Annual Report

2014

2014

CTT – Correios de Portugal, S.A. - Public Company
Avenida D. João II, nº 13, 1999-001 LISBON
Lisbon commercial registry and fiscal no. 500 077 568
Share capital EUR 75,000,000.00

Contents

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT

As the first full year as a private and listed company, 2014 has been an historical year for CTT.

We have been able to adapt the company to the demanding and fast-moving circumstances of the capital markets' scrutiny in a globalised and digitalised world, while delivering remarkable operational and financial results. By launching important corporate and business initiatives we are also preparing the future, ensuring that CTT keeps on the growth path, following its strategic pillars and providing an adequate return for our shareholders.

By successfully finalising the privatisation we are now the only listed company in Portugal with 100% free float.

We are proud of the past and optimistic about the future.

Vibrant times: Global postal trends and CTT Portuguese context

It would not be fair to analyse 2014 without highlighting the key trends affecting our sector and the economy. I would highlight 4 key factors we have been facing:

1. **Globalisation, Liberalisation and Privatisation:** The speed of information in increasingly global markets; a liberalised postal market that favours competition and a very demanding shareholders base imposes additional scrutiny and need for excellence in everything we do.

2. **Digitalisation and E-Commerce:** On one hand we see the electronic substitution affecting our core business (although at a less negative pace – addressed mail evolved at -5.7% vs. -7.3% in 2013), but on the other hand the double digit growth of e-commerce opens a new business world for postal operators.

3. **Economic circumstances in our core geography:** During 2014 the Portuguese economy continued the adjustment of the macroeconomic imbalances accumulated over the last decades. The year has also been marked by the end of the formal adjustment programme. Although conscious that long-term full recovery will take its time, the GDP is expected to have increased by +0.9% in 2014 (vs. -1.4% in 2013 and -3.3% in 2012) and future prospects are encouraging (source: Bank of Portugal as of December 2014).

4. **Strategic ecosystem:** The postal sector is now influenced by new and diversified markets that raise important challenges and opportunities for postal operators. We should build on our unique assets and competitive advantages and think how to better take value out of the markets we are in (or adjacent to): communications, financial services, logistics, retail and advertising are some examples. The strategy of the postal operators has evolved to a new level playing field.

The industry is going through a significant transformation phase, with these new trends shaping our future and influencing our business models, demanding new skills and renewed energy. In 2014 we kept on carefully looking into the world to see what is in it for us.

2014 Results: Delivering on the promise

CTT closes an eventful 2014, year of transition to full private ownership, reporting a strong set of results delivering on the promise from the IPO. CTT achieved a strong growth in recurring EBITDA to €135.1m (+9.9%) and in Net profit to €77.2m (+26.5% vis-à-vis €61.0m in 2013).

These results were essentially driven by the growth in revenues to €718.8m (+2.0%) – reversing 5 consecutive years of revenue decline, cost control initiatives and the implementation of structural changes that have allowed to maximise the company's efficiency, flexibility and sustainability.

Mail revenues reversed the historic trend and grew by 0.8% (recurring revenues relative to the full year 2013 pro-forma – adjusted for sale of EAD), as a result of the slower decline of addressed mail volumes to -5.7% and the 4.1% average price increase of the Universal Postal Service. Financial Services consolidated their offer and market position, achieving a strong 21.4% growth in recurring revenues, consolidating as a fundamental overall growth lever for CTT. Reorganisation initiatives continued in the Express & Parcels business in Portugal and Spain, with revenues falling only marginally by -0.4%, despite 9.0% volume growth, due to the product mix, as growth is occurring mainly in the B2C segment.

Recurring operating costs (excluding impairments, provisions and depreciation, and non-recurring costs) amounted to €582.7m increasing only by 0.1% despite growth in the Express & Parcels and Financial Services activities, as a result of economies of scale, leveraging of installed capacity and the Transformation Programme initiatives under implementation which are already having a favourable impact on EBITDA.

Focusing on reported operating costs, these have decreased by -10.2% in 2014, mainly as a result of a very important structural transformation achieved with the revision of the Healthcare Benefits Plan, resulting in a better balance of the share of payments to be borne by the company and the beneficiaries, thus reducing the costs and the future responsibilities for CTT (€83.0m non-recurring gain in 2014). The company has also managed to be in a position which allowed to review staff compensation, through the reintroduction of variable remuneration and elimination of salary reductions related to the privatisation.

CTT is currently one of the most profitable postal operators in the sector with a recurring EBITDA margin of 18.8% (17.4% in 2013) and has continued to prove its strong ability to generate cash flow, which allowed to further strengthen its Balance sheet. In the 2014 financial year, the operating free cash flow generated was €184.1m, vs. €110.4m in 2013, and the net change in cash and cash equivalents totalled €119.7m, €64.1m (+115.4%) above last year's, due to the positive effect of the growth in the Financial Services business, the improvements made in payment and collection deadlines and procedures and to the sale of EAD, factors which more than offset the €10m additional dividends paid in 2014 (€60m) vs. 2013 (€50m).

The excellent financial performance, with solid growth of EBITDA and Net profit driven by growth in revenues and cost control, as well as the robust financial position, enables a strong increase in the proposed dividend to €69.75m [€0.465 per share] (includes a non-recurring component of €3.75m), a 16.25% increase vs. prior year. Going forward the Management is committed to a strategy which enables stable and sustainable dividend growth, always seeking to match the objectives of shareholder remuneration to the sustainable development of the company's business.

Corporate highlights: Building the future

It would be limited to evaluate 2014 at CTT by looking only at financial performance. In fact, throughout the year we have renewed and launched some initiatives which will only achieve its full potential in the medium term.

1. **Sustainable results of the Transformation Programme**: Before the privatisation we launched an internal programme, led by a dedicated PMO, to unlock full operational value. In fact, in 2014 the programme has delivered important benefits to our EBITDA (an important part in Operations) and has been strengthened with a key initiative which is the network integration. By implementing it fully in 2015 we will be able to extract synergies in our operations and become more competitive in the e-commerce market.

2. **Our People: Sustainability and Meritocracy**. In 2014 we have developed a new incentive scheme that will link performance / objectives and evaluations (and remuneration). It is crucial in modern organisations that merit is adequately remunerated and that we are able to retain and promote talent. The variable remuneration will already be introduced to reward the 2014 performance as a fair initiative to share the good results with our employees.

   We also signed the new Company Agreement and the new Healthcare Benefits Plan. It was a very important landmark that will ensure sustainability of our employee benefits plan while reducing significantly our liabilities. The negotiation process has been quite positive and I am convinced that we have reached a win-win agreement.

3. **The Postal Bank:** As further elaborated below, we decided to launch an organic Postal Bank to further expand our Financial Services business. In November, the Board approved a detailed business plan, followed by the Bank of Portugal confirmation of our banking license. We also launched the required internal initiatives, involving the right people and the right skills, to ensure that the project is a success and that it achieves all its targets: timings, investment and returns. We have 8 workstreams with detailed calendars and as of today more than 100 FTEs from CTT are already involved in the project.

4. **Key partnerships to unlock our Assets value:** In June we signed a partnership agreement with BNP Paribas for the sale of consumer credit products. Besides the commercial upside, this agreement has ensured an upfront fee of €3m. In the last few months, we also celebrated an agreement with the Portuguese Government to provide Services of General Economic Interest and a MoU with Altice to explore synergies between PT Portugal and CTT. This MoU, besides various individual initiatives expected to boost EBITDA (to be negotiated in a future

agreement with Altice), represents an upfront impact of €30m to CTT (of which €15m are independent of any further future agreement).

5. **Portuguese Government sells its remaining 31.5% stake in CTT:** In September we become a fully private company (100% free float). It has been a very successful ABB and another landmark transaction for Portugal. In 45 minutes the State obtained a €340m cash inflow, providing only a 7% discount in the CTT share price.

All these actions, being commercial partnerships, internal initiatives or capital markets events, give us the confidence to face the future by having motivated people, meaningful projects, robust partners and demanding shareholders.

Update on the Strategy pillars

CTT has a clear and well defined strategy which has attracted the strong interest of investors. Our vision is to be a multi-services postal operator, recognised as a world reference in quality, efficiency and value creation. We remain totally focused and dedicated to deliver results, keeping clear the main goals of achieving sustainable growth and improving the profitability of each of our business units.

CTT has identified 4 strategy pillars to pursue in the short-term.

1. **Focus on the preservation of the value of the Mail business:** The Mail business represented in 2014 over 70% of our reported revenues which highlights the importance of the business. Despite the challenging industry dynamics, with mail volumes declining trends, the company has identified several initiatives to preserve the value and increase profitability of the Mail business which include among others: i) regulatory management / price update; ii) continuous effort on efficiency programmes in order to adjust the structure and sustain an operation of excellence; iii) development of specialised segments such as direct mail; and iv) focus on innovative digital / physical mail offer solutions.

2. **Capture the growth trend in Parcels:** CTT is exploiting the significant opportunities for commercial and operational improvement in this business in both Portugal and Spain. In Portugal, the priority is to upgrade the product offering with a more attractive value proposition for our customers and progress on the integration of the Express and Parcels network with the Mail network in order to reduce unit costs. In Spain, the company is determined to continue implementing the reorganisation initiatives with a strong focus on operational optimisation, strengthening of the commercial effort and price. However, it is the development of the E-commerce globally and more specifically in Iberia which presents one of the biggest opportunities for the company. As such, CTT has defined it as a key strategic priority and several initiatives are in place to capture its full potential – appointment of an E-commerce dedicated department, establishment of international cooperation agreements, design of a unique approach to the market, etc.

3. **Launch of the Postal Bank to expand the Financial Services business:** The Financial Services business is becoming an increasingly important growth lever for CTT (21.4% growth in

recurring revenues in 2014). This business currently contributes 10% to the reported revenues but already represents 28% of the recurring EBITDA of the group. CTT believes there is still significant room for growth in this area and is determined to expand its offer through the launch of a Postal Bank which is expected to be in operation by the end of 2015. CTT has identified a clear opportunity in the Portuguese market, based on a no-frills concept which the company considers offers a higher value proposition than what is currently available in the market. CTT expects to launch this banking operation with limited marginal costs leveraging on the recognition of its brand, its extensive Retail Network, track record in the financial services area and available capacity in the post offices.

4. **Leverage on the scalability of our assets:** CTT has a unique and extensive physical network in Portugal with more than 2,300 own and partnership branches, circa 3,870 Payshop agents and almost 5,000 mailmen. In addition, CTT is one of the most trusted Portuguese brands, given the strong quality recognition of our services by our customers. All in all, CTT represents an ideal partner for retail service / delivery partnerships (e.g. Telecommunications, Citizens' Bureau Area; etc.) which allows the diversification of the usage of our network and generate additional value for CTT.

We have a strong confidence in the future of CTT, as our unique positioning in the market offers us sustainable growth prospects. The strategy of CTT has been designed to adapt to the recent challenges that are shaping the industry and leverages on our clear competitive skills and advantages.

Finally, I would like to express my deepest gratitude to all those that work at CTT and its subsidiaries, to my fellow members of the governing bodies, and also to our shareholders, customers and other stakeholders, which have all contributed remarkably for an extraordinary 2014. We look forward to keeping up the good work.

2015 will be even better.

Lisbon, 26 March 2015

Francisco de Lacerda
Chairman & CEO

GOVERNING AND MANAGEMENT BODIES

Governing bodies

Board of the General Meeting

Chairman:	Júlio de Lemos de Castro Caldas
Vice-Chairman:	Francisco Maria de Moraes Sarmento Ramalho

Board of Directors

Chairman:	Francisco José Queiroz de Barros de Lacerda (CEO)
Vice-Chairmen:	António Sarmento Gomes Mota (Chairman of the Audit Committee) Manuel Cabral de Abreu Castelo-Branco
Members:	André Manuel Pereira Gorjão de Andrade Costa (CFO) Dionízia Maria Ribeiro Farinha Ferreira Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo António Manuel de Carvalho Ferreira Vitorino Nuno de Carvalho Fernandes Thomaz (Member of the Audit Committee)[1] Diogo José Paredes Leite de Campos (Member of the Audit Committee) Rui Miguel de Oliveira Horta e Costa [2] José Manuel Baptista Fino [3]

Remuneration Committee

Chairman:	João Luís Ramalho de Carvalho Talone
Members:	José Gonçalo Ferreira Maury Rui Manuel Meireles dos Anjos Alpalhão

[1] Co-opted by resolution of the Audit Committee of 19 December 2014 in replacement of Parpública – Participações Públicas SGPS SA, which resigned from the positions of Non-Executive Director and Member of the Audit Committee on 12 November 2014.
[2] Co-opted by resolution of the Board of Directors of 29 July 2014, in replacement of José Alfredo de Almeida Honório, who resigned from the position of Non-Executive Director, on 14 July 2014.
[3] Co-opted by resolution of the Board of Directors of 19 December 2014, in replacement of Parpública – Participações Públicas SGPS, SA, which resigned from the positions of Non-Executive Director and Member of the Audit Committee, on 12 November 2014.

