. This adoption will not impact the consolidated financial statements of CTT Group.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

IAS 36 (amendment) Recoverable Amount Disclosures for Non-Financial Assets (to be applied in financial years beginning on or after 01 Jan 2014). This alteration is still awaiting adoption by the European Union. The alteration comes as a consequence of the issuance of IFRS 13—Fair Value Measurement and Disclosure, removing the requirement to disclose the recoverable amount of Cash-Generating Units (CGU) with goodwill and/or associated intangible assets with an undetermined useful life when impairment was not recognised. The alteration also requires the disclosure of the recoverable amount of an asset or CGU when there is a reversal or recognition of impairment loss, and detailed disclosures on the manner in which the fair value less costs of disposal was determined, in the same type of situation. This adoption will not impact the consolidated financial statements of CTT Group.

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

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

2.2 Consolidation principles

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

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

The assets and liabilities of each Group company are recorded at fair value as of the date of acquisition or, as established in IFRS 3, during a period of 12 months after that date. Any excess of cost over the fair value of the net assets and liabilities acquired is recognised as goodwill. If the difference between the cost and the fair value of the assets and liabilities acquired is negative, it is recorded directly in profit and loss.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Associated companies

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

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

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

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

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

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

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

Joint Ventures

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

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

(Amounts expressed in Euro)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2.3 Segment reporting

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

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

(i) that engages in business activities from which it may earn revenues and incur expenses;

(ii) whose operating results are reviewed regularly by the entity's chief operating decision maker in order to make decisions about resources to be allocated to the segment and assess its performance; and,

(iii) for which discrete financial information is available.

2.4 Transactions and balances in foreign currency

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

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

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

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

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

2.5 Tangible fixed assets

Tangible fixed assets are recorded at their acquisition or production cost, minus accumulated depreciation and impairment losses, where applicable. The acquisition cost includes: (i) the purchase price of the asset, (ii) the expenses directly imputable to the purchase, and (iii) the estimated costs of dismantlement or removal of the assets and restoration of the location (Notes 2.19 and 27). Under the exception of IFRS1—First-time Adoption of the International Financial Reporting Standards, the revaluation of tangible assets made, in accordance with the Portuguese legislation applying monetary indices, for the years up to 1 January 2009, was maintained, and the revaluated amounts were referred to as "deemed cost" for IFRS purposes and were included in the Retained earnings.

The depreciation of tangible assets, minus their residual estimated value, is calculated in accordance with the straight line method, as of the month when the assets are available for use, during their useful lives,

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

which is determined according to their expected economic utility. The depreciation rates that are applied correspond, on average, to the following estimated useful lives for the different categories of assets:

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

Land is not depreciated.

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

On each reporting date, the Group assesses whether there is any indication that an asset might be impaired. Whenever such indications exist, the tangible fixed assets are subjected to impairment tests, where any surplus of the carrying value relative to the recoverable amount, should this exist, is recognised in the consolidated income statement.

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

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

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

2.6 Intangible assets

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

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

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

	Years of useful life
Development projects	3
Industrial property	3 - 20
Computer programes	3 - 10

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2.7 Investment Properties

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

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

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

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

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

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

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

The recoverable amount of the asset or cash generating unit is the highest value between (i) its fair value minus the costs of selling it and (ii) its value in use. The fair value is the amount that would be obtained through the disposal of the asset, in a transaction between independent and expert entities. The value in use arises from the future and estimated cash flows discounted from the assets during the estimated useful life. The discount rate used in the discounted cash flows reflects the current market assessments of time value of money and the specific risk of the asset.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Goodwill

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

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

Impairment losses are not reversible.

In the sale of a subsidiary, joint venture or associated company, the corresponding goodwill is included in the determination of the capital gain or loss.

2.10 Financial assets

2.10.1 Classification

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in Loans and receivables. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.10.2 Recognition and measurement

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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

2.11 Equity

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

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

2.12 Financial liabilities

Debt

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

Accounts payable

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

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

Accounts payable (balances of suppliers and other creditors) are liabilities related to the acquisition of goods or services, by the Group, in the normal course of its business. If their payment falls due within one year or less, then they are classified as current liabilities. Otherwise, they are classified as non-current liabilities.

2.13 Offsetting financial instruments

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

2.14 Impairment of financial assets

Assets carried at amortised cost

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

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

Assets classified as available for sale

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

2.15 Inventories

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

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

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

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

2.16 Non-current assets held for sale and discontinued operations

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

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

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

Non-current assets are not depreciated or amortised.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Distribution of dividends

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

2.18 Employee benefits

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

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

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

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

Post-employment benefits—health care

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other long term benefits

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

—Suspension of contracts, redeployment and release of employment

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

—Telephone subscription charge

CTT has assumed the obligation of the life-long payment, to a closed group of retired workers and surviving spouses (7,765 beneficiaries as at 30 September 2013, 8,117 beneficiaries as at 31 December 2012), of the telephone subscription charge, amounting to15.30 Euro per month.

During the period ended on 30 September 2013, the Board of Directors of CTT, decided to modify the economic benefit. Thus, from 1 January, 2014, the cash payment will be replaced by a benefit in kind.

—Pensions for accidents at work

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

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

According to the legislation in force concerning employees integrated in CGA, the Group is liable for the costs incurred with pensions that have been attributed for damages resulting from accidents at work, and which have resulted in permanent handicap or death of the worker. The value of these pensions is updated pursuant to a legal diploma. Currently, because it is not considered as economically justifiable, no insurance policy has been taken out to meet these liabilities. As at 30 September 2013, there were 65 beneficiaries receiving this type of pension (66 as at 31 December 2012).

—Monthly life annuity

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

Beneficiaries are workers, still working or retired, who have descendants over 24 years old, with physical, organic, sensorial, motor or mental disabilities, who are in a situation that prevents them from normally providing for their subsistence through the exercise of professional activity. In the case of beneficiaries integrated in the CGA, the cost of the monthly life annuity is the responsibility of CTT SA. As at 30 September 2013 there were 47 beneficiaries under these conditions, (51 beneficiaries as at 31 December 2012), receiving a monthly amount of 176.76 Euro, 12 months a year. This value is updated by Order of the Finance Ministery of Finance and Ministery of Social Security.

—Support for cessation of professional activity

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2.19 Provisions and contingent liabilities

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

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

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

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

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

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

2.20 Revenues

Revenues are measured at the fair value of the consideration that has been or will be received. Revenue from the sale of merchandising products and from postal business is recognised when the risks and benefits of ownership of the products are transferred to the buyer, which usually occurs at the time of the transaction.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

2.21 Subsidies obtained

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

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

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

2.22 Leases

The classification of leases is done according to the substance of the transaction and not the form of the contract. Leases are classified as financial whenever their terms imply the substantial transfer, to the lessee, of all the risks and advantages associated to the ownership of the asset. All other leases are classified as operating.

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

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

2.23 Borrowing costs

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Taxes

Corporate income tax ("IRC")

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

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

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

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

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

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

Value Added Tax ("VAT")

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

2.25 Accruals basis

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

2.26 Judgements and estimates

In the preparation of the consolidated financial statements, judgements and estimates were used which affect the reported amounts of assets and liabilities, as well as the reported amounts of revenues and costs during the reporting period. The estimates and assumptions are determined based on the best existing knowledge and on the experience of past and/or current events considering certain assumptions relative to future events. However, situations might occur in subsequent periods which, due to not having been predictable on the date of approval of the financial statements, were not considered in these estimates.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Alterations to estimates which occur after the date of the financial statements will be corrected in a prospective manner. For this reason and in view of the associated degree of uncertainty, the real outcome of the situations in question might differ from their corresponding estimates.

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

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

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

(ii) *Impairment of Goodwill*

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

(iii) *Impairment of accounts receivable*

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

(iv) *Deferred taxes*

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

(v) *Employee benefits*

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

(vi) *Provisions*

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Consolidated Cash Flow Statement

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

2.28 Subsequent events

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

3. CHANGES TO ACCOUNTING POLICIES, ERRORS AND ESTIMATES

The accounting policies were consistently applied to all periods presented.

4. SEGMENT REPORTING

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

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

The business of CTT is organized in the following segments:

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

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

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

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

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

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

(Amounts expressed in Euro)

4. SEGMENT REPORTING (Continued)

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

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

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

With the allocation of all costs, earnings before depreciation, provisions, impairments, financial results and taxes by segment are defined, as at 30 September 2013 and 2012, as follows:

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

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

(Amounts expressed in Euro)

4. SEGMENT REPORTING (Continued)

30.09.2012

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

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

4. SEGMENT REPORTING (Continued)

The revenues are detailed as follows:

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

The assets by segment are detailed as follows:

	30.09.2013						
Assets	Mail	Express & parcels	Financial Services	Business Solutions	Central CTT Struture	Non allocated assets	Total
Intangible assets	2,776,374	3,363,274	257,766	467,689	3,986,212	2,405,406	13,256,720
Tangible fixed assets	172,104,889	12,037,030	945,952	7,069,837	29,034,304	2,149,238	223,341,250
Goodwill		16,592,248	406,101	8,085,520			25,083,869
Deferred tax assets						99,775,247	99,775,247
Account receivable						135,606,279	135,606,279
Other assets						64,218,420	64,218,420
Cash and cash equivalents						610,082,046	610,082,046
Total	**174,881,263**	**31,992,553**	**1,609,819**	**15,623,046**	**33,020,516**	**914,236,636**	**1,171,363,832**

	31.12.2012						
Assets	Mail	Express & parcels	Financial Services	Business Solutions	Central CTT Struture	Non allocated assets	Total
Intangible assets	2,595,221	3,776,569	423,185	944,317	3,835,993	2,779,775	14,355,060
Tangible fixed assets	205,928,961	12,854,831	999,538	7,034,089	31,960,346	298,947	259,076,712
Goodwill		17,096,987	406,101	8,025,520			25,528,608
Deferred tax assets						102,228,537	102,228,537
Account receivable						135,317,556	135,317,556
Other assets						37,370,313	37,370,313
Cash and cash equivalents						489,303,463	489,303,463
Total	**208,524,182**	**33,728,387**	**1,828,824**	**16,003,926**	**35,796,339**	**767,298,591**	**1,063,180,249**

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

4. SEGMENT REPORTING (Continued)

Debt by segment is detailed as follows:

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

	31.12.2012					
Other information	Mail	Express & parcels	Financial Services	Business Solutions	Central CTT Struture	Total
Medium and long term debt	**2,104,100**	**1,784,902**	**—**	**671,700**	**—**	**4,560,702**
Bank loans	—	45,785	—		—	45,785
Leasings	2,104,100	1,739,117	—	671,700	—	4,514,917
Short term debt	**453,145**	**2,989,354**	**—**	**418,990**	**2,995,872**	**6,857,361**
Bank loans	—	2,467,562	—	83,476	2,995,872	5,546,910
Leasings	453,145	521,792	—	335,514	—	1,310,451
Total	**2,557,245**	**4,774,256**	**—**	**1,090,690**	**2,995,872**	**11,418,063**

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

Thousands of Euros	30.09.2013	30.09.2012
Revenue—Portugal	453,198	463,561
Revenue—Other Countries	56,544	56,626
	509,742	520,187

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

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

(Amounts expressed in Euro)

5. TANGIBLE FIXED ASSETS

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

	30.09.2013								
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advance payments to suppliers	Total
Tangible fixed assets									
Opening balance	44,445,963	379,539,356	148,886,925	3,603,033	80,895,249	23,433,801	230,108	150,174	681,184,609
Acquisitions	393,899	1,350,924	1,788,309	4,632	713,966	804,862	1,113,813	—	6,170,404
Disposals	(318,855)	(2,764,864)	(647,746)	—	(26,172)	(1,030)	—	—	(3,758,667)
Transfers and write-offs	(19,708)	(85,363)	(1,723,175)	(8,823)	58,407	(150,860)	(171,994)	(111,684)	(2,213,200)
Adjustments	—	(79)	—	—	(8,913)	(17,687)	—	3,051	(23,628)
Other changes	(7,009,406)	(47,025,552)	—	(5,924)	436	(2,798)	—	—	(54,043,244)
Closing balance	37,491,893	331,014,422	148,304,313	3,592,918	81,632,973	24,066,288	1,171,927	41,541	627,316,274
Accumulated depreciation									
Opening balance	4,200,150	194,808,481	128,603,899	3,243,403	73,670,810	17,581,154	—	—	422,107,897
Depreciation for the period	—	6,812,746	4,160,306	125,481	2,400,957	865,773	—	—	14,365,263
Disposals	(22,121)	(1,609,411)	(647,746)	—	(26,172)	(203)	—	—	(2,305,653)
Transfers and write-offs	—	(2,184)	(1,838,251)	(8,823)	(65,469)	(6,421)	—	—	(1,921,148)
Adjustments	—	—	—	—	—	—	—	—	—
Other changes	(442,980)	(27,818,772)	—	(6,646)	(2,983)	46	—	—	(28,271,335)
Closing balance	3,735,049	172,190,860	130,278,208	3,353,415	75,977,143	18,440,349	—	—	403,975,024
Net Tangible fixed assets	33,756,844	158,823,561	18,026,105	239,503	5,655,830	5,625,939	1,171,927	41,541	223,341,250

	30.09.2012								
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advance payments to suppliers	Total
Tangible fixed assets									
Opening balance	44,611,520	375,183,725	147,698,948	3,558,117	116,129,241	30,216,949	2,089,368	1,885,722	721,373,590
Acquisitions	—	1,634,793	4,207,453	43,444	409,997	982,526	1,090,618	436,001	8,804,832
Disposals	(162,109)	(498,500)	(3,342,933)	—	(308,101)	(3,904)	—	—	(4,315,547)
Transfers and write-offs	—	603,292	1,462,764	—	(35,957,004)	(7,617,182)	(1,441,450)	(2,095,314)	(45,044,894)
Adjustments	(3,449)	(4,011)	—	(44,710)	8,635	(200,148)	—	—	(243,683)
Other changes	—	—	(644)	38,537	(248,184)	(2,359)	—	—	(212,650)
Closing balance	44,445,962	376,919,299	150,025,588	3,595,388	80,034,584	23,375,882	1,738,536	226,409	680,361,648
Accumulated depreciation									
Opening balance	4,200,150	184,602,605	128,326,275	3,028,655	108,528,398	23,440,622	—	—	452,126,705
Depreciation for the period	—	7,321,915	3,894,739	161,871	2,372,973	925,817	—	—	14,677,315
Disposals	—	(149,371)	(3,342,933)	—	(308,101)	(3,904)	—	—	(3,804,309)
Transfers and write-offs	—	—	(146,864)		(37,445,162)	(7,112,166)	—	—	(44,704,192)
Adjustments	—	—	—	—	—	—	—	—	—
Other changes	—	—	(147,104)	1,277	(99,777)	11,026	—	—	(234,578)
Closing balance	4,200,150	191,775,149	128,584,113	3,191,803	73,048,331	17,261,395	—	—	418,060,941
Net Tangible fixed assets	40,245,812	185,144,150	21,441,475	403,585	6,986,253	6,114,487	1,738,536	226,409	262,300,707

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

During the period ended 30 September 2013, the Other changes in tangible fixed assets include the amount of 54,034,958 Euro transferred to investment properties, as well as the respective accumulated depreciation in the amount of 27,759,639 Euro and the accumulated impairment in the amount of 502,113 Euro. These assets are not allocated to the Group's operating activities, nor have a specific future use.

5. TANGIBLE FIXED ASSETS (Continued)

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

During the period ended on 30 September 2013, the most significant movements in Tangible Fixed Assets were the following:

Land and natural resources:

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

The disposals include the sale of the land on Pinhão.

Buildings and other constructions:

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

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

Basic equipment:

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

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

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

Some write-offs were recorded due to the disabling/destruction of several categories of goods, such as postal receptacles and other fixtures, equipment for the internal handling of loads and weighing scales and safety deposit boxes, amounting to 1,723 thousand Euro

Office equipment:

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

Other tangible fixed assets:

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

(Amounts expressed in Euro)

5. TANGIBLE FIXED ASSETS (Continued)

Tangible fixed assets in progress:

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

The depreciation recorded amounting to 14,365,263 Euro (14,677,315 Euro on 30 September 2012), were stated in the heading "Depreciation/amortisation and impairment of investments, net" (Note 38).

Contractual commitments relative to Tangible Fixed Assets are as follows:

(i) *Basic equipment*

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

6. INTANGIBLE ASSETS

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

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

(Amounts expressed in Euro)

6. INTANGIBLE ASSETS (Continued)

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

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

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

The amounts of 209,206 Euro and 233,842 Euro, capitalized in IT software on intangible assets in progress in as at 30 September 2013 and 30 September 2012, respectively, relates to the staff costs incurred in the development of these projects.

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

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

The amortisation, amounting to 3,442,166 Euro (2,790,009 Euro at 30 September 2012) was recorded in the heading "Depreciation / amortisation and impairment of investments, net" (Note 38).

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

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

(Amounts expressed in Euro)

6. INTANGIBLE ASSETS (Continued)

DEVELOPMENT PROJECTS

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

7. INVESTMENT PROPERTIES

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

	30.09.2013		
	Land and natural resources	Buildings and other constructions	Total
Investment properties			
Opening balance	1,334,499	65,653	1,400,152
Transfers/Adjustments	7,009,406	47,025,552	54,034,958
Closing balance	8,343,905	47,091,205	55,435,110
Accumulated depreciation			
Opening balance	—	31,209	31,209
Depreciation for the period	—	682,800	682,800
Transfers/Adjustments	442,980	27,316,659	27,759,639
Closing balance	442,980	28,030,668	28,473,648
Accumulated impairment			
Opening balance	—	—	—
Impairment losses	—	1,031,268	1,031,268
Transfers/Adjustments	—	502,113	502,113
	—	1,533,381	1,533,381
Net Investment properties	7,900,925	17,527,156	25,428,081

	30.09.2012		
	Land and natural resources	Buildings and other constructions	Total
Investment properties			
Opening balance	2,692,616	97,602	2,790,218
Transfers/Adjustments	3,448	(31,949)	(28,501)
Closing balance	2,696,064	65,653	2,761,717
Accumulated depreciation			
Opening balance	—	61,845	61,845
Depreciation for the period	—	985	985
Transfers/Adjustments	—	(31,949)	(31,949)
Closing balance	—	30,881	30,881
Net Investment properties	2,696,064	34,772	2,730,836

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

During the period ended at 30 September 2013, the Transfers / Adjustments in Investment properties include the amount of 54,034,958 Euro transferred from Tangible fixed assets, the respective accumulated depreciation in the amount of 27,759,639 Euro as well as an accumulated impairment loss of 502,113 Euro.

(Amounts expressed in Euro)

7. INVESTMENT PROPERTIES (Continued)

The Group owns a number of properties which show evidence that may be impaired due to the economic crisis in the real estate market, mainly in specific regions where the Group holds some of its investment properties. Therefore it was necessary to determine the recoverable amount of the assets (fair value less costs to sell). The Group conducted a review of the properties' value, performed by an external entity, and concluded in ten of them, there was an impairment loss amounting to 1,031,268 Euro (Note 38) which resulted from the unfavourable market conditions in the geographical areas of the assets.

Depreciation for the period, amounting to 682,800 Euro (985 Euro on 30 September 2012) were recorded in the caption "Depreciation / amortisation and impairment of investments (losses / reversals)" (Note 38).

8. COMPANIES INCLUDED IN THE CONSOLIDATION

Subsidiary companies

As at 30 September 2013 and 31 December 2012, the parent company, CTT—Postal de Portugal, SA and the following subsidiaries in which it holds control were included in the consolidation:

		30.09.2013			31.12.2012		
		Percentage of ownership			Percentage of ownership		
Company name	**Head office**	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
Parent company:							
CTT—Correios de Portugal, S.A.	Rua de S. José, 20 1166-001 Lisbon	—	—	—	—	—	—
Subsidiaries:							
PostContacto—Correio Publicitário, Lda. ("PostContacto")	Rua de S. José, 20 1166-001 Lisbon	95	5	100	95	5	100
CTT Expresso—Serviços Postais e Logística, S.A. ("CTT Expresso")	Lugar do Quintanilho 2664-500 São Julião do Tojal	100	—	100	100	—	100
Payshop Portugal, S.A. ("Payshop")	Av. D. João II lote 01.12,03 1999-001 Lisbon	100	—	100	100	—	100
CTT GEST—Gestão de Serviços e Equipamentos Postais, S.A. ("CTT Gest")	Rua de S. José, 20 1166-001 Lisbon	100	—	100	100	—	100
Mailtec Holding, SGPS, S.A. ("Mailtec SGPS")	Estrada Casal do Canas, Edificio Mailtec, 2720-092 Amadora	100	—	100	100	—	100
Mailtec Comunicação , S.A. ("Mailtec TI")	Estrada Casal do Canas, Edificio Mailtec, 2720-092 Amadora	17.7	82.3	100	17.7	82.3	100
Mailtec Consultoria , S.A. ("Mailtec COM")	Estrada Casal do Canas, Edificio Mailtec, 2720-092 Amadora	10	90	100	10	90	100
Mailtec Processos, Lda. ("EQUIP")	Estrada Casal do Canas, Edificio 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 2950-901Palmela	51	—	51	51	—	51
Correio Expresso de Moçambique, S.A. ("CORRE")	Av. Zedequias Manganhela, 309 Maputo—Mozambique	50	—	50	50	—	50

(Amounts expressed in Euro)

8. COMPANIES INCLUDED IN THE CONSOLIDATION (Continued)

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

Joint ventures

As at 30 September 2013 and 31 December 2012, the Group held the following interests in joint ventures, registered through the equity method:

		30.09.2013			31.12.2012		
		Percentage of ownership			Percentage of ownership		
Company name	Head office	Direct	Indirect	Total	Direct	Indirect	Total
Ti-Post Prestção de Serviços informáticos, ACE ("Ti-Post")	R. do Mar da China, Lote 1.07.2.3 Lisbon	49	—	49	49	—	49
Postal Network—Prestação de Serviços de Gestão de Infra-Estruturas de Comunicações, ACE	Av. Fontes Pereira de Melo, 40 Lisbon	49	—	49	49	—	49
PTP & F, ACE	Estrada Casal do Canas Amadora	—	51	51	—	51	51

Associated companies

As at 30 September 2013 and 31 December 2012, the Group held the following interests in associated companies registered through the equity method:

		30.09.2013			31.12.2012		
		Percentage of ownership			Percentage of ownership		
Company name	Head office	Direct	Indirect	Total	Direct	Indirect	Total
Multicert—Serviços de Certificação Electrónica, S.A. ("Multicert")	R. do Centro Cultural, 2 Lisbon	20	—	20	20	—	20
Payshop Moçambique, S.A.[(a)]	R. da Sé, 114-4°. Maputo—Mozambique	—	35	35	—	35	35
Mafelosa, SL[(b)]	Castellon Spain	—	25	25	—	25	25
Urpacksur, SL[(b)]	Malaga Spain	—	30	30	—	30	30

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

(b) Participation by Tourline Mensajeria S.A.

Changes in the consolidation perimeter

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

(Amounts expressed in Euro)

9. GOODWILL

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

Company	Year of acquisition	30.09.2013	31.12.2012
Mailtec Holding SGPS, S.A. (51%)	2004	582,970	582,970
Mailtec Consultoria, S.A.	2004	4,718	4,718
Mailtec Comunicação, S.A. (51%)	2004	69,767	69,767
Payshop Portugal, S.A.	2004	406,101	406,101
Mailtec Holding SGPS, S.A. (49%)	2005	6,641,901	6,641,901
Tourline Express Mensajería, SLU	2005	16,592,248	16,592,248
Tourline Express Mensajería, SLU (other)	2005	—	444,739
EAD—Empresa de Arquivo de Documentação, S.A.	2006	786,164	786,164
		25,083,869	25,528,608

During the periods ended on 30 September 2013 and 30 September 2012, the movements in Goodwill were as follows:

	30.09.2013	30.09.2012
Opening balance	25,528,608	25,528,608
Transfer / adjustments	(444,739)	—
Impairment	—	—
Closing balance	25,083,869	25,528,608

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

Goodwill impairment assessment

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

In 30 June 2013 and 31 December 2012, CTT Group performed an impairment test, based in the following set of assumptions to determine the recoverable amount of the investments made:

		30.06.2013			
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Perpetuity rate growth
Tourline Express Mensajeria, SLU	CEP and Logistics	Equity Value/DCF	5 years	11.17%	2.0%
EAD—Empresa de Arquivo de Documentação, S.A.	Custody and archive management	Equity Value/DCF	5 years	12.21%	2.0%
Mailtec Group	Documental services	Equity Value/DCF	5 years	12.49%	2.0%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	13.27%	2.0%

		31.12.2012			
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Perpetuity rate growth
Tourline Express Mensajeria, SLU	CEP and Logistics	Equity Value/DCF	5 years	12.14%	2.0%
EAD—Empresa de Arquivo de Documentação, S.A.	Custody and archive management	Equity Value/DCF	5 years	13.18%	2.0%
Mailtec Group	Documental services	Equity Value/DCF	5 years	13.48%	2.0%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	14.32%	2.0%

(Amounts expressed in Euro)

9. GOODWILL (Continued)

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

	30.09.2013				
Company	Year of acquisition	Initial value	Impairment losses for the period	Accumulated impairment losses	Carrying value
Tourline Express Mensajería, SLU	2005	20,671,985	—	4,079,737	16,592,248
EAD—Empresa de Arquivo de Documentação, S.A.	2006	1,082,015	—	295,851	786,164
Payshop Moçambique, S.A.[a]	2008	235,946	—	235,946	—
		21,989,946	—	4,611,534	17,378,412

	30.09.2012				
Company	Year of acquisition	Initial value	Impairment losses for the period	Accumulated impairment losses	Carrying value
Tourline Express Mensajería, SLU	2005	20,671,985	—	4,079,737	16,592,248
EAD—Empresa de Arquivo de Documentação, S.A.	2006	1,082,015	—	295,851	786,164
Payshop Moçambique, S.A.[a]	2008	235,946	—	235,946	—
		21,989,946	—	4,611,534	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 assumptions: (i) perpetuity growth rate and (ii) discount rates.

The results of the sensitivity analyses for Tourline, PayShop, EAD and Mailtec Group do not indicate impairment.