Executive Committee

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

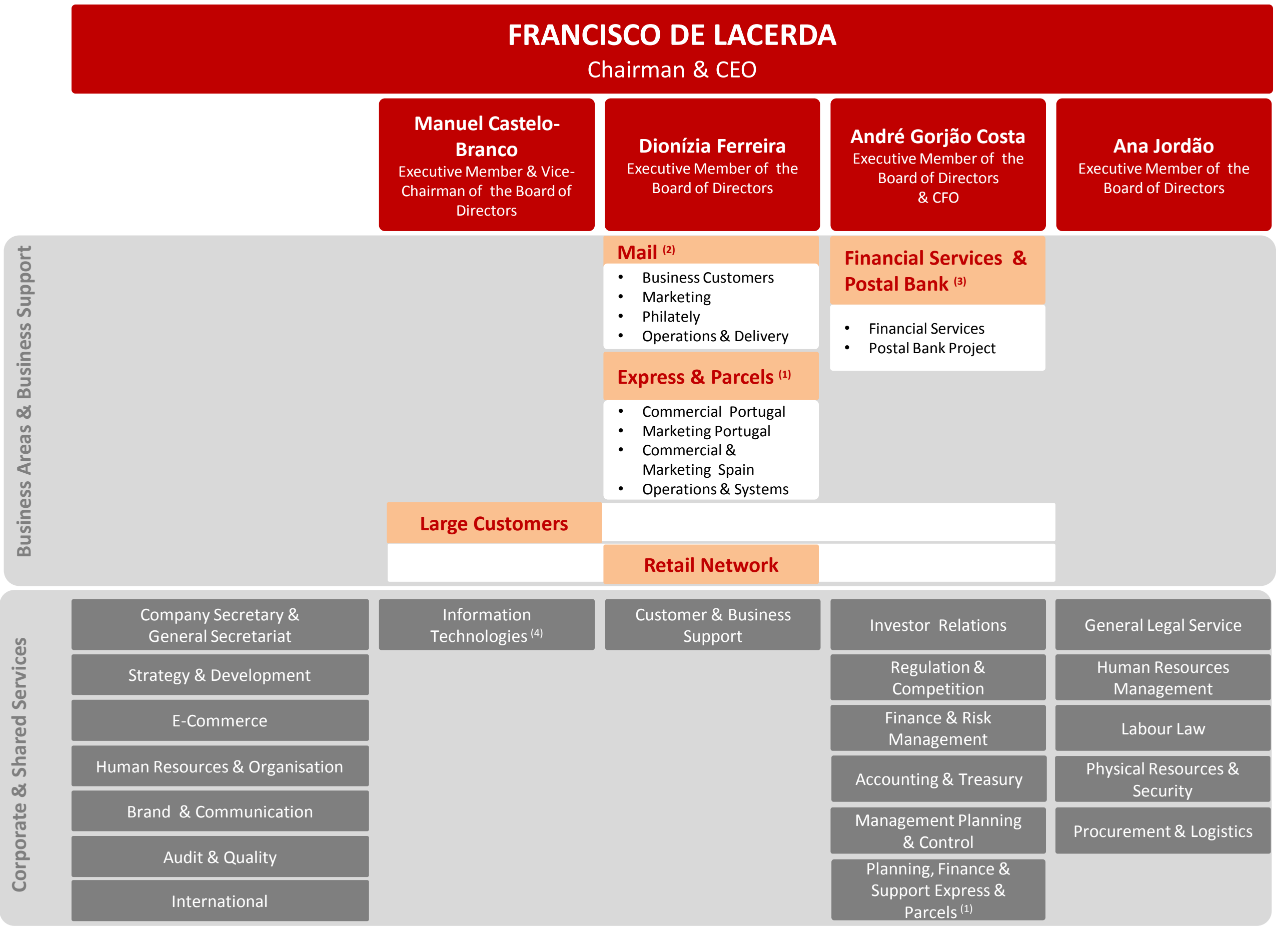
Audit Committee

Chairman:	António Sarmento Gomes Mota
Members:	Diogo José Paredes Leite de Campos Nuno de Carvalho Fernandes Thomaz

Statutory Auditor and External Auditor

Statutory Auditor:	KPMG & Associados, SROC, S.A., represented by Maria Cristina Santos Ferreira
Alternate Statutory Auditor:	Vítor Manuel da Cunha Ribeirinho

Management Organisation



(1) Includes CTT Expresso, Tourline & CORRE; **(2)** Includes Mailtec Comunicação, Mailtec Processos, CTT Gest & PostContacto; **(3)** Includes Payshop **(4)** Includes Mailtec Consultoria

KEY FIGURES

Economic and financial indicators (consolidated IFRS data)

€ thousand or %, except where indicated	2014	2013 [1]	△% 14/13
Revenues [2]	717,774	704,847	1.8
Operating costs excluding impairments, provisions, depreciation and non-recurring costs	582,674	581,919	0.1
Recurring EBITDA [3]	135,100	122,928	9.9
Recurring EBIT [3]	111,522	96,113	16.0
Earnings before financial costs and taxes	135,418	87,236	55.2
EBT	127,999	83,253	53.7
Net profit for the period	76,844	61,105	25.8
Net profit attributable to equity holders	77,171	61,016	26.5
Earnings per share (euro)	0.51	0.41	26.5
Recurring EBITDA margin	18.8%	17.4%	1.4 p.p.
Recurring EBIT margin	15.5%	13.6%	1.9 p.p.
Net margin	10.8%	8.7%	2.1 p.p.
Return on Equity (ROE)	29.4%	22.2%	7.2 p.p.
Return on Invested Capital (ROIC)	26.2%	15.7%	10.5 p.p.
Return on Capital Employed (ROCE)	24.0%	14.3%	9.7 p.p.
Capex	16,596	12,994	27.7
Operating free cash flow [4]	106,434	51,507	106.6
Cash and cash equivalents	664,570	544,876	22.0
Net liquid assets	278,891	236,818	17.8

	31.12.2014	31.12.2013	△% 14/13
Assets	1,180,997	1,100,134	7.4
Liabilities	931,787	824,200	13.1
Equity	249,210	275,934	-9.7
Share Capital	75,000	75,000	-
Number of shares	150,000,000	150,000,000	-
Current liquidity ratio	134.5%	144.7%	-10.2 p.p.
Solvency ratio	26.7%	33.5%	-6.8 p.p.
Adjusted solvency ratio [5]	45.6%	53.5%	-7.9 p.p.
Net debt [6]	- 74 876	- 19 930	275.7
Net debt/EBITDA [7]	-0.6 x	-0.2 x	-0.4 x
Tangible fixed asset coverage	239.0%	247.1%	-8.1 p.p.

(1) Includes the subsidiary EAD; the 51% stake that CTT held in its capital was sold in the 1st half of 2014.

(2) Revenues excluding non-recurring items.

(3) Before non-recurring revenues and costs.

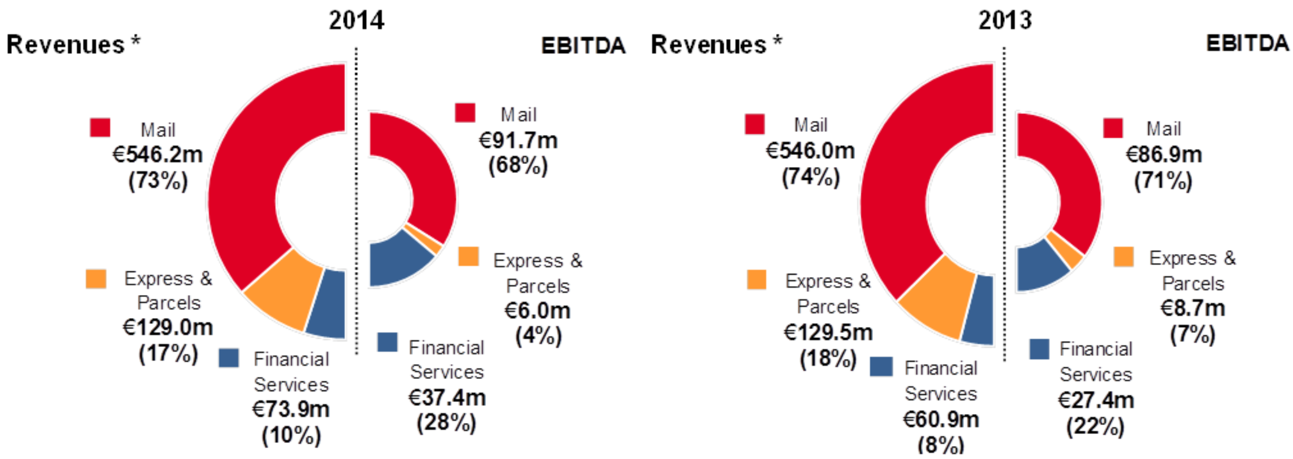
(4) Cash flow from operating activities excluding change in net Financial Services payables.

(5) Equity / (Total liabilities - Financial Services payables).

(6) Net debt includes the net value of healthcare responsibilities.

(7) If negative indicates positive net cash situation.

Recurring Revenues and EBITDA by Business Unit



* Including internal provision of services and intra-group transactions eliminated in the consolidation process; excluding income related to CTT Central Structure and Intra-group Eliminations amounting to -€31.5m in 2013 and -€31.3m in 2014.

Operating indicators

	2014	2013	△% 14/13
Mail			
Addressed mail volumes (million items)	841.3	892.3	-5.7
Transactional mail	718.0	756.5	-5.1
Editorial mail	47.6	49.3	-3.5
Advertising mail	75.7	86.5	-12.6
Unddressed mail volumes (million items)	507.7	528.7	-4.0
Express & Parcels			
Portugal (million items)	13.8	12.1	13.4
Spain (million items)	13.7	13.1	4.3
Financial Services			
Payment (number of transactions; millions)	67.0	71.5	-6.4
Savings and insurance (amounts negotiated; € millions)	6,655.6	3,580.8	85.9
Staff			
Employee (FTE) (a)	12,523	12,900	-2.9
Retail, transport and delivery networks			
Post offices (b)	623	623	0.0
Postal agencies	1,694	1,820	-6.9
PayShop agents	3,876	3,886	-0.3
Postal delivery offices	262	285	-8.1
Postal delivery routes	4,659	4,713	-1.1
Fleet (number of vehicles) (c)	3,478	3,465	0.4

(a) FTE = Full-time equivalent.

(b) Includes mobile post offices (4 in 2014 and 5 in 2013), external postal counters (12 in 2014 and 13 in 2013) and partnership post offices (5 in 2014 and 2013).

(c) Operational fleet.

CTT sustainability indicators

	2014	2013	△% 14/13
Customers			
Customer satisfaction (%) [(a)]	84.8	68.5	16.3 p.p.
Total number of operating units certified (ISO standard and retail and delivery networks certification)	1 159	1 179	-1.7
Retail and delivery networks certification (% coverage)	100	100	-
Global Quality of Service Indicator (points)	236.5	227.7	8.8
Staff			
Number of accidents	955	908	5.2
Training (hours)	263 828	224 411	17.6
Women in senior management positions (1st level) (%)	41.7	45.5	-3.8 p.p.
Community / Environment			
Value chain - contracts with environmental criteria (%)	99.5	97.0	2.5 p.p.
Total CO_2 emissions, scope 1 and 2 (kton.) [(b)]	20.5	20.3	1.0
Energy consumption (TJ) [(b)]	360.6	361.7	-0.3
Weight of Eco product range in Direct Mail line (%) [(c)]	22.8	21.8	1.0 p.p.
Investment in the Community (thousand euros)	1,039	814	27.6

(a) Alteration in the series - new methodology; (b) Not including values from the subsidiary Corre nor those relating to the fleet of the subsidiary Tourline Express; (c) Volumes

HIGHLIGHTS OF THE YEAR

January

- **Update of the special prices** of the postal services included in the Universal Service Offer, applicable to bulk mail, following the proposal communicated to ICP-ANACOM on 13 December 2013.
- **Launch of the Programme** of Identification and Development of Potential for young managerial CTT staff.

February

- Signing of a **Protocol with EDP** aimed at the joint exploration of business opportunities, including the contracting of Commercial EDP services at CTT post offices and the provision of financial services by CTT as a payment entity.

March

- **Extraordinary General Meeting**, during which the new governance model of CTT was approved and the governing bodies were elected for the three-year term 2014-2016.
- **2014 CTT Convention** under the theme “The Power of One”, reinforcing the importance of each employee that can make a difference.
- **Disposal of the stake in EAD**, conducted within the context of optimisation of the business portfolio, for €2.75m.

April

- **Update of the prices** of the universal postal service of letter mail and parcels, following the decision of ICP-ANACOM not to oppose the tariff proposal for the universal postal service submitted by CTT. Second phase of the updating of special prices applicable to bulk mail, enabling the preservation of the existing differentiation.

May

- **Annual General Meeting of CTT** which approved the financial statements for 2013, including the management report, the individual and consolidated accounts, the corporate governance report, the application of results for the financial year including the payment of a dividend per share in accordance with the indicative proposal presented in the prospectus of the Initial Public Offering (IPO) and votes of confidence given to the Board of Directors and the supervisory bodies. KPMG was elected to complete the term of office 2012/2014.
- **Payment of a dividend** per share of €0.40.

June

- **Update of the prices** of **editorial mail/newspapers, periodicals and non-periodical publications and books services**, following the decision of ICP-ANACOM not to oppose the tariff proposal for the universal postal service, submitted by CTT.

- Signing of a **contract with BNP *Paribas Personal Finance***, in the context of a new partnership for the sale and marketing of personal and consumer credit products of this financial institution in the CTT Retail Network.

July

- **Award of information and technology service contracts for 2015 and subsequent years**, regarding basic infrastructure services, helpdesk and desktop management, and fixed voice and data telecommunications services. These awards will enable future savings of approximately 14 million euros per year.

August

- **Notice of Termination of the 2013 Company Agreement and proposal of new Company Agreement**, with a view to obtaining a conventional framework enabling more efficient human resources management, suited to the future challenges of CTT.

September

- Execution of the **2nd privatisation phase** during which the remaining 31.5% stake of the Portuguese State in the capital of CTT was disposed through an institutional direct sale by Accelerated Book Building.
- Initiation of the **negotiation process with the Workers' Collective Representation Structures** with a view to the reformulation of CTT's Regulation of the Social Works.

November

- **Approval by the Board of Directors of the establishment of the Postal Bank**, thus lending continuity to the strategy of expansion of the financial services products offer. The Bank of Portugal authorised the extension, for an additional period of 12 months, of the license for the Postal Bank to initiate its activity, which is now valid up to 27 November 2015.
- **Approval by ICP-ANACOM of the criteria for the establishment of the prices of the postal services comprising the universal service**, which are intended to revoke the price fixing rules stipulated in the Price Agreement concluded between CTT and ICP-ANACOM on 10 July 2008 (as amended on 9 July 2010).
- **Signing of a Memorandum of Understanding with Altice Portugal, S.A.** (a company fully held by Altice, SA), which was at the time bidding to acquire PT Portugal S.A., with a view to the conclusion of a Framework Agreement enabling joint synergies between CTT and PT Portugal.

December

- Registration of the **merger by incorporation of Mailtec Holding, S.G.P.S. in CTT – Correios de Portugal, S.A.**, through the full transfer of the assets of Mailtec Holding, S.G.P.S., S.A. to CTT – Correios de Portugal, S.A.. The merger was registered on 20 January 2015.
- **Approval by ICP-ANACOM of the quality of service parameters and performance objectives associated with the provision of the universal service** for the next 3 years.

AWARDS AND RECOGNITION

During 2014, CTT received the following distinctions/recognition:

- Distinction with the "*Capital Market Prize 2013*", in the Investor Relations & Governance Awards (IRGA), sponsored by Deloitte and Diário Económico, which recognises the best business performances in the Portuguese capital market and the best practices demonstrated during the previous year.
- The Initial Public Offering of CTT was distinguished by the prestigious British magazine "The Banker" as the "*European Equities Deal of the Year 2014*".
- The Investor Relations Magazine, through its worldwide base of investors and analysts, nominated CTT for the "*Best IR for an IPO*" award which distinguishes the company with the best investor relations during an IPO process.
- CTT won the 44th edition of the "*Internazionale Asiago d'Arte Filatelica Award",* considered the Oscar of philately, with the €0.36 stamp of the "International Year of Statistics 2013" issue.
- *"Trusted Brand in Portugal*", for the 12th time, following the study conducted by Reader's Digest Selections, this year in the category of "Public Service Company". For the first time CTT was also distinguished as a "*2014 Trusted Brand for the Environment*".
- "*2014 Brand of Excellence*", attributed by Superbrands Portugal.
- Silver and Bronze Medals, respectively, for CTT and CTT Expresso Contact Centres in the APCC Best Awards 2014, in the Distribution and Logistics category.
- Finalists (Top 3) of the IV Edition of the 2013 OCI (Internal Communication and Corporate Identity Observer) Awards - Excellence in Internal Communication, in the category of Integrated Strategy for Internal Communication, with the "Portugal With Us – Recipes at the Counter" project.
- Short-listed in the "*Postal Technology 2014 International Awards",* in the category "Environmental Achievement of the Year", for the 4th time in the last 5 years.
- *"Human Resources Portugal 2013 Award"* in the category "Company that most promotes and defends gender equality". The magazine Human Resources Portugal is a reference multi-publication in the areas of human resources, marketing and communication which distinguishes the best companies in Portugal in "people management".
- "*B Green Action Award*", attributed by Greenfest 2014, a distinction aimed at fostering corporate commitment to sustainability.
- Silver Award, attributed by "COMUNICAÇÃO M&P" (Meios Publicidade) 2014, in the category "Internal communication: Motivation Action" with the project "Portugal With Us – Recipes at the Counter". Short-listed in the category "IT, Media & Telecommunications", with the campaigns "CTT, Increasingly More Present" and "IPO".
- Short-listed in the "*Effectiveness of Communication Awards*", an initiative of the Portuguese Advertisers Association (APAN) and Grupo Consultores, with the Institutional Campaigns "Increasingly more present" and "IPO", in the category "Other Services and Public Administration".

- "*Best Photograph*" with Aposta Magazine 119, "*Best Cartoon*" with Aposta Magazine 117, "*Diploma of Honour*" for the Director of Institutional Communication of CTT, attributed by FEIEA (Federation of European Business Communicators Associations).
- Winner of the "*2014 APCE (Portuguese Association of Corporate Communication) Grand Award – Excellence in Communication*", in the following categories: "Institutional Communication Campaign", with the IPO campaign; "Internal Publication", with Aposta Magazine; "Cover Page", with Aposta Magazine 113; "Corporate Television", with Via TV.
- Distinctions of merit of the "*2014 APCE Grand Award – Excellence in Communication*" , in the following categories: "Institutional Communication Campaign", with the campaign CTT – Increasingly More Present; "Internal Event", with the 2013 CTT Convention; "Management Report", with the 2013 Annual Report; "Image or Illustration", with Aposta Magazine 117.

PART I – MANAGEMENT REPORT

1. STRATEGIC LINES

2014 - the first complete financial year as a listed company – was particularly relevant for CTT in the context of the consolidation and affirmation of the strategic lines that were approved and defined in 2012 and 2013, as well as the commitments undertaken with the market and shareholders at the time of the Initial Public Offering.

Indeed, during the preparation of the privatisation process, the strategic plan was revisited and defined, supported by an encompassing transformation plan, which offered the investors clear information on the strategy and path to be followed by CTT and, in this way and according to their preferences, take their investment decisions.

The success of the privatisation and the share price evolution during 2014 not only demonstrates that the chosen path and identified strategic lines are appropriate but also that their execution and future prospects exceeded the existing expectations at the time of the privatisation. For the first time in 5 years, CTT achieved growth of revenues, a crucial factor for its sustained future evolution.

1.1. Sector trends

The definition of the strategic lines must always take into account the main trends that form the sector and business context of CTT. It is building upon these trends that CTT defines and revisits its major strategic lines:

1. Postal liberalisation – in the context of the legislation of 2012, CTT started to operate in all its segments in competitive markets, where it is currently increasingly necessary to ensure permanent optimisation in the different business areas.
2. Technological replacement – the traditional Mail business continues in constant change with the growing digitalisation bringing in new forms of communication.
3. E-commerce – the rapid growth of E-commerce worldwide opens a broad range of opportunities for postal and parcel operators, from logistics to customer service.
4. Economic context – Portugal and Spain continue to experience challenging macroeconomic contexts, imposing particularly demanding conditions on the different businesses, with the depressed internal consumption having significant impact on mail volumes.
5. Privatisations in the sector – there is a tendency towards privatisation in the postal sector, which accelerates the necessity of differentiation among postal operators and a clear separation of public / universal service obligations and the holders of capital, calling for a new sector governance.

1.2. Strategic lines

CTT's strategic plan leverages its competitive advantages and explores the potential that the digitalisation and new requirements of the more sophisticated and demanding consumers bring, always preserving the inherent value of the traditional business and its obligations in terms of the universal postal service. Indeed, CTT's competitive advantage is in the capillarity and excellence of the delivery network of postmen and women and post offices, combined with the efficiency in operations, which is why the major strategic lines seek to capture the challenges of the future by offering – whether in the digital sphere or in financial services – CTT's most distinctive feature: proximity.

Thus, in 2014, CTT reaffirmed its 3 strategic axes:

1. **Preserve the value in the Mail business**: consolidation of continuous efficiency initiatives – for example: definition and start-up of implementation of the networks integration project, award of new IT contracts, etc. – which are already showing significant results. Continued concern with proactiveness in the promotion of a fair regulatory framework, specifically regarding the competition of other forms of communication and logistics and the evolution of prices in order to mitigate the adverse effects of the decline of mail volumes. An innovation agenda has also been promoted, aimed at exploring new offers which combine digital with physical mail, for corporates and individuals.

2. **Foster the growth of the Express & Parcel business, making the most of the E-commerce potential**: CTT intends to explore opportunities for significant improvement in this business in Portugal and Spain (through optimisation of operations, improved offer, strengthening of capacities and commercial orientation, etc.), but it is in the growth of electronic commerce that the focus should be placed, due to the unique position that CTT can perform in this market. Functional changes have been carried out (creation of an E-Commerce department) as well as operating ones (integration of the Mail and Express & Parcels networks in Portugal) which will accelerate the creation of focused offers in the short-term so as to make the most of the entire potential of CTT.

3. **Expand the Financial Services business**: the approval of the decision to proceed with the Postal Bank project in November consolidates CTT's strong focus on this area. The intention to expand the financial services offer, now embodied in a banking entity with an own simple offer, will be an important and transformational challenge for CTT. The conclusion of a partnership with BNP Paribas for sale of personal consumer credit at CTT post offices and on its website also falls under this axis, later migrating to the future bank. The year of 2014 enabled the consolidation of CTT's market position as a relevant financial player with the significant attraction of new customers for saving products and with the automation and simplification of sale / contracting processes.

2. BUSINESS

2.1. Economic and regulatory environment

2.1.1. Economic environment

International

According to the International Monetary Fund (IMF), the world economy grew by 3.3% in 2014, the same growth recorded in 2013. World trade of goods and services recorded annual growth of 3.1%, in terms of volume, a value lower than the 3.4% recorded in 2013 and the average value for the decade of 2000 (5%). The activity in the euro area proved to be weaker than that expected at the beginning of the year, above all due to the unexpectedly low growth of investment and exports, with real GDP for the entire year having increased by 0.8% (-0.5% in 2013). In contrast, the dynamic growth of some advanced economies outside the euro area is progressively, in general, gaining solidity.

On the other hand, weaker growth of the emerging economies was observed, in particular Brazil (0.1%), reflecting the effects of a restrictive monetary policy on global demand with consequences on the country's political and social stability, and the significant deterioration of the Russian economy (0.6%), following the aggravation of the geopolitical tensions around Ukraine.

Inflation in the euro area, measured by the Harmonised Index of Consumer Prices (HICP) in the euro area, remained low, on average standing at 0.5% in 2014. The recent fall in oil prices significantly attenuated the prospects of inflation in the short-term.

In 2014, the Euribor rates remained at historically low values. In the second half of 2014, the rates decreased, and by December, they were standing at values approximately 20 b.p. below those recorded in the same period of the preceding year. The reference rate of the European Central Bank (ECB) fell by 10 b.p., both in June and in September, reducing from 0.25 percent at the beginning of the year, to 0.05 percent in December.

The year of 2014 closed with the euro devaluing in relation to the main worldwide currencies, with the strongest decline of approximately 12% relative to the dollar.

National

A clear inversion of the downward trend in gross domestic product (GDP) was recorded: according to the Quarterly National Accounts, disclosed by Statistics Portugal (INE), GDP increased by 0.9% in terms of volume as a whole for 2014, after having decreased by 1.4% in the previous year. This performance was driven by internal demand, whose contribution to the annual variation of GDP in 2014 was positive (2.0 p.p.), in contrast to what happened in 2013 (-2.4 p.p.), reflecting a recovery of private consumption and, to a lesser degree, of investment. The contribution of net external demand, in contrast, was negative in 2014 (-1.1 p.p.), after the positive contribution recorded in the previous year (1.0 p.p.), reflecting the more intense growth of the volume of imports of goods and services than that of exports of goods and services (6.2% and 3.4%, respectively). Private consumption progressed from a reduction of 1.4% in 2013 to growth of 2.1% in 2014, especially concerning the acquisition of durables which accelerated in a pronounced manner, to a variation of 14.8% (2% in 2013), mainly reflecting the evolution of the automobile component. Investment recorded growth of 5.2% in terms of volume, after having declined by 6.5% in the previous year.

In 2014, the annual average variation rate of the Portuguese Harmonised Index of Consumer Prices (HICP) fell to -0.2% (0.4% in 2013). During the same period, the Index of Consumer Prices (ICP) showed an annual average variation rate of -0.3% (0.3% in 2013). The reduction of inflation between 2013 and 2014 was above all driven by the evolution of the prices of unprocessed food products, which reduced from 2.6% in 2013 to -2.1% in 2014. Energy products also contributed to the reduction of inflation in 2014, recording a variation rate of -1.4% in 2014 (-0.7% in 2013), especially due to the decline of fuel prices.

The unemployment rate stood at 13.9% in 2014, which represents a reduction of 2.3 p.p. in relation to 2013.

In May 2014, Portugal completed the Economic and Financial Adjustment Programme agreed with the European Commission, ECB and IMF in 2011. The conclusion of the Programme occurred in an economic climate marked by the gradual recovery of activity, along with an improvement of conditions in the labour market and the adjustment of external accounts. The austerity measures implemented in accordance with the constitutional restrictions in force enabled, albeit partially, the reduction of public expenditure and the balancing of the social security and the public health system (ADSE and SNS), essentially based on increased revenue through a strong increase in taxes.

2.1.2. Regulatory environment

At a European Union level

The approval of the third Postal Directive (Directive 2008/6/EC) of the European Parliament and Council, on 20 February 2008, established the final schedule for the total liberalisation of the postal market (until 31 December 2010), safeguarding a common universal postal service level for all users of the Member States of the European Union (EU) and defined the harmonised principles for the regulation of postal services in a free market environment.