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

Variation of perpetuity growth

Tourline	−0.5%	0.0%	0.5%
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	27,033,771	28,173,372	29,444,429
Test: impairment (if negative)	6,409,366	7,548,968	8,820,024

Mailtec	−0.5%	0.0%	0.5%
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	12,534,696	12,923,766	13,351,790
Test: impairment (if negative)	−101,452	287,618	715,642

EAD	−0.5%	0.0%	0.5%
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	8,609,929	9,029,552	9,492,389
Test: impairment (if negative)	2,041,019	2,255,027	2,491,073

(Amounts expressed in Euro)

9. GOODWILL (Continued)

Payshop	−0.5%	0.0%	0.5%
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	51,632,517	52,994,358	54,482,704
Test: impairment (if negative)	46,484,320	47,846,161	49,334,508

Variation of sovereign risk

Tourline	−1%	0%	1%
WACC	10.23%	11.17%	12.11%
Equity Assessment	32,439,802	28,173,372	24,696,048
Test: impairment (if negative)	11,815,398	7,548,968	4,071,644

Mailtec	−1%	0%	1%
WACC	11.49%	12.49%	13.49%
Equity Assessment	14,172,063	12,923,766	11,894,549
Test: impairment (if negative)	1,535,915	287,618	−741,599

EAD	−1%	0%	1%
WACC	11.29%	12.21%	13.13%
Equity Assessment	10,320,137	9,029,552	7,957,173
Test: impairment (if negative)	2,913,225	2,255,027	1,708,113

Payshop	−1%	0%	1%
WACC	12.27%	13.27%	14.27%
Equity Assessment	57,507,236	52,994,358	49,216,238
Test: impairment (if negative)	52,359,039	47,846,161	44,068,042

10. INVESTMENTS IN ASSOCIATED COMPANIES

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

	30.09.2013	31.12.2012
Multicert, S.A.	710,242	689,734
Urpacksur, SL	481	481
	710,723	690,215

Investments in associated companies

For the periods ended on 30 September 2013 and 30 September 2012, the investments in associated companies had the following movement:

	30.09.2013								
	Head office	Assets	Liabilities	Equity	Net profit	% held	Investments	Provisions	Proportion of net profit
Associated companies:									
Multicert—Serviços de Certificação Electrónica, S.A.[(a)]	Lisbon	4,832,986	1,281,774	3,551,213	758,251	20%	710,242	—	151,650
Payshop Moçambique, S.A.[(b)]	Maputo—Mozambique	271,930	953,017	(722,374)	n.d.	35%	—	220,816	n.d.
Mafelosa, SL[(c)(d)]	Castellon—Spain	n.d.	n.d.	(433,494)	n.d.	25%	—	—	n.d.
Urpacksur[(c)(d)]	Spain	n.d.	n.d.	1,603	n.d.	30%	481	—	n.d.
							710,723	220,816	151,650

(Amounts expressed in Euro)

10. INVESTMENTS IN ASSOCIATED COMPANIES (Continued)

	Head office	30.09.2012							
		Assets	Liabilities	Equity	Net profit	% held	Investments	Provisions	Proportion of net profit
Associated companies:									
Multicert—Serviços de Certificação Electrónica, S.A.[e]	Lisbon	n.d.	n.d.	3,841,894	1,080,176	20%	768,379	—	216,035
Payshop Moçambique, S.A.[b]	Maputo—Mozambique	n.d.	n.d.	(681,086)	n.d.	35%	—	220,816	n.d.
Mafelosa, SL[c](d)	Castellon—Spain	n.d.	n.d.	n.d.	n.d.	25%	—	—	n.d.
Urpacksur[c](d)	Spain	n.d.	n.d.	1,924	n.d.	30%	481	—	n.d.
							768,860	220,816	216,035

(a) Data reported on December 2012

(b) Participation by Payshop Portugal

(c) Participation by Tourline Express Mensajeria

(d) Companies without activity

(e) Provisional data

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

11. OTHER INVESTMENTS

The other investments assets include non-listed capital instruments whose fair value cannot be reliably measured. The amounts of these instruments recognised at cost at 30 September 2013 and 31 December 2012 were as follows:

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

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

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

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

12. FINANCIAL RISK MANAGEMENT

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

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

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

(Amounts expressed in Euro)

12. FINANCIAL RISK MANAGEMENT (Continued)

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

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

Credit risk

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

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

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

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

The movement of impairment losses of accounts receivable is disclosed in Notes 19 and 37. As at 30 September 2013, the Group believes that impairment losses in accounts receivable are adequately estimated and recorded in the consolidated financial statements.

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

As at 30 September 2013 and 31 December 2012, the heading "Cash and cash equivalents" included cash term deposits investments amounted to 463,980,000 Euro and 444,947,000 Euro, respectively (Note 17).

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

	30.09.2013	31.12.2012
Other non-current assets	1,850,300	2,018,619
Accounts receivable	135,606,279	135,317,556
Other current assets	17,333,037	16,222,215
Cash and cash equivalents	524,124,124	477,164,527
	678,913,740	630,722,917

12. FINANCIAL RISK MANAGEMENT (Continued)

Interest rate risk

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

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

The investment of surplus liquidity, on 30 September 2013 and 30 September 2012, generated interest income of 6,643,560 Euro and 9,390,949 Euro, respectively (Note 40).

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

If the interest rates had been lower by 1%, during the period ended on 30 September 2013, the earnings before taxes would have been lower by 2,970 thousand Euro (31 December 2012: lower by 3,852 thousand Euro).

Foreign currency exchange rate risk

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

The management of foreign exchange risk relies on the periodic monitoring of the degree of exposure to the exchange rate risk of assets and liabilities, with the reference of previously defined objectives based on the evolution of the international business activities. As at 30 September 2013 and 30 September 2012, the net exposure (assets minus liabilities) of the Group amounted to negative 47,236 SDR (53,658 Euro at the exchange rate €/SDR 1.13594), 1,857,295 SDR (2,215,233 Euro at the exchange rate €/SDR 1.19272), respectively.

Based in the sensitivity analysis performed for the balances of accounts receivable and payable to foreign Postal Operators, on 30 September 2013 and 30 September 2012, assuming an increase / decrease in the exchange rate € / SDR of 10%, the earnings before taxes would have been lower by 5,366 Euro and higher by 221,532 Euro, respectively.

Liquidity risk

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

The principal contractual obligations of the Group are related to the funding received (essentially financial leases) and respective interest, the employees' benefits, the operating leases and other non-contingent financial commitments. The following table detailed the expected contractual obligations and financial

(Amounts expressed in Euro)

12. FINANCIAL RISK MANAGEMENT (Continued)

commitments as at 30 September 2013 and 31 December 2012 do not reconcile with consolidated balance sheet:

	30.09.2013			
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	2,918,834	3,769,377	—	6,688,211
Accounts payable	448,097,747	—	—	448,097,747
Other current liabilities	9,673,811	—	—	9,673,811
Non-financial liabilities				
Operating leases	7,689,704	4,647,741	—	12,337,445
Non-contingent financial commitments(1)	866,158	—	—	866,158
	469,246,254	8,417,118	—	477,663,372

	31.12.2012			
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	6,898,820	4,625,694	—	11,524,514
Accounts payable	343,598,366	—	—	343,598,366
Other current liabilities	10,220,456	—	—	10,220,456
Non-financial liabilities				
Operating leases	9,100,531	8,509,807	—	17,610,338
Non-contingent financial commitments(1)	166,026	—	—	166,026
	369,984,199	13,135,501	—	383,119,700

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

Capital risk

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

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

The balance of capital structure is monitoring on the basis of the adjusted solvency ratio, calculated as: Equity / (Liabilities, less amounts of third parties in Cash and cash equivalents).

(Amounts expressed in Euro)

12. FINANCIAL RISK MANAGEMENT (Continued)

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

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

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

13. INVENTORIES

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

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

Cost of sales

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

	30.09.2013		
	Merchandise	Raw, materials and consumable	Total
Opening balance	5,687,910	3,583,586	9,271,496
Purchases	8,044,681	3617888	11,662,569
Offers	(20,172)	(11,133)	(31,305)
Adjustments	(293,904)	11,071	(282,833)
Closing balance	(4,999,611)	(4,165,653)	(9,165,264)
Cost of sales	8,418,904	3,035,759	11,454,663

	30.09.2012		
	Merchandise	Raw, materials and consumable	Total
Opening balance	7,148,328	3,966,757	11,115,085
Purchases	9,545,845	2,772,074	12,317,919
Offers	(25,184)	(12,859)	(38,043)
Adjustments	(606)	(48,321)	(48,927)
Closing balance	(6,233,756)	(3,886,577)	(10,120,333)
Cost of sales	10,434,627	2,791,073	13,225,700

(Amounts expressed in Euro)

13. INVENTORIES (Continued)

Impairment

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

	30.09.2013				
	Opening balance	Increases	Reversals	Utilization	Closing balance
Merchandise	1,903,511	189,254	(78,487)		2,014,278
Raw, subsidiary and consumable	715,248	49,940	(14,004)	(44,100)	707,084
	2,618,759	239,194	(92,491)	(44,100)	2,721,362

	30.09.2012				
	Opening balance	Increases	Reversals	Utilization	Closing balance
Merchandise	3,275,093	—	—	—	3,275,093
Raw, subsidiary and consumable	1,616,011	12,822	—	(93,388)	1,535,445
	4,891,104	12,822	—	(93,388)	4,810,538

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

14. ACCOUNTS RECEIVABLE

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

	30.09.2013	31.12.2012
Customers	135,606,087	135,317,364
Associated companies	192	192
	135,606,279	135,317,556

Customers

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

	30.09.2013			31.12.2012		
	Gross amount	Accumulated impairment	Carrying amount	Gross amount	Accumulated impairment	Carrying amount
Current						
Not due	72,142,138	7,778	72,134,360	57,237,067	491	57,236,576
Past due:	—	—				
0 - 30 days	7,026,572	1,842	7,024,730	23,368,767	9,030	23,359,737
30 - 90 days	13,986,143	14,690	13,971,453	14,407,624	5,692	14,401,932
90 - 180 days	8,830,807	2,284	8,828,523	4,680,277	26,451	4,653,826
180 - 360 days	9,611,901	550,032	9,061,869	9,718,075	1,660,503	8,057,572
> 360 days	46,857,883	22,272,731	24,585,152	48,218,580	20,610,859	27,607,721
	158,455,444	22,849,357	135,606,087	157,630,390	22,313,026	135,317,364

(Amounts expressed in Euro)

14. ACCOUNTS RECEIVABLE (Continued)

The gross amount of accounts receivable overdue over 360 days was as follows:

	30.09.2013	31.12.2012
National accounts receivable	1,655,760	2,954,905
Foreign operators	22,929,392	24,652,816
Total	24,585,152	27,607,721
Foreign operators—payable	(23,440,170)	(26,270,998)

The caption of Foreign Operators relates to receivables associated with the distribution of postal traffic in Portugal with origin in other countries. These operations fall within the scope of the regulation of Universal Postal Union (UPU), that establish the closing of the accounts on an annual basis which therefore is only made after year end and originated the significant amount of overdue of more than 360 days with these customers.

Regarding UPU regulation, the accounts between Foreign Operators are cleared by netting accounts. The credit risk is mitigated by the accounts payable balances related to these entities (Note 28).

The balance of national customers includes receivables of public entities and other clients that are also suppliers which will be netted with accounts payables balances and customers with debt payment plans.

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

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

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

Customer's impairment

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

	30.09.2013					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Customers	22,313,026	1,629,092	(283,935)	(808,826)	—	22,849,357
	22,313,026	1,629,092	(283,935)	(808,826)	—	22,849,357

	30.09.2012					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Customers	21,268,700	509,812	(393,698)	(568,019)	460,104	21,276,899
	21,268,700	509,812	(393,698)	(568,019)	460,104	21,276,899

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

(Amounts expressed in Euro)

15. DEFERRALS

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

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

In prior years the Company sold certain properties, which were subsequently leased by CTT. The gains on the sales were deferred and are being recognised over the period of the lease contracts.

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

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

As at 30 September 2013 and 31 December 2012, the Group did not have non-current assets classified as held for sale, nor were there operations classified as discontinued operations.

(Amounts expressed in Euro)

17. CASH AND CASH EQUIVALENTS

As at 30 September 2013, 31 December 2012 and 30 September 2012, cash and cash equivalents correspond to the value of cash, sight deposits, time deposits and cash investments on the monetary market, net of bank overdrafts, and is detailed as follows:

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

18. OTHER NON-CURRENT AND CURRENT ASSETS

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

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

The account receivable from the Ministry of Health relates to the State's contribution to health care costs for the years of 2000 to 2006, under the CTT health plan, which ceased on 31 December 2006. The debt is recorded at amortised cost and classified based on schedule payment.

The amounts recorded in the heading "Postal financial services" refer to receivables from subscription of saving products and the marketing of insurance.

(Amounts expressed in Euro)

18. OTHER NON-CURRENT AND CURRENT ASSETS (Continued)

Debtors by accrued revenues

As at 30 September 2013 and 31 December 2012, the debtors by accrued revenues refer to accrued interest, philatelic products, philatelic agents and other values not invoiced.

Impairment

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

	30.09.2013				
	Opening balance	Increases	Reversals	Reduction	Closing balance
Other accounts receivable	10,048,037	751,366	(267,799)	(14,544)	10,517,060
INESC loan	1,505,383	—	(45,595)	—	1,459,788
	11,553,420	751,366	(313,394)	(14,544)	11,976,848

	30.09.2012				
	Opening balance	Increases	Reversals	Reduction	Closing balance
Other accounts receivable	9,640,020	1,386,891	(1,411,022)	(10,363)	9,605,526
INESC loan	1,546,833	—	(33,160)	—	1,513,673
	11,186,853	1,386,891	(1,444,182)	(10,363)	11,119,199

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

(Amounts expressed in Euro)

19. ACCUMULATED IMPAIRMENT LOSSES

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

	30.09.2013					
	Opening balance	Increases	Reversals	Utilization	Transfers	Closing balance
Other non-current assets (Note 18)						
Other accounts receivable	1,123,171	166,179	—	—	—	1,289,350
INESC loan	1,455,643	—	(45,595)	—	—	1,410,048
	2,578,814	166,179	(45,595)	—	—	2,699,398
Other current assets (Notes 14 and 18)						
Customers	22,313,026	1,629,092	(283,935)	(808,826)	—	22,849,357
Other accounts receivable	8,924,866	585,187	(267,799)	(14,544)	—	9,227,710
INESC loan	49,740	—	—	—	—	49,740
	31,287,632	2,214,279	(551,734)	(823,370)	—	32,126,807
Inventories (Note 13)						
Merchandise	1,903,511	189,254	(78,487)	—	—	2,014,278
Raw, subsidiary and consumable materials	715,248	49,940	(14,004)	(44,100)	—	707,084
	2,618,759	239,194	(92,491)	(44,100)	—	2,721,362
	36,485,205	2,619,652	(689,820)	(867,470)	—	37,547,567

	30.09.2012					
	Opening balance	Increases	Reversals	Utilization	Transfers	Closing balance
Other non-current assets (Note 18)						
Other accounts receivable	1,166,208	—	(235,138)	—	—	931,070
INESC loan	1,497,093	—	(29,015)	—	—	1,468,078
	2,663,301	—	(264,153)	—	—	2,399,148
Other current assets (Notes 14 and 18)						
Customers	21,268,700	509,812	(393,698)	(568,019)	460,104	21,276,898
Other accounts receivable	8,473,812	1,386,891	(1,175,885)	(10,362)	—	8,674,456
INESC loan	49,740	—	(4,145)	—	—	45,595
	29,792,252	1,896,703	(1,573,728)	(578,381)	460,104	29,996,949
Inventories (Note 13)						
Merchandise	3,275,093	—	—	—	—	3,275,093
Raw, subsidiary and consumable	1,616,011	12,822	—	(93,388)	—	1,535,445
	4,891,104	12,822	—	(93,388)	—	4,810,538
	37,346,657	1,909,525	(1,837,881)	(671,769)	460,104	37,206,635

(Amounts expressed in Euro)

20. EQUITY

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

On 31 December 2012 the capital was totally owned by the Portuguese State, however it was determined by the order n. ° 2468/12 of 28 December SETF to transfer to Parpública the investment. This transfer was concluded on 31 January 2013, therefore from this date Parpública become the sole shareholder.

21. RESERVES, OTHER CHANGES IN EQUITY AND RETAINED EARNINGS

Reserves

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

	30.09.2013	31.12.2012
Reserves	18,072,559	18,072,559
Other reserves	—	10,555,949
	18,072,559	28,628,508

Legal reserves

The commercial legislation establishes that at least 5% of the annual net profit must be allocated to reinforce the legal reserve, until it represents at least 20% of the share capital. This reserve is not distributable except in the event of the liquidation of the Company, but may be used to absorb losses after the other reserves have been depleted, or incorporated in the share capital.

Other reserves

This heading records the profits transferred to reserves that are not imposed by the law or statutes, nor constituted pursuant to contracts signed by the Company.

In 2013, the amount of 10,555,949 Euro was used for the payment of an extraordinary dividend (Note 22).

Retained earnings

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

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

Other changes in equity

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

(Amounts expressed in Euro)

21. RESERVES, OTHER CHANGES IN EQUITY AND RETAINED EARNINGS (Continued)

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

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

22. DIVIDENDS

At the General Assembly held on 30 May 2013, the Board approved the distribution of a dividend of about 2,20 Euro per share relative to 31 December 2012 and a total dividend of 38,554,129 Euro was paid, which was subject to a withholding tax of 25% in June 2013. It was also decided to pay an extraordinary dividend in the amount of 11,445,871 Euro (0.65 Euro per share), which was also subject to withholding tax of 25% in June 2013.

For the extraordinary payment "Other reserves" were used in the amount of 10,555,949 Euro and "Retained earnings" in the amount of 889,922 Euro.

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

23. EARNINGS PER SHARE

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

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

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

There are no dilutive factors of earnings per share.

24. NON-CONTROLLING INTERESTS

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

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

(Amounts expressed in Euro)

24. NON-CONTROLLING INTERESTS (Continued)

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

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

25. DEBT

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

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

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

Bank loans and other loans

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

	30.09.2013			31.12.2012		
		Amount used			Amount used	
Financing entity	Limit	Current	Non-current	Limit	Current	Non-current
Bank loans:						
Millennium BCP (Portugal)	5,000,000	1,543,035	—	—	—	—
Banco Sabadell (Spain)	—	—	—	300,000	231,292	—
BBVA (Spain)	—	—	—	450,000	182,888	—
Millennium BCP (Spain)	—	—	—	5,000,000	1,997,353	—
BIM—(Mozambique)	218,270	—	—	218,270	56,029	45,785
Other loans:						
Millennium BCP	5,000,000	9,619	—	5,000,000	2,995,873	—
Millennium BCP	250,000	—	—	250,000	83,475	—
	10,668,270	1,552,654	—	11,218,270	5,546,910	45,785

The funding received from Spanish banks is intended to finance the operating activity of the Tourline subsidiary, subject to Eonia interest rate.

(Amounts expressed in Euro)

25. DEBT (Continued)

Leasings

As at 30 September 2013 and 31 December 2012, the Group has the following assets under finance lease:

	30.09.2013			31.12.2012		
	Gross amount	Depreciation/ accumulated impairment losses	Carrying amount	Gross amount	Depreciation/ accumulated impairment losses	Carrying amount
Land	9,651,895	815,990	8,835,905	9,651,895	815,990	8,835,905
Buildings and other constructions	5,641,686	1,436,054	4,205,632	5,641,685	1,326,333	4,315,352
Basic equipment	1,287,126	683,119	604,007	1,914,855	1,193,080	721,775
Transport equipment	87,790	80,300	7,490	187,306	170,238	17,068
	16,668,497	3,015,463	13,653,034	17,395,741	3,505,641	13,890,100

The key contracts are the following:

CTT, S.A. is the lessee, under a leasing contract signed with IMOLEASING—Sociedade de locação financeira imobiliária, S.A., of a property in the municipality of Maia (Porto) where the new Mail Operating Centre is located. The type of lease contract determines its classification as a lease, namely by the fact there is an option to buy it for a residual value of approximately 6% of the contract, value considered significantly lower than the estimated market value at the end of the contract. There are no contingent rents payable nor any restrictions.

The subsidiary EAD is the lessee of:

(i) Contracts for the acquisition of two properties located in the Autonomous Region of Madeira and a property located in Vilar do Pinheiro;

(ii) Contracts for the acquisition of metal shelves for stowing client's archives;

(iii) Contracts for the acquisition of vehicles for use in operating activity.

The subsidiary CTT Expresso is the lessee of a property located in Perafita (Matosinhos) where is located the Operating Centre of the Northern Region, which includes an option to buy the asset at the end of the contract for a residual value considered significantly lower than the estimated market value at the end of the contract.

The monthly rents are calculated based on the initial contract value, and it is possible to exercise the call option by paying a residual value.

There are no other restrictions in the contracts that have been signed.

As at 30 September 2013 and 31 December 2012, Group's liabilities with financial lease contracts presented the following plan of due dates:

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

In the period ended on 30 September 2013 and the year ended 31 December 2012, the values paid in relation to leasing interest amounted to 48,674 Euro and 106,193 Euro, respectively.

(Amounts expressed in Euro)

26. EMPLOYEE BENEFITS

Liabilities related to employee benefits refer to (i) post-employment benefits—health care and (ii) other benefits for employees. During the periods ended on 30 September 2013 and 30 September 2012, these liabilities presented the following movement:

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

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

The heading "Other long term benefits" liabilities essentially refer to the on-going staff reduction programme.

The details of liabilities related to employee benefits, considering their chargeability, are as follows:

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

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

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

Health care

As mentioned in Note 2.18, CTT is responsible for financing the health care plan applicable to certain employees. In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is made by an independent entity every year, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable.

As at 30 September 2013, the Company requested an actuarial study to an independent entity to assess the liabilities at the reporting date.

(Amounts expressed in Euro)

26. EMPLOYEE BENEFITS (Continued)

The main assumptions followed in the actuarial assessment were:

	30.09.2013	31.12.2012	31.12.2011
Financial assumptions			
Discount rate	4.00%	4.00%	5.00%
Salaries expected growth rate	0% in 2013 and 2014 2.75% from that date	0% in 2013 and 2014 2.75% from that date	2.75%
Pensions growth rate	Law no. 53-B/2006 (with △ GDP < 2%)	Law no. 53-B/2006 (with △ GDP < 2%)	Law no. 53-B/2006
Inflation rate	2.00%	2.00%	2.00%
Health costs growth rate			
—Inflation rate	2.00%	2.00%	2.00%
—Growth due to ageing	0% in 2013 and 2014 2% from that date	0% in 2013 and 2014 2% from that date	3.00%
Demographic assumptions			
Mortality table	TV 88/90	TV 88/90	TV 88/90
Disability table	Swiss RE	Swiss RE	Swiss RE

The discount rate is estimated based on interest rates of private debt bonds with high credit rating ("AA" or equivalent) at the date of the balance sheet and with a duration equivalent to that of the liabilities with health care.

The maintenance of the discount rate to 4.00% was motivated by the Group's analysis of the evolution of the macroeconomic context taking into account a constant need to match the actuarial and financial assumptions to that reality.

The salaries expected growth rate is determined according to the salary policy defined by the Group.

The pensions expected growth rate is determined considering the estimated evolution of inflation and GDP growth rate.

The health care costs growth rate reflects the best estimate for the future evolution of these costs, considering the history of the plan's data.

The demographic assumptions are based on the mortality and disability tables considered appropriate for the actuarial assessment of this plan.

The evolution of the present value of the liabilities related to the health care plan has been as follows:

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

(Amounts expressed in Euro)

26. EMPLOYEE BENEFITS (Continued)

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

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

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

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

The actuarial gains / (losses) amounting to 5,579,230 Euro (1,093,380 Euro as at 30 September 2012) were recognised in the equity under the caption "Retained earnings", net of deferred taxes amounting to 1,616,977 Euro (317,080 Euro as at 30 September 2012).

The sensitivity analysis performed for the health care plan leads to the following conclusions:

(i) If there was an increase of 1 per cent in the growth rate of medical costs, keeping all the remaining variables constant, the liabilities of the health care plan would be 302,203 thousand Euro, increasing by approximately 17%.

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

Other long term benefits

As mentioned in Note 2.18, in certain situations, the Group has liabilities related to the payment of salaries in situations of "Suspension of contracts, redeployment and release of employment", the allocation of subsidies of "Support for termination of professional activity", which will be eliminated as of 1 April 2013, the payment of the "Telephone subscription fee", "Pensions for work accidents", and "Monthly life annuity". In order to obtain the estimate of the value of these liabilities and the costs to be recognised for each period, every year, an actuarial study is made by an independent entity, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable.

As at 30 September 2013, the Company requested an actuarial study to an independent entity to assess the liabilities at the reporting date.

(Amounts expressed in Euro)

26. EMPLOYEE BENEFITS (Continued)

The main assumptions followed in the assessment of these liabilities were:

	30.09.2013	31.12.2012	31.12.2011
Financial assumptions			
Discount rate	4.00%	4.00%	5.00%
Salaries growth rate	0% in 2013 and 2014; 2.75% from that date	0% in 2013 and 2014; 2.75% from that date	2.75%
Pensions growth rate	Law no. 53-B/2006 (with △ GDP < 2%)	Law no. 53-B/2006 (with △ GDP < 2%)	Law no. 53-B/2006
Inflation rate	2.00%	2.00%	2.00%
Demographic assumptions			
Mortality table	TV 88/90	TV 88/90	TV 88/90
Disability rate	Swiss RE	Swiss RE	Swiss RE

For the determination of the Group's liabilities to employees in situations of "Suspension of contracts, redeployment and release of employment", salary growth rates of 0% were considered for 2013 and 2014, and 2.75% for the following years. The salary growth rate of 2.75% was applied to the remaining employee benefits, except for the "Telephone subscription fee" for which no value update was considered.

(Amounts expressed in Euro)

26. EMPLOYEE BENEFITS (Continued)

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

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

(Amounts expressed in Euro)

26. EMPLOYEE BENEFITS (Continued)

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

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

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

In 2012, as a result of the Company's decision to discontinue, as of 1 April 2013, the benefit referred to as "Support for cessation of professional activity" that had been granted to employees when they reach the end of its active life, the responsibilities associated to that benefit decreased, 6,563 thousand Euro.