In terms of the funding of the universal service, and since the provision of reserved postal services as a means of funding has been abolished, the new legal framework establishes a series of mechanisms that Member States can adopt to safeguard and fund the universal postal service. The new Directive also contains guidelines on how to calculate the net cost of the universal service. The provision of the universal service tends to operate at a loss in the EU, with various countries having implemented measures to mitigate this cost without requiring direct compensation. Among them, the regulators, aware of the challenges that the postal sector and primarily the provider of the universal service face, have permitted the diversification of activities and a more efficient allocation and use of resources, always safeguarding the obligations established in the European Directive. In a context of declining mail volumes, and given the established conditions for the provision of the universal service, only a more encompassing use of resources can enable maintaining a high level of efficiency.

The competition in the postal sector increasingly arises from the new forms of communication, principally digital, such as e-mail and electronic invoices, as well as telecommunications and the media. A challenge that is faced by the EU is the management of the coexistence of a highly regulated sector (postal services) in competition with others almost without regulation (electronic mail and express and parcel services).

At a national level

The Postal Law was approved in 2012 (Law number 17/2012, of 26 April, as amended by Decree-Law number 160/2013, of 19 November), transposing to the Portuguese legal system Directive 2008/6/EC. The postal market in Portugal was fully opened to competition, eliminating the areas under the universal service that were still reserved to CTT. However, for reasons of public order and security or general public interest, some activities and services may remain reserved up to 2020: placement of letter boxes on public routes; the issue and sale of postal stamps with the mention of Portugal and the registered mail service used in legal or administrative proceedings.

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

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

In terms of the funding of the universal service obligations (USO), the universal service providers are entitled to compensation of the net cost of the USO when it constitutes an unreasonable financial burden. This compensation is made through a fund supported by the postal service providers, the operation of which has yet to be defined. On 18 February 2014, the regulatory entity (ICP-ANACOM) issued its final decision on the methodology for the calculation of the net cost of the universal service provided by CTT as a provider of the universal service, as well as on the concept of unreasonable financial burden for effects of compensation of the net cost of the universal service as well as the terms for its calculation.

Regarding the State contribution to the compensation fund for the financing of the universal service, Law 16/2014 of 4 April was published (amending Postal Law 17/2012, of 26 April), which specifies that contributions to the aforesaid fund should come from postal service providers which offer services that, from the point of view of the user, are considered services exchangeable with those covered by the universal service.

As the concessionaire of the universal postal service, CTT shall remain the universal service provider until 2020, with the Government having reviewed the principles of the concession pursuant to the system established in the Postal Law, through the publication of Decree-Law 160/2013, of 19 November, with the finalisation, under this Law and in order to reflect the legislative modification, of the amendment to the concession contract on 31 December 2013.

Pursuant to the provisions in the Principles of the Concession of the Universal Postal Service and respective Concession Contract, on 28 August 2014, following the proposal submitted by CTT for public consultation, ICP-ANACOM approved the final decision on the objectives of postal network density and minimum services offer with which CTT should comply during the next three years. The objectives defined in terms of postal network density and minimum services offer, which do not significantly alter the current postal network, reinforce the assurance of the existence of availability and accessibility of the universal service provision entrusted to CTT.

In accordance with the new legal framework, the quality of service standards, the performance targets associated with the provision of the universal postal service, as well as the criteria that price-setting should comply with, are now stipulated by the regulatory authority.

On 21 November 2014, ICP-ANACOM approved the criteria for formation of prices for postal services that comprise the universal service, which revoke the pricing rules set forth in the Quality of Service Convention concluded on 10 July 2008 between CTT and ICP-ANACOM (as updated on 9 July 2010). This decision of ICP-ANACOM, as provided in the Postal Law, defines the pricing criteria for the universal service applicable for the three-year period from 2015 to 2017.

These criteria establish a maximum annual price variation for the letter mail, editorial mail and parcels basket (non-reserved services), linked to the inflation rate (CPI) and the evolution of volumes, including in 2016 and 2017 the inflation adjustment factor (CPIAF) and volume adjustment factor (VAF) which should take into account the differences that may occur between the actual and the predicted values for those variables. For summons and postal notifications (services reserved to CTT) a maximum annual price variation is also established linked to the same factors considered in the basket of the non-reserved services.

On 30 December 2014, ICP-ANACOM approved the quality of service parameters and performance targets associated with the provision of the universal postal service for the next three years, which revoke the rules laid down in the Postal Quality of Service Agreement concluded between CTT and ICP-ANACOM on 10 July 2008 (and updated on 10 September 2010). In terms of quality of service indicators and respective performance targets to be applied in the 2015-2017 period, the indicators, the minimum and target values currently defined by the Quality of Service Agreement are maintained, while a new indicator for transit time of registered mail has been introduced. The adaptation to the new calculation methodology should be gradual due to implied alterations in the methods of measurement of the indicators.

In 2014 the transitional rules of the Quality and Pricing Arrangement established between CTT and the regulatory entity (ICP-ANACOM) for the three-year period 2008-2010, renewed annually, remained in force with respect to the universal service.

The special prices of the postal services included in the universal service offer, applicable to bulk mail senders (as amended by article 4 of Decree-Law 160/2013, of 19 November) were updated on 1 January, following the proposal communicated to the Regulator on 13 December 2013, with the second phase of the update of these prices having taken place on 7 April, in accordance with the update of all the other prices of the universal postal service. On this date, the remaining prices of letter mail and parcels comprising the universal service were updated, and on 1 June, the prices of the service of editorial mail / newspapers, periodical and non-periodical publications and books were updated, following ICP-ANACOM's decision not to object to the price proposals of the universal postal service, submitted by CTT on 17 February and 15 April, respectively.

In terms of the quality of the universal postal service, whose quantification of objectives and minimum quality of service levels are presented in the Quality of Service chapter, the arrangement in force for the year of 2014 maintains the high quality standards required for postal services in Portugal, which CTT has continuously surpassed.

2.2. Mail

2.2.1. Activity

The revenues[1] of the Mail business unit reached €546.2m (73% of the consolidated total[2]) in 2014, corresponding to growth of 0.8% relative to 2013, after adjustment for purposes of like-for-like comparison of €4.2m relative to the 2013 revenues of the company EAD, which is no longer being consolidated as a result of the sale of CTT's stake in its capital in 2014.

This business unit includes the postal services and corporate solutions provided by CTT S.A. (parent company), PostContacto, CTT Gest and Mailtec, upstream and downstream services of mail. In the first half of 2014, CTT reached an agreement on the sale of EAD, which was previously a part of this business unit, specialising in archiving and *mailmanager* solutions. Not being a core activity for the development of the Mail business, and since there exists a very encompassing market offer and some competences in this matter in other areas of the group, the sale enabled a better allocation of resources to activities creating value.

Throughout 2014, and although in a context of some pressure from the point of view of cost control and optimisation of business processes by CTT's largest clients, there was, particularly in the second half of the year, an improvement in terms of mail activity. The second half of the year brought a more favourable evolution to advertising mail and transactional mail in terms of volumes, which decreased in relation to the previous year but less than in the first half of the year, as a result of the recovery observed in internal consumption, and consequently, domestic activity. The price increases referred to above, along with a more careful management of the policies for various customer discounts, relative to bulk mail, compensated the decline in mail volumes of the year and led to the growth of the revenues of this business unit.

[1] Including internal services and intra-group transactions which are eliminated for the purpose of consolidation.

[2] Excluding revenues from the CTT Central Structure and intra-group elimination, amounting to -€31.3m in 2014.

Mail

The reduction of addressed mail volumes (includes transactional and advertising mail) in the second half of 2014 relative to the previous year (-4.3%) was significantly less accentuated than the one which occurred in the first half of the year (-7.0%), contributing to a total rate of decline for the year of -5.7%.

The rate of decline of transactional mail volumes reduced from -5.7% at the end of the first half of the year to -5.1% at the end of 2014, thus confirming the improvement that took place in the second half of the year (-4.4%). Factors such as the performance of the corporate sector in view of the price increases (early sending of mail, campaigns or communication actions) and the more visible signs of the country's economic recovery, namely in the growth of internal consumption (transactional and advertising mail), contributed to the performance in the year. The value-added postal services also showed a positive contribution in the year, with priority and registered mail. Contributing to this outcome were the variations of ordinary mail volumes (-5.8% in the year; -5.9% in the 2nd half of the year), priority mail (-1.7%;+7.1%), registered mail (-1.7%; +3.7%), “green” mail (-3.9%; +2.5%), international mail (-2.8%; -3.8%), outbound (-7.8%;-7.3%) and inbound (+2.8%;+0.3%).

The volumes of editorial mail showed a decline year-on-year that was identical in both the 1st and the 2nd half of 2014, ending the year with a variation of -3.5%.

In the evolution of addressed advertising mail (-12.6%; -4.2%), the decrease in the 2nd half of the year, significantly lower than that of the 1st half of the year, reflected the signs of recovery shown by the advertising market and the focused additional commercial effort by the company. In this context, commercial actions bringing value to these advertising means have been developed in view of the remaining market offer, with solutions which join the physical world to the digital one. The volumes of unaddressed mail (-4.0% -10.8%) were, in the 2nd half of the year, lower than that of the 2nd half of 2013 when the local government elections were held which always considerably and positively influences this type of mail.

On 7 April the prices of the universal service and all other postal services in general were updated, and a thorough review was made of the methodology of application of discounts in accordance with the efficiency criteria to which these are indexed. Compared to the previous pricing, this update led to an overall average price increase of the universal service of 2.6%. As part of the company's pricing policy for 2014, the aforesaid update corresponds to an annual average price variation of 4.1%, reflecting the effect of the increased prices carried out on 1 January for bulk mail, in the national and international service, as well as the price review carried out on 1 June for editorial mail.

Business Solutions

CTT continues to focus on hybrid communication solutions, developing offers that combine physical with digital communication, such as: document production (through Mailtec Comunicação, a market leader), digitalisation and information technologies for the postal sector (through Mailtec Consultoria), geographic and geo-referencing solutions, as well as ViaCTT, a solution of secure e-mail with controlled access.

CTT standardises value-added solutions which meet market needs in the context of processes of treatment of returned mail, treatment of registered mail and treatment of accounting documents. In this sphere, in 2014 a particular note should be made of the solutions provided to the local government sector (dematerialisation of the supplier invoice process), to a company of the water sector (integrated solution which includes document production, payment channels, treatment of refunds and reading of water meters) and a multinational client of the insurance sector (document management of over 2 million documents including electronic archiving in a cloud model).

The geographic and geo-referencing solutions offer was reformulated in 2014, standardising the Geoindex - Geomarketing, Georouting and Geoaddress portfolio. A series of new capabilities in the electronic mailbox (ViaCTT) have also been implemented, aimed at improving the use of the service, such as the use of the citizen card to access the electronic mailbox and automation mechanisms to obtain the documents of the mailbox, enabling its direct integration with document and business management systems, and cost-cutting in the operation of the service.

Regarding business customers in the international market, the Polish Post project was further developed in 2014 with the execution of the maintenance contract and the award of a significant volume of new services for development of electronic postal service platform, launched at the end of 2013. Efforts have also been made to identify and grasp business opportunities in other geographic regions, namely in Angola, Mexico, Morocco, Bulgaria, Chile, Cyprus, Cape Verde, Guatemala, Lithuania, Uruguay and Ecuador.

Philately

The Philately business achieved €7.3m of revenue in 2014, corresponding to an increase of 6.7% in relation to the previous year.

The following factors contributed to this positive evolution: (i) an accumulated face value of stamp issues, 7.2% greater than the value for the same period of the previous year; (ii) the launch of 24 issues of commemorative stamps, the issue of basic stamps, the booklets of self-adhesive stamps of Madeira, the Algarve / Alentejo and the basic issue of radical sports, 20 stamped postcards, 6 prestigious thematic books and 2 annual books. The expanded offer, adapted to demand, enabled the reversal of the downward trend that had been occurring in this business over the last few years.

In the context of the action plan developed during 2014, CTT highlights the partnership with Sport Lisboa e Benfica to produce a philately book and a booklet of personalised stamps based on the national champion team of the previous year. In the future, CTT intends to continue with this trend of associating philately items with sports through partnerships with other major national clubs.

Also in 2014, through its philately, CTT celebrated the Manufacturing of the Portalegre Tapestries with a stamp issue and a Tapestry exhibition (many of which are owned by CTT) of important Portuguese plastic artists, inaugurated on World Post Day. An exclusive catalogue of this exhibition was edited to mark this event, which included the respective stamps.

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

Commemorative Issues	
• 40 Years of the 25th April • 400 Years of the 1st Edition of *Peregrinação*, by Fernão Mendes Pinto • 500 Years of the Diocese of Funchal • 500 Years of the Birth of Blessed Friar Bartolomeu dos Mártires • 800 Years of the Portuguese Public Notary Profession • 500 Years of the Embassy of King Manuel I to the Pope Leo X • The Aircraft known to the Azores Islands	***History***
• Figures of Portuguese History and Culture • UNESCO World Heritage – Garrison Border Town of Elvas and its Fortifications • Major Awards of Portuguese Architecture • 8 Centuries of the Portuguese Language • Route of the Portuguese Cathedrals • UNESCO World Heritage - University of Coimbra, Alta and Sofia • Coffee • Tapestries of Portalegre (1st series) • EUROPA – National Musical Instruments	***Music, art & culture***
• 2014 – International Year of Crystallography • 150 Years of the Geophysical Institute of the University of Coimbra	***Science***
• Eusébio Forever • 2014 FIFA World Cup in Brazil • Gardens of Portugal • Extreme Sports – Definitive Issue	***Sport & environment***
• 500 Years of Andreas Vesalius (joint issue Portugal – Belgium) • 150 Years of Diplomatic Relations Portugal – Mexico (joint issue)	***Together with other countries***
• CTT – Public Company	***Privatisation***
• Extreme Sports • Madeira • Algarve and Alentejo	***Self-adhesive stamps***

As noted above, and with the usual enormous success, the following thematic and annual books have been launched:

Thematic books
• Sagres – A Symbol of Portugal • Creoula – Tradition and Youth • 40 Years of the 25th April • Gardens of Portugal • Saints and Blessed of Portugal • My Benfica

Year books
• My Stamp Album of 2014 • Portugal in Stamps 2014

2.2.2. Retail Network

The Retail Network manages the counter service and direct sales to final customers (private individuals and small enterprises) and is the largest diversified commercial network at a national level with close proximity to the population. The company has increased the value of this asset, transforming it into a platform of convenience and multi-services (especially financial services), boosting its revenues, while fully complying with the universal service obligations.