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

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

	30.09.2013				
	Opening balance	Increases	Reversals	Reduction/ Transfers	Closing balance
Non-current provisions					
Litigations	9,268,429	2,676,930	(2,350,865)	1,461,269	11,055,763
Investments in associated companies	220,816	—	—	—	220,816
Onerous contracts	13,212,379	525,870	—	(1,809,753)	11,928,496
Other provisions	13,894,565	3,962,967	(61,327)	(2,561,097)	15,235,108
	36,596,189	7,165,767	(2,412,192)	(2,909,581)	38,440,183

	30.09.2012				
	Opening balance	Increases	Reversals	Reduction/ Transfers	Closing balance
Non-current provisions					
Litigations	8,504,958	943,774	—	—	9,448,732
Investments in associated companies	222,205	—	—	(297)	221,908
Onerous contracts	5,480,419	—	—	—	5,480,419
Other provisions	2,268,160	11,355,608	(3,840)	(515,768)	13,104,160
	16,475,742	12,299,382	(3,840)	(516,065)	28,255,219

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..

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

The provisions for litigations are due to the liabilities raised from lawsuits brought against the Group and are estimated based on information from its lawyers.

In 30 September 2013 the Group increased the "Other provisions" in 3,9 million Euro, to cover any contingencies relating to employment litigation actions not included in the current court proceedings, and related to differences in the basis of calculating holidays, holiday pay and Christmas bonus required by workers.

During the period ended 30 September 2013 the provision to cover the estimated of the net present value of the expenditure associated with onerous contracts was increased by 525,870 Euro. This value was obtained from the update of the parameters used in the 31 December 2012 and taking into consideration the following:

- Following the move to the Edifício Báltico, CTT released a set of 4 properties with long-term binding lease contracts vacant without operating occupancy;
- The property located in Praça D. Luís was negotiated between the owner and CTT for the early termination of the lease contract, and CTT agreed to pay 50% of the discounted lease payments;
- A provision was created in 2011 for the 3 leased vacant properties with the assumption that CTT could terminate the leases under conditions similar to those negotiated for the property located in Praça. D. Luís; and
- In 2012, due to unexpected unfavourable market conditions, CTT had to review the previous expectations on lease contracts termination timing and conditions.

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

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

- the amount of 263,791 Euro for coverage of costs of dismantlement of tangible fixed assets and/or removal of facilities and restoration of the location; and
- the amount of 1,390,000 Euro, which arises from the assessment made by the management regarding the possibility of the enforcement of tax contingencies.

The net amount between increases and reversals of provisions was recorded in the Consolidated income statement under the headings "Provisions, net" and amounted to 4,753,575 Euro and 12,295,540 Euro as at 30 September 2013 and 2012, respectively.

(Amounts expressed in Euro)

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Guarantees provided

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

Description	30.09.2013	31.12.2012
Courts	982,523	1,030,991
Lisboagás, S.A.	190,000	190,000
Municipal Councils	140,424	140,423
Authority for Working Conditions (ACT)	45,733	146,210
Sofinsa	91,618	91,618
Solred	80,000	80,000
Parc Logistics Zona Franca	77,969	77,969
Porto Customs	74,820	74,820
General Secretariat of MAI	48,000	48,000
National Road Safety Authority	—	43,223
PT PRO—Serv. Adm Gestão Part., S.A.	50,000	50,000
Regional Office of Administrative Litigation Lisbon	49,880	49,880
Record Rent a Car (Cataluña, Levante)	40,000	40,000
Setgás, S.A.	30,000	30,000
Ana Aeroportos de Portugal, E.P.	29,000	29,000
Santa Casa da Misericórdia de Lisboa	86,917	86,917
TIP—Transportes Intermodais do Porto, ACE	50,000	50,000
Ministry of Education	38,700	38,700
EPAL—Empresa Portuguesa de Águas Livres	21,433	21,433
Nature Import	18,096	18,096
Albert Vilella	16,800	16,800
Portugal Telecom, S.A.	16,657	16,657
Services of the Ministry Health	16,091	—
General Secretariat of the Ministry of Internal Affairs	14,000	14,000
Petrogal, S.A.	10,774	10,774
Alquiler Nave Tarragona	7,155	7,155
TNT Express WorldWide	6,010	6,010
SMAS Torres Vedras	4,001	4,002
Infarmed IP	8,223	8,223
Institute of employment and professional training	3,718	3,718
Controlplan, S.L	3,400	3,400
Government of Extremadura	—	1,335
Immobiliaria Ederkin	7,800	7,800
Motorway Infrastructures Institute	3,725	3,725
Estradas de Portugal, EP	5,000	5,000
ARM—Águas e Resíduos da Madeira , S.A.	4,752	—
REN Serviços, S.A.	9,818	9,818
EMEL, S.A	19,384	19,384
IFADAP	1,746	1,746
Martinez Estevez	3,000	3,000
Jose Luis Sanz Gomez	—	5,400
Gexploma	3,000	3,000
Consejeria Salud	2,318	6,433
Universidad Sevilha	4,237	4,237
Fonavi, Nave Hospitalet	40,477	—
Other entities	14,712	4,597
	2,371,911	2,503,494

(Amounts expressed in Euro)

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Guarantees for Contracts

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

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

Contingent liabilities

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

Commitments

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

28. ACCOUNTS PAYABLE

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

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

CNP money orders

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

Postal financial services

The increase in this heading arises, mainly, from values collected related to taxes, insurances, savings certificates and other money orders.

(Amounts expressed in Euro)

28. ACCOUNTS PAYABLE (Continued)

Suppliers, fixed assets suppliers

As at 30 September 2013 and 31 December 2012, the ageing of the balance of the headings "Suppliers, current c/a" and "fixed assets suppliers" is detailed as follows:

	30.09.2013	31.12.2012
Suppliers c/a		
Not due	16,220,178	27,128,387
0 - 30 days	7,553,750	3,585,391
30 - 90 days	2,412,096	5,918,453
90 - 180 days	3,627,723	2,959,006
180 - 360 days	5,812,362	7,591,006
> 360 days	23,487,041	28,540,358
	59,113,150	75,722,601

	30.09.2013	31.12.2012
Fixed assets suppliers		
Not due	817,070	1,555,840
0 - 30 days	4,176	277,472
30 - 90 days	42,710	177,096
90 - 180 days	1,619	8,240
180 - 360 days	12,425	129,148
> 360 days	70,060	72,735
	948,060	2,220,531

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

	30.09.2013	31.12.2012
National account payable	46,871	2,269,360
Foreign operators	23,440,170	26,270,998
Total	23,487,041	28,540,358
Foreign operators—receivables	(22,929,392)	(24,652,816)

The balances between Foreign Operators are cleared by netting accounts. These amounts are related to the accounts receivable balances related to these entities (Note 14).

29. INCOME TAXES PAYABLE

As at 30 September 2013 and 31 December 2012 the heading "Income taxes payable" showed the following composition:

	30.09.2013	31.12.2012
Current liabilities		
Corporate income tax	2,666,850	862,444
	2,666,850	862,444

(Amounts expressed in Euro)

30. OTHER CURRENT LIABILITIES

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

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

31. FINANCIAL ASSETS AND LIABILITIES

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

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

(Amounts expressed in Euro)

31. FINANCIAL ASSETS AND LIABILITIES (Continued)

	31.12.2012				
	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/liabilities	Total
Assets					
Available-for-sale financial assets	—	130,829	—	—	130,829
Other non-current assets	2,018,619	—	—	—	2,018,619
Accounts receivable	135,317,556	—	—	—	135,317,556
Other current assets	16,222,215			4,633,917	20,856,132
Cash and cash equivalents	489,303,463	—	—	—	489,303,463
Total Assets	**642,861,853**	**130,829**	**—**	**4,633,917**	**647,626,599**
Liabilities					
Medium and long term debt	—	—	4,560,702	—	4,560,702
Accounts payable	—	—	343,598,366	5,616,793	349,215,159
Short term debt	—	—	6,857,361	—	6,857,361
Other current liabilities	—	—	13,509,315	53,349,742	66,859,057
Total Liabilities	**—**	**—**	**368,525,744**	**58,966,535**	**427,492,279**

The Group believes that the fair value of its financial assets and liabilities is similar to its book value.

32. SUBSIDIES OBTAINED

As at the period ended on 30 September 2013 and the year ended at 31 December 2012, the information regarding European Union subsidies or grants (Note 2.21) was as follows:

	30.09.2013					31.12.2012				
Subsidy	Attributed value	Value received	Value to be received	Accumulated income	Value to be used	Attributed value	Value received	Value to be received	Accumulated income	Value to be used
Feder	9,815,622	9,662,306	153,316	9,436,773	378,849	9,815,622	9,662,306	153,316	9,431,523	384,099
	9,815,622	9,662,306	153,316	9,436,773	378,849	9,815,622	9,662,306	153,316	9,431,523	384,099

The values received are recognised in the Consolidated income statement, in the heading “Other operating income”, as the corresponding assets are amortised.

(Amounts expressed in Euro)

33. OTHER OPERATING INCOME

For the periods ended on 30 September 2013 and 30 September 2012, the composition of the heading "Other operating income" was as follows:

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

34. EXTERNAL SUPPLIES AND SERVICES

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

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

(i) "Specialised services" refer in particular to the outsourcing contracts for the provision of IT services and the maintenance of IT equipment.

(ii) "Transportation of goods" refers to costs with the transportation of mail in several ways (sea, air, surface).

(iii) "Rents" refer to costs with leased facilities from third-parties and the operating lease of vehicles.

(iv) "Postal operators" refer to costs with similar postal operators.

(v) "Energy and liquids" refers mainly to diesel for goods vehicles used in the operating process.

(Amounts expressed in Euro)

35. OPERATING LEASES

As at the periods ended on 30 September 2013 and 30 September 2012, the Group maintained medium and long term liabilities in operating lease contracts of vehicles, with penalty clauses in the case of cancellation.

The total amount of the future payments relative to operating leases is as follows:

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

During the periods ended on 30 September 2013 and 30 September 2012, the costs incurred with operating lease contracts of 5,460,935 Euro and 5,455,571 Euro, respectively, were recognised under the caption "Rents" in the heading "Supplies and external services" of the Consolidated income statement.

The operating leases relates to leasing agreement of short duration, in which the lessor transfers the temporary use of the asset to a third party upon payment of an income or rental.

Lease payments are made monthly by equal amounts during the period of the lease agreement and the recognition of the rent is considered as an expense which will also be performed on a linear basis (straight-line basis).

There is no recognition of any leased asset, because the lease is a rental in substance and there is no evidence that demonstrate the lessee will obtain future economic benefits from the asset beyond the contract period.

The transfer of the legal ownership of the assets to the lessee at the end of the contract is not expected.

36. STAFF COSTS

During the periods ended on 30 September 2013 and 30 September 2012, the composition of the heading "Staff Costs" was as follows:

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

The social welfare costs are almost exclusively composed by health costs supported by the company with active employees and costs related to Health and Safety at work.

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

(Amounts expressed in Euro)

36. STAFF COSTS (Continued)

Remuneration of the statutory bodies

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

	30.09.2013				
	Board of Directors	Audit Board/ Chartered Accountant	General Meeting of Shareholders	Executive officers	Total
Fixed remuneration	804,769	153,225	—	2,461,880	3,419,874
Variable remuneration	—	—	—	—	—
	804,769	153,225	—	2,461,880	3,419,874

	30.09.2012				
	Board of Directors	Audit Board/ Chartered Accountant	General Meeting of Shareholders	Executive officers	Total
Fixed remuneration	409,184	110,619	—	2,794,581	3,314,384
Variable remuneration	—	—	—	—	—
	409,184	110,619	—	2,794,581	3,314,384

Regarding the year ending on 31 December 2012, and by joint order of the Ministries of Economy and Finance from 24 August 2012, a new Board of Directors was appointed for CTT—Correios de Portugal, S.A.. The previous Board had only 3 executive directors, since two directors from the previous Board of Directors had resigned.

37. IMPAIRMENT OF INVENTORIES AND ACCOUNTS RECEIVABLE

For the periods ended on 30 September 2013 and 30 September 2012, the detail of "Impairment of inventories and accounts receivable, net" was as follows:

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

(Amounts expressed in Euro)

38. DEPRECIATION/ AMORTISATION (LOSSES/REVERSALS)

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

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

39. OTHER OPERATING COSTS

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

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

40. INTEREST EXPENSES AND INTEREST INCOME

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

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

(Amounts expressed in Euro)

40. INTEREST EXPENSES AND INTEREST INCOME (Continued)

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

	30.09.2013	30.09.2012
Interest income		
Deposits in credit institutions	6,643,560	11,040,208
Other supplementary income	97,554	218,587
	6,741,114	11,258,795

41. INCOME TAX FOR THE PERIOD

Companies with head office in Portugal are subject to tax on their profit through Corporate Income Tax ("IRC") at the normal tax rate of 25%, whilst the municipal tax is established at a maximum rate of 1.5% of taxable profit, and state surcharge is 3% of taxable profit above 1,500,000 Euro and 5% of taxable profit above 10,000,000 Euro. Tourline is subject to income taxes in Spain, through income tax (Impuesto sobre Sociedades—"IS") at a rate of 30%, and the subsidiary Corre is subject to corporate income tax in Mozambique ("IRPC").

Corporate income tax (IRC) is levied on the Group and its subsidiaries Postcontacto—Correio Publicitário, Lda., CTT—Expresso, S.A., Mailtec Holding, SGPS, S.A., Mailtec Comunicação, S.A., Mailtec Consultoria, S.A., Mailtec Processos, Lda., Payshop Portugal, S.A. ("Payshop"), and CTT GEST—Gestão de Serviços e Equipamentos Postais, S.A. ("CTT Gest"), through the Special Regime for the Taxation of Groups of Companies ("RETGS"). The remaining companies are taxed individually.

(Amounts expressed in Euro)

41. INCOME TAX FOR THE PERIOD (Continued)

Reconciliation of the income tax rate

As at the periods ended on 30 September 2013 and 30 September 2012, the reconciliation between the nominal rate and the effective income tax rate was conducted as follows:

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

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

Deferred taxes

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

	30.09.2013	31.12.2012
Deferred tax assets		
Employee benefits—health care	74,926,430	73,312,870
Employee benefits—other long term benefits	10,626,447	14,789,263
Deferred accounting capital gains	3,339,492	3,897,266
Impairment losses and provisions	8,871,070	8,549,846
Conversion adjustments—derecognition of inventories	96,295	157,216
Conversion adjustments—value deducted from staff debts	23,128	37,761
Tax losses carried forward	1,410,597	1,335,932
Impairment losses in tangible fixed assets	424,177	145,613
Other	57,611	2,770
	99,775,247	102,228,537

(Amounts expressed in Euro)

41. INCOME TAX FOR THE PERIOD (Continued)

	30.09.2013	31.12.2012
Deferred tax liabilities		
Revaluation of tangible fixed assets before IFRS	4,318,608	4,529,436
Suspended capital gains	1,049,218	1,096,522
Other	114,275	114,275
	5,482,101	5,740,233

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

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

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

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

The tax losses carried forward are entirety related to the losses of the subsidiary Tourline in the years 2008, 2009, 2011, 2012 and 2013. These losses may be tax reported in the next 15 years, except the tax loss related to 2012, which may be carried forward in the next 18 years.

SIFIDE

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

The Group policy for recognition of fiscal credits regarding SIFIDE is to recognize the credit at the moment of the effective receipt of the commission statement, certifying the eligibility of expenses presented in the applications for tax benefits.

(Amounts expressed in Euro)

41. INCOME TAX FOR THE PERIOD (Continued)

Regarding the expenses incurred with R&D during 2011, approximately amounting to 5,287,949, the Group will have the possibility of benefiting from a tax deduction estimated to be 2,553,349 Euro, pending confirmation from the Certification Commission.

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

Other information

Pursuant to the legislation in force, income tax returns are subject to review and correction by the tax authorities for a period of four years (five for Social Security), except when there have been tax losses, tax benefits have been received, or when inspections, claims or challenges are in progress, in which cases, depending on the circumstances, these periods are extended or suspended. Therefore, the Group's income tax returns after 2010 may still be reviewed and corrected, since the income tax returns prior to this date have already been inspected.

The Board of Directors of the Company believes that any corrections arising from reviews/inspections by the tax authorities of these income tax returns will not have a significant effect on the consolidated financial statements as at 30 September 2013.

42. RELATED PARTIES

According to the Group's internal rules on financial reporting, the parties related to the Group are the Portuguese State, through the Ministry of Finance, and other shareholders of companies in which the Group has a stake, the associated companies, joint ventures, and the members of the Board of Directors, the General Meeting, and the Statutory Audit Board.

The terms or conditions applied between the Group's companies and the related parties are, as a rule, substantially identical to those which are normally contracted, accepted and applied between independent entities in comparable operations.

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

	30.09.2013				
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Ministry of Finance[(a)]	—	—	—	50,000,000	—
Other shareholders Group companies					
Associated companies	2,915	51,142	14,911	—	53,789
Jointly controlled	38,377	15,043	179,476	—	145,425
Members of the					
Board of Directors	—	—	—	—	803,509
General Meeting of Shareholders	—	—	—	—	1,260
Audit Board	—	—	—	—	153,225
Executive officers	—	—	—	—	2,461,880
	41,292	66,185	194,387	50,000,000	3,619,088

(Amounts expressed in Euro)

42. RELATED PARTIES (Continued)

	31.12.2012		30.09.2012		
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Ministry of Finance[(a)]					
Other shareholders Group companies	—	—	—	53,876,585	—
Associated companies	2,894	34,198	16,996	—	74,323
Jointly controlled	40,654	14,920	182,807	—	132,830
Members of the					
Board of Directors	—	—	—	—	409,184
General Meeting of Shareholders	—	—	—	—	—
Audit Board	—	—	—	—	110,619
Executive officers	—	—	—	—	2,794,581
	43,548	49,118	199,803	53,876,585	3,521,538

(a) CTT has availed of the exemption available in paragraph 25 of IAS 24, and therefore has not provided detailed disclosure of its transaction with the State of Portugal and related parties.

A summary of the Group's transactions with the State of Portugal and it's related parties is included below:

1—CTT sells and render services to the State of Portugal and various of it's related entities.

2—CTT collets various payroll taxes and other taxes on behalf of the State of Portugal and its liable to Portuguese Corporate Tax on profits earned and to employes's Social Security Taxes on its payroll.

3—CTT accounts for VAT in Portugal.

4—CTT Group incurs in costs as result of services provided by several State of Portugal related parties, namely:

—Energy costs;

—Water Supply costs;

—Air transportation costs.

The transactions and balances between subsidiaries are eliminated in the consolidation process and are not disclosed in this Note.

43. FEES AND SERVICES OF THE EXTERNAL AUDITORS

During the periods ended on 30 September 2013 and 30 September 2012, the fees and services provided by the Group's external auditors were as follows:

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

44. OTHER INFORMATION

The following situations do not represent probable liabilities and thus no amount was recorded as a provision for these items.

COMPANY AGREEMENT

After a long and demanding negotiation process, the Group reached an agreement with all the Trade Unions that took part in the negotiations for the signing of a New Company Agreement (AE).

Signing a single AE will imply the simplification of management, affect the social atmosphere, and strengthen collective labour relations in the Group, which are fundamental elements for the new challenges in a context of full liberalisation. It also allowed the harmonisation of conditions among workers.

PUDO NETWORK

CTT (Express and Parcels) is in a process of expanding its PUDO network (Pickup/Drop-off network) through a partnership with one of the largest retailers in Portugal (also with locations in Spain), which should allow CTT to provide extended opening hours and open new PUDO locations inside major shopping centers and neighbourhood supermarkets.

CITIZEN STORES

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

The economic model of operation will still be agreed between the parties, as well as operational issues and investment required.

BANIF

On 7 April 2006, Banco Internacional do Funchal (BANIF) brought an ordinary action against CTT—Correios de Portugal, which was personally cited on 27 June 2006, demanding the execution of the MoU (agreement principles) for the incorporation of Banco Postal and its subsidiary, if this condemnation is deemed non-enforceable, the obligation to indemnify BANIF for emerging damage and loss of profits, with the application amounting to 100,000,000 Euro plus accrued interest. As the Group's legal consultant believes, in a classification at three levels, from low to high probability, that BANIF's demands have little probability of receiving a favourable judgement, the Company decided not to record a provision for this possibility. Moreover, the period for Caixa Geral de Depósitos to exercise its right of preference terminated in January 2008.

In 12 January 2011, the court found that essential facts underlying the claims for compensation by BANIF were not proved, and the facts brought forth by CTT that contradicted the thesis defended by BANIF were proven. As sentenced on 2 December 2011, CTT was acquitted from the application lodged by BANIF, which appealed against this decision to the Court of Appeals of Lisbon, where the appeal is currently underway.

On 28 March 2013, via an application filed at the Court of Appeals of Lisbon, BANIF waivered all its applications, including the appeal mentioned in the previous paragraph.

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

44. OTHER INFORMATION (Continued)

corresponding remunerations, holiday and Christmas bonuses for 2012 under articles 20 and 21 of Law no. 64-B/2011 (LOE 2012).

Through the sentence of 22 January 2013, CTT was acquitted from the application, and SNTCT appealed against this decision at the Appeals Court of Lisbon, which is still pending.

CONCESSION AGREEMENT

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

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

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

Shareholder

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

Under the court case that took place in the 2º Section of the Court of Coimbra, involving 3 former board members of CTT— Correios de Portugal, S.A, a decision was issued on the 11th June 2013, which absolved the defendants of all crimes that they were being charged off and, consequently, annulled the request for civil indemnities that CTT had placed.

CTT's Board was made aware of this decision on the 16th July, and decided not to appeal the decision, due to the belief of CTT's Lawyers that a favourable decision was not probable. The court fees to be charged to CTT—Correios de Portugal, which should be between 207,570 Euro and 311,355 Euro, will be determined by the Judges in accordance with their view of the complexity of the process. The estimates cost amounting has been fully provided.

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

Postal Bank

On the 5th August 2013, CTT filed a formal request to the Central Bank of Portugal for a license to create a Postal Bank. The process is currently under analysis by the Central Bank and so far there hasn't been any formal response. The proposal foresees the creation of a postal bank supported by the current branches network and with a low level of investment.

Privatization Process

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

The decision states the approval of the sale of the share capital of CTT through a direct sale to one or more institutional investors or through an Initial Public Offer, which can be combined with a direct sale. One or more financial institutions will be mandated to disperse these shares through national or foreign

44. OTHER INFORMATION (Continued)

investors offering. Additionally, it was decided that up to 5% of CTT's share capital shall be sold to CTT and other Group companies' employees.

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

45. SUBSEQUENT EVENTS

Health Care

The State Budget for 2014, on October 15th, consider that for the workers covered by CGA, the access to the CTT Health Care Plan (IOS) will be maintained while they are active workers in the company. After retirement, or immediately for those who are already retired, the State, through ADSE, will ensure the health care benefit.

Audit Report Prepared by Auditor Registered with the Securities Market Commission (CMVM) on the Consolidated Financial Information

Introduction

1 As required by law, we present the Audit Report for Stock Exchange Regulatory Purposes on the financial information included in the consolidated financial statements of CTT—Correios de Portugal, S. A., comprising the consolidated balance sheets as at 31 December 2012, 2011 and 2010 (which shows total assets of Euro 1,063,180,249, Euro 1,051,410,179 and Euro 1,094,712,931, respectively, and total shareholder's equity of Euro 273,481,153, Euro 274,425,947 and Euro 251,447,235, respectively, including non-controlling interests of Euro 1,607,508, Euro 1,627,958 and Euro 1,406,989, respectively, and a net profit of Euro 35,735,268, Euro 55,260,391 and Euro 58,975,088, respectively), the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for the years then ended, and the corresponding notes to the accounts.

Responsibilities

2 It is the responsibility of the Company's Board of Directors (i) to prepare the consolidated financial statements which present fairly, in all material respects, the financial position of the Company and its subsidiaries, the consolidated results and the consolidated comprehensive income of their operations, the changes in consolidated equity and the consolidated cash flows; (ii) to prepare historic financial information in accordance with International Financial Reporting Standards as adopted by the European Union and which is complete, true, up-to-date, clear, objective and lawful, as required by the Portuguese Securities Market Code; (iii) to adopt appropriate accounting policies and criteria; (iv) to maintain appropriate systems of internal control; and (v) to disclose any significant matters which have influenced the activity, financial position or results of the Company and its subsidiaries.

3 Our responsibility is to verify the financial information included in the consolidated financial statements referred to above, namely as to whether it is complete, true, up-to-date, clear, objective and lawful, as required by the Portuguese Securities Market Code, for the purpose of issuing an independent and professional report based on our audit.

Scope

4 We conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Accordingly, our audit included: (i) verification that the Company and its subsidiaries' financial statements have been appropriately examined and, for the cases where such an audit was not carried out, verification, on a sample basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the reasonableness of the estimates, based on the judgements and criteria of the Board of Directors used in the preparation of the consolidated financial statements; (ii) verification of the consolidation operations and the utilization of the equity method; (iii) assessing the appropriateness of the accounting principles used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting; (v) assessing the overall presentation of the consolidated financial statements; and (vi) assessing the completeness, truthfulness, accuracy, clarity, objectivity and lawfulness of the consolidated financial information.

5 We believe that our audit provides a reasonable basis for our opinion.

Opinion

6 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, 2011 and 2010, the consolidated results and the consolidated comprehensive income of its operations, the changes in consolidated equity and the consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and the information included is complete, true, up-to-date, clear, objective and lawful.

14 October 2013

PricewaterhouseCoopers & Associados
—Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

José Pereira Alves, R.O.C.