The business strategy of the Retail Network is based on three fundamental axes:

- Development of the Mail business, promoting operating excellence and better quality of service, as a result of the greater proximity to and knowledge of its customers, ensuring enhanced productivity levels;

- A channel of proximity for the marketing of financial products and services (savings, investments, payment solutions and personal credit among others), affirming itself as a strong alternative in terms of offer of innovative and competitive financial products to the population. The partnership with Western Union also enables a unique channel of proximity and capillarity for urgent cash transfers to any part of the world;

- Creation and development of businesses and services of convenience for the population, assuming the vocation of local face-to-face multi-service assistance, in addition to offering postal services, and operating as a preferred location for services to the citizens such as in the EDP partnership and the Citizen's Bureau Areas project.

At the end of 2014, the Retail Network comprised 5,081 contact points with its customers and the population, composed of 623 post offices (602 own post offices, 5 partnerships, 12 external postal counters and 4 mobile post offices), 1,694 postal agencies and 2,764 stamp sales points. The offer of services, under free service and in some cases available 24 hours per day, is complemented by 224 automatic stamp vending machines and 18 automatic mail product vending machines.

In 2014, optimisation activities were carried out in the context of the ongoing Transformation Programme, focusing on the following aspects:

- Route optimisation – analysis and development of the best routes for commercial staff in their Retail Network supervision programmes, in order to improve operational efficiency by reducing fuel consumption;
- Core / satellite post offices – establishing a new model for Retail Network functioning intended to optimise resources and guarantee quality of service and proximity to customers, to be implemented in 2015;
- Alteration / reduction of opening times – analysis of the adequacy of post office opening hours for those with less volumes and those located in commercial centres, which started to open at weekends, which shall allow matching of supply and demand in 2015.

As established in the Concession Contract, in 2014 the objectives for network density were defined, considering factors such as the distance to be travelled by customers in order to access the closest CTT branch, whether the area was urban or rural, as well as the accessibility for citizens of the various mail services and the opening hours when they could make use of them. Full compliance with the objectives defined reinforces the Company's intention to maintain a Retail Network offering proximity and convenience to its customers and the population in general.

In the context of the process of certification of customer counter service, in 2014, two "Mystery Client" studies and an external audit were conducted, where the main objective of these two studies was to measure the quality of service perceived by the customers. A number of variables were assessed, namely the way that the customer is served, the appearance of the employees, their knowledge of the products, the available information and the appearance of the location.

In the first study, which took place between April and May, 601 post offices were evaluated with an overall result of 99.6% favourable opinions. The second study, which took place between August and September, assessed 624 post offices, including for the first time two external postal counters and the mobile post offices. The result was 99.7% favourable opinions.

In October, an external audit was carried out on 25 post offices and 5 postal agencies, with a positive final evaluation, so that currently CTT has 100% of the post offices and 25 postal agencies certified.

Apart from being an important sales channel for the products and services of all CTT's business units, principally Mail and Financial Services, the Retail Network has promoted initiatives to invigorate other retail business, notably:

- Partnership with EDP Comercial, starting in March, to market electricity contracts;
- Partnership with Coca-Cola, following-up the partnership started in 2012 for the European Football Championship. The year 2014 was marked by activities related with the Football World Cup in Brazil (Coca-Cola official sponsor) and the Christmas campaign. These actions,

based on the "meuselo" (my-stamp) and "meupostal" (my-postcard) products, reinforced CTT's active role in everyday modern life, capable of forming associations with big projects and global brands;

- Partnership with *Toys R Us* with a view to selling games and toys in CTT post offices. This partnership strengthened and diversified CTT's offer in this market segment; a pilot project was carried out in 52 post offices in the last quarter of 2014, spread over mainland Portugal, Madeira and the Azores, with the possibility of expanding it to more post offices in 2015;
- Strengthening the partnership with SONAE, by expanding the sale of "Note.it" stationery products to a further 96 post offices, bringing the total to 127 post offices;
- Sale of personal loans in CTT post offices from 24 June, on the basis of the partnership with BNP Paribas Personal Finance, the European leader in consumer credit;
- Strengthening of CTT's positioning as the only provider of proximity services, such as the document validation service, capturing new customers;
- Retail space concessions – a variety of concessions to third parties were negotiated, in order to generate more movement and increase the profitability of CTT post offices through the business model of renting out space.

Express Mail Services (EMS) and the sale of tickets for shows were extended to the partnership branches.

The Retail Network will also become a very important driver in the development of e-commerce offer in the Express and Parcels unit, as it offers a very strong PUDO (*pick-up/drop-off*) network.

On World Post Day - 9 October - a new version of the CTT App was launched, offering its users more functions: request for Multibanco debits and references for payment of toll services, SIGA request for a delivery and the possibility of performing a geo-referenced search for services available in CTT access points. With almost 120,000 downloads and more than 11 million accesses, the CTT App is already a success and promises to launch useful new functions in 2015.

Citizen’s Bureau Areas

Proximity solutions for public administration could play a very important role in the development of Services of General Economic Interest in the CTT Retail Network.

In this context, it should be highlighted the pilot-project which is already running in 24 post offices and which will be expanded progressively to all CTT post offices after the signing of an agreement with the Government for the installation of Citizen’s Bureau Areas in the Retail Network. These are spaces where CTT can offer assisted digital services to citizens.

The Government intends to set-up circa 1,000 Citizen’s Bureau Areas all over the country, having CTT, with its Retail Network, as a main partner. Renewing a driving license, requesting Social Security statements, property registration and tax exemption certificates, submitting tax returns, and registering pupils in schools are a few of the tasks that citizens will be able to perform in these spaces, which are already connected to 11 official entities.

The expansion model and the business model were negotiated with the Government in the last quarter of 2014.

On 20 January 2015 an agreement was signed between the Government and CTT which lays down the following timetable for the set-up of Citizen's Bureau Areas at the CTT Retail Network:

- Stage I, until 31 December 2015, set-up of 200 Citizen's Bureau Areas (24 pilot post offices of 2014 and 176 new post offices);
- Stage II, depending on the renewal included in the agreement, set-up of 100 more Citizen's Bureau Areas until 31 December 2016.

2.2.3. Operations

In 2014, the Transformation Programme, apart from the continued reorganisation of the sorting, transport and distribution networks, is aimed at improving productivity and operational efficiency, and focused on deepening the integration between the Mail and Express & Parcels distribution networks.

The other initiatives for 2014 involve the streamlining and reorganisation of the operational cycle and are grouped into 3 major lines of action: sorting, transport and delivery.

Sorting

In 2014, of all the flat letter mail sent to postal delivery offices, 92% was sorted automatically and 81% was divided by route (around 2.2 million items). Of these around 1.8 million (82%) were automatically sequenced (door-to-door) for 4,845 postal delivery routes.

Automation of the postal service continues to produce excellent results in address recognition, and flat letter mail produces correct assignment rates of 92% for 7-digit postcodes and 63% for 10-digit postcodes. Nevertheless, in December 2014, a project was completed and accepted for improving the recognition and assignment algorithms, which will produce improvements of around 4% in the division by route and sequencing for flat letter mail and medium-size packets.

The sorting network is composed of 3 production and logistics centres, 6 logistics support centres and 1 business mail centre. The activities of the production and logistics centres are supported by 43 automated machines (of which 24 are mail sequencing machines) and 72 video encoding posts.

The activities for the sorting of ordinary mail have been centralised in the two main production and logistics centres - Lisbon and Maia (Porto) - with shift work having been reorganised and higher efficiency promoted in the automation processes. The sorting activities have also been consolidated at Taveiro (Coimbra) production and logistics centre in 2014, namely concerning video encoding sorting that has been partially insourced and transferred to this centre and to Maia (Porto), with the consequent reduction of outsourcing needs (currently, only the Lisbon production and logistics centre still resorts to outsourcing).

It is important to highlight the new configuration of the forwarding network at a national level, which implied the transfer of 27 postcodes of the Centre forwarding network to the North and South forwarding networks, enabling greater efficiency gains in the operating activities of the main production and logistics centres.

In 2014 a study was made with a view to transferring printing & finishing operations from Alfragide to the Lisbon production and logistics centre in Cabo Ruivo, which will in future produce greater efficiency in the two activities through an integrated operational chain. This project will be part of the initiatives to be implemented in 2015.

The second phase of the postal address georeferencing project "GEO10" has also been completed, implying that by the end of 2014 over 3.8 million addresses were georeferenced and characterised relative to 352 four-digit postcodes (176 municipalities), covering 89% of the Portuguese population and 59% of the territory of the country.

Since September, CTT's new quality sorting services will be based on a new IT platform, Tratamento Automático de Endereços (TAE) [Automatic Address Sorting], designed to respond to the particularities of Portuguese addresses and the postcode system.

It should also be noted that in May, CTT obtained the renewal of the certificate recognising its active role in the construction of the model for Portuguese addressing, under the S42 programme. Among the total number of 192 member countries of the Universal Postal Union (UPU), Portugal continues in the restricted group of 32 certified countries in this programme.

Transport

The transport network operates with 179 heavy vehicles (including CTT's own fleet and a contracted fleet, as well as trailers), which travel approximately 41 thousand km/day.

In 2014, the CTT national transport network covered a total of 10.3 million km, which was 600,000 km less than the previous year thanks to network optimisation measures.

Among the series of initiatives carried out, should be highlighted the reorganisation of the national transport network (named "primary", "secondary" and "tertiary" networks), the renegotiation of transport service contracts and the refurbishment of 25 heavy vehicles, 209 transport vehicles and 177 motorcycles. Special focus was given to environment and safety aspects, with the launch of 18 electric vehicles (10 light trucks and 8 scooters).

Particular note should also be made of the following initiatives:

- Start-up of the operation of 10 electric vehicles (referred to above) under the FR-EVUE project, which involves the acquisition of electric vehicles for the city of Lisbon, co-financed by the European Commission, in which 32 partners from 8 European cities participated;

- Active participation in the eCIP programme (e-Commerce Interconnect Programme), an International Post Corporation (IPC) programme for different aspects of electronic commerce and in the definition of connectivity and models;
- Participation in the meeting of IPC's FOMBA (*Future of mail by air*) project, held in Portugal, for the purpose of monitoring and adapting national and international procedures to the new air transport regulations;
- Continuation with the implementation of measures in the energy rationalisation plan for the transport and distribution fleet.

Delivery

The distribution network is composed of 262 postal delivery offices (PDO), including 85 delivery support offices, two delivery supporting services in Lisbon and another in Coimbra, and one logistics and distribution centre in Torres Novas, and it manages 4,659 external postal delivery routes which cover around 230 thousand km / day.

The fleet provided for the delivery duties is primarily composed of light vehicles, motorcycles and bicycles, mostly electric. We highlight the introduction of new equipment supporting delivery, composed of hand carts, mail bags to carry bulkier mail and bags for automatically sequenced mail to facilitate delivery. Implementation of the above started at the end of the first semester with the placement of 125 bags in 14 postal delivery offices until the end of 2014.

During 2014, the main objective of the distribution activity was increased operational efficiency, based on following lines of action:

- Promotion of new delivery models that are more efficient and aimed at meeting product service standards, through the implementation of delivery segmented by priorities at all postal delivery offices of mainland Portugal;
- Expansion of mail delivery with automatic sequencing, without any prior handling at postal delivery offices, enabling increased efficiency in internal operations and creating conditions for the simultaneous delivery of manual and automatically sequenced mail;
- Expansion of the coverage area of the CTT network in the collections at post offices and clients' premises, in delivery to and collection from EMS and the CTT Expresso bank network;
- Implementation of a new phase in automated sorting of large items by CTT Expresso, increasing its capacity for automation with this class of items;
- Rationalisation of the physical structures, through the centralisation and aggregation of 25 postal delivery offices and delivery support centres.

Along with the greater efficiency of the operation, reliability of processes and commitment to excellent quality of service, during 2014, the focus continued to be placed on developing the network of postmen and women, as the preferred proximity channel and network for the sale of products and services.

In the second half of 2014, CTT started the project of integration of the Mail and the Express and Parcels distribution networks, with the assistance of external consultants and dedicated internal teams. The goal of this project is to ensure that, in the future, non-urgent parcel delivery (day-definite) can be done by the Mail distribution network; this will require its structure to be strengthened, specifically in the number of light vehicles and temporary workers.

2.3. Express and Parcels

The revenues[1] of this business unit were €129.0m (17% of the consolidated total[2]) in 2014, basically flat vs. the 2013 result. The reasons for this flattish revenues were the on-going restructuring of activities in Spain and the change in the product mix to place more weight on *e-commerce* (B2C) and large customers (as well as some repercussions from the renegotiation of contracts with the customers in the banking sector) which applied pressure to the average unit price.