Annual Report
2012-2010

Consolidated Accounts

CTT—CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2012, 31 DECEMBER 2011 AND 31 DECEMBER 2010

Euro

	NOTES	2012	2011	2010
ASSETS				
Non-current assets				
Tangible fixed assets	5	259,076,712	269,246,885	265,484,227
Investments properties	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
Other investments	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	102,467,758	99,445,980
Total non-current assets		**405,397,523**	**421,740,497**	**411,629,513**
Current assets				
Inventories	13	6,710,739	6,305,998	6,512,659
Accounts receivable	14	135,317,556	164,395,448	166,489,760
Income taxes receivable	29	—	3	2,121,797
Deferrals	15	5,594,836	5,494,827	5,977,849
Other current assets	18	20,856,132	27,214,044	21,907,679
Cash and cash equivalents	17	489,303,463	426,259,362	480,073,674
Total current assets		**657,782,726**	**629,669,682**	**683,083,418**
Total assets		**1,063,180,249**	**1,051,410,179**	**1,094,712,931**
EQUITY AND LIABILITIES				
Equity				
Share capital	20	87,325,000	87,325,000	87,325,000
Reserves	21	28,628,508	25,792,898	22,977,651
Retained earnings	21	87,105,292	88,568,765	68,450,212
Other changes in equity	21	33,079,577	15,850,935	12,312,295
Net profit attributable to equity holders of parent company		35,735,268	55,260,391	58,975,088
Non-controlling interests	24	1,607,508	1,627,958	1,406,989
Total equity		**273,481,153**	**274,425,947**	**251,447,235**
Liabilities				
Non-current liabilities				
Medium and long term debt	25	4,560,702	5,943,942	7,253,904
Employee benefits	26	282,065,364	300,975,316	285,190,208
Provisions	27	36,596,189	16,475,743	15,430,460
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		**340,285,113**	**343,265,385**	**333,810,555**
Current liabilities				
Accounts payable	28	349,215,159	346,905,448	403,880,097
Employee benefits	26	21,250,996	20,455,430	23,065,599
Income taxes payable	29	862,444	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	66,859,057	49,135,544	69,343,332
Total current liabilities		**449,413,983**	**433,718,847**	**509,455,141**
Total liabilities		**789,699,096**	**776,984,232**	**843,265,696**
Total equity and liabilities		**1,063,180,249**	**1,051,410,179**	**1,094,712,931**

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

CTT—CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS 2012, 2011 AND 2010

Euro

	NOTES	2012	2011	2010
Revenues		**714,225,417**	**765,767,249**	**797,831,239**
Sales and services rendered	4	699,332,226	741,850,362	779,865,993
Other operating income	33	14,893,191	23,916,887	17,965,246
Operating costs		**(657,254,208)**	**(685,443,464)**	**(719,125,081)**
Cost of sales	13	(18,543,380)	(18,352,702)	(17,004,986)
External supplies and services	34	(246,416,228)	(256,463,997)	(273,333,030)
Staff costs	36	(333,319,251)	(358,095,653)	(382,048,821)
Impairment of inventories and accounts receivable, net	37	(798,308)	(3,119,386)	(543,380)
Impairment of non-depreciable assets	9	—	(1,942,450)	(2,669,084)
Provisions, net	27	(21,933,533)	(6,274,919)	(5,528,851)
Depreciation/amortisation and impairment of investments, net	38	(24,635,814)	(22,252,306)	(24,221,778)
Other operating costs	39	(11,607,693)	(18,942,051)	(13,775,151)
Earnings before financial income and taxes		**56,971,209**	**80,323,785**	**78,706,158**
Financial results		**(4,139,036)**	**(2,174,801)**	**(12,568,564)**
Interest expenses	40	(16,760,834)	(18,354,371)	(19,168,566)
Interest income	40	12,381,658	16,094,975	6,581,785
Gains/losses in associated companies	10	240,140	84,595	18,217
Earnings before taxes		**52,832,173**	**78,148,984**	**66,137,594**
Income tax for the year	41	(16,864,903)	(22,465,750)	(6,887,124)
Net profit for the year		**35,967,270**	**55,683,234**	**59,250,470**
Net profit for the year attributable to:				
Equity holders of parent company		35,735,268	55,260,391	58,975,088
Non-controlling interests	24	(232,002)	(422,843)	(275,382)
Earnings per share of the parent company	23	2.04	3.16	3.37

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

CTT—CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS 2012, 2011 AND 2010

Euro

	NOTES	2012	2011	2010
Net profit for the period		**35,967,270**	**55,683,234**	**59,250,470**
Adjustments from application of the equity method	10	(464,803)	(232,826)	(20,114)
Employee benefits	26	24,265,693	4,984,000	36,424,532
Deferred tax/Employee benefits	41	(7,037,051)	(1,445,360)	(10,563,114)
Other changes in equity	21	453,134	248,483	—
Other comprehensive income for the year after taxes		**17,216,973**	**3,554,297**	**25,841,304**
Comprehensive income for the year		**53,184,243**	**59,237,531**	**85,091,774**
Attributable to non-controlling interests	24	(232,002)	(422,843)	(275,382)
Attributable to shareholder of CTT		52,952,241	58,814,688	84,816,392

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

CTT—CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2012, 2011 and 2010

Euro

	NOTE	Share capital	Reserves	Other changes in equity	Retained earnings	Net profit for the year	Non-controlling interests	Total
Balance on 1 January 2010		**87,325,000**	**20,446,978**	**(13,549,123)**	**32,380,035**	**59,932,463**	**1,103,270**	**187,638,623**
Appropriation of net profit for the year of 2009		—	2,530,673	—	57,401,790	(59,932,463)	—	—
Dividends	22/24	—	—	—	(21,311,499)	—	(157,351)	(21,468,850)
Change in the consolidation perimeter		—	—	—	—	—	185,688	185,688
		—	**2,530,673**	**—**	**36,090,291**	**(59,932,463)**	**28,337**	**(21,283,162)**
Actuarial gains/losses—Health Care	21	—	—	25,861,418	—	—	—	25,861,418
Adjustments from the application of the equity method	21	—	—	—	(20,114)	—	—	(20,114)
Net profit for the year of 2010		—	—	—	—	58,975,088	275,382	59,250,470
Comprehensive income for the year 2010		**—**	**—**	**25,861,418**	**(20,114)**	**58,975,088**	**275,382**	**85,091,774**
Balance on 31 December 2010		**87,325,000**	**22,977,651**	**12,312,295**	**68,450,212**	**58,975,088**	**1,406,989**	**251,447,235**
Balance on 1 January 2011		**87,325,000**	**22,977,651**	**12,312,295**	**68,450,212**	**58,975,088**	**1,406,989**	**251,447,235**
Appropriation of net profit for the year of 2010		—	2,815,247	—	56,159,840	(58,975,088)	—	—
Dividends	22/24	—	—	—	(36,056,944)	—	(201,874)	(36,258,818)
		—	**2,815,247**	**—**	**20,102,896**	**(58,975,088)**	**(201,874)**	**(36,258,818)**
Other movements	21	—	—	—	248,483	—	—	248,483
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 profit for the year of 2011		—	—	—	—	55,260,391	422,843	55,683,234
Comprehensive income for the year 2011		**—**	**—**	**3,538,640**	**15,657**	**55,260,391**	**422,843**	**59,237,531**
Balance on 31 December 2011		**87,325,000**	**25,792,898**	**15,850,935**	**88,568,765**	**55,260,391**	**1,627,958**	**274,425,947**
Balance on 1 January 2012		**87,325,000**	**25,792,898**	**15,850,935**	**88,568,765**	**55,260,391**	**1,627,958**	**274,425,947**
Appropriation of net profit for the year of 2011		—	2,835,610	—	52,424,781	(55,260,391)	—	—
Dividends	22/24	—	—	—	(53,876,585)	—	(252,452)	(54,129,037)
		—	**2,835,610**	**—**	**(1,451,804)**	**(55,260,391)**	**(252,452)**	**(54,129,037)**
Other movements	21	—	—	—	453,134	—	—	453,134
Actuarial gains/losses—Health Care	21	—	—	17,228,642	—	—	—	17,228,642
Adjustments from the application of the equity method	21	—	—	—	(464,803)	—	—	(464,803)
Net profit for the year of 2012		—	—	—	—	35,735,268	232,002	35,967,270
Comprehensive income for the year 2012		**—**	**—**	**17,228,642**	**(11,669)**	**35,735,268**	**232,002**	**53,184,243**
Balance on 31 December 2012		**87,325,000**	**28,628,508**	**33,079,577**	**87,105,292**	**35,735,268**	**1,607,508**	**273,481,153**

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

CTT—CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS 2012, 2011 AND 2010

Euro

	NOTES	2012	2011	2010
Operating activities				
Collections from customers		713,094,163	717,247,085	735,411,910
Payments to suppliers		(259,915,782)	(292,997,906)	(297,437,418)
Payments to employees		(294,639,233)	(346,787,463)	(368,271,054)
Cash flow generated by operations		**158,539,148**	**77,461,716**	**69,703,438**
Payments/receivables of income taxes		(26,889,403)	(28,865,533)	(46,971,671)
Other receivables/payments		(1,045,872)	(54,562,995)	34,181,711
Cash flow from operating activities (1)		**130,603,873**	**(5,966,812)**	**56,913,478**
Investment activities				
Receivables resulting from:				
Tangible fixed assets		790,275	394,851	501,054
Financial investments		41,450	53,885	45,595
Interest income		10,233,059	16,791,116	6,593,930
Dividends		117,200	—	—
Payments resulting from:				
Intangible assets		(3,822,505)	(2,611,690)	(3,421,745)
Tangible fixed assets		(20,105,520)	(23,566,398)	(32,214,144)
Loans granted		—	(100,000)	(38,477)
Cash flow from investment activities (2)		**(12,746,040)**	**(9,038,236)**	**(28,533,787)**
Financing activities				
Receivables resulting from:				
Loans obtained		6,344,810	—	915,550
Payments resulting from:				
Loans repaid		(4,747,278)	(738,603)	(214,700)
Interest expenses		(1,051,759)	(595,025)	(1,117,673)
Finance leases		(1,482,919)	(1,418,693)	(1,390,315)
Dividends		(53,876,585)	(36,056,944)	(21,311,499)
Cash flow from financing activities (3)		**(54,813,731)**	**(38,809,265)**	**(23,118,637)**
Net change in cash and cash equivalents (1+2+3)		63,044,102	(53,814,313)	5,261,054
Changes in the consolidation perimeter		—	—	452,188
Cash and equivalents at the beginning of the year		426,259,362	480,073,674	474,360,432
Cash and cash equivalents at the end of the year	17	489,303,463	426,259,362	480,073,674

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

TABLE OF CONTENTS

1. INTRODUCTION

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

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

Decree-Law no. 49.368 of 10th November 1969 established the state-owned company CTT—Correios e Telecomunicações de Portugal, E. P., which started operating on 1st January 1970. By Decree-Law no. 87/92, of May 14, CTT—Correios e Telecomunicações de Portugal, E. P. was transformed into an entity subject to the private law with the statute of a state-owned public limited company. Finally, with the incorporation of the former Telecom Portugal, S.A. through a spin-off from Correios e Telecomunicações de Portugal, S.A. under Decree-Law no. 277/92 of 15 December, the Company's name was changed to the current CTT—Correios de Portugal, S.A., which is fully owned by the Portuguese State.

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

These consolidated financial statements were approved by the Board of Directors on October 13, 2013.

1.2 Business

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

Law no. 102/99 of 26 July defined the general basis for the establishment, management and operation of mail services on national territory, as well as the international services with origin or destination on national territory, and ensured the continuity of the universal service in compliance with the public postal administration services mission.

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

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

Hence, the scope of the regulated services was further narrowed in 2006 which included, up to 2011, mail service for letters weighing up to 50 grams and priced up to 2.5 times the reference tariff (1st class mail, in the case of Portugal). The contract has an initial term of 30 years and is subject to renewal for successive periods of fifteen years. Under the terms of the Decree-Law referred above, as payment for the concession, CTT must annually pay the Portuguese State, a rent corresponding to 1% of the revenues

1. INTRODUCTION (Continued)

related to the concession of services rendered on an exclusive basis to the Portuguese State. Decree-Law no. 112/2006 of 9 June changed the basis of the concession of the Universal Postal Service, with the concessionaire being entrusted with the public electronic mailbox services, and adapting the concession contract to the regulatory mail services environment, as well as giving the Company the degree of flexibility needed to enable it to operate in an increasingly liberalised and competitive sector. The amendments to the concession contract were signed on 26 July 2006.

Under the new regulatory framework, implemented by Law no. 17/2012, of 26 April ("Nova Lei Postal"— New Postal Act), during the 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 Law (concerning the regime of operation and use of the postal services on national territory, as well as the international services with origin or destination on national territory) and also in the absence of (ii) change in the concession basis (approved by Decree-Law no. 448/99, of 4 November, partially revoked by Decree-Law no. 150/2001, of 7 May, and altered by Decree-Laws no. 116/2003, of 12 June and no. 112/2006 of 9 June) having in mind its adjustment to the new law regime, the provisions of the Public Postal Service (approved by Decree-Law no. 176/88, of 18 May) remained in force, as well as the regulatory measures adopted under it, provided that they are compatible with the approved legal framework, as well as with the obligations set out in the concession contract of the Universal Postal Service.

As the Universal Postal Service incumbent operator, CTT is a provider of universal services, whose quality parameters, performance targets and pricing methodology should comply with the terms stipulated under the quality agreement and price agreement, signed on 10 July 2008 between CTT and ICP-ANACOM (in force during the three-year period 2008-2010, renewed for successive one-year periods).

It should be noted that, although the process of amendment of the concession contract is still in progress, namely concerning its term, which was stipulated as 20 years by Law no. 17/2012, of 26 April, it is foreseen that the concession contract will continues to ensure the provision of a universal quality service, with full coverage of national territory. At present, the universal service includes the following services, of national and international scope: a postal service for letter mail (excluding direct mail), books, catalogues, newspapers and other periodicals up to 2 Kg; a service for postal parcels up to 10 Kg, as well as the delivery, on national territory, of postal parcels received from other European Union countries weighting up to 20Kg; a service for registered items and for insured items.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of presentation

The consolidated financial statements were prepared under the assumption of going concern basis and are prepared under the historical cost basis, in accordance with the International Financial Reporting Standards, as adopted by the European Union as at 31 December 2012. These standards include the IFRS issued by the International Accounting Standards Board ("IASB"), or the IAS issued by the International

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 through Note 2.28, the standards and interpretations issued and approved by the European Union between 1 January and 31 December 2012, and which became mandatory are described in Note 2.1.2.

2.1.1 New standards and interpretations adopted by the Group

In 2012, the Group 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.

(Amounts expressed in Euro)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the following 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 comprehensive income	1 July 2012
IAS 12—Income taxes	Deferred tax	1 January 2013
IAS 19—Employee benfits	Amendment	1 January 2013
IRFS 10—Consolidated financial statements	New standard	Up to 1 January 2014
IFRS 11—Joint agreements	New standard	Up to 1 January 2014
IFRS 12—Disclosure of interests in other entities	New standard	Up to 1 January 2014
IAS 27—Separate financial statements	Consolidation removed from scope	Up to 1 January 2014
IAS 28—Investments in associates and joint-ventures	Application to joint-ventures	Up to 1 January 2014
IFRS 13—Fair value measurement	New standard	1 January 2013
IAS 32—Financial instruments: presentation	Offsetting assets and liabilities	1 January 2014
IFRS 7—Financial instruments: disclosures	Presentation of compensation	1 January 2013
Effective standards after 1 July 2012 not adopted by EU		
IFRS 9—Financial instruments	Phase 1—classification and measurement	1 January 2015
Improvement of standards 2009 - 2011	Clarifications	1 January 2013
Effective interpretations in EU after 1 July 2012		
IFRIC 20—Discovery costs in the production phase of an open-cast mine	New interpretation	1 January 2013

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

in IAS 12 the principles included in SIC 21, which is revoked. No significant effect is expected due to the adoption of this standard.

Improvements introduced to the following standards: IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34 between 2009 and 2011 are applicable mainly to years starting on or after 1 January 2013. These amendments are yet to be adopted by the European Union. These improvements will be adopted when applicable.

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 Group does not expect changes to its previous control assessment and therefore, no significant effect will result from the adoption of this standard.

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. Some new disclosures are expected to be made regarding joint ventures and associates and the related control assessment.

Amendment to IFRS 10, IFRS 11 and IFRS 12—"Transition regime" (effective for years starting on or after 1 January 2013). This amendment is subject to the 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 should be recognised in the equity. IFRS 12 requires specific disclosures. The CTT Group will apply this standard to the period when it becomes effective, but no relevant effect is expected.

IAS 19 (revised)—'Employee benefits', was amended in June 2011. The CTT Group will apply this standard to the period when it becomes effective. The effect is not expected to be significant.

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 the basis 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, but no significant effect is expected on the fair value measurement or in the level of disclosures.

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 requires that investments in associates and joint ventures are recorded using the equity method. The CTT Group will apply this standard to the period when it becomes effective, and no significant effect is expected.

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 and no significant effect is expected.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and no significant effect is expected.

IFRS 9 (new), "Financial instruments—classification and measurement" (to be applied to years starting on or after 1 January 2015). This standard is subject to the 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 it is held for the purpose of receiving the contractual 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 when it becomes effective.

2.2 Consolidation principles

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

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

The assets and liabilities of each Group company are recorded at fair value as of the date of acquisition or, as established in IFRS 3, during a period of 12 months after that date. Any excess of cost over the fair value of the net assets and liabilities acquired is recognized as goodwill. If the difference between the cost and the fair value of the assets and liabilities acquired is negative, it is recorded directly in profit and loss.

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

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

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

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

Associated companies

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Joint Ventures

Investments in joint ventures are recorded in the consolidated balance sheet by the equity method (Note 10). The classification of the investments in joint ventures is determined based on the existence of a contractual agreement, which demonstrates and rules the joint control.

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

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

2.3 Segment reporting

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

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

(i) that engages in business activities from which it may earn revenues and incur expenses;

(ii) whose operating results are reviewed regularly by the entity's chief operating decision maker in order to make decisions about resources to be allocated to the segment and assess its performance; and,

(iii) for which discrete financial information is available.

(Amounts expressed in Euro)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Transactions and balances in foreign currency

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

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

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

	2012		2011		2010	
	Close	Average	Close	Average	Close	Average
Mozambican Metical (MZM)	39.24000	36.56000	34.96000	40.27833	43.78000	43.67
United States Dollar (USD)	1.31940	1.31190	1.29390	1.39200	1.33620	1.32570
Special Drawing Right (SDR)	1.16583	1.17373	1.18654	1.13408	1.15966	1.12461

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

2.5 Tangible fixed assets

Tangible fixed assets are recorded at their acquisition or production cost, minus accumulated depreciation and impairment losses, where applicable. The acquisition cost includes: (i) the purchase price of the asset, (ii) the expenses directly imputable to the purchase, and (iii) the estimated costs of dismantlement or removal of the assets and restoration of the location (Notes 2.15 and 27). Under the exception of IFRS1—First-time Adoption of the International Financial Reporting Standards, the revaluation of tangible assets made, according with the Portuguese legislation applying monetary indices, for the years up to 1 January 2009, was maintained, and the revaluated amounts were referred to as "deemed cost" for IFRS purposes.

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

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

Land is not depreciated.

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

On each reporting date, the Group assesses whether there is any indication that an asset might be impaired. Whenever such indications exist, the tangible fixed assets are subjected to impairment tests, where any surplus of the carrying value relative to the recoverable amount, should this exist, is recognised in the consolidated income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 revenues and operating gains” or “Other operating costs and losses”.

2.6 Intangible assets

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

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

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

	Years of useful life
Development projects	3
Industrial property	3 - 20
Computer programes	3 - 10

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

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

2.7 Investment Properties

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The recoverable amount of the asset or cash generating unit is the highest value between (i) its fair value minus the costs of selling it and (ii) its value in use. The fair value is the amount that would be obtained through the disposal of the asset, in a transaction between independent and expert entities. The value in use arises from the future and estimated cash flows discounted from the assets during the estimated useful life. The discount rate used in the discounted cash flows reflects the current market assessments of time value of money and the specific risk of the asset.

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

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

2.9 Goodwill

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

Goodwill is not amortised. In the assessment of the Goodwill impairment, this value is 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 are carried out on each reporting date, or earlier if impairment risk indicators were identified.

Impairment losses are not reversible.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the sale of a subsidiary, joint venture or associated company, the corresponding goodwill is included in the determination of the capital gain or loss.

2.10 Financial assets

2.10.1 Classification

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in Loans and receivables. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.10.2 Recognition and measurement

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

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

2.11 Equity

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

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

2.12 Financial liabilities

Debt

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 amortized cost, determined in accordance with the effective interest rate method.

Accounts payable (balances of suppliers and other creditors) are liabilities related to the acquisition of goods or services, by the Group, in the normal course of its business. If their payment falls due within one year or less, then they are classified as current liabilities. Otherwise, they are classified as non-current liabilities.

2.13 Offsetting financial instruments

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

2.14 Impairment of financial assets

Assets carried at amortised cost

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

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

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

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

Assets classified as available for sale

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Inventories

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

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

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

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

2.16 Non-current assets held for sale and discontinued operations

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

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

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

Non-current assets are not depreciation or amortisation.

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

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

2.17 Distribution of dividends

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

2.18 Employee benefits

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

the respective assets, reported to 1 January 2003, plus the respective incomes until the date of its effective delivery, in December 2003.

Post-employment benefits—health care

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

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

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

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

The 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 fee is also paid, corresponding to 1.5% or 2% of the pension, depending on the percentage of the amount of the pension. In certain special situations, an exemption from the payment of the fee may be granted to the beneficiaries or their family members.

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

Other long term benefits

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

—Suspension of contracts, redeployment and release of employment

The liability for the payment of salaries to employees released from their positions, with suspended labour contracts, pre-retirement or equivalent is fully recognised in the consolidated income statement at the time they 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, 8,471 beneficiaries as at 31 December 2011 and 8,845 beneficiaries as at 31 December 2010), of the telephone subscription charge, to a monthly amount of 15.30 Euro.

—Pensions for accidents at work

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

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

According to the legislation in force concerning employees integrated in CGA, the Group is liable for the costs incurred with pensions that have been attributed for damages resulting from accidents at work, and

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and 2010).

—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 and 50 beneficiaries as at 31 December 2010), receiving a monthly amount of 176.76 Euro, 12 months a year. This value is updated by Order of the Finance Ministery of Finance and Ministery of Social Security.

—Support for cessation of professional activity

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

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

2.19 Provisions and contingent liabilities

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2.20 Revenues

Revenues are measured at the fair value of the consideration that has been or will be received. Revenue from the sale of merchandising products and from postal business is recognised when the risks and benefits of ownership of the products are transferred to the buyer, which usually occurs at the time of the transaction.

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

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

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

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

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

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

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

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

2.21 Subsidies obtained

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.22 Leases

The classification of leases is done according to the substance of the transaction and not the form of the contract. Leases are classified as financial whenever their terms imply the substantial transfer, to the lessee, of all the risks and advantages associated to the ownership of the asset. All other leases are classified as operating.

Tangible assets acquired through financial leasing contracts, as well as the corresponding liabilities payable to the lessor, are recorded in the balance sheet at the beginning of the lease at the lowest value between the fair value of the assets and the present value of the minimum lease payments. The discount rate 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 incur.

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

2.23 Borrowing costs

Financial charges related to loans are recognised in net profit, when incurred. 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.

2.24 Taxes

Corporate income tax ("IRC")

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Value Added Tax ("VAT")

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

2.25 Accruals basis

Revenues and costs are recorded according to the accruals basis, and therefore, are recognised as they are generated, regardless of the 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". Deferred revenues and costs paid in advance are recorded under the heading "Deferrals", respectively, in the liabilities and in the assets.

2.26 Judgements and estimates

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

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

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

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

(ii) *Impairment of Goodwill*

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) *Impairment of accounts receivable*

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

(iv) *Deferred taxes*

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

(v) *Employee benefits*

The determination of the liabilities related to the payment of post-employment benefits, namely with health care plans, requires the use of assumptions and estimates, including the use of actuarial projections, discount rates and other factors that could have an impact on the costs and liabilities associated to these benefits. Any changes in the assumptions used, which are described in Note 26, will have impact on the liabilities carrying amount of the employees benefits. CTT has a policy of periodically reviewing the major actuarial assumptions, in case its effect 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 recorded when the Group expects that the lawsuits will lead to the outflow of funds, the loss is probable and may be estimated reasonably. Due to the uncertainties inherent to the process of assessment, real losses might be different from those originally estimated in the provision. These estimates are subject to changes as new information becomes available.

2.27 Consolidated Cash Flow Statement

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

2.28 Subsequent events

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

3. CHANGES TO ACCOUNTING POLICIES, ERRORS AND ESTIMATES

The accounting policies were consistently applied to all periods presented.