This business unit involves the activities of CTT Expresso in Portugal, Tourline Express in Spain and CORRE in Mozambique.

In 2014, CTT launched an integrated offer for the parcels market in the Iberian Peninsula, through CTT Expresso and Tourline Express, offering customers the same delivery solutions in Portugal and Spain and providing an integrated, simplified, competitive portfolio of services for the whole peninsula. Customers can now view the Iberian Peninsula as a single territory, with wider coverage and the same service level, guaranteeing delivery on the following working day by mid-morning, lunch-time and close of business; and for less urgent items in two working days. This new portfolio is the result of the Company's Iberian strategy as part of the homogenisation of its Express and Parcels services in Spain and Portugal, positioning it as one of the region's principal operators.

With a view to monitoring the need to provide more flexible deliveries in the B2C segment, CTT is in the final phase of testing a network of convenience pick-up / drop-off points based in CTT post offices (proximity and capillarity), in partnership with a peninsula-wide retailer with late opening hours (up to 22.00 / 24.00 – convenience) and in Tourline offices (Iberian coverage). This network will not only enable CTT to support the parcels service by allowing pick-up of parcels in post offices with late opening hours and near to customer (pick-up), but will also provide greater drop-off flexibility (drop-off).

In view of the growing importance of electronic commerce, a fundamental growth driver of parcel volumes, a new "E-Commerce" department was created in 2014, reporting to the Executive Committee. Its mission is to ensure that CTT is involved in - and benefits from - the growth of e-commerce in the Iberian Peninsula, especially in the last mile; and specifically to i) study the market reality and evolution, ii) develop the CTT offer so that is in permanent harmony with market preferences, iii) promote CTT's greater proximity to the main international and Portuguese players and iv) monitor the alignment of e-commerce solutions with international postal operators, especially through the e-Commerce Interconnect Programme (e-CIP). CTT has joined this programme

[1] Including internal services and intra-group transactions which are eliminated for the purpose of consolidation.

[2] Excluding earnings from the CTT Central Structure and intra-group elimination, amounting to -€31.3m in 2014.

managed by the International Post Corporation (IPC), which aims to create an integrated cross-border service offer for e-commerce – currently, there are 30 postal operators involved.

In **Portugal**, CTT is the market leader in the national market (source: “Postal Services Report - 3rd quarter 2014”, ANACOM), having increased the distance to its nearest competitor.

As mentioned above, an important project in 2014 was the integration of the Mail distribution network with that of the Express and Parcels business (subcontracted), in the expectation of generating savings for the latter business unit in future. When this project is completed, (last quarter of 2015), it will lead to an even greater competitive advantage in costs, especially the in last mile, and the possibility of improving the CTT offer to the B2C segment.

In the second quarter of 2014, CTT launched an exclusive service, “Surf Expresso”, for transporting surf-boards, including packaging and delivery on the next working day. This unmatched service is set apart in the market by the great diversity of surfboards that it caters to, offering differentiated packaging according to the size of the user's board.

The customer support line in Portugal now has extended working hours, and a special number has been created for requests for same-day delivery services. The goal is to be closer to customers, constantly making the service better and more personalised, with more specific solutions for urgent deliveries.

With a view to continuous improvement of online tools for customer relations, new web functions have been developed to enable customers to make aggregated track & trace searches, in order to consult about all the items associated with multiple parcels dispatches.

In **Spain**, CTT is positioned in the top 10 in the Express and Parcels market, with a market share of 5% in 2013, according to a parcels business study performed by DBK Informa. An important effort has been made in 2014 in terms of strengthening the franchisee network, also with an objective of increasing the capillarity of the Tourline Express network. By the end of 2014, the Tourline Express network consisted of 211 sales points, of which 169 were franchisees, 26 were own branches and 16 distributors. In order to reinforce the proximity to customers and the physical presence, 48 pick-up / drop-off points are also made available, mostly in traditional shops.

Notwithstanding the current commercial and operational activity, a plan to restructure the activity and franchisee network of Tourline Express was initiated in 2013, aimed at achieving tighter control over the network and higher quality of the franchisees, both in terms of commercial capacity and in terms of financial strength and management skills. In this process a number of franchisees left Tourline, either because they did not agree with the new operational rules or due to a deliberate decision by the Master franchise not to perpetuate situations of outstanding debts. The growth of the number of own branches was not only the result of the objective of strengthening the direct presence in the strongest business areas, but was also aimed at overcoming the loss of franchisees arising from the aspects referred to above, which should be viewed as a temporary situation negatively impacting the Company's profitability. A large amount of impairments was booked at the end of 2014 due to the recognition of some franchisee debts as difficult or impossible to recover.

In Mozambique, CTT has been present in the Express & Parcels business since October 2010 with the company CORRE – *Correio Expresso de Moçambique*, whose share capital is 50% held by CTT and 50% by *Empresa Nacional de Correios de Moçambique*.

The company aims to achieve leadership of the domestic Express & Parcels market and become one of the most important players in the international flows to / from Mozambique. Most of the provinces are already covered, and in Maputo the company owns an operations centre, two own branches and a presence at airport. CORRE products and services are also available at all post offices of *Correios de Moçambique*.

CORRE's quality of service continues to win the confidence of its customers, and as a result the company has become the sole supplier to the biggest commercial bank in Mozambique, for logistics, sorting and delivery to all its branches. The instability experienced in the region and various issues arising from the rapid growth has recently affected activities and quality of service CTT aspires to, and also caused an increase in costs. Measures have already been implemented which shall enable these aspects to be overcome.

Close relations are maintained with the South African Post Office (SAPO), in order to use Johannesburg as a transport hub, allowing international routes to be maintained with the various countries which have connections to this hub, as well as with CTT Portugal which handles transit operations with European destinations.

2.4. Financial Services

The recurring revenues[1] of this business unit were €73.9m (10% of the consolidated total[2]) in 2014, which is an increase of 21.4% relative to 2013. This business unit includes the financial services provided by CTT SA and PayShop.

The revenue analysis did not consider as recurring the front fee of €1m paid by BNP Paribas Personal Finance for the partnership for the sale of consumer credit products. The value of this front fee was €3m, fully paid in the first half of 2014, but booked with partial deferral of €2m over the life of the contract. Commissions of €0.2m were recognised in 2014 (as recurring revenues) and the remaining €1.8m have already been received but the revenue recognition will be deferred over the next 5 years of duration of the contract.

The Financial Services business unit reported a strong positive performance in all business indicators, significantly better than both the previous year results and the most optimistic initial forecasts.

[1] Including internal services and intra-group transactions which are eliminated for the purpose of consolidation.

[2] Excluding earnings from the CTT Central Structure and intra-group elimination, amounting to -€31.3m in 2014.

This performance resulted from strict execution of the defined strategy to reinvigorate and expand the Financial Services offer, and bears witness to the solidity of the foundations underpinning this business, combined with the strength of the Retail Network and its propensity towards financial services activities, the ability to select and align with strategic partners, the quality of the products and services offered, and the fact that customers value CTT's positioning in the financial services market and its brand values, and confide in the Company's solidity.

An analysis by product type illustrates that the performance was differentiated by specific situations and impacts from the macroeconomic context, trends in the market, and the life cycles of products and services.

In the Savings and Insurance area, a record €5.5 billion savings were captured, with a strong contribution from public debt certificates (savings and treasury certificates), an increase of 125.6% over the previous year.

The Money Orders and Transfers area presented a decline in revenues compared to the previous year (-6.4%), resulting mainly from a reduction in national money orders and international flows (Western Union). An agreement with Social Security signed in July 2014 and a revision of Western Union's offer produced growth in this product segment in the 4th quarter of 2014.

In the Payments area, a special note should be made of the growth in payments made in the PayShop network, both in terms of number of operations processed and the revenues generated, as well as those relative to tolls and Social Security contributions. Nevertheless, this was not sufficient to compensate the reverse effect of a drop of nearly 16% in the number of mobile phone top-ups – a trend resulting from the structural change which has occurred recently in the mobile phone market in Portugal, in which pre-paid mobile phone packages have reached record lows. This area demonstrates the resilience of the PayShop network, which closed the current year with 3,876 agents, approximately the same number as in 2013.

Still on the subject of PayShop, it should be noted that there was a reduction in operational costs directly related with over-the-counter operations. In September, the migration of the payment terminals to the GPRS communications system was completed; this will lead to substantial annual savings, which will only be fully captured next year.

The Consumer Credit product launched in the second half of 2014 presented revenues in line with the introductory phase of this new product, and in line with the defined objectives of providing responsible, quality credit. As the agreement with BNP Paribas was signed at the end of June, the campaign to launch the consumer credit product only started in September. This product segment will be one of those that will benefit most from the cross-selling that the Postal Bank could bring to the current offering of CTT's Financial Services.

2014 represented a milestone in the implementation of a new operating model based on automated service systems, integrated with those of the partners, allowing us to increase operational efficiency and profitability, commercial effectiveness, and better consumer experience and quality of service. This change allowed us to channel more resources into incentive programmes in the Retail Network.

Postal Bank

As the next step in the process - started in 2013 with the request to and the concession by the Bank of Portugal of a license for the creation of the Postal Bank, in 2014 CTT updated the corresponding business model on the basis of a more detailed and in-depth market survey, incorporating current market trends, as well as the capabilities, resources and distinctive factors of CTT.

Under this framework, on 4 November CTT's Board of Directors approved the launch of the Postal Bank, as a continuation of the established strategy to expand the Financial Services product offer. The Bank of Portugal authorised a 12-month extension (until 27/11/2015) of the deadline for the Postal Bank to initiate its activity.

The Postal Bank will be based on a low-cost principle leveraging on the CTT Retail Network, and aims at mass-market consumers, who look for a bank to perform their daily banking operations and simple but competitive banking products. Relying on its wide Retail Network, experienced in the business of financial services, with physical proximity to the customers, and offering integrated channels (post offices, online, mobile), CTT will have a clear advantage in offering competitive banking services and adding to its current offer.

The business plan and projected accounts foresee that the funding requirements will amount to €100m within 5 years and from that moment on the bank will be able to release resources to CTT. The Postal Bank was planned to not have any impact on the CTT dividend policy. Created to leverage CTT's Retail Network, the Postal Bank will have an efficient, already existing cost structure, allowing revenues from financial services to be increased with investment requirements well below normal.

New financial products

Independent of, but related to the decision on the Postal Bank, new financial products and / or new partnerships are being studied, to complement the existing offer and ensure the sustainability of growth in this area. Health insurance and prepaid card are some of the initiatives under review.

3. ECONOMIC AND FINANCIAL REVIEW AND CTT SHARE PERFORMANCE

3.1 Economic and financial review

This section summarises the consolidated results achieved by CTT and the consolidated assets, liabilities and financial position of the company as at 31 December 2014. This section should be read in conjunction with the audited consolidated financial statements and the accompanying notes. This analysis includes the consolidation of the activities of the parent company and of its subsidiaries (as included in note 8 of the consolidated financial statements).

It should be noted that during the year of 2014:

- CTT SA sold the 51% participation it held in the subsidiary EAD. Therefore this company is no longer included in the scope of CTT consolidation in 2014.
- The 100% participation held by CTT SA in the subsidiary Tourline was sold to CTT Expresso. An increase on Tourline's equity of 12 million Euros (share capital and additional capital) and CTT Expresso's equity of 23.1 million Euros (additional capital) also occurred.

In the full year of 2014, CTT achieved a consolidated net profit of 77.2 million Euros, 26.5% (16.2 million Euros) above that of the previous year. This result corresponds to consolidated earnings per share of 0.51 Euros and a return on equity of 29.4%, compared to 22.2% in 2013.

The operating activity generated earnings before non-recurring items, interest, taxes, impairments, depreciation and amortisation (recurring EBITDA) of 135.1 million Euros, 9.9% (+12.2 million Euros) above that obtained in the same period of the previous year, with an EBITDA margin of 18.8% compared to 17.4% in 2013. These results reflect an increase of 1.8% (+12.9 million Euros) in recurring revenues, which exceeded largely the small growth of 0.1% (+0.8 million Euros) in operating costs (excluding impairments, provisions, depreciation/amortisation and non-recurring costs), namely due the cessation of the salary reductions applicable to public companies.

In the full year of 2014, the non-recurring revenues and costs affecting the CTT results were of 23.9 million Euros. This value results fundamentally from important actions in structural matters, such as gains achieved with the reformulation of the Regulation of the Social Works ("RSW") system (healthcare plan of CTT) and income from the sign-on fee on the exclusive partnership for the sale and distribution of consumer credit products made with Cetelem (BNP Paribas – Personal Finance), partially offset by the net impairments and provisions resulting from the optimisation of the Express & Parcels segment, such as the impairment losses of Tourline (including goodwill) and the re-introduction in 2014 of variable personnel compensation, related to 2014 performance, to be paid in 2015. Also relevant are costs associated with studies and advice services for strategic projects, the adjustment of the provisions for onerous contracts, the net increase in the provision for labour contingencies network and indemnities paid under mutually agreed terminations.

As a result, earnings before interest and taxes reached 135.4 million Euros, 48.2 million Euros (+55.2%) above those recorded in the full year of 2013.

Financial results were negative by 7.4 million Euros, representing a decline of 86.3%% (-3.4 million Euros) relative to the same period of the previous year. Interest income reached 4.3 million Euros and interest expenses were 11.8 million Euros, this last one resulting mainly from financial costs with employee benefits, which represent 98.0% of total financial costs in 2014. Interest income fell 3.5 million Euros (-45.1%) due to the decline in the interest rates of cash investments, despite the increase in the amounts handled over 2014.

Earnings before taxes and non-controlling interests (EBT) reached 128.0 million Euros, 53.7% more in 2013.

In the full year of 2014, the income effective tax rate was 39.97%, mainly due to the decrease on deferred tax assets, resulting from the reduction in healthcare liabilities and the corporate income tax rate for the year of 2015. These effects caused an increase in the income tax in 24.7 million Euros (48.2% of the income tax for the period).

Consolidated income statement

Thousand Euros	2014	2013	△% 14/13
Revenues	**717,774**	**704,847**	**1.8**
Sales and services rendered	703,284	690,069	1.9
Sales	22,675	22,342	1.5
Services rendered	680,609	667,726	1.9
Other operating income	14,491	14,778	-1.9
Internal services rendered *	0	333	-100.0
Other revenues	14,491	14,445	0.3
Operating costs excluding impairments, provisions, depreciation and non-recurring costs	**582,674**	**581,919**	**0.1**
Cost of sales	16,998	16,906	0.5
External supplies and services	234,843	237,292	-1.0
Staff costs	320,429	317,480	0.9
Other operating costs	10,404	10,241	1.6
Earnings before depreciation, impairments, non-recurring results, interest and taxes (recurring EBITDA)	**135,100**	**122,928**	**9.9**
Impairment of inventories and accounts receivable, net	936	2,321	-59.7
Provisions, net	1,070	(118)	1,006.8
Impairment of non-depreciable assets	10	0	-
Depreciation/amortisation and impairment of investments, net	21,562	24,611	-12.4
Earnings before non-recurring results, financial income and taxes (recurring EBIT)	**111,522**	**96,113**	**16.0**
Company restructuring (gains)	(37,192)	(3,623)	926.5
Costs associated to studies and advice services for strategic projects (including Privatisation)	2,837	4,422	-35.8
Other non-recurring income and costs	10,460	8,079	29.5
Earnings before interest and taxes	**135,418**	**87,236**	**55.2**
Financial results, net	(7,473)	(4,003)	-86.7
Gains/losses in associated companies	54	21	157.1
Earnings before taxes (EBT)	**127,999**	**83,253**	**53.7**
Income tax for the period	(51,155)	(22,148)	131.0
Net profit before non-controlling interests	**76,844**	**61,105**	**25.8**
Net profit attributable to non-controlling interests	(327)	89	-467.1
Net profit for the period attributable to Equity holders	**77,171**	**61,016**	**26.5**

Note: Revenues exclude non-recurring values.
* Internal services rendered reclassified in 2014 inside staff costs.

3.1.1. Revenues

Revenues

Thousand Euros	2014	2013	△% 14/13
Sales and services rendered	**703,284**	**690,069**	**1.9**
Sales	22,675	22,342	1.5
Services rendered	680,609	667,726	1.9
Other operating income	**14,491**	**14,778**	**-1.9**
Internal services rendered *	0	333	-100.0
Other revenues	14,491	14,445	0.3
Revenues	**717,774**	**704,847**	**1.8**

Note: Revenues excluding non-recurring values.
* Internal services rendered reclassified in 2014 inside staff costs.

It should be noted that the activity of EAD (sold in the first half of 2014 and therefore presented in the figures of the Mail business unit in 2013) amounted to 4.2 million Euros in the full year of 2013. Excluding this, CTT would have had a favourable revenue growth in the full year of 2014 of 17.2 million Euros (+2.4%) vs. the same period of last year.

The business of CTT is organized in the following segments:

- Mail – CTT SA excluding financial services and corporate and support areas, but including PostContacto, Mailtec Group, CTT Gest and business solutions of CTT SA (in 2013 it included also EAD);
- Express & Parcels – includes CTT Expresso, Tourline and Corre;
- Financial Services – includes PayShop and CTT, S.A. financial services.

2014 - Revenues by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	**Revenues**
Sales and services rendered	510,087	126,921	71,227	-	(4,951)	**703,284**
Sales	21,606	1,073	-	-	(4)	**22,675**
Services rendered	488,480	125,848	71,227	-	(4,947)	**680,609**
Other operating revenues	36,092	2,091	2,682	87,235	(113,609)	**14,491**
Allocation to CTT central structure	-	-	-	26,063	(26,063)	**0**
Revenues	546,179	129,013	73,908	113,298	(144,623)	**717,774**

Note: excludes non-recurring items.

2013 - Revenues by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	**Revenues**
Sales and services rendered	510,408	127,964	57,304	-	(5,608)	**690,069**
Sales	21,094	1,269	-	-	(20)	**22,342**
Services rendered	489,315	126,695	57,304	-	(5,588)	**667,726**
Other operating revenues	35,595	1,557	3,556	89,244	(115,173)	**14,778**
Allocation to CTT central structure	-	-	-	17,127	(17,127)	**0**
Revenues	546,003	129,521	60,860	106,371	(137,908)	704,847

Note: excludes non-recurring items.

The Mail segment, which includes the core revenues of CTT and represent the greatest weight in terms of operational revenues amounting to 546.2 million Euros in the full year of 2014, increased 0.03% (+0.2 million Euros) in comparison to the previous year. Sales and services rendered decreased 0.1% (-0.3 million Euros), driven by the decrease in addressed mail volumes (-5.7%), largely offset by the increase in average prices for USO services implemented in 2014 (4.1% on average).

The Express & Parcels segment recorded revenues of 129.0 million Euros, a decrease of 0.4% (-0.5 million Euros), as a result of the impact of the decrease in Spain (-2.6 million Euros), partially offset by the growth in Portugal (+1.9 million Euros) and Mozambique (+0.2 million Euros), to which contributed the increasing synergies between the countries (0.9 million Euros).

Financial Services revenues of 73.9 million Euros, resulting primarily from fees paid for the services rendered, increased by 21.4% (+13.0 million Euros) in the full year of 2014 relative to the same period of 2013. Savings and insurance products revenues experienced a growth of 114.8%. The increase in the revenues associated with the sale of public debt products is noteworthy – "Certificados de Aforro" and "Certificados do Tesouro Poupança Mais" sales grew by 167.3% (+7.4 million Euros) and 453.1% (+13.6 million Euros), respectively, due to the increase of subscription values and associated commissions. Conversely, insurance products ("Seguros de Capitalização") and retirement savings ("Planos Poupança Reforma") revenues decreased 70.2% (-4.7 million Euros), in result of a strategy defined by CTT to always offer the best solutions to its customers within CTT's diversified offer.

In Central Structure, it is worth mentioning the 3.0 million Euros of VAT recovered and the reduction of the internal services rendered by IT systems and human resources (-6.3 million Euros), as result of optimization and efficiency measures undertaken in these areas.

3.1.2. Operating costs [1]

Operating costs

Thousand Euros	2014	2013	△% 14/13
Cost of sales	16,998	16,906	0.5
External supplies and services	234,843	237,292	-1.0
Staff costs	320,429	317,480	0.9
Other operating costs	10,404	10,241	1.6
Operating costs	**582,674**	**581,919**	**0.1**

Note: operating costs excluding non-recurring values.

Recurrent **external supplies and services costs** decreased by 1.0% (-2.5 million Euros) in relation to the full year of 2013, of which 1.4 million Euros are explained by the 2013 amount of ES&S costs of the subsidiary EAD, sold in 2014.

[1] Cost of sales + ES&S + Staff costs + other operating costs (excludes non-recurring items).

Efficiency measures in the Group have allowed a reduction of expenses, with the increased synergies within CTT with greater insourcing of activities, namely, the beginning in distribution and processing in Express and Parcels, as well as the renegotiation of equipment renting contracts and the savings on communication outsourcing.

Conversely, CTT had additional expenses with the repair of freight vehicles from the renewal of a part of the fleet, with the maintenance of IT equipment and with the increase in the number of post offices which had to contract transport of monetary amounts, due to the legal obligation set by Law 34/2013 of 16 May.

Recurring **staff costs** reached 320.4 million Euros, 2.9 million Euros above the previous year despite the reduction in the average number of staff (-3.5%; 456 employees). This growth reflected the impacts of the legal and regulatory changes resulting from (i) the privatisation, which caused changes in compensation schemes (such as the cessation of the salary reductions and reintroduction of seniority-based payments), (ii) the increase in the contribution base of retirement discounts, (iii) strong increase in incentives paid to the retail network due the growth in Financial Services and (v) the new remuneration model for the statutory bodies with effect from the date of the election for the term 2014-2016.

In terms of business units, it is worth mentioning:

- Mail, which records a significant amount of operating costs since it includes the functions of sorting, mail transport, delivery and the retail network, areas of major significance, particularly in terms of the number of workers. In the full year of 2014 this segment incurred 454.5 million Euros of operating costs, a decrease of 4.6 million Euros (-1.0%), relative to the previous year.
- Financial Services, which records a costs increase of 3.1 million Euros (+9.2%), due to the increase in the number of post offices which had to transport monetary amounts and the strong growth in incentive bonuses attributed to the workers as a reward for the sales of financial products in the CTT post offices (directly indexed to earnings growth of this segment).

2014 - Operating costs by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	**Operating costs**
External supplies and services	104,979	96,963	13,233	52,430	(32,763)	**234,843**
Staff costs	236,880	23,583	4,379	55,588	-	**320,429**
Other costs	86,776	2,427	18,716	5,280	(85,797)	**27,402**
Allocation to CTT central structure	25,867	-	196	-	(26,063)	**0**
Operating costs	454,502	122,972	36,525	113,298	(144,623)	**582,674**

Note: excludes non-recurring items.

2013 - Operating costs by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	**Operating costs**
External supplies and services	108,467	96,125	10,705	51,269	(29,274)	**237,292**
Staff costs	239,679	22,935	3,177	51,689	-	**317,480**
Other costs	93,993	1,806	19,442	3,413	(91,507)	**27,147**
Allocation to CTT central structure	16,998	-	129	-	(17,127)	**0**
Operating costs	459,138	120,866	33,452	106,371	(137,908)	**581,919**

Note: excludes non-recurring items.

3.1.3. Recurring EBITDA

Recurring EBITDA [1] amounted to 135.1 million Euros, corresponding to a margin of 18.8%, an increase of 1.4 percentage points relative to the value achieved in the full year of 2013, as a result of revenue growth that largely exceeded the increase in operating costs.

Recurring EBITDA

Thousand Euros	**2014**	**2013**	**△% 14/13**
Revenues	717,774	704,847	1.8
Operating costs excluding impairments, provisions, depreciation and non-recurring costs	582,674	581,919	0.1
Recurring EBITDA	**135,100**	**122,928**	**9.9**
Recurring EBITDA margin	18.8%	17.4%	1.4 p.p.

2014 - Recurring EBITDA by segment

Thousand Euros	Mail	Express & Parcels	Financial Services
Revenues	546,179	129,013	73,908
Operating costs	454,502	122,972	36,525
Recurring EBITDA	**91,676**	**6,040**	**37,384**
Recurring EBITDA margin	16.8%	4.7%	50.6%

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

2013 - Recurring EBITDA by segment			
Thousand Euros	Mail	Express & Parcels	Financial Services
Revenues	546,003	129,521	60,860
Operating costs	459,138	120,866	33,452
Recurring EBITDA	**86,865**	**8,655**	**27,408**
Recurring EBITDA margin	15.9%	6.7%	45.0%

3.1.4. Non-recurring results

In the full year of 2014 CTT recorded a net non-recurring profit of 23.9 million Euros, which includes:

(i) Other revenues:
- 1.0 million Euros in other operating income from the sign-on fee on the exclusive partnership for the sale and distribution of consumer credit products.

(ii) External supplies and services:
- 2.8 million Euros of costs associated with studies and advice services for strategic projects.

(iii) Personnel costs:
- Gains of 83.0 million Euros, in 2014, resulting from the reformulation of the healthcare plan with impact on post-employment benefits. In 2013 CTT achieved gains of 8.2 million Euros by the reformulation of the employee benefits related to the telephone subscription charge.
- 11 million Euros of costs related to the re-introduction of performance bonuses to be awarded in 2015.
- 1.4 million Euros of costs related to variable long-term compensation of the Executive Committee, to be paid in shares.
- 3.7 million Euros of costs associated with the reduction of the discount rate in other post-retirement employee benefits from 4% to 2.5%.
- 2.1 million Euros of net costs from agreements for suspension of employment contracts and changes in actuarial assumptions (increase of the retirement age from 65 to 66 years for employees covered by “Caixa Geral de Aposentações”). In 2013 the retirement age for Social Security purposes was increased to 66 years , which represented 0.6 million Euros of net costs.
- 2.4 million Euros of costs including termination of employment contracts by mutual agreement in the scope of the transformation programme, compensation for the termination of the continuous time labour and accrual for vacation and holiday pay for the 2% increase in salaries in 2015 (salary increase with caps of a minimum of 15 Euros and a maximum of 50 Euros).

(iv) Other costs: 0.04 million Euros associated with the acquisition of Tourline customer portfolios.

(v) Impairment and Provisions, net:

- 0.2 million Euros of reduction in the impairment losses with investment properties, resulting from the reorganisation process of the retail network as part of the transformation programme.
- 4.9 million Euros net increase of the provision for labour contingencies concerning retributive differences in the calculation basis.
- Increase of 6.7 million Euros of the provision for onerous contracts resulting, mainly, from the impact of the adjustment of the discount rate.
- 6.3 million Euros associated with net impairments and provisions resulting from restructuring and optimisation of the Express & Parcels segment network.
- 18.9 million Euros of Tourline impairments (of which 16.6 million Euros of goodwill).