4. SEGMENT REPORTING

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

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

The business of CTT is organized in the following segments:

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

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

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

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

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

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

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

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

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

(Amounts expressed in Euro)

4. SEGMENT REPORTING (Continued)

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

	2012							
	Mail	**Express**	**Financial Services**	**Business Solutions**	**Central CTT Structure**	**Intragroup eliminations**	**Others non allocated**	**Total**
Revenues	535,956,792	127,998,059	57,673,089	22,999,124	122,805,783	(153,207,430)		714,225,417
Sales and services rendered	499,694,713	126,654,593	54,320,190	21,666,177	1,120,958	(4,124,404)	—	699,332,226
Sales	23,008,136	1,304,978	—	—	—	(13,524)	—	24,299,590
Services rendered	476,686,577	125,349,615	54,320,190	21,666,177	1,120,958	(4,110,880)	—	675,032,637
Operating revenues external customers	16,642,492	1,343,466	2,741,984	1,150,650	15,920,151	(22,905,551)	—	14,893,191
Internal services rendered	19,619,588	—	610,915	182,298	45,001,284	(65,414,084)	—	—
Allocation central CTT structure	—	—	—	—	60,763,390	(60,763,390)	—	—
Operating costs	467,774,580	118,854,690	32,367,986	21,290,945	122,805,783	(153,207,430)		609,886,553
External supplies and services	106,278,359	92,716,016	9,187,639	9,913,377	55,328,821	(27,007,983)	—	246,416,229
Staff Costs	236,719,295	23,926,575	3,190,371	7,970,025	61,512,985	—	—	333,319,251
Other costs	20,651,339	2,212,099	413,663	1,875,137	5,020,808	(21,973)	—	30,151,073
Internal services rendered	43,977,313	—	19,125,007	1,368,595	943,169	(65,414,084)	—	—
Allocation to central CTT structure	60,148,274	—	451,306	163,811	—	(60,763,390)	—	—
EBITDA(1)	**68,182,213**	**9,143,368**	**25,305,103**	**1,708,180**	**—**	**—**		**104,338,864**
Depreciation/amortisation and impairment of investments, net	(14,725,888)	(3,439,336)	(563,751)	(1,742,885)	(3,661,841)	—	(502,113)	(24,635,814)
Impairment of inventories and accounts receivable, net								(798,308)
Impairment of non-depreciable assets								—
Provisions net								(21,933,533)
Interest expenses								(16,760,834)
Interest income								12,381,658
Gains/losses in associated companies								240,140
Earnings before taxes								**52,832,173**
Income tax for the year								(16,864,903)
Net profit for the year								**35,967,270**

(Amounts expressed in Euro)

4. SEGMENT REPORTING (Continued)

	2011							
	Mail	**Express**	**Financial Services**	**Business Solutions**	**Central CTT Structure**	**Intragroup eliminations**	**Others non allocated**	**Total**
Revenues	577,504,380	133,916,938	61,673,425	26,055,460	140,989,702	(174,372,658)	—	765,767,249
Sales and services rendered	534,797,705	131,704,233	55,887,791	24,256,806	1,315,163	(6,111,336)	—	741,850,362
Sales	22,804,768	1,733,378	—	—	—	(14,673)	—	24,523,473
Services rendered	511,992,937	129,970,854	55,887,791	24,256,806	1,315,163	(6,096,663)	—	717,326,888
Operating revenues external customers	19,465,754	2,212,706	5,044,111	1,616,952	22,746,188	(27,168,825)	—	23,916,887
Internal services rendered	23,240,921	—	741,523	181,702	48,531,580	(72,695,726)	—	—
Allocation central CTT structure	—	—	—	—	68,396,770	(68,396,770)	—	—
Operating costs	505,775,487	119,737,625	36,628,804	23,095,443	140,989,702	(174,372,658)	—	651,854,403
External supplies and services	117,836,129	94,054,757	9,694,868	11,087,593	57,063,149	(33,272,498)	—	256,463,997
Staff Costs	250,970,308	23,910,168	3,308,346	8,289,046	71,617,786	—	—	358,095,653
Other costs	21,700,571	1,772,700	451,672	2,071,926	11,305,546	(7,663)	—	37,294,753
Internal services rendered	47,559,791	—	22,673,312	1,459,403	1,003,222	(72,695,727)	—	—
Allocation to central CTT structure	67,708,688	—	500,608	187,474	—	(68,396,770)	—	—
EBITDA[(1)]	**71 728 893**	**14 179 313**	**25 044 621**	**2 960 018**	**—**	**—**	**—**	**113,912,845**
Depreciation/amortisation and impairment of investments, net	(13,733,281)	(2,915,068)	(547,228)	(1,891,634)	(3,165,094)	—	—	(22,252,306)
Impairment of inventories and accounts receivable, net								(3,119,386)
Impairment of non-depreciable assets								(1,942,450)
Provisions net								(6,274,919)
Interest expenses								(18,354,371)
Interest income								16,094,975
Gains/losses in associated companies								84,595
Earnings before taxes								**78,148,984**
Income tax for the year								(22,465,750)
Net profit for the year								**55,683,234**

(Amounts expressed in Euro)

4. SEGMENT REPORTING (Continued)

	2010							
	Mail	**Express**	**Financial Services**	**Business Solutions**	**Central CTT Structure**	**Intragroup eliminations**	**Others non allocated**	**Total**
Revenues	613,704,442	143,779,964	60,060,030	27,121,387	132,449,115	(179,283,700)	—	797,831,239
Sales and services rendered	566,753,301	140,751,185	55,243,395	25,504,689	1,342,412	(9,728,989)	—	779,865,993
Sales	22,207,625	2,244,980	—	173,925	—	(12,782)	—	24,613,748
Services rendered	544,545,676	138,506,205	55,243,395	25,330,764	1,342,412	(9,716,207)	—	755,252,245
Operating revenues external customers	20,966,565	3,028,779	3,924,027	1,599,979	17,819,603	(29,373,707)	—	17,965,246
Internal services rendered	25,984,575	—	892,608	16,720	57,440,626	(84,334,530)	—	—
Allocation central CTT structure	—	—	—	—	55,846,474	(55,846,474)	—	—
Operating costs	542,903,624	125,855,209	39,736,952	24,500,787	132,449,115	(179,283,699)		686,161,988
External supplies and services	130,043,049	99,299,239	9,531,887	11,723,237	61,816,896	(39,081,278)	—	273,333,030
Staff Costs	282,560,525	24,506,946	3,948,535	9,097,679	61,935,135	—	—	382,048,820
Other costs	18,455,388	2,049,023	400,804	2,358,902	7,537,437	(21,418)	—	30,780,136
Internal services rendered	56,540,479	—	25,448,910	1,185,494	1,159,647	(84,334,529)	—	—
Allocation to central CTT structure	55,304,184	—	406,816	135,474	—	(55,846,474)	—	—
EBITDA[1]	**70 800 817**	**17 924 755**	**20 323 078**	**2 620 601**	**—**	**—**	**—**	**111,669,251**
Depreciation/amortisation and impairment of investments, net	(13,116,759)	(4,099,162)	(412,751)	(1,490,425)	(5,102,681)	—	—	(24,221,778)
Impairment of inventories and accounts receivable, net								(543,380)
Impairment of non-depreciable assets								(2,669,084)
Provisions net								(5,528,851)
Interest expenses								(19,168,566)
Interest income								6,581,785
Gains/losses in associated companies								18,217
Earnings before taxes								**66,137,594**
Income tax for the year								(6,887,124)
Net profit for the year								**59,250,470**

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

4. SEGMENT REPORTING (Continued)

The revenues are detailed as follows:

Thousand of Euro	2012	2011	2010
Mail	535,957	577,504	613,704
Transactional mail	407,829	432,086	452,758
Press mail	15,051	17,760	19,754
Parcels (USO)	7,386	6,919	6,948
Advertising mail	37,672	44,489	51,715
Retail	21,602	21,403	20,667
Philately	7,021	8,227	9,355
Other	39,396	46,620	52,506
Express	127,998	133,917	143,780
Financial Services	57,673	61,673	60,060
Business Solutions	22,999	26,055	27,121
Central CTT Struture	122,806	140,990	132,449
Intragroup eliminations	(153,207)	(174,373)	(179,284)
	714,226	**765,767**	**797,831**

The assets by segment are detailed as follows:

	2012						
Assets	Mail	Express	Financial Services	Business Solutions	Central CTT Struture	Non allocated assets	Total
Intangible assets	2,595,221	3,776,569	423,185	944,317	3,835,993	2,779,775	14,355,060
Tangible fixed assets	205,928,961	12,854,831	999,538	7,034,089	31,960,346	298,946	259,076,712
Goodwill	—	17,036,987	406,101	8,085,520	—	—	25,528,608
Deferred tax assets	—	—	—	—	—	102,228,537	102,228,537
Account receivable	—	—	—	—	—	135,317,556	135,317,556
Other assets	—	—	—	—	—	37,370,313	37,370,313
Cash and cash equivalents	—	—	—	—	—	489,303,463	489,303,463
	208,524,182	**33,668,387**	**1,828,824**	**16,063,926**	**35,796,339**	**767,298,590**	**1,063,180,249**

	2011						
Assets	Mail	Express	Financial Services	Business Solutions	Central CTT Struture	Non allocated assets	Total
Intangible assets	3,047,402	6,846,007	691,694	1,144,871	1,924,180	1,426,079	15,080,232
Tangible fixed assets	212,170,856	12,494,886	754,641	8,046,751	32,850,350	2,929,401	269,246,885
Goodwill	—	17,036,987	406,101	8,085,520	—	—	25,528,608
Deferred tax assets	—	—	—	—	—	102,467,758	102,467,758
Account receivable	—	—	—	—	—	164,395,448	164,395,448
Other assets	—	—	—	—	—	48,431,886	48,431,886
Cash and cash equivalents	—	—	—	—	—	426,259,362	426,259,362
	215,218,258	**36,377,880**	**1,852,436**	**17,277,142**	**34,774,530**	**745,909,934**	**1,051,410,179**

(Amounts expressed in Euro)

4. SEGMENT REPORTING (Continued)

Assets	2010 Mail	Express	Financial Services	Business Solutions	Central CTT Struture	Non allocated assets	Total
Intangible assets	2,333,026	6,509,789	732,371	1,377,606	2,432,233	712,474	14,097,499
Tangible fixed assets	211,604,737	11,794,081	919,900	7,600,093	28,925,660	4,639,756	265,484,227
Goodwill	—	18,683,586	406,101	8,381,371	—	—	27,471,058
Deferred tax assets	—	—	—	—	—	99,445,980	99,445,980
Account receivable	—	—	—	—	—	166,489,760	166,489,760
Other assets	—	—	—	—	—	41,650,734	41,650,734
Cash and cash equivalents	—	—	—	—	—	480,073,674	480,073,674
	213,937,763	**36,987,456**	**2,058,372**	**17,359,070**	**31,357,893**	**793,012,378**	**1,094,712,931**

Debt by segment is detailed as follows:

Other information	2012 Mail	Express	Financial Services	Business Solutions	Central CTT Struture	Total
Medium and long term debt	**2,104,100**	**1,784,902**	**—**	**671,700**	**—**	**4,560,702**
Bank loans	—	45,785	—	—	—	45,785
Leasings	2,104,100	1,739,117	—	671,700	—	4,514,917
Short term debt	**453,145**	**2,989,353**	**—**	**418,990**	**2,995,872**	**6,857,360**
Bank loans	—	2,467,562	—	83,476	2,995,872	5,546,910
Leasings	453,145	521,791	—	335,514	—	1,310,450
	2,557,245	**4,774,255**	**—**	**1,090,690**	**2,995,872**	**11,418,062**

Other information	2011 Mail	Express	Financial Services	Business Solutions	Central CTT Struture	Total
Medium and long term debt	**2,564,578**	**2,365,140**	**—**	**1,009,603**	**4,621**	**5,943,942**
Bank loans	—	114,747	—	—	—	114,747
Leasings	2,564,578	2,250,393	—	1,009,603	4,621	5,829,195
Short term debt	**437,686**	**4,301,914**	**—**	**424,468**	**1,180**	**5,165,248**
Bank loans	—	3,712,526	—	43,066	—	3,755,592
Leasings	437,686	589,388	—	381,402	1,180	1,409,656
	3,002,264	**6,667,054**	**—**	**1,434,071**	**5,801**	**11,109,190**

Other information	2010 Mail	Express	Financial Services	Business Solutions	Central CTT Struture	Total
Medium and long term debt	**2,998,565**	**2,995,871**	**—**	**1,253,667**	**5,801**	**7,253,904**
Leasings	2,998,565	2,995,871	—	1,253,667	5,801	7,253,904
Short term debt	**434,994**	**5,577,230**	**—**	**312,581**	**700,618**	**7,025,423**
Bank loans	—	4,999,356	—	—	699,438	5,698,794
Leasings	434,994	577,874	—	312,581	1,180	1,326,629
	3,433,559	**8,573,101**	**—**	**1,566,248**	**706,419**	**14,279,327**

4. SEGMENT REPORTING (Continued)

The Group CTT is domiciled in Portugal. The result of its revenues by geographical segment is disclosed below:

Thousand of Euro	2012	2011	2010
Revenue—Portugal	623,351	668,220	705,053
Revenue—other countries	75,981	73,630	74,813
	699,332	741,850	779,866

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

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

5. TANGIBLE FIXED ASSETS

During the years ended on 31 December 2012, 2011 and 2010, the movement which occurred in the carrying value of the "Tangible fixed assets", as well as the respective accumulated depreciation, 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	Advance payments to suppliers	Total
Tangible fixed assets									
Opening balance	44,611,520	375,183,725	147,698,948	3,558,117	116,129,241	30,216,949	2,089,368	1,885,722	721,373,590
Acquisitions	—	3,810,255	4,163,091	53,967	914,871	1,522,788	328,466	542,194	11,335,632
Disposals	(162,109)	(498,500)	(4,473,864)	—	(321,114)	(4,213)	—	—	(5,459,800)
Transfers and write-offs	—	1,047,890	1,499,396	(228)	(35,406,106)	(8,085,039)	(1,952,374)	(2,277,742)	(45,174,203)
Adjustments	(3,448)	(4,014)	—	(11,222)	(1,509)	(209,831)	—	—	(230,024)
Other changes	—	—	(646)	2,399	(420,134)	(6,853)	(235,352)	—	(660,586)
Closing balance	44,445,963	379,539,356	148,886,925	3,603,033	80,895,249	23,433,801	230,108	150,174	681,184,609
Accumulated and depreciation impairment losses									
Opening balance	4,200,150	184,602,605	128,326,275	3,028,654	108,528,398	23,440,623	—	—	452,126,705
Depreciation for the period	—	9,853,138	5,345,507	224,617	3,259,221	1,253,583	—	—	19,936,066
Disposals	—	(149,375)	(4,473,864)	—	(321,114)	(4,213)	—	—	(4,948,566)
Transfers and write-offs	—	—	(425,138)	(228)	(37,557,142)	(7,115,902)	—	—	(45,098,410)
Impairment losses	—	502,113	—	—	—	—	—	—	502,113
Adjustments	—	—	—	—	—	—	—	—	—
Other changes	—	—	(168,881)	(9,640)	(238,553)	7,063	—	—	(410,011)
Closing balance	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	359,630	7,224,439	5,852,647	230,108	150,174	259,076,712

(Amounts expressed in Euro)

5. TANGIBLE FIXED ASSETS (Continued)

	2011								
	Land and natural resources	**Buildings and other constructions**	**Basic equipment**	**Transport equipment**	**Office equipment**	**Other tangible fixed assets**	**Tangible fixed assets in progress**	**Advance payments to suppliers**	**Total**
Tangible fixed assets									
Opening balance	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	22,333,920	—	—	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	23,440,623	—	—	452,126,705
Net Tangible fixed assets	40,411,370	190,581,120	19,372,673	529,463	7,600,843	6,776,326	2,089,368	1,885,722	269,246,885

	2010								
	Land and natural resources	**Buildings and other constructions**	**Basic equipment**	**Transport equipment**	**Office equipment**	**Other tangible fixed assets**	**Tangible fixed assets in progress**	**Advance payments to suppliers**	**Total**
Tangible fixed assets									
Opening balance	42,826,937	349,248,893	140,423,247	3,357,010	138,615,754	27,856,336	9,298,798	405,590	712,032,565
Acquisitions	810,865	12,992,173	2,382,788	278,885	1,409,279	2,563,844	1,279,558	2,822,733	24,540,125
Disposals	(2,622)	(150,083)	(2,304,476)	(117,341)	(185,270)	(103,484)	—	—	(2,863,276)
Transfers and write-offs	9,728	7,334,584	159,548	—	(28,153,714)	(795,184)	(7,505,807)	(1,281,257)	(30,232,102)
Other changes	—	—	—	8,849	(72,407)	(432,199)	—	(34,987)	(530,744)
Closing 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
Accumulated depreciation									
Opening balance	3,971,019	167,610,745	122,477,679	2,832,272	131,733,555	21,394,322	—	—	450,019,592
Depreciation for the period	—	8,632,521	6,077,300	215,774	3,420,696	1,062,250	—	—	19,408,541
Disposals	(230)	(104,525)	(2,302,036)	(117,341)	(209,240)	(103,484)	—	—	(2,836,856)
Transfers and write-offs	—	(15,358)	(57,679)	—	(28,964,551)	(19,168)	—	—	(29,056,756)
Other changes	—	—	—	1,291	(73,471)	—	—	—	(72,180)
Closing balance	3,970,789	176,123,383	126,195,264	2,931,996	105,906,989	22,333,920	—	—	437,462,341
Net tangible fixed assets	39,674,119	193,302,184	14,465,843	595,407	5,706,653	6,755,393	3,072,549	1,912,079	265,484,227

Land and natural resources and Buildings and other constructions include 6,668,577 Euro related to land and property in co-ownership with PT Communications, S.A..

As a result of the change in the Concession contract in July 2006, at the end of the concession the assets included in the public and private domain of the State revert at no cost to the conceding entity, while under the previous concession contract, all the assets allocated to the concession reverted to the Portuguese State. Since the postal network belongs exclusively to CTT, not being a public domain asset, only the assets that belong to the State revert to it, and as such, at the end of the concession the CTT Group will continue

5. TANGIBLE FIXED ASSETS (Continued)

to own its assets. The Board of Directors, supported by its legal advisors, believes that CTT's assets do not include any public or private domain assets of the Portuguese State.

During the year ended on 31 December 2012, the most significant movements in Tangible Fixed Assets are the following:

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 Euro) and properties where they are tenants (670,207 Euro). On the other hand, note should be made of the investment made by CTT Expresso, especially the Logistics expansion works (1,348 thousand Euro) and the works executed in the Operating Centres of Prior Velho and Viseu, for a total of approximately 204,000 Euro. The investment upgrading various facilities of Tourline, which amounted to approximately 154,000 Euro.

The transfers (1,047,890 Euro), refer to works that were in progress in CTT and CTT Expresso, which were transferred to fixed assets.

The Group has some properties with evidence that might be impaired and so, that 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 Euro (Note 38).

Basic equipment:

The amount concerning acquisitions and transfers (5,662 thousand Euro) relate to direct purchases or warehouse outputs, of the following types of assets:

- Upgrades to indexing machines (optical readers): 580,771 Euro
- Upgrades to sorting machines: 1,276,137 Euro (CTT) and 905,000 Euro in CTT Expresso;
- Heavy goods vehicles: 26 vehicles and 4 trailers at CTT (2,255,340 Euro) plus the investment made of CTT Expresso in 5 heavy goods vehicles, worth approximately 218 thousand Euro;

The recorded disposals, amounting to 4,473,864 Euro, relate to the sale of several assets of CTT, which were fully depreciated namely:

- Vehicles (3,979,151 Euro), being 1 mixed passenger vehicle (7,939 Euro), 65 goods vehicles (681,066 Euro) and 47 heavy goods vehicles (3,290,146 Euro), which generated capital gains in the amount of 137,000 Euro;
- A variety of postal equipment (156,608 Euro), in particular the sale of 21 strapping machines.

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 Euro.

Office equipment:

Acquisitions and transfers relates to acquisitions or warehouse outputs, which are mainly IT equipment (2,348 thousand Euro) and postal furniture (about 158 thousand Euro). Additionally, the Group acquired 3,000 automatic payment terminals (APT), to be installed in the CTT Stores network, around 422 thousand Euro, as well as the expenditure of 289 thousand Euro relative to the roll-out of NAVE. The investment made by Tourline, relates to IT equipment allocated to the SGC, in the amount of approximately 1 million Euro.

5. TANGIBLE FIXED ASSETS (Continued)

Other tangible fixed assets:

The acquisitions (1,522,788 Euro) mainly relates to of this type of assets, mainly refers to the acquisition of prevention and safety equipment (714,425 Euro), communication equipment (60 thousand Euro), as well as the acquisition of a variety of warehouse equipment (referred to as assets not allocated to the operations), around 681 thousand Euro.

Tangible fixed assets in progress:

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

The increases recorded in this heading refer to the advances granted to suppliers relating to the roll-out of NAVE (289 mil Euro), as well as about 224 thousand Euro 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 amount to 19,936,066 Euro (18,884,142 Euro in 2011 and 19,408,541 Euro in 2010), were stated in the heading "Depreciation/amortisation and impairment of investments, net" (Note 38).

Contractual commitments relative to Tangible Fixed Assets are as follows:

(i) *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 2012 year end, on 22 March 2013, for 315,000 Euro.

(ii) *Basic equipment*

Acquisition of trays holders from Caddie Portugal amounted 120 thousand Euro, of a lift-truck from Manitou amounted 18 thousand Euro, of labelling machines from Burótica amounted 17.2 thousand Euro and a firewall from PT Prime of the value of 10.8 thousand Euro.

(Amounts expressed in Euro)

6. INTANGIBLE ASSETS

During the years ended on 31 December 2012, 2011 and 2010, the movement which occurred in the main categories of intangible assets, as well as the respective accumulated amortisation, was as follows:

	2012					
	Development projects	Computer 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
Disposals	—	—	—	—	—	—
Transfers and write-offs	—	3,513,452	—	(3,517,602)	—	(4,150)
Adjustments	—	—	799,449	—	—	799,449
Other changes	—	(55,519)	(42,860)	157,237	—	58,858
Closing balance	4,325,692	33,546,260	11,687,619	2,925,511	22,366	52,507,448
Accumulated amortisation						
Opening balance	4,325,692	23,294,861	6,241,040	—	—	33,861,593
Amortisation for the period	—	3,530,961	665,361	—	—	4,196,322
Transfers and write-offs	—	(4,150)	—	—	—	(4,150)
Other variations	—	(26,048)	124,671	—	—	98,623
Closing balance	4,325,692	26,795,624	7,031,072	—	—	38,152,388
Net intangible assets	—	6,750,636	4,656,547	2,925,511	22,366	14,355,060

	2011					
	Development projects	Computer 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	3,106,919	199,386	—	—	3,306,318
Transfers and write-offs	—	(33,378)	—	—	—	(33,378)
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

(Amounts expressed in Euro)

6. INTANGIBLE ASSETS (Continued)

	2010					
	Development projects	Computer Software	Industrial property	Intangible assets in progress	Advance payments to suppliers	Total
Intangible assets						
Opening balance	4,325,692	21,202,669	9,687,432	1,768,704	—	36,984,497
Acquisitions	—	4,737,373	1,063,261	646,651	—	6,447,285
Transfers and write-offs	—	949,866	—	304,504	—	1,254,370
Closing balance	4,325,692	26,889,908	10,750,693	2,719,859	—	44,686,152
Accumulated depreciation						
Opening balance	3,750,923	16,205,045	5,855,530	—	—	25,811,498
Amortisation for the year	574,756	3,983,824	186,124	—	—	4,744,704
Transfers and write-offs	—	32,451	—	—	—	32,451
Closing balance	4,325,679	20,221,320	6,041,654	—	—	30,588,653
Net intangible assets	13	6,668,588	4,709,039	2,719,859	—	14,097,499

The increases in Computer Software and intangible assets in progress during 2012, related to the costs (internal and external) of the implementation of IT projects, namely, the following: "Bank Reconciliation" (78.5 thousand Euro), "Internal Information System" (39 thousand Euro), "Reference Information" (33.5 thousand Euro); "Geo10" (300 thousand Euro), "Reformulation of Money Orders "(23.5 thousand Euro);" Sigest "(80 thousand Euro)," Corporate Portal "(127 thousand Euro) and" E-Procurement "(59 thousand Euro).

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

The transfers occurred in 2012 in Intangible Assets in progress refer to IT projects, which were completed during the year.

The amounts of 339,584 Euro, 328,148 Euro and 449,175 Euro capitalized in IT software on intangible assets in progress in 2012, 2011 and 2010, respectively, relates to the staff costs involved in the development of these projects.

As at 31 December 2012 intangible assets in progress relate to IT projects which are under development, of which the most relevant are:

	2012
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 adjustments includes the amount of 726,526 Euro relate to the recognition, in the entity CORRE—Correio Expresso Moçambique, S.A., of the EMS licence.

The amortisation amounting to 4,196,322 Euro (3,306,320 Euro in 2011 and 4,744,704 Euro in 2010) was recorded in the heading "Depreciation / amortisation and impairment of investments, net" (Note 38).

(Amounts expressed in Euro)

6. INTANGIBLE ASSETS (Continued)

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

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

DEVELOPMENT PROJECTS

During the financial years ended on 31 December 2012, 2011 and 2010 no expenses were recorded related to development projects.

7. INVESTMENT PROPERTIES

As at 31 December 2012, 2011 and 2010, the Group has the following assets classified as investment properties:

	2012			
	Land and natural resources	**Buildings and other constructions**	**Real estate investment in progress**	**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**	**Real estate investment in progress**	**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

(Amounts expressed in Euro)

7. INVESTMENT PROPERTIES (Continued)

	2010			
	Land and natural resources	Buildings and other constructions	Real estate investment in progress	Total
Investment properties				
Opening balance	2,889,672	760,840	347,659	3,998,171
Additions	—	—	110,176	110,176
Transfers	—	457,835	(457,835)	—
Closing balance	2,889,672	1,218,675	—	4,108,347
Accumulated depreciation				
Opening balance	—	477,262	—	477,262
Depreciation for the period	—	68,533	—	68,533
Closing balance	—	545,795	—	545,795
Net investment properties	2,889,672	672,880	—	3,562,552

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 conducted by independent entities, recorded for land and buildings as at 31 December 2012, amounts to 2,937 thousand Euro (31 December 2011: 5,178 thousand Euro and 31 December 2010: 5,171 thousand Euro) and 170 thousand Euro (31 December 2011: 170 thousand Euro and 31 December 2010: 1,219 thousand Euro), 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 Euro (61,845 Euro in 2011 and 68,533 Euro in 2010) 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 Euro, recorded under the caption "Other Operating Costs" (Note 39).

For the years ended on 31 December 2012, on December 2011 and on December 2010, there were no records concerning impairment losses on investment properties.

(Amounts expressed in Euro)

8. COMPANIES INCLUDED IN THE CONSOLIDATION

Subsidiary companies

As at 31 December 2012, 31 December 2011 and 31 December 2010, the parent company, CTT—Postal de Portugal, SA and the following subsidiaries in which it holds control were included in the consolidation:

		2012 - 2010		
		Percentage of ownership		
Company name	Head office	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
CTT Expresso—Serviços Postais e Logística, S.A. ("CTT Expresso")	Lugar do Quintanilho 2664-500 São Julião do Tojal	100	—	100
Payshop Portugal, S.A. ("Payshop")	Av. D. João II lote 01.12,03 1999-001 Lisbon	100	—	100
CTT GEST—Gestão de Serviços e Equipamentos Postais, S.A. ("CTT Gest")	Rua de S. José, 20 1166-001 Lisbon	100	—	100
Mailtec Holding, SGPS, S.A. ("Mailtec SGPS")	Estrada Casal do Canas, Edificio Mailtec, 2720-092 Amadora	100	—	100
Mailtec Comunicação , S.A. ("Mailtec TI")	Estrada Casal do Canas, Edificio Mailtec, 2720-092 Amadora	17.7	82.3	100
Mailtec Consultoria , S.A. ("Mailtec COM")	Estrada Casal do Canas, Edificio Mailtec, 2720-092 Amadora	10	90	100
Mailtec Processos, Lda. ("EQUIP")	Estrada Casal do Canas, Edificio Mailtec, 2720-092 Amadora	—	100	100
Tourline Express Mensajería, SLU. ("TourLine")	Calle Pedrosa C, 38-40 Hospitalet de Llobregat (08908)—Barcelona	100	—	100
EAD—Empresa de Arquivo de Documentação, S.A. ("EAD")	Parque Industrial Mata Lobos, Lote 2 Apartado 151 2950-901Palmela	51	—	51
Correio Expresso de Moçambique, S.A. ("CORRE")	Av. Zedequias Manganhela, 309 Maputo—Mozambique	50	—	50

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

(Amounts expressed in Euro)

8. COMPANIES INCLUDED IN THE CONSOLIDATION (Continued)

Joint ventures

As at 31 December 2012, 2011 and 2010, the Group held the following interests in joint ventures:

		2012			2011			2010		
		Percentage of ownership			Percentage of ownership			Percentage of ownership		
Company name	Head office	Direct	Indirect	Total	Direct	Indirect	Total	Directly	Indirectly	Total
Ti-Post Prestção de Serviços informáticos, ACE ("Ti-Post")	R. do Mar da China, Lote 1.07.2.3 Lisbon	49	—	49	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	49	—	49
PTP & F, ACE	Estrada Casal do Canas Amadora	—	51	51	—	51	51	—	51	51

Associated companies

As at 31 December 2012, 2011 and 2010, the Group held the following interests in associated companies registered thought the equity method:

		2012			2011			2010		
		Percentage of ownership			Percentage of ownership			Percentage of ownership		
Company name	Head office	Direct	Indirect	Total	Direct	Indirect	Total	Directly	Indirectly	Total
Multicert—Serviços de Certificação Electrónica, S.A. ("Multicert")	R. do Centro Cultural, 2 Lisbon	20	—	20	20	—	20	20	—	20
Payshop Moçambique, S.A.[(a)]	R. da Sé, 114-4º. Maputo—Mozambique	—	35	35	—	35	35	—	35	35
AB ADA Courier, SL[(b)]	Granada Spain	—	—	—	—	—	—	—	50	50
Mafelosa, SL[(b)]	Castellon Spain	—	25	25	—	25	25	—	25	25
Mensajeira Ugente Rioja Portalada, SL[(b)]	Logoroño Spain	—	—	—	—	—	—	—	25	25
Urpacksur, SL[(b)]	Malaga Spain	—	30	30	—	30	30	—	30	30

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

(b) Participation by Tourline Mensajeria S.A.

During the year ended on 31 December 2011, the companies AB ADA Courier, SL and Mensajeira Ugente Rioja Portalada, SL were sold.

Changes in the consolidation perimeter

During the year ended on 31 December 2012, there were no changes in the consolidation perimeter.

(Amounts expressed in Euro)

9. GOODWILL

As at 31 December 2012, 2011 and 2010, the Goodwill was made up as follows:

Company	Year of acquisition	2012	2011	2010
Mailtec Holding SGPS, S.A. (51%)	2004	582,970	582,970	582,970
Mailtec Consultoria, S.A.	2004	4,718	4,718	4,718
Mailtec Comunicação, S.A. (51%)	2004	69,767	69,767	69,767
Payshop Portugal, S.A.	2004	406,101	406,101	406,101
Mailtec Holding SGPS, S.A. (49%)	2005	6,641,901	6,641,901	6,641,901
Tourline Express Mensajería, SLU	2005	16,592,248	16,592,248	18,238,847
Tourline Express Mensajería, SLU (other)	2005	444,739	444,739	444,739
EAD—Empresa de Arquivo de Documentação, S.A.	2006	786,164	786,164	1,082,015
		25,528,608	25,528,608	27,471,058

During the years ended on 31 December 2012, 2011 and 2010, the movements in Goodwill were as follows:

	2012	2011	2010
Opening balance	25,528,608	27,471,058	30,140,142
Impairment	—	(1,942,450)	(2,669,084)
Closing balance	25,528,608	25,528,608	27,471,058

As at 31 December 2011 and 2010 the Group recognized impairment losses of 1,942,450 Euro and 2,669,084 Euro, respectively, related to the Goodwill of Tourline Express Mensajeria and EAD, as showed below. This was due to a degradation of operational results of these subsidiaries, namely as result of the economic crisis in Spain, effects that the Group incorporate in the review of the cash flows estimates.

Goodwill impairment assessment

The recoverable amount of goodwill is assessed annually or whenever there is indication of an eventual loss of value. The recoverable amount is determined based on the value 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, namely the following:

		2012			
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Growth perpetuity rate
Tourline Express Mensajeria, SLU	CEP and Logistics	Equity Value/DCF	5 years	12.14%	2.0%
EAD—Empresa de Arquivo de Documentação, S.A.	Custody and archive management	Equity Value/DCF	5 years	13.18%	2.0%
Mailtec Group	Documental services	Equity Value/DCF	5 years	13.48%	2.0%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	14.32%	2.0%

		2011			
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Growth perpetuity rate
Tourline Express Mensajeria, 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%

(Amounts expressed in Euro)

9. GOODWILL (Continued)

Company	Activity	2010 Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Growth rate in perpetuity
Tourline Express Mensajeria, SLU . .	CEP and Logistics	Equity Value/DCF	5 years	12.8%	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. As a consequence of this impairment analysis, the Group concluded that as at 31 December 2012 there were no impairment losses.

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

Company	2011 Year of acquisition	Initial value	Impairment losses for the period	Prior Year Accumulated impairment losses	Carrying value
Tourline Express Mensajería, SLU	2005	20,671,985	1,646,599	2,433,138	16,592,248
EAD—Empresa de Arquivo de Documentação, S.A.	2006	1,082,015	295,851	—	786,164
Payshop Moçambique, S.A.[(a)]	2008	235,946	—	235,946	—
		21,989,946	1,942,450	2,669,084	17,378,412

Company	2010 Year of acquisition	Initial value	Impairment losses for the period	Prior Year Accumulated impairment losses	Carrying value
Tourline Express Mensajería, SLU	2005	20,671,985	2,433,138	—	18,238,847
Payshop Moçambique, S.A.[(a)]	2008	235,946	235,946	—	—
		20,907,931	2,669,084	—	18,238,847

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

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

(Amounts expressed in Euro)

9. GOODWILL (Continued)

The results of the sensitivity analyses for PayShop, EAD and Mailtec Group do not indicate impairment. Regarding Tourline, the results of the sensitivity analyses conclude that a 1% increase in the discount rate would lead to an impairment loss in 2012 amounting to 1,460,824 Euro, according to the following tables:

Variation of perpetuity growth

Tourline	−0.5%	0.0%	0.5%
g (Growth perpetuity rate)	1.5%	2.0%	2.5%
Equity Assessment	21,794,050	22,630,972	23,554,689
Test: impairment (if negative)	561,344	1,398,266	2,321,983

Mailtec	−0.5%	0.0%	0.5%
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	−0.5%	0.0%	0.5%
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	−0.5%	0.0%	0.5%
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

Tourline	−1%	0%	1%
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	−1%	0%	1%
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	−1%	0%	1%
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	−1%	0%	1%
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

(Amounts expressed in Euro)

10. INVESTMENTS IN ASSOCIATED COMPANIES

As at 31 December 2012, 2011 and 2010, the investments in associated companies were as follows:

	2012	2011	2010
Multicert, S.A.	689,734	552,343	500,620
Mensajeria Urgente Rioja Portalada, SL	—	—	13,000
Urpacksur, SL	481	481	481
Loans granted	—	—	71,544
	690,215	552,824	585,645

Investments in associated companies

For the years ended on 31 December 2012, 2011 and 2010, the investments in associated companies had the following movement:

	Head office	2012 Assets	Liabilities	Equity	Net profit	% held	Investments	Provisions	Proportion of net profit
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 Moçambique, S.A.[b]	Maputo—Mozambique	271,930	953,017	(681,086)	(41,288)	35%	—	220,816	(14,451)
Mafelosa, SL[c][d]	Castellon—Spain	n.d.	n.d.	(340,333)	(93,161)	25%	—	—	n.d.
Urpacksur[c][e]	Spain	n.d.	n.d.	1,924	n.d.	30%	481	—	n.d.
							690,215	220,816	240,140

	Head office	2011 Assets	Liabilities	Equity	Net profit	% held	Investments	Provisions	Proportion of net profit
Associated companies:									
Multicert—Serviços de Certificação Electrónica, S.A.[a]	Lisbon	4,167,165	2,013,746	2,761,718	258,618	20%	552,343	—	51,724
Payshop Moçambique, 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.
Urpacksur[c][e]	Spain	n.d.	n.d.	1,924	n.d.	30%	481	—	n.d.
							552,824	222,205	84,594

	Head office	2010 Assets	Liabilities	Equity	Net profit	% held	Investments	Provisions	Proportion of net profit
Associated companies:									
Multicert—Serviços de Certificação Electrónica, S.A.	Lisbon	3,521,451	1,018,352	2,503,099	403,630	20%	500,620	—	80,726
Payshop Moçambique, S.A.[b]	Maputo—Mozambique	280,382	926,748	(646,096)	(257,145)	35%	—	226,164	(62,509)
ADA Courier, SL[c]	Granada—Spain	145,317	821,999	(676,682)	(72,851)	50%	—	—	n.d.
Mafelosa, SL[c][d]	Castellon—Spain	n.d.	n.d.	(340,333)	(93,161)	25%	—	—	n.d.
Mensajeria Urgente Rioja Portalada[c][d]	Spain	n.d.	n.d.	86,083	n.d.	25%	13,000	—	n.d.
Urpacksur[c][e]	Spain	n.d.	n.d.	1,924	n.d.	30%	481	—	n.d.
							514,101	226,164	18,217

(a) Data reported on December 2010 (last available)

(b) Participation by Payshop Portugal. Data reported on March 2012

(c) Participation by Tourline Express Mensajeria

(d) Data reported on 2008

(e) Data reported on 2007

(f) Provisional data from 2012. The proportion of net profit includes profit from 2011

(Amounts expressed in Euro)

11. OTHER INVESTMENTS

The other investments assets include non-listed capital instruments whose fair value cannot be reliably measured. The amounts of these instruments recognised at cost at 31 December 2012, 2011 and 2010 were as follows:

Company	Head office	2012	2011	2010
IPC—International Post Corporation	Brussels—Belgium	6,157	6,157	6,157
Eurogiro Network	Copenhagen—Denmark	124,435	124,435	124,435
CEPT	Copenhagen—Denmark	237	237	237
		130,829	130,829	130,829

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

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

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

12. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

Credit risk

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

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

(Amounts expressed in Euro)

12. FINANCIAL RISK MANAGEMENT (Continued)

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

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

The movement of impairment losses of accounts receivable is disclosed in Notes 19 and 37. As at 31 December 2012, 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, 2011 and 2010, the heading "Cash and cash equivalents" included cash deposits investments amounted to 444,947,000 Euro, 386,391,158 Euro and 407,721,455 Euro, respectively (Note 17).

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

	2012	2011	2010
Other non-current assets	2,018,619	6,004,988	851,723
Accounts receivable	135,317,556	164,395,448	166,489,760
Other current assets	16,222,215	20,294,343	16,686,827
Cash and cash equivalents	477,164,527	403,702,627	465,545,254
	630,722,917	594,397,406	649,573,564

Interest rate risk

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

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

The investment of surplus liquidity, for the years ended on 31 December 2012, 2011 and 2010, generated interest income of 12,381,658 Euro, 16,094,975 Euro and 6,581,785 Euro, respectively (Note 40).

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

If the interest rates had been lower by 1%, during the year ended on 31 December 2012, the earnings before taxes would have been lower by 3,852 thousand Euro (31 December 2011: 3,622 thousand Euro; 31 December 2010: 3,673 thousand Euro).

Foreign currency exchange rate risk

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

(Amounts expressed in Euro)

12. FINANCIAL RISK MANAGEMENT (Continued)

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, 2011 and 2010, the net exposure (assets minus liabilities) of the Group amounted to negative 1,192,621 SDR (1,390,394 Euro at the exchange rate €/SDR 1.16583), 1,145,356 SDR (1,359,011 Euro at the exchange rate €/SDR of 1.18654) and 502,647 SDR (582,903 Euro at the exchange rate €/SDR of 1.15966), respectively.

Based in the sensitivity analysis performed to the balances of accounts receivable and payable to foreign Postal Operators, on 31 December 2012, 2011 and 2010, assuming an increase / decrease in the exchange rate €/SDR of 10%, the impact on the earnings before taxes would have been lower 139,039 Euro, higher 135,901 Euro and higher 58,290 Euro, respectively.

Liquidity risk

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

The principal contractual obligations of the Group are related to the funding received (essentially financial leases) and respective interest, the employees' benefits, the operating leases and other non-contingent financial commitments. The following table detailed the expected contractual obligations and financial commitments as at 31 December 2012, 2011 and 2010 do not reconcile with consolidated balance sheet:

	2012			
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	6,898,820	4,625,694	—	11,524,514
Accounts payable	343,598,366	—	—	343,598,366
Other current liabilities	10,220,456	—	—	10,220,456
Non-finanacial liabilities				
Operating leases	9,100,531	8,509,807	—	17,610,338
Non-contingent financial commitments(1)	166,026	—	—	166,026
	369,984,199	13,135,501	—	383,119,700

	2011			
	Within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	5,331,272	5,150,172	1,150,736	11,632,180
Accounts payable	341,388,615	—	—	341,388,615
Other current liabilities	8,497,806	—	—	8,497,806
Non-finanacial liabilities				
Operating leases	10,448,851	14,553,876	420,000	25,422,727
Non-contingent financial commitments(1)	276,456	—	—	276,456
	365,943,000	19,704,048	1,570,736	387,217,784

(Amounts expressed in Euro)

12. FINANCIAL RISK MANAGEMENT (Continued)

	2010			
	Within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	7,122,346	5,843,477	1,624,083	14,589,906
Accounts payable	392,708,804	—	—	392,708,804
Other current liabilities	9,097,160	—	—	9,097,160
Non-finanacial liabilities				
Operating leases	10,159,839	14,482,398	420,000	25,062,237
Non-contingent financial commitments[1]	4,726,000	—	—	4,726,000
	423,814,149	20,325,875	2,044,083	446,184,107

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

Capital risk

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

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

The balance of capital structure group is monitoring on the basis of the adjusted solvency ratio, calculated as: Equity / (Liabilities, less amounts of third parties in Cash and cash equivalents).

During 2012, the group's strategy, which was unchanged from 2011 and 2010, was to maintain the solvency ratio higher than 35%. The solvency ratio at 31 December 2012, 2011 and 2010 was as follows:

	2012	2011	2010
Equity	273,481,153	274,425,947	251,447,235
Liabilities	789,699,096	776,984,232	843,265,696
Amounts of third parties	249,222,509	233,566,515	295,450,369
Adjusted solvency ratio[1]	50.6%	50.5%	45.9%

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

13. INVENTORIES

As at 31 December 2012, 2011 and 2010, the Group's Inventories are detailed as follows:

	2012			2011			2010		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Merchandise	5,687,910	1,903,511	3,784,399	7,148,329	3,275,093	3,873,236	6,447,860	2,854,170	3,593,690
Raw, subsidiary and consumable materials	3,583,586	715,248	2,868,338	3,966,757	1,616,011	2,350,746	4,072,866	1,339,779	2,733,086
Advances on purchases	58,002	—	58,002	82,016	—	82,016	185,883	—	185,883
	9,329,498	2,618,759	6,710,739	11,197,102	4,891,104	6,305,998	10,706,609	4,193,949	6,512,659

(Amounts expressed in Euro)

13. INVENTORIES (Continued)

Cost of sales

During the years ended on 31 December 2012, 2011 and 2010, the details of the "Cost of sales" were as follows:

	2012		
	Merchandise	Raw, materials and consumable	Total
Opening balance	7,148,329	3,966,757	11,115,086
Purchases	13,767,171	3,623,185	17,390,356
Offers	(105,661)	(20,691)	(126,352)
Adjustments	(377,410)	(186,804)	(564,214)
Closing balance	(5,687,910)	(3,583,586)	(9,271,496)
Cost of sales	14,744,519	3,798,861	18,543,380

	2011		
	Merchandise	Raw, materials and consumable	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 sales	14,545,511	3,807,191	18,352,702

	2010		
	Merchandise	Raw materials and consumable	Total
Opening balance	6,470,748	4,404,473	10,875,221
Purchases	13,559,063	3,944,796	17,503,859
Offers	(60,556)	(24,926)	(85,482)
Adjustments	(421,952)	(345,934)	(767,886)
Closing balance	(6,447,860)	(4,072,866)	(10,520,726)
Cost of sales	13,099,443	3,905,543	17,004,986

Impairment

For the years ended on 31 December 2012, 2011 and 2010, the movement in "Accumulated impairment losses of inventories" (Note 19) was as follows:

	2012				
	Opening balance	Increases	Reversals	Reduction	Closing balance
Merchandise	3,275,093	—	(1,371,582)	—	1,903,511
Raw, materials and consumable	1,616,011	83,575	(840,103)	(144,235)	715,248
	4,891,104	83,575	(2,211,685)	(144,235)	2,618,759

(Amounts expressed in Euro)

13. INVENTORIES (Continued)

	2011				
	Opening balance	Increases	Reversals	Reduction	Closing balance
Merchandise	2,854,170	420,923	—	—	3,275,093
Raw, materials and consumable	1,339,779	276,232	—	—	1,616,011
	4,193,949	697,155	—	—	4,891,104

	2010				
	Opening balance	Increases	Reversals	Reduction	Closing balance
Merchandise	2,727,005	127,165	—	—	2,854,170
Raw materials and consumable	1,134,918	240,109	—	(35,248)	1,339,779
	3,861,923	367,274	—	(35,248)	4,193,949

For the years ended on 31 December 2012, 2011 and 2010, impairment losses of inventories were recorded net of reversals amounting to 2,128,110 Euro, 697,155 Euro and 332,026 Euro, respectively, in the heading "Impairment of inventories and accounts receivable net" (Note 37).

Due to new perspectives of use of the inventory, CTT partially reversed in 2012 the impairment losses recognised in prior years.

14. ACCOUNTS RECEIVABLE

As at 31 December 2012, 2011 and 2010 the heading "Accounts receivable" showed the following composition:

	2012	2011	2010
Customers	135,317,364	164,395,256	166,489,568
Associated companies	192	192	192
	135,317,556	164,395,448	166,489,760

Customers

As at 31 December 2012, 2011 and 2010, the ageing of the balance of the heading "Customers" is detailed as follows:

	2012			2011			2010		
	Gross amount	Accumulated impairment	Carrying value	Gross amount	Accumulated impairment	Carrying value	Gross amount	Accumulated impairment	Carrying value
Current									
Not due	57,237,067	491	57,236,576	65,652,014	—	65,652,014	58,893,718	—	58,893,718
Past due:									
0 - 30 days	23,368,767	9,030	23,359,737	24,978,505	2,983	24,975,522	36,634,907	640,091	35,994,816
30 - 90 days	14,407,624	5,692	14,401,932	13,271,817	47,232	13,224,585	15,051,133	366,118	14,685,015
90 - 180 days	4,680,277	26,451	4,653,826	10,766,446	86,058	10,680,388	11,436,466	498,704	10,937,762
180 - 360 days	9,718,075	1,660,503	8,057,572	24,971,589	1,005,569	23,966,020	21,275,611	1,164,352	20,111,259
> 360 days	48,218,580	20,610,859	27,607,721	46,023,585	20,126,858	25,896,727	45,909,648	20,042,650	25,866,998
	157,630,390	22,313,026	135,317,364	185,663,956	21,268,700	164,395,256	189,201,483	22,711,915	166,489,568

(Amounts expressed in Euro)

14. ACCOUNTS RECEIVABLE (Continued)

The gross amount of accounts receivable overdue over 360 days was as follows:

	2012	2011	2010
National accounts receivable	2,954,905	3,989,792	3,570,802
Foreign operators	24,652,816	21,906,935	22,296,196
Total	27,607,721	25,896,727	25,866,998
Foreign operators—payable	(26,270,998)	(20,711,158)	(18,888,749)

The caption of Foreign Operators relates to receivables associated with the distribution of postal traffic in Portugal with origin in other countries. These operations fall within the scope of the regulation of Universal Postal Union (UPU), that establish the closing of the accounts on an annual basis which therefore is only made after year end and originated the significant amount of overdue of more than 360 days with these customers.

Regarding UPU regulation, the accounts between Foreign Operators are cleared by netting accounts. The credit risk is mitigated by the accounts payable balances related to these entities (note 28).

The balance of national customers includes receivables of public entities and other clients that are also suppliers which will be netted with accounts payables balances and customers with debt payment plans.

During 2012, 88 new customer contracts were signed, representing 1.5% of the total contract assets.

For the national customers, the bank guarantees and advance deposits coverage over the customers receivables increased from 1.6% in 2010 to 1.8% in 2011 and to 2.3% in 2012.

	2012	2011	2010
Advance deposits	1,952,293	2,055,749	1,713,938
Bank guarantees	273,674	273,674	273,674
Total	2,225,967	2,329,423	1,987,612

Customer impairments

For the years ended on 31 December 2012, 2011 and 2010, the movement 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

(Amounts expressed in Euro)

14. ACCOUNTS RECEIVABLE (Continued)

	2010					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Customers	20,544,134	3,376,994	(1,172,888)	(36,325)	—	22,711,915
	20,544,134	3,376,994	(1,172,888)	(36,325)	—	22,711,915

For the years ended on 31 December 2012, 2011 and 2010, impairment losses of accounts receivable were recorded (net of reversals) amounting to, 2,490,567 Euro, 1,956,549 Euro and 2,204,106 Euro, respectively in the heading "Impairment of inventories and accounts receivable, net" (Note 37).

15. DEFERRALS

As at 31 December 2012, 2011 and 2010, the Deferrals included in current assets and current and non-current liabilities showed the following composition:

	2012	2011	2010
Assets deferrals			
Current			
Rents payable	1,479,225	1,170,713	1,046,612
Meal allowances	1,772,639	1,865,875	1,963,056
Works on rented buildings	—	—	560,479
Other	2,342,972	2,458,239	2,407,702
	5,594,836	5,494,827	5,977,849
Liabilities deferrals			
Non-current			
Deferred capital gains	10,874,369	13,273,398	19,537,206
Tangible fixed assets	372,832	387,956	—
Other	75,424	43,597	33,000
	11,322,625	13,704,951	19,570,206
Current			
Deferred capital gains	2,399,029	2,399,029	3,043,159
Phone-ix top ups	572,687	680,860	691,916
Tangible fixed assets	11,267	7,410	—
Other	1,385,983	1,588,644	2,405,615
	4,368,966	4,675,943	6,140,690
	15,691,591	18,380,894	25,710,896

In prior years the Company sold certain properties, which were subsequently leased by CTT. The gains on the sales were deferred and are being recognised over the period of the lease contracts.

During the years ended in 31 December 2012, 2011 and 2010, 2,399,029 Euro, 2,399,029 Euro and 3,043,159 Euro were recognized in the caption "Other operating income" in the consolidated income statement, respectively.

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

As at 31 December 2012, 2011 and 2010, the Group did not have non-current assets classified as held for sale, nor were there operations classified as discontinued operations.

(Amounts expressed in Euro)

17. CASH AND CASH EQUIVALENTS

As at 31 December 2012, 2011 and 2010, cash and cash equivalents correspond to the value of cash, sight deposits, time deposits and cash investments on the monetary market, net of bank overdrafts, is detailed as follows:

	2012	2011	2010
Cash	12,138,936	22,556,735	14,528,420
Sight deposits	32,217,527	17,311,469	57,823,799
Time deposits	444,947,000	386,391,158	407,721,455
Cash and cash equivalents (Consolidated balance sheet)	489,303,463	426,259,362	480,073,674
Bank overdrafts	—	—	—
Cash and cash equivalents (Consolidated cash flow statement)	489,303,463	426,259,362	480,073,674

18. OTHER NON-CURRENT AND CURRENT ASSETS

As at 31 December 2012, 2011 and 2010, the headings “Other non-current assets” and “Other current assets” had the following composition:

	2012	2011	2010
Non-current			
Advances to staff	312,243	282,300	570,018
Other receivables from staff	1,384,664	1,354,099	1,252,781
Ministry of Health	1,444,883	5,534,797	—
INESC loan	1,455,643	1,497,093	1,550,978
Impairment	(2,578,814)	(2,663,301)	(2,522,054)
	2,018,619	6,004,988	851,723
Current			
Advances to suppliers	49,803	57,170	41,916
Advances to staff	2,900,773	3,123,524	3,071,937
Ministry of Health	1,487,594	1,487,594	6,540,745
INESC loan	49,740	49,740	49,740
Postal financial services	9,461,390	13,838,233	5,113,542
State and other public entities	330,546	638,971	685,346
Debtors by accrued revenues	3,284,201	2,805,370	2,925,198
Amounts collected on our behalf	1,969,894	2,079,480	1,379,364
Pledges as collateral	331,899	307,478	293,631
CGA reimbursements	296,524	290,378	313,603
Advances to lawyers	236,220	142,987	112,347
Receivables from asset disposals	201,540	242,193	184,800
Other current assets	9,230,614	10,674,478	10,546,087
Impairment	(8,974,606)	(8,523,552)	(9,350,577)
	20,856,132	27,214,044	21,907,679

The account receivable from the Ministry of Health relates to the State’s contribution to health care costs for the years of 2000 to 2006, under the CTT health plan, which ceased on 31 December 2006. The change in this heading is due to payment of 4,594,703 Euro made by the Central Administration of the Health System (ACSS), according to a payment plan previously defined. The debt is recorded at amortized cost and classified based on schedule payment.

(Amounts expressed in Euro)

18. OTHER NON-CURRENT AND CURRENT ASSETS (Continued)

The amounts recorded in the heading "Postal financial services" refer to receivables from subscription of saving products and the marketing of insurance.

Debtors by accrued revenues

As at 31 December 2012, 2011 and 2010, the debtors by accrued revenues refer to accrued interest, values not invoiced, philatelic products, philatelic agents and other values not invoiced.

Impairment

For the years ended on 31 December 2012, 2011 and 2010, the movement 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

	2010					
	Opening balance	**Increases**	**Reversals**	**Reduction**	**Transfers**	**Closing balance**
Other accounts receivable	12,219,070	967,139	(2,914,296)	—	—	10,271,913
INESC loan	1,646,313	—	(45,595)	—	—	1,600,718
	13,865,383	967,139	(2,959,891)	—	—	11,872,631

For the years ended on 31 December 2012, 2011 and 2010, impairment losses (net increases of reversals) of "Other current and non-current assets" amounted to 435,851 Euro, 465,682 Euro and negative 1,992,752 Euro, respectively, in the heading "Impairment of inventories and accounts receivable, net" (Note 37).

(Amounts expressed in Euro)

19. ACCUMULATED IMPAIRMENT LOSSES

During the years ended on 31 December 2012, 2011 and 2010, the following movements occurred in the impairment losses:

	2012					
	Opening balance	Increases	Reversals	Utilization	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	Utilization	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

(Amounts expressed in Euro)

19. ACCUMULATED IMPAIRMENT LOSSES (Continued)

	2010					
	Opening balance	Increases	Reversals	Utilization	Transfers	Closing balance
Other non-current assets (Note 18)						
Other accounts receivable	1,020,558	—	(49,482)	—	—	971,076
INESC loan	1,596,573	—	(45,595)	—	—	1,550,978
	2,617,131	—	(95,077)	—	—	2,522,054
Other current assets (Notes 14 and 18)						
Customers	20,544,134	3,376,994	(1,172,888)	(36,325)	—	22,711,915
Other accounts receivable	11,198,512	967,139	(2,864,814)	—	—	9,300,837
INESC loan	49,740	—	—	—	—	49,740
	31,792,386	4,344,133	(4,037,702)	(36,325)	—	32,062,492
Inventories (Note 13)						
Merchandise	2,727,005	127,165	—	—	—	2,854,170
Raw materials and consumable	1,134,918	240,109	(35,248)	—	—	1,339,779
	3,861,923	367,274	(35,248)	—	—	4,193,949
	38,271,440	4,711,407	(4,168,027)	(36,325)	—	38,778,495

20. EQUITY

As at 31 December 2012, 2011 and 2010, the Company's share capital is composed of 17,500,000 shares fully underwritten and paid-up shares of with a nominal value of 4.99 Euro per share, fully owned by the Portuguese state.

21. RESERVES, ADJUSTMENTS IN INVESTMENTS AND RETAINED EARNINGS

Reserves

As at 31 December 2012, 2011 and 2010, the heading "Reserves" was detailed as follows:

	2012	2011	2010
Reserves	18,072,559	15,236,949	12,421,702
Other reserves	10,555,949	10,555,949	10,555,949
	28,628,508	25,792,898	22,977,651

Legal reserves

The commercial legislation establishes that at least 5% of the annual net profit must be allocated to reinforce the legal reserve, until it represents at least 20% of the share capital. This reserve is not distributable except in the event of the liquidation of the Company, but may be used to absorb losses after the other reserves have been depleted, or incorporated in the share capital.

Other reserves

This heading records the profits transferred to reserves that are not imposed by the law or statutes, nor constituted pursuant to contracts signed by the Company.

(Amounts expressed in Euro)

21. RESERVES, ADJUSTMENTS IN INVESTMENTS AND RETAINED EARNINGS (Continued)

Retained earnings

For the years concerning 31 December 2012, 2011 and 2010, the following movements were made in the heading "Retained earnings":

	2012	2011	2010
Opening balance	88,568,765	68,450,212	32,380,035
Application of net profit of the prior year	52,424,781	56,159,840	57,401,790
Distribution of dividends	(53,876,585)	(36,056,944)	(21,311,499)
Adjustments from the application of the equity method	(464,803)	(232,826)	(20,114)
Other movements	453,134	248,483	—
Closing balance	87,105,292	88,568,765	68,450,212

Other changes in equity

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, 2011 and 2010 the movements occurred in this heading were as follows:

	2012	2011	2010
Opening balance	15,850,935	12,312,295	(13,549,123)
Actuarial gains/losses—Health	24,265,693	4,984,000	36,424,532
Tax effect	(7,037,051)	(1,445,360)	(10,563,114)
Closing balance	33,079,577	15,850,935	12,312,295

22. DIVIDENDS

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

The General meeting held on 31 May 2011 approved the distribution of dividends of 36,056,944 Euro relative to 2010 was approved, which represented a dividend per share of 2.06 Euro. The payment was made to the shareholder on 30 June 2011.

The General Meeting held on 20 May 2010 approved the distribution of dividends of 21,311,499 Euro relative to 2009. The payment was made to the shareholder on 30 June 2010.

23. EARNINGS PER SHARE

During the years ended on 31 December 2012, 2011 and 2010, the earnings per share were calculated as follows:

	2012	2011	2010
Net profit for the period	35,735,268	55,260,391	58,975,088
Average number of ordinary shares	17,500,000	17,500,000	17,500,000
Earnings per share:			
Basic	2.04	3.16	3.37
Diluted	2.04	3.16	3.37

(Amounts expressed in Euro)

23. EARNINGS PER SHARE (Continued)

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

There are no dilutive factors of earnings per share.

24. NON-CONTROLLING INTERESTS

During the years ended on 31 December 2012, 2011 and 2010 the following movements occurred in non-controlling interests:

	2012	2011	2010
Opening balance	1,627,958	1,406,989	1,103,270
Net profit for the period attributable to non-controlling interests	232,002	422,843	275,382
Distribution of dividends	(252,452)	(201,874)	(157,351)
Change in the consolidation perimeter	—	—	185,688
Closing balance	1,607,508	1,627,958	1,406,989

As at the years ended on 31 December 2012, 2011 and 2010, non-controlling interests related to the following companies:

	2012	2011	2010
EAD—Empresa de Arquivo de Documentação, S.A.	1,467,632	1,537,513	1,296,490
Correio Expresso de Moçambique, S.A.	139,876	90,445	110,499
	1,607,508	1,627,958	1,406,989

25. DEBT

As at the years ended on 31 December 2012, 2011 and 2010, the debt was detailed as follows:

	2012	2011	2010
Bank loans	45,785	114,747	—
Leasing	4,514,917	5,829,195	7,253,904
	4,560,702	5,943,942	7,253,904
Bank loans	2,467,562	3,494,551	5,698,794
Leasing	1,310,451	1,409,656	1,326,629
Other loans	3,079,348	261,041	—
	6,857,361	5,165,248	7,025,423
	11,418,063	11,109,190	14,279,327

As at 31 December 2012, financial leases had interest rates between 0.71% and 1.12% (31 December 2011: between 1.74% and 2.62% and December 2010: between 1.3% and 3.4%) and other borrowings had interest rates between 0.81% and 5.24% (31 December 2011: 0.74% and 4.05% and 31 December 2010: 1.0% and 4.0%).

(Amounts expressed in Euro)

25. DEBT (Continued)

Bank loans and other loans

As at the years ended on 31 December 2012, 2011 and 2010, the details of the bank loans were as follows:

	2012			2011			2010				
		Amount used			Amount used			Amount used			
Financing entity	Limit	Current	Non-current	Limit	Current	Non-current	Limit	Current	Non-current	Maturity	Type of amortisation
Bank loans:											
Millennium BCP (Portugal)	—	—	—	—	—	—	700,000	699,438	—	—	—
Caixa Catalunya (Spain)	—	—	—	—	—	—	200,000	7,276	—	—	—
Banco Sabadell (Spain)	300,000	231,292	—	300,000	176,316	—	300,000	228,547	—	—	—
BBVA (Spain)	450,000	182,888	—	450,000	84,725	—	450,000	140,221	—	—	—
Millennium BCP (Spain)	5,000,000	1,997,353	—	5,000,000	3,182,063	—	5,000,000	4,623,312	—	—	—
BIM—(Mozambique)	218,270	56,029	45,785	218,270	51,447	114,747	—	—	—	8/24/2014	—
Other loans:											
Millennium BCP	5,000,000	2,995,873	—	—	—	—	—	—	—	1/2/2013	Bullet
Millennium BCP	250,000	83,475	—	—	—	—	—	—	—	1/2/2013	Bullet
Other	—	—	—	—	261,041	—	—	—	—	—	—
	11,218,270	5,546,910	45,785	5,968,270	3,755,592	114,747	6,650,000	5,698,794	—	—	—

The financing receive from Spanish banks is destined to finance the operating activity of the Tourline subsidiary, and the interest rates relate 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

As at the years ended on 31 December 2012, 2011 and 2010, the Group has the following assets under finance lease:

	2012			2011	2010
	Gross amount	Depreciation/ accumulated impairment losses	Carrying amount	Carrying amount	Carrying amount
Land	9,651,895	815,990	8,835,905	8,835,905	8,835,905
Buildings and other constructions	5,641,685	1,326,333	4,315,352	4,506,847	4,648,350
Basic equipment	1,914,855	1,193,080	721,775	1,162,693	1,257,756
Transport equipment	187,306	170,238	17,068	74,461	65,904
	17,395,741	3,505,641	13,890,100	14,579,906	14,807,915

The key contracts are the following:

CTT, S.A. is the lessee, under a leasing contract signed with IMOLEASING—Sociedade de locação financeira imobiliária, S.A., of a property in the municipality of Maia (Porto) where the new Mail Operating Centre is located. The type of lease contract determines its classification as a lease, namely by the fact there is an option to buy it for a residual value of approximately 6% of the contract, value considered significantly lower than the estimated market value at the end of the contract. There are no contingent rents payable nor any restrictions.

The subsidiary EAD is the lessee of:

(i) Contracts for the acquisition of two properties located in the Autonomous Region of Madeira and a property located in Vilar do Pinheiro;

(ii) Contracts for the acquisition of metal shelves for stowing client's archives;

(iii) Contracts for the acquisition of vehicles for use in operating activity.

(Amounts expressed in Euro)

25. DEBT (Continued)

The subsidiary CTT Expresso is the lessee of a property located in Perafita (Matosinhos) where is located the Operating Centre of the Northern Region, which includes an option to buy the asset at the end of the contract for a residual value considered significantly lower than the estimated market value at the end of the contract.

The monthly rents are calculated based on the initial contract value, and it is possible to exercise the purchase option by paying a residual value.

There are no other restrictions in the contracts that have been signed.

As at the years ended on 31 December 2012, 2011 and 2010, Group's liabilities with financial lease contracts presented the following plan of due dates:

	2012			2011			2010		
	Capital	Interest	Total	Capital	Interest	Total	Principal	Interest	Total
Due within 1 year	1,310,451	41,459	1,351,910	1,409,656	166,024	1,575,680	1,326,629	96,923	1,423,552
Due between 1 to 5 years	4,514,917	64,992	4,579,909	4,710,383	325,042	5,035,425	5,614,533	228,944	5,843,477
Over 5 years	—	—	—	1,118,812	31,924	1,150,736	1,639,371	27,021	1,666,392
	4,514,917	64,992	4,579,909	5,829,195	356,966	6,186,161	7,253,904	255,965	7,509,869
Total	5,825,368	106,451	5,931,819	7,238,851	522,990	7,761,841	8,580,533	352,888	8,933,421

For the years ended on 31 December 2012, 2011 and 2010, the values paid in relation to leasing interest amounted to 155,196 Euro, 167,782 Euro and 134,429 Euro, 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 years ended on 31 December 2012, 2011 and 2010, 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

	2010		
	Health care	Other long term benefits	Total
Opening balance	299,454,000	41,393,728	340,847,728
Movement of the year	(27,331,000)	(5,260,921)	(32,591,921)
Closing balance	272,123,000	36,132,807	308,255,807

(Amounts expressed in Euro)

26. EMPLOYEE BENEFITS (Continued)

The details of liabilities related to employee benefits, considering their chargeability, are as follows:

	2012	2011	2010
Non-current liabilities	282,065,364	300,975,316	285,190,208
Current liabilities	21,250,996	20,455,430	23,065,599
	303,316,360	321,430,746	308,255,807

As at the years ended on 31 December 2012, 2011 and 2010, the costs related to employee benefits recognised in the consolidated income statement were as follows:

	2012	2011	2010
Costs for the period			
Health care	17,608,000	18,576,000	21,115,000
Other long term benefits	7,803,116	14,057,944	(1,784,736)
	25,411,116	32,633,944	19,330,264

The costs relative to the heading "Other benefits" essentially 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 12,556,711 Euro for the current year ended on 31 December 2012, with the value of 11,147,551 Euro being recognised in staff costs.

Health care

As mentioned in Note 2.18, CTT is responsible for financing the health care plan applicable to certain employees. In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is made by an independent entity every year, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable.

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 $\triangle$ GDP < 2%)	Law no. 53-B/2006	Law no. 53-B/2006
Inflation rate	2.00%	2.00%	2.00%
Health costs growth rate			
—Inflation rate	2.00%	2.00%	2.00%
—Growth due to ageing	0% and 2013 and 2014 2% from that date	3.00%	3.00%
Demographic assumptions			
Mortality table	TV 88/90	TV 88/90	TV 88/90
Disability table	Swiss RE	Swiss RE	Swiss RE

The discount rate is estimated based on interest rates of private debt bonds with high credit rating ("AA" or equivalent) at the date of the balance sheet and with a duration equivalent to that of the liabilities with health care.

(Amounts expressed in Euro)

26. EMPLOYEE BENEFITS (Continued)

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 years ended on 31 December 2012, 2011 and 2010, the movement which occurred in the present value of the defined benefits liability regarding the health care plan was as follows:

	2012	2011	2010
Opening balance	272,102,000	272,123,000	299,454,000
Service costs of the period	4,330,000	4,002,000	4,998,000
Interest cost of the period	13,278,000	14,574,000	16,117,000
Pensioners contributions	3,409,494	3,422,000	3,426,575
(Payment of benefits)	(14,877,637)	(15,995,000)	(14,019,043)
(Other costs)	(1,173,164)	(1,040,000)	(1,429,000)
Actuarial (gains)/losses	(24,265,693)	(4,984,000)	(36,424,532)
Closing balance	252,803,000	272,102,000	272,123,000

During the years ended on 31 December 2012, 2011 and 2010, the total costs for the period are recognised as follows:

	2012	2011	2010
Staff costs/employee benefits (Note 36)	4,330,000	4,002,000	4,998,000
Interest expenses (Note 40)	13,278,000	14,574,000	16,117,000
	17,608,000	18,576,000	21,115,000

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 Euro

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 Euro, 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 Euro.

(Amounts expressed in Euro)

26. EMPLOYEE BENEFITS (Continued)

Other long term benefits

As mentioned in Note 2.18, in certain situations, the Group has liabilities related to the payment of salaries in situations of "Suspension of contracts, redeployment and release of employment", the allocation of subsidies of "Support for termination of professional activity", which will be eliminated as of 1 April 2013, the payment of the "Telephone subscription fee", "Pensions for work accidents", and "Monthly life annuity". In order to obtain the estimate of the value of these liabilities and the costs to be recognised for each period, every year, an actuarial study is made by an independent entity, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable.

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 △ 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 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.

(Amounts expressed in Euro)

26. EMPLOYEE BENEFITS (Continued)

For the years ended on 31 December 2012, 2011 and 2010, the movement of liabilities with other employee long-term benefits was as follows:

	2012	2011	2010
Suspension of contracts, redeployment and release of employment			
Opening balance	17,010,161	4,131,151	7,996,728
Interest cost of the period	1,255,368	966,283	419,560
Liabilities relative to new beneficiaries	12,556,711	10,976,099	16,303
Liabilities relative to new beneficiaries (provisioned in previous years)	—	3,997,001	—
(Payment of benefits)	(4,073,264)	(2,036,534)	(736,713)
Actuarial (gains)/losses	(2,664,528)	(1,023,839)	(3,564,727)
Closing balance	24,084,448	17,010,161	4,131,151
Telephone rental charges			
Opening balance	14,296,771	14,841,007	15,722,000
Interest cost of the period	676,602	772,281	817,808
(Payment of benefits)	(1,512,475)	(1,581,133)	(1,705,522)
Actuarial (gains)/losses	781,227	264,616	6,721
Closing balance	14,242,125	14,296,771	14,841,007
Pension for accidents at work			
Opening balance	7,166,624	6,936,757	7,219,000
Interest cost of the period	347,635	369,869	385,156
Liabilities relative to new pensions	—	—	70,608
(Payment of benefits)	(425,297)	(425,343)	(432,330)
Actuarial (gains)/losses	474,977	285,341	(305,677)
Closing balance	7,563,939	7,166,624	6,936,757
Monthly life annuity			
Opening balance	3,047,431	2,855,189	2,998,000
Interest cost of the period	149,739	154,080	161,876
Liabilities relative to new beneficiaries	—	—	176,400
(Payment of benefits)	(112,719)	(105,526)	(109,591)
Actuarial (gains)/losses	607,189	143,688	(371,496)
Closing balance	3,691,640	3,047,431	2,855,189
Support for cessation of professional activity			
Opening balance	7,807,759	7,368,703	7,458,000
Service costs of in the period	345,177	328,867	341,000
Interest cost of the period	384,031	398,923	401,000
Cut off	(6,563,175)	—	—
Liabilities relative to new beneficiaries	—	—	1,263
(Payment of benefits)	(494,747)	(710,470)	(492,029)
Actuarial (gains)/losses	(547,837)	421,736	(340,531)
	931,208	7,807,759	7,368,703
Total closing balances	50,513,360	49,328,746	36,132,807

(Amounts expressed in Euro)

26. EMPLOYEE BENEFITS (Continued)

During the years ended on 31 December 2012, 2011 and 2010, the total costs for the period are recognised as follows:

	2012	2011	2010
Staff costs/employee benefits (Note 36)			
Suspension of contracts, redeployment and release of employment	9,892,183	9,952,260	(3,548,424)
Telephone rental charges	781,227	264,616	6,721
Pension for accidents at work	474,977	285,341	(235,069)
Monthly life annuity	607,189	143,688	(195,096)
Support for cessation of professional activity	(6,765,835)	750,603	1,732
Interest expenses (Note 40)	2,813,375	2,661,436	2,185,400
	7,803,116	14,057,944	(1,784,736)

During 2012, 121 suspension of work contracts and similar were negotiated by the company. Based on the actuarial valuation carried out for this purpose, it is estimated that the current value of wages payable to those employees until the moment of their retirement is 12,557 thousand Euro.

As a result of the Company's decision to discontinue, as of April 1, 2013, the benefit referred to as "Support for cessation of professional activity" that had been granted to employees when they reach the end of its active life, the responsibilities associated to that benefit decreased, 6,563 thousand Euro.

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 Euro

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 Euro.

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

For the years ended on 31 December 2012, 2011 and 2010, in order to meet the requirements of court cases and other liabilities arising from past events, the Group created "Provisions" with the following movement:

	2012				
	Opening balance	Increases	Reversals	Reduction/ Transfers	Closing balance
Non-current provisions					
Litigations	8,504,959	4,809,960	(2,785,699)	(1,260,791)	9,268,429
Investments in associated companies	222,205	—	—	(1,389)	220,816
Onerous contracts	5,480,419	7,731,960			13,212,379
Other provisions	2,268,160	12,251,656	(74,344)	(550,907)	13,894,565
	16,475,743	24,793,576	(2,860,043)	(1,813,087)	36,596,189

(Amounts expressed in Euro)

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

	2011				
	Opening balance	Increases	Reversals	Reduction/ Transfers	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
Onerous contracts	—	5,480,419	—	—	5,480,419
Other provisions	7,794,308	445,000	(741,512)	(5,229,636)	2,268,160
	15,430,460	7,111,597	(836,678)	(5,229,636)	16,475,743

	2010				
	Opening balance	Increases	Reversals	Reduction/ Transfers	Closing balance
Non-current provisions					
Litigations	7,490,083	248,355	(328,450)	—	7,409,988
Investments in associated companies	162,338	63,826	—	—	226,164
Other provisions	2,249,188	5,638,793	(93,673)	—	7,794,308
	9,901,609	5,950,974	(422,123)	—	15,430,460

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.

CTT has some lawsuits proceedings in place brought by some of its workers claiming that the calculation of holiday salaries and holiday and Christmas bonuses should had been calculated based on some additional salary supplements not considered by CTT. As at 31 December 2012 this provision amounted to 7.6 million Euro.

Additionally CTT considers that it's highly probable that additional claims of the same nature may be brought by a larger group of employee not included in the lawsuits, and so, CTT recorded an additional provision during the year of 2012 to cover these liabilities. As at 31 December 2012, this additional provision amounted to 11.3 million Euro.

In the year of 2012, the provision for covering the estimate of the current value for net expenditure associated to onerous contracts was reinforced with 7,731,960 Euro. 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;
- A provision was created in 2011 for the 3 leased vacant properties with the assumption that CTT could terminate the leases under conditions similar to those negotiated for the property located in Praça. D. Luís;
- In 2012, due to unexpected unfavourable market conditions, CTT had to review the previous expectations on lease contracts termination timing and conditions.

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

As at 31 December 2012 the provisioned amount for contracts is 13,212,379 Euro (5,480,419 Euro in 2011).

As at 31 December 2012, in addition to the previously mentioned situation, this heading also included:

- the amount of 406,222 Euro 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 Euro, which arises from the assessment made by the management regarding the possibility of the enforcement of tax contingencies.

The net amount between increases and reversals of provisions was recorded in the Consolidated income statement under the headings "Provisions, net" as 21,933,533 Euro (6,274,919 Euro in 2011).

(Amounts expressed in Euro)

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Guarantees provided

As at 31 December 2012, 2011 and 2010 the Group had provided bank guarantees to third parties to the amounts as follows:

Description	2012	2011	2010
Courts	1,030,991	721,733	768,483
Lisboagás, S.A.	190,000	190,000	190,000
Municipal Councils	140,423	123,887	126,326
Authority for Working Conditions (ACT)	146,210	34,046	53,137
Sofinsa	91,618	91,618	91,618
Solred	80,000	80,000	80,000
Parc Logistics Zona Franca	77,969	77,969	77,969
Porto Customs	74,820	74,820	74,820
General Secretariat of MAI	48,000	—	—
Civil Government of Lisbon	—	25,000	69,120
National Road Safety Authority	43,223	—	—
PT PRO—Serv. Adm Gestão Part., S.A.	50,000	50,000	50,000
Regional Office of Administrative Litigation Lisbon	49,880	49,880	49,880
Record Rent a Car (Cataluña, Levante)	40,000	40,000	40,000
Setgás, S.A.	30,000	30,000	30,000
Ana Aeroportos de Portugal, E.P.	29,000	29,000	29,000
Santa Casa da Misericórdia de Lisboa	86,917	49,817	24,817
TIP—Transportes Intermodais do Porto, ACE	50,000	—	—
Ministry of Education	38,700	38,700	20,200
EPAL—Empresa Portuguesa de Águas Livres	21,433	—	—
Nature Import	18,096	18,096	18,096
Albert Vilella	16,800	16,800	16,800
Portugal Telecom, S.A.	16,657	16,657	16,657
Ana M. Alcaina Sanchez	—	14,400	14,400
General Secretariat of the Ministry of Internal Affairs	14,000	—	—
Petrogal, S.A.	10,774	10,774	10,694
FUOC	—	—	10,500
Alquiler Nave Tarragona	7,155	7,155	7,155
TNT Express WorldWide	6,010	6,010	6,010
Fergil Inversiones	—	—	6,000
SMAS Torres Vedras	4,002	4,002	4,002
Infarmed IP	8,223	3,856	3,856
Institute of employment and professional training	3,718	3,720	3,720
Controlplan, S.L	3,400	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	1,746
Other entities	26,667	16,477	4,796
	2,503,494	1,893,160	1,903,202

(Amounts expressed in Euro)

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

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, 2011 and 2010 the Group does not have contingent liabilities.

Commitments

As at 31 December 2012 and 2011 the Group has subscribed promissory notes reaching the total of approximately of 1,012 and 1,398 thousand Euro respectively for various rental companies intended to secure complete and timely compliance with the corresponding lease contracts.

28. ACCOUNTS PAYABLE

As at the years ended on 31 December 2012, 2011 and 2010 the heading "Accounts payable" showed the following composition:

	2012	2011	2010
Advances from customers	3,079,145	2,865,955	3,005,672
CNP money orders	186,169,916	186,484,578	191,661,026
Suppliers c/a	75,722,601	76,906,006	76,121,345
Invoices pending confirmation	2,350,705	3,617,294	3,000,397
Fixed assets suppliers	2,220,531	7,075,314	7,787,467
Invoices pending confirmation (fixed assets)	49,274	473,245	238,051
Rent of Concessions	1,101,323	2,883,384	3,128,466
Values collected on behalf of third parties	3,566,227	2,665,104	2,199,508
Postal financial services	72,417,788	61,283,690	108,572,544
Other accounts payable	2,537,649	2,650,878	8,165,621
	349,215,159	346,905,448	403,880,097

CNP money orders

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

Postal financial services

The decrease in this heading arises from divestment in "Savings Certificates" by the savers.

(Amounts expressed in Euro)

28. ACCOUNTS PAYABLE (Continued)

Suppliers, fixed assets suppliers

As at the years ended on 31 December 2012, 2011 and 2010, the age of the balance of the headings "Suppliers, current c/a" and "fixed assets suppliers" is detailed as follows:

	2012	2011	2010
Suppliers c/a			
Not due	27,128,387	28,503,482	29,185,556
0-30 days	3,585,391	2,544,121	8,778,391
30-90 days	5,918,453	12,546,787	6,795,282
90-180 days	2,959,006	2,490,721	3,861,259
180-360 days	7,591,006	9,230,404	7,985,555
> 360 days	28,540,358	21,590,491	19,515,302
	75,722,601	76,906,006	76,121,345

	2012	2011	2010
Fixed assets suppliers			
Not due	1,555,840	5,606,515	6,831,211
0-30 days	277,472	1,116,305	606,465
30-90 days	177,096	151,377	236,718
90-180 days	8,240	25,309	46,286
180-360 days	129,148	3,454	718
> 360 days	72,735	172,354	66,069
	2,220,531	7,075,314	7,787,467

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

	2012	2011	2010
National account payable	2,269,360	879,333	626,553
Foreign operators	26,270,998	20,711,158	18,888,749
Total	28,540,358	21,590,491	19,515,302
Foreign operators—receivables	(24,652,816)	(21,906,935)	(22,296,196)

The accounts between Foreign Operators are cleared by netting accounts. These amounts are related to the accounts receivable balances of these entities (note 14).

29. INCOME TAXES RECEIVABLE AND INCOME TAXES PAYABLE

As at the years ended on 31 December 2012, 2011 and 2010 the heading "Income tax receivable and income taxes payable" showed the following composition:

	2012	2011	2010
Current assets			
Corporate income tax	—	3	2,121,797
	—	3	2,121,797
Current liabilities			
Corporate income tax	862,444	7,381,234	—
	862,444	7,381,234	—

(Amounts expressed in Euro)

30. OTHER NON-CURRENT AND CURRENT LIABILITIES

As at the years ended on 31 December 2012, 2011 and 2010 the heading "Other current liabilities" showed the following composition:

	2012	2011	2010
Current			
Estimated holiday salary and holiday bonus	41,749,350	25,901,736	44,262,812
Estimated supplies and external services	10,220,456	8,497,806	9,097,160
FEDER subsidies	—	—	402,776
State and other public entities			
Value added tax	3,002,406	3,969,277	3,544,671
Personal income tax with holdings	2,356,632	2,446,948	2,981,206
Social Security contributions	4,808,195	4,961,356	5,332,614
Caixa Geral de Aposentações	794,990	849,025	858,812
Local Authority taxes	638,169	526,011	490,000
Other taxes	—	202	3,813
Other	3,288,859	1,983,183	2,369,469
	66,859,057	49,135,544	69,343,333

31. FINANCIAL ASSETS AND LIABILITIES

As at the years ended on 31 December 2012, 2011 and 2010, the categories of financial assets and liabilities were as follows:

	2012				
	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/liabilities	Total
Assets					
Other investments	—	130,829	—	—	130,829
Other non-current assets	2,018,619	—	—	—	2,018,619
Accounts receivable	135,317,556	—	—	—	135,317,556
Other current assets	16,222,215	—	—	4,633,917	20,856,132
Cash and cash equivalents	489,303,463	—	—	—	489,303,463
Total Financial Assets	**642,861,853**	**130,829**	**—**	**4,633,917**	**647,626,599**
Liabilities					
Medium and long term debt	—	—	4,560,702	—	4,560,702
Accounts payable	—	—	343,598,366	5,616,793	349,215,159
Short term debt	—	—	6,857,361	—	6,857,361
Other current liabilities	—	—	13,509,315	53,349,742	66,859,057
Total Financial Liabilities	**—**	**—**	**368,525,744**	**58,966,535**	**427,492,279**

(Amounts expressed in Euro)

31. FINANCIAL ASSETS AND LIABILITIES (Continued)

	2011				
	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/liabilities	Total
Assets					
Other investments	—	130,829	—	—	130,829
Other non-current assets	6,004,988	—	—	—	6,004,988
Accounts receivable	164,395,448	—	—	—	164,395,448
Other current assets	20,294,343	—	—	6,919,701	27,214,044
Cash and cash equivalents	426,259,362	—	—	—	426,259,362
Total Financial Assets	**616,954,141**	**130,829**	**—**	**6,919,701**	**624,004,671**
Liabilities					
Medium and long term debt	—	—	5,943,942	—	5,943,942
Accounts payable	—	—	341,388,615	5,516,834	346,905,449
Short term debt	—	—	5,165,248	—	5,165,248
Other current liabilities	—	—	10,480,989	38,654,555	49,135,544
Total Financial Liabilities	**—**	**—**	**362,978,794**	**44,171,389**	**407,150,183**

	2010				
	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/liabilities	Total
Assets					
Other investments	—	130,829	—	—	130,829
Other non-current assets	851,723	—	—	—	851,723
Accounts receivable	166,489,760	—	—	—	166,489,760
Other current assets	16,686,827	—	—	5,220,852	21,907,679
Cash and cash equivalents	480,073,674	—	—	—	480,073,674
Total Financial Assets	**664,101,984**	**130,829**	**—**	**5,220,852**	**669,453,665**
Liabilities					
Medium and long term debt	—	—	7,253,904	—	7,253,904
Accounts payable	—	—	403,880,097	—	403,880,097
Short term debt	—	—	7,025,423	—	7,025,423
Other current liabilities	—	—	11,466,629	57,876,704	69,343,333
Total Financial Liabilities	**—**	**—**	**429,626,053**	**57,876,704**	**487,502,757**

The Group believes that the fair value of its financial assets and liabilities is similar to its book value.

32. SUBSIDIES OBTAINED

As at the years ended on 31 December 2012, 2011 and 2010, the information regarding European Union subsidies or grants (Note 2.21) was as follows:

	2012					2011	2010
Subsidy	Attributed value	Value received	Value to be received	Accumulated revenues	Value to be used	Value to be used	Value to be used
Feder	9,815,622	9,662,306	153,316	9,431,523	384,099	395,366	402,776
	9,815,622	9,662,306	153,316	9,431,523	384,099	395,366	402,776

The values received are recognised in the Consolidated income statement, in the heading "Other operating income", as the subsidised assets are amortized.

(Amounts expressed in Euro)

33. OTHER OPERATING INCOME

For the years ended on 31 December 2012, 2011 and 2010, the composition of the heading "Other operating income" was as follows:

	2012	2011	2010
Own work capitalised	571,540	805,896	685,066
Supplementary revenues	3,447,161	4,528,733	4,550,381
Prompt-payment discounts obtained	233,016	232,464	122,786
Gains in inventories	91,211	50,038	41,684
Favourable exchange rate differences of assets and liabilities different from financing	2,392,451	2,724,851	1,985,495
Income from financial investments	668,924	1,981,542	707,437
Income from non-financial investments[(a)]	2,700,837	7,087,133	3,920,207
Interests gains and losses—financial services	2,534,552	4,693,633	3,470,615
Other	2,253,499	1,812,597	2,481,575
	14,893,191	23,916,887	17,965,246

(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

As at the years ended on 31 December 2012, 2011 and 2010, the composition of the heading "External supplies and services" was as follows:

	2012	2011	2010
Subcontracts	5,132,955	5,222,698	8,219,488
Specialised services	62,282,158	68,476,500	79,974,160
Materials	1,569,255	1,944,798	2,785,168
Energy and liquids	15,972,445	15,475,601	14,836,782
Staff transportation	1,390,773	1,457,604	1,871,871
Transportation of goods	67,173,532	66,247,680	69,690,138
Remuneration to postal operators	15,573,666	16,078,174	16,220,600
Rents	38,866,377	40,114,032	36,687,002
Communication	6,549,251	7,332,462	9,117,655
Insurance	2,665,587	2,391,867	2,800,119
Cleaning, hygiene and comfort	4,370,399	5,134,625	6,475,543
Royalties	201,370	276,501	59,680
Litigation and notary	244,754	137,877	153,831
Remuneration to postal Agencies	4,215,330	4,032,734	3,819,817
Agencing	7,054,046	7,626,072	7,519,122
Other services	13,154,330	14,514,772	13,102,054
	246,416,228	256,463,997	273,333,030

(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.

(Amounts expressed in Euro)

35. OPERATING LEASES

As at the years ended on 31 December 2012, 2011 and 2010, 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	2010
Due within 1 year	9,100,531	10,448,851	10,159,839
Due between 1 to 5 years	8,509,807	14,553,876	14,482,398
Over 5 years	—	420,000	420,000
	17,610,338	25,422,727	25,062,237

During the years ended on 31 December 2012, 2011 and 2010, the costs incurred with operating lease contracts of 7,563,379 Euro, 7,947,241 Euro and 7,505,218 Euro, respectively, are recognised under "Rents" in the heading "Supplies and external services" of the Consolidated income statement.

The operating leases relates to leasing agreement of short duration, in which the lessor transfers the temporary use of the asset to a third party upon payment of an income or rental.

Lease payments are made monthly by equals amounts during the period of the lease agreement and the recognition of the rent is considered as an expense which will also be performed on a linear basis (straight-line basis).

There is no recognition of any leased asset, because the lease is a rental in substance and there is no evidence that demonstrate the lessee will obtain future economic benefits from the asset beyond the contract period.

The transfer of the legal ownership of the assets to the lessee at the end of the contract is not expected.

36. STAFF COSTS

During the years ended on 31 December 2012, 2011 and 2010, the composition of the heading "Staff Costs" was as follows:

	2012	2011	2010
Board of Directors and Audit Board remuneration (Note 42)	866,964	829,147	1,301,934
Staff remuneration	254,148,054	269,032,748	303,198,459
Employee benefits	8,146,574	14,359,104	(3,456,975)
Indemnities	2,476,706	2,637,477	1,218,846
Social security charges	53,301,325	55,421,329	62,952,446
Occupational accident and disease insurance	2,117,496	2,309,799	3,078,475
Social welfare costs	12,063,295	13,313,014	13,419,608
Other staff costs	198,837	193,035	336,028
	333,319,251	358,095,653	382,048,821

The social welfare costs are almost exclusively composed by health costs supported by the company with active employees and costs related to Health and Safety at work.

For the years ended on 31 December 2012, 2011 and 2010, the average number of staff of the Group was, respectively, 13,756, 14,371 and 15,044 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.

(Amounts expressed in Euro)

36. STAFF COSTS (Continued)

Remuneration of the statutory bodies

As at the years ended on 31 December 2012, 2011 and 2010, 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

	2010				
	Board of Directors	Board of Auditors/Statutory Auditor	General Meeting of shareholders	Executive officer	Total 2010
Fixed remuneration	1,071,124	230,230	—	4,682,522	5,983,876
Variable remuneration	—	—	580	—	580
	1,071,124	230,230	580	4,682,522	5,984,456

Regarding the year ending on 31 December 2012, and by joint order of the Ministries of Economy and Finance from 24 August 2012, a new Board of Directors was appointed for CTT, S.A. The previous Board had only 3 executive directors, since two directors from the previous Board of Directors had resigned.

(Amounts expressed in Euro)

37. IMPAIRMENT OF INVENTORIES AND ACCOUNTS RECEIVABLE

As at the years ended on 31 December 2012, 2011 and 2010, the detail of "Impairment of inventories and accounts receivable, net was as follows:

	2012	2011	2010
Impairment losses			
Customers (Note 14)	2,888,988	2,721,703	3,376,994
Other accounts receivable (Note 18)	913,120	974,939	967,139
Inventories (Note 13)	83,575	697,155	367,274
	3,885,683	4,393,797	4,711,407
Reversals of impairment losses			
Customers (Note 14)	398,421	765,154	1,172,888
Other accounts receivable (Note 18)	435,819	455,372	2,914,296
INESC loan (Note 18)	41,450	53,885	45,595
Inventories (Note 13)	2,211,685	—	35,248
	3,087,375	1,274,411	4,168,027
Net movement of the period	798,308	3,119,386	543,380

38. DEPRECIATION/ AMORTISATION (LOSSES/REVERSALS)

As at the years ended on 31 December 2012, 2011 and 2010, the detail of "Depreciations/ amortisation and impairment losses, net" was as follows:

	2012	2011	2010
Tangible fixed assets			
Depreciation (Note 5)	19,936,066	18,884,142	19,408,541
Impairment losses (Note 5)	502,113	—	—
Intangible assets			
Amortisation (Note 6)	4,196,322	3,306,319	4,744,704
Investment properties			
Depreciation (Note 7)	1,313	61,845	68,533
	24,635,814	22,252,306	24,221,778

(Amounts expressed in Euro)

39. OTHER OPERATING COSTS

As at the years ended on 31 December 2012, 2011 and 2010, the breakdown of the heading "Other operating costs" was as follows:

	2012	2011	2010
Taxes	1,121,873	1,421,115	1,368,810
Bad debts	115,956	480,069	1,720,503
Losses in inventories	669,968	220,564	773,995
Cost and losses from non-financial investments	9,180	1,055,435	—
Concession rent	1,101,936	2,882,309	3,127,091
Unfavourable exchange rate differences of assets and liabilities different from financing	2,358,136	2,723,115	1,652,161
Donations	972,906	1,005,505	1,306,186
Banking services	863,527	818,186	763,106
Default interest	634,784	511,472	460,934
Annulled invoices	—	637,647	469,649
Subscriptions	643,110	654,264	696,537
Insufficient estimated income tax	4,156	—	20,903
Cost from financial investments	—	—	4,898
Contractual penalties	1,361,938	4,970,069	—
Other costs	1,750,223	1,562,301	1,410,378
	11,607,693	18,942,051	13,775,151

The change on "Losses in inventories" arises from the destruction of support related to the "Novo Portfólio" project.

Also, the change in the heading "Concession rent" is caused by the issuance 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 an investment property because CTT, S.A. did not activate the safeguard clause that would allow to keep it in the company perimeter (Note 7), and (ii) termination of a lease contract that had an established limit which, if breached, would imply the repayment to the lessor (property in Praça D. Luís I in Lisbon).

40. INTEREST EXPENSES AND INTEREST INCOME

As at the years ended on 31 December 2012, 2011 and 2010, the heading "Interest Expenses" had the following detail:

	2012	2011	2010
Interest expenses			
Bank loans	484,839	302,719	708,618
Other interest	155,196	167,782	134,429
Unfavourable exchange rate differences of financing liabilities	—	2,051	4,478
Interest costs from employee benefits	16,091,375	17,235,436	18,302,400
Other interest costs	29,424	646,383	18,641
	16,760,834	18,354,371	19,168,566

(Amounts expressed in Euro)

40. INTEREST EXPENSES AND INTEREST INCOME (Continued)

During the years ended on 31 December 2012, 2011 and 2010, the heading "Interest income" was detailed as follows:

	2012	2011	2010
Interest income			
Deposits in credit institutions	11,806,240	16,056,503	6,556,276
Other supplementary income	575,418	38,472	25,509
	12,381,658	16,094,975	6,581,785

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 Euro. Tourline is subject to income taxes in Spain, through income tax (Impuesto sobre Sociedades—"IS") at a rate of 30%, and the subsidiary Corre is subject to corporate income tax in Mozambique ("IRPC").

Corporate income tax (IRC) is levied on the Group and its subsidiaries Postcontacto—Correio Publicitário, Lda., CTT—Expresso, S.A., Mailtec Holding, SGPS, S.A., MailTec Comunicação, S.A., Mailtec Consultoria, S.A., Mailtec Processos, Lda., Payshop Portugal, S.A. ("Payshop"), and CTT GEST—Gestão de Serviços e Equipamentos Postais, S.A. ("CTT Gest"), through the Special Regime for the Taxation of Groups of Companies ("RETGS"). The remaining companies are taxed individually.

(Amounts expressed in Euro)

41. INCOME TAX FOR THE PERIOD (Continued)

Reconciliation of the income tax rate

As at the years ended on 31 December 2012, 2011 and 2010, the reconciliation between the nominal rate and the effective income tax rate was conducted as follows:

	2012	2011	2010
Earnings before taxes	52,832,173	78,148,984	66,137,594
Nominal tax rate up to €12,500	—	12.5%	12.5%
Nominal tax rate above €12,500	25.0%	25.0%	25.0%
	13,208,043	19,535,684	16,532,836
Tax Benefits	(401,224)	(417,003)	(589,646)
Accounting capital gains	(65,807)	(30,276)	(113,110)
Tax capital gains	4,511	12,358	47,948
Equity method	(63,648)	(12,931)	16,113
Provisions not considered in the calculation of deferred taxes	138,707	(75,118)	184,959
Impairment losses and reversals	67,647	592,309	182,093
Other situations, net	(197,343)	(334,662)	305,381
Adjustments related with—autonomous taxation	627,563	684,966	744,547
Adjustments related with—Municipal Surcharge	1,110,401	1,385,086	1,077,797
Adjustments related with—State Surcharge	2,975,184	1,994,056	1,472,320
Change of the tax rate	—	(193,559)	(8,259,975)
Excess estimated income tax	(539,131)	(675,160)	(4,714,139)
Income taxes for the period	16,864,903	22,465,750	6,887,124
Effective tax rate	31.92%	28.75%	10.41%
Income taxes for the period			
Current tax	24,627,064	27,808,392	21,340,291
Deferred tax	(7,223,030)	(4,667,482)	(9,739,028)
Excess estimated income tax	(539,131)	(675,160)	(4,714,139)
	16,864,903	22,465,750	6,887,124

The amount of "change of tax rate" in 2010 is related to the introduction of state surcharge of 2.5% of taxable profit above 2 million Euro.

As at 31 December 2012, the heading "Excess estimated for income tax" includes the amount of 439,432 Euro relative to the deferral of the claim regarding Corporate Income Tax 2008.

As at 31 December 2011 and 31 December 2010, the heading "Excess estimated for taxes" includes the SIFIDE (investment tax incentive) benefit approved, amounting to 576,914 Euro and 4,214,287 Euro, respectively. Due to the risk of rejection or adjustments on the submitted applications, CTT only recognizes the corporate income tax gain when the applications are approved and the gain becomes certain.

(Amounts expressed in Euro)

41. INCOME TAX FOR THE PERIOD (Continued)

Deferred taxes

As at the years ended on 31 December 2012, 2011 and 2010, the balance of deferred tax assets and liabilities was composed as follows:

	2012	2011	2010
Deferred tax assets			
Employee benefits—health care	73,312,870	78,909,580	78,915,670
Employee benefits—other long term benefits	14,789,263	14,417,549	10,478,514
Deferred accounting capital gains	3,897,266	4,640,965	6,548,306
Impairment losses and provisions	8,549,846	3,718,791	2,680,929
Conversion adjustments—derecognition of inventories	157,216	238,444	303,950
Conversion adjustments—value deducted from staff debts	37,761	57,271	73,005
Tax losses carried forward	1,335,932	482,388	442,836
Impairment losses in tangible fixed assets	145,613	—	—
Other	2,770	2,770	2,770
	102,228,537	102,467,758	99,445,980

	2012	2011	2010
Deferred tax liabilities			
Revaluation of tangible fixed assets before IFRS	4,529,436	4,811,756	5,092,835
Suspended capital gains	1,096,522	1,155,930	1,183,902
Other	114,275	197,747	89,040
	5,740,233	6,165,433	6,365,777

As at 31 December 2012, expected deferred tax assets and liabilities to be settled within 12 months amounts to 2,215,575 Euro and 341,728 Euro, respectively.

During the years ended on 31 December 2012, 2011 and 2010, the movements which occurred under the deferred tax headings were as follows:

	2012	2011	2010
Deferred tax assets			
Balances on 1 January 2012 and 2011	102,467,758	99,445,980	100,068,053
Effect on net profit			
Employee benefits—health care	1,440,341	1,439,270	9,417,227
Employee benefits—other long term benefits	371,714	3,939,035	1,628,309
Deferred accounting gains	(743,699)	(1,907,341)	(241,928)
Impairment losses and provisions	4,831,056	1,037,862	(1,058,424)
Impairment losses in tangible fixed assets	145,613	—	—
Derecognition of inventories	(81,228)	(65,506)	303,950
Value deducted from debts	(19,510)	(15,734)	(10,384)
Tax losses carried forward	853,543	39,552	(98,189)
Others	—	—	480
Effect on equity			
Employee benefits—health care	(7,037,051)	(1,445,360)	(10,563,114)
Closing balance	102,228,537	102,467,758	99,445,980

(Amounts expressed in Euro)

41. INCOME TAX FOR THE PERIOD (Continued)

	2012	2011	2010
Deferred tax liabilities			
Balances on 1 January 2012 and 2011	6,165,433	6,365,777	6,163,764
Effect on net profit			
Revaluation of tangible fixed asset before IFRS adoption	(282,320)	(281,079)	190,675
Suspended capital gains	(59,408)	(27,972)	70,152
Other	(83,472)	108,707	(58,814)
Closing balance	5,740,233	6,165,433	6,365,777

The tax losses carried forward are in entirety related to the losses by the subsidiary Tourline in the years 2008, 2009, 2011 and 2012. These losses may be tax reported in the next 15 years, except the tax loss related to 2012, which may be carried forward in the next 18 years.

SIFIDE

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

The Group policy for recognition of fiscal credits regarding SIFIDE is to recognize the credit at the moment of the effective receipt of the commission statement, certifying the eligibility of expenses presented in the applications for tax benefits.

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 Euro, recognised on the tax of the year 2010. Regarding the period of 2009, the submitted application totalled 6,126,128 Euro, which resulted in a tax credit of 576,914 Euro, recognised in 2011.

Regarding the year of 2010, the submitted application totalled 12,856,864 Euro, 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 estimated to be 2,553,349 Euro, pending confirmation from the Certification Commission.

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

Other information

Pursuant to the legislation in force, income tax returns are subject to review and correction by the tax authorities for a period of four years (five for Social Security), except when there have been tax losses, tax benefits have been received, or when inspections, claims or challenges are in progress, in which cases, depending on the circumstances, these periods are extended or suspended. Therefore, the Group's income tax returns after 2010 may still be reviewed and corrected, since the income tax returns prior to this date have already been inspected.

The Board of Directors of the Company believes that any corrections arising from reviews/inspections by the tax authorities of these income tax returns will not have a significant effect on the consolidated financial statements as at 31 December 2012.

(Amounts expressed in Euro)

42. RELATED PARTIES

According to the Group's internal rules on financial reporting, the parties related to the Group are the Portuguese State, through the Ministry of Finance, and other shareholders of companies in which the Group has a stake, the associated companies, joint ventures, and the members of the Board of Directors, the General Meeting, and the Statutory Audit Board.

The terms or conditions applied between the Group's companies and the related parties are, as a rule, substantially identical to those which are normally contracted, accepted and applied between independent entities in comparable operations.

During the years ended on 31 December 2012, 2011 and 2010, 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[a]					
Other shareholders Group companies	—	—	—	53,876,585	—
Associated companies	2,894	34,198	9,923	—	126,775
Jointly controlled	40,654	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[a]					
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

(Amounts expressed in Euro)

42. RELATED PARTIES (Continued)

	2010				
	Currents accounts receivable	Current accounts payable	Income	Dividends	Costs
Ministry of Finance[(a)]	—	—	—	21,311,449	—
Other shareholders Group companies					
Associated companies	2,777	51,248	38,247	—	127,625
Jointly controlled	59,794	—	266,215	—	2,735
Members of the					
Board of Directors	—	—	—	—	1,071,124
General Meeting of Shareholders	—	—	—	—	580
Audit Board	—	—	—	—	230,230
Executive officers	—	—	—	—	4,682,522
	62,571	51,248	304,462	21,311,449	6,114,816

(a) CTT has availed of the exemption available in paragraph 25 of IAS 24, and therefore has not provided detailed disclosure of its transaction with the State of Portugal and related parties.

A summary of the Group's transactions with the State of Portugal and it's related parties is included below:

1—CTT sells and render services to the State of Portugal and various of it's related entities.

2—CTT collets various payroll taxes and other taxes on behalf of the State of Portugal and its liable to Portuguese Corporate Tax on profits earned and to employes's Social Security Taxes on its payroll.

3—CTT accounts for VAT in Portugal.

4—CTT Group incurs in costs as result of services provided by several State of Portugal related parties, namely:

—Energy costs;

—Water Supply costs;

—Air transportation costs.

The transactions and balances between subsidiaries are eliminated in the consolidation process and are not disclosed in this Note.

43. FEES AND SERVICES OF THE EXTERNAL AUDITORS

During the years ended on 31 December 2012, 2011 and 2010, the fees and services provided by the Group's external auditors were as follows:

	2012	2011	2010
Parent Company			
Statutory accounts review services	81,320	93,470	108,859
External audit services	110,772	92,159	88,020
Other services	2,349	—	60,170
	194,441	185,629	257,049
Subsidiary companies			
Statutory accounts review services	59,180	54,739	—
External audit services	39,165	51,330	89,249
	98,345	106,069	89,249
	292,786	291,698	346,298

44. OTHER INFORMATION

The following situations do not represent probable liabilities and thus no amount was recorded as a provision for these items.

COMPANY AGREEMENT

After a long and demanding negotiation process, the Group reached an agreement with all the Trade Unions that took part in the negotiations for the signing of a New Company Agreement (AE).

Signing a single AE will imply the simplification of management, affect the social atmosphere, and strengthen collective labour relations in the Group, which are fundamental elements for the new challenges in a context of full liberalisation. It also allowed the harmonisation of conditions among workers.

BANIF

On 7 April 2006, Banco Internacional do Funchal (BANIF) brought an ordinary action against CTT—Correios de Portugal, which was personally cited on 27 June 2006, demanding the execution of the MoU (agreement principles) for the incorporation of Banco Postal and its subsidiary, if this condemnation is deemed non-enforceable, the obligation to indemnify BANIF for emerging damage and loss of profits, with the application amounting to 100,000,000 Euro plus accrued interest. As the Group's legal consultant believes, in a classification at three levels, from low to high probability, that BANIF's demands have little probability of receiving a favourable judgement, the Company decided not to record a provision for this possibility. Moreover, the period for Caixa Geral de Depósitos to exercise its right of preference terminated in January 2008.

In 12 January 2011, the court found that essential facts underlying the claims for compensation by BANIF were not proved, and the facts brought forth by CTT that contradicted the thesis defended by BANIF were proven. As sentenced on 2 December 2011, CTT was acquitted from the application lodged by BANIF, which appealed against this decision to the Court of Appeals of Lisbon, where the appeal is currently underway.

On 28 March 2013, via an application filed at the Court of Appeals of Lisbon, BANIF waivered 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 Euro 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).

44. OTHER INFORMATION (Continued)

Through the sentence of 22 January 2013, CTT was acquitted from the application, and SNTCT appealed against this decision at the Appeals Court of Lisbon, which is still pending.

CONCESSION AGREEMENT

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

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

In the past 3 October the Council of Ministers approved changes to the Postal Law (Law no. 17/2012 of 26 April) and concession contract, not yet promulgated by the President. The company believes that the current accounting practices remained valid in this framework.

45. SUBSEQUENT EVENTS

i) Holiday Bonus

Following the decision of the Supreme Court 187/2013, in which the suspension of holiday bonus stated in article 29 and 77 of the 2013 State Budget Law was judged unconstitutional, therefore the Group decided to recognize the corresponding liability in the 2012 accounts which amounted to approximately 18 million Euro.

ii) Shareholder

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

Under the court case that took place in the 2° Section of the Court of Coimbra, involving 3 former board members of CTT—Correios de Portugal, S.A, a decision was issued on the 11th June 2013, which absolved the defendants of all crimes that they were being charged off and, consequently, annulled the request for civil indemnities that CTT had placed.

CTT's Board was made aware of this decision on the 16th July, and decided not to appeal the decision, due to the belief of CTT's Lawyers that a favourable decision was not credible. The court fees to be charged to CTT—Correios de Portugal, which should be between €207,570 and €311,355, will be determined by the Judges in accordance with their view of the complexity of the process. The estimates cost amounting has been fully provided.

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

iii) Postal Bank

On the 5th August 2013, CTT filed a formal request to the Central Bank of Portugal for a license to create a Postal Bank. The process is currently under analysis by the Central Bank and so far there hasn't been any formal response. The proposal foresees the creation of a postal bank supported by the current branches network and with a low level of investment.

45. SUBSEQUENT EVENTS (Continued)

iv) Privatization Process

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

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

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

v) Dividends

The General Meeting held on 30 May 2013, approved the distribution of dividends of 38,554,129 Euro relative to 2012 net profit, which represents a dividend per share of 2.2 Euro. Additionally, the shareholder approved an extraordinary distribution of dividends of 11,445,871 Euro (0,65 Euro per share). The payments were made to the shareholder on June 2013.

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