2014 Non-recurring results

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	Others non allocated	Total
Other operating revenues	-	-	1,000	-	-	-	1,000
External supplies and services	-	-	-	2,837	-	-	2,837
Staff Costs	1,954	179	6	(64,561)	-	-	(62,423)
Other costs	-	44	-	-	-	-	44
Non-recurring results that affect EBITDA	**(1,954)**	**(222)**	**994**	**61,724**	**-**	**-**	**60,542**
Depreciation/amortisation and impairment of investments, net	-	-	-	-	-	(156)	(156)
Impairment of inventories and accounts receivable, net	-	3,456	-	1,486	-	-	4,942
Impairment of non-depreciable assets	-	18,922	-	-	-	-	18,922
Provisions net	911	3,292	-	8,736	-	-	12,939
Non-recurring results that affect EBIT	**(2,865)**	**(25,892)**	**994**	**51,502**	**-**	**156**	**23,895**

2013 Non-recurring results

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	Others non allocated	Total
Other operating revenues	-	-	-	-	-	-	-
External supplies and services	-	347	-	4,420	-	-	4,767
Staff Costs	760	504	21	(5,693)	-	-	(4,408)
Other costs	-	438	-	2	-	-	440
Non-recurring results that affect EBITDA	**(760)**	**(1,289)**	**(21)**	**1,271**	**-**	**-**	**(799)**
Depreciation/amortisation and impairment of investments, net	-	-	-	-	-	1,104	1,104
Impairment of inventories and accounts receivable, net	-	1,209	-	-	-	-	1,209
Provisions net	-	-	-	5,766	-	-	5,766
Non-recurring results that affect EBIT	**(760)**	**(2,498)**	**(21)**	**(4,495)**	**-**	**(1,104)**	**(8,878)**

3.1.5. Financial results

In the full year of 2014, the net financial results reached -7.4 million Euros, a decrease of 3.4 million Euros in relation to 2013. The interest income decreased by 45.1 % when compared to the previous year, directly influenced by the sharp decrease in interest rates offered by banks on term deposits, despite the increase in the amounts handled.

Financial results

Thousand Euros	2014	2013	△% 14/13
Interest income	4,325	7,872	-45.1
Interest expenses	11,798	11,874	-0.6
Interest expenses (financial)	242	255	-5.3
Interest costs with employee benefits (accounting)	11,556	11,619	-0.5
Gains/losses in associated companies	54	21	157.1
Financial results	**(7,419)**	**(3,982)**	**-86.3**

Interest expenses incurred in the full year of 2014 reached 11.8 million Euros, which include costs associated with employee benefits of 11.6 million Euros and interest related to financial leasings and bank loans (0.2 million Euros). Gains in associated companies reached 0.05 million Euros, related to the gain from the sale of the 51% participation in EAD and to profit appropriation for the period of 2014 (0.3 million Euros), as well as the losses of 0.2 million Euros in the associated company Multicert.

3.1.6. Income tax

Income tax amounted to 51.2 million Euros as at 31 December 2014, 131.0% higher than in the previous year, resulting from an EBT 53.7% (+44.7 million Euros) higher than that achieved in 2013.

In 2014, the effective income tax rate was 39.97%, mainly due to the effect on deferred taxes of the reduction in health care liabilities and also by the reduction of the corporate income tax rate for 2015. The amount of income tax includes 23.4 million Euros of elimination in deferred tax assets resulting from the reduction in future retirement healthcare liabilities in consequence of the revision of the Regulation of the Social Works.

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

In the full year of 2014, CTT achieved a consolidated net profit attributable to equity holders of 77.2 million Euros, 26.5% above that of last year, corresponding to consolidated earnings per share of 0.51 Euros, a net margin of 10.8% (8.7% in the full year of 2013) and a return on equity of 29.4% (22.2% in the previous year).

The consolidated income statement reported and recurring for the full years of 2014 and 2013 is in summary as follows:

Thousand Euros	Reported		Recurring *		
	2014	2013	2014	2013	△% 14/13
Revenues	718,774	704,847	717,774	704,847	1.8
Operating costs	523,132	582,718	582,674	581,919	0.1
EBITDA	**195,642**	**122,129**	**135,100**	**122,928**	**9.9**
EBITDA margin	27.2%	17.3%	18.8%	17.4%	1.4 p.p.
EBIT	**135,418**	**87,236**	**111,522**	**96,113**	**16.0**
EBIT margin	18.8%	12.4%	15.5%	13.6%	1.9 p.p.
Earnings Before taxes	**127,999**	**83,253**	**104,103**	**92,131**	**13.0**
Income tax for the period	51,155	22,148	31,897	28,828	10.6
Losses (gains) attributable to non-controlling interest	(327)	89	(327)	89	-467.1
Net profit for the period	**77,171**	**61,016**	**72,534**	**63,214**	**14.7**

Note: operating costs= cost of sales + external supplies and services + staff costs + other operating costs.
* Recurring net profit excludes non-recurring revenues and costs and considers a theoretical (nominal) tax rate (change from prior methodology which considered the effective tax rate from the reported accounts).

Return on equity increased 7.2 p.p., from 22.2% in 2013 to 29.4% in 2014, as a result of the 26.5% increase in net profit.

The Return on Invested Capital (ROIC) of 26.2% and the Return on Capital Employed (ROCE) of 24.0% increased 10.5 p.p. and 9.7 p.p., respectively, in relation to 2013, primarily due to the 55.2% increase in earnings before interest and taxes.

Returns on Capital

	2014	2013	△% 14/13
Return on Equity (ROE) (1)	29.4%	22.2%	7.2 p.p.
Return on Invested Capital (ROIC) (2)	26.2%	15.7%	10.5 p.p.
Return on Capital Employed (ROCE) (3)	24.0%	14.3%	9.7 p.p.

(1) Net profit/average Equity

Average Equity = (EQ year n + EQ year n-1)/2

(2) Earnings before financial income and taxes/(Net assets-Cash)

(3) Earnings before financial income and taxes (Net assets-ST Liabilities)

The Gross Value Added generated reached 456.2 million Euros corresponding to a GVA/average number of employees of about 36.7 thousand Euros, 16.9% more than that registered in the previous year, and is essentially due to the reduction in the average number of employees and the growth of net profit and income tax for the period. This indicator shows the effort to optimise operations and maximise productivity of resources.

Gross Added Value (GAV)

	2014	2013	△% 14/13
GAV (Delivery) - € thousand	456,228	404,647	12.7
Average Staff	12,448	12,904	-3.5
GAV (Delivery)/ Average Staff (euros)	**36,651**	**31,358**	**16.9**

3.1.8. Capex

Capex reached 16.6 million Euros, 27.7% above that of the previous year (13.0 million Euros), and was mainly directed towards computer systems, renovation and maintenance of buildings, the reinforcement of productive infrastructures and freight vehicles. The investment intends to drive the Transformation Program initiatives, in order to accelerate the development of CTT's growth drivers and optimization of resources.

3.1.9. Financial position and cash flow

Consolidated statement of financial position

Thousand Euros	2014	2013	△% 14/13
Non-current assets	350,481	391,697	-10.5
Current assets	830,516	708,437	17.2
Total assets	**1,180,997**	**1,100,134**	**7.4**
Equity	249,210	275,934	-9.7
Total liabilities	931,787	824,200	13.1
Non-current liabilities	314,394	334,742	-6.1
Current liabilities	617,393	489,458	26.1
Total equity and liabilities	**1,180,997**	**1,100,134**	**7.4**

Total assets recorded an increase of 80.9 million Euros (+7.4%), reflecting the increase in current assets in 122.1 million Euros from the growth in cash and cash equivalents (119.7 million Euros, +22.0%) and other current assets related to postal financial services (10.4 million Euros, +539.3%). Conversely, non-current assets decreased, resulting from the reduction of the goodwill for the full value of Tourline's participation (16.6 million Euros) and the annulment of EAD's goodwill (0.8 million Euros), as well as from the decrease of tangible assets since the investment was not enough to offset the depreciation charge for the year and the decrease in the deferred tax assets.

Equity decreased 26.7 million Euros (-9.7%) in relation to 31 December 2013, as a result of 43.3 million Euros decrease in other changes in equity due to a negative net actuarial gains/losses associated with post-employment benefits (61.0 million Euros), and the corresponding deferred taxes (17.7 million Euros). The increase in the net profit attributable to equity holders of the parent company (+16.2 million Euros), partially offset the total reduction in equity. During the first half of the year the sale of the 51% stake in EAD also took place, which resulted in a reduction of 1.6 million Euros in non-controlling interests. Dividends of 60.0 million Euros were paid in May 2014.

The 107.6 million Euros (+13.1%) increase in liabilities resulted mostly from the 88.0 million Euros increase in financial services payables, which were a consequence of the increase in activity of the Financial Services business unit. The employee benefits liabilities amount to 278.7 million Euros in the full year of 2014, 6.7% less than in 2013, due to the reformulation of the Regulation of the Social Works ("RSW") system (healthcare plan of CTT), partially offset by the effect of the reduction of the discount rate from 4% to 2.5% and the change in the retirement age (from 65 to 66 years for employees covered by "Caixa Geral de Aposentações" with impact in other benefits.

Liabilities with post-retirement employee benefits

Thousand Euros	2014	2013	△% 14/13
Liabilities	**278,668**	**298,543**	**-6.7**
Healthcare	241,166	263,371	-8.4
Staff (suspension agreements)	17,810	19,744	-9.8
Other benefits	18,315	15,428	18.7
Share plan	1,376	0	-

During the full year of 2014, the operating free cash flow generated amounted to 184.1 million Euros, compared to 110.4 million Euros generated in the full year of 2013. The net change in cash and cash equivalents amounted to 119.7 million Euros, 64.1 million Euros (+115.4%) above that of the previous year, resulting from the positive effect of the optimisation of payment and collection dates and from the sale of the company EAD, that offset the additional 10 million Euros of dividends paid above the amount of dividends paid in 2013 (in 2014 60.0 million Euros of dividends were paid, while in 2013 the dividends paid amounted to 50.0 million Euros).

At the end of 2014, the net financial services payables increased by 77.6 million Euros, a fact reflected in the CTT cash and cash equivalents position, thus the operating free cash flow (excluding change in financial services payables, net) totalled 106.4 million Euros.

Cash flow

Thousand Euros	Reported			Recurring *		
	2014	2013	△% 14/13	2014	2013	△% 14/13
Cash flow from operating activities	178,706	109,430	63.3	101,086	50,498	100.2
Cash flow from investment activities	5,348	1,009	430.2	5,348	1,009	430.2
Capex	(7,519)	(11,207)	-32.9	(7,519)	(11,207)	-32.9
Other	12,868	12,216	5.3	12,868	12,216	5.3
Operating free cash flow	**184,055**	**110,439**	**66.7**	**106,434**	**51,507**	**106.6**
Cash flow from financing activities	(63,669)	(54,866)	16.0	(63,669)	(54,866)	16.0
Dividends	(60,000)	(50,000)	20.0	(60,000)	(50,000)	20.0
Change in consolidation perimeter	(692)	-	-	(692)	-	-
Net change in cash and cash equivalents	**119,694**	**55,572**	**115.4**	**42,073**	**(3,360)**	**1,352.3**

* Cash flow from operating activities excluding changes in net financial services payables.

3.1.10. Financing

Financing is focused on financial leasing operations related to the construction of operating facilities and the acquisition of basic equipment (particularly in CTT SA and CTT Expresso) and on bank loans in Tourline and Corre to fund operating activities, emphasising the cash pooling system used by CTT.

The calculated net debt is negative, which means CTT had ample liquidity after financial debt and liabilities with employee benefits. Net debt (in fact, cash surplus) stood at 74.9 million Euros increasing 54.9 million Euros (275.7%), due mostly to the increase of 42.1 million Euros (+17.8%) in net cash and the reduction of 19.9 million Euros (-6.7%) in liabilities with post-employment benefits, partially offset by the reduction of the associated deferred tax asset.

Net debt

Thousand Euros	2014	2013	△% 14/13
Financial debt	**3,759**	**6,999**	**-46.3**
Bank loans and other loans	891	2,481	-64.1
Financial leasings	2,869	4,518	-36.5
Net cash	**278,891**	**236,818**	**17.8**
Net financial debt	**(275,132)**	**(229,819)**	**19.7**
Liabilities with employee benefits *	278,668	298,543	-6.7
Deferred tax assets related to employee benefits	(78,412)	(88,655)	-11.6
Net debt (incl. Liabilities with employee benefits)	**(74,876)**	**(19,930)**	**275.7**

* Includes Share plan recorded in equity.

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

In the full year of 2014, CTT's own cash increased by 42.1 million Euros, reaching 278.9 million Euros.

Net cash

Thousand Euros	2014	2013	△% 14/13
Net cash			
(+) Cash and cash equivalents	664,570	544,876	22.0
(-) Net Financial Services payables	(385,679)	(308,058)	25.2
Net cash	**278,891**	**236,818**	**17.8**

3.1.11. Financial ratios

As at 31 December 2014 the balance sheet position remains solid, according to indicators highlighted below that confirm the strengthening of the financial soundness of CTT, with very high levels of liquidity and a high net cash position.

Financial indicators

	2014	2013	△% 14/13
Current ratio (1)	134.5%	144.7%	-10.2 p.p.
Equity to Liabilities (2)	26.7%	33.5%	-6.7 p.p.
Adjusted Equity to Liabilities (3)	45.6%	53.5%	-7.8 p.p.
Net debt (€m)	(74,876)	(19,930)	275.7
Net debt/EBITDA(4)	-0.6 x	-0.2 x	-0.39 x
Tangible fixed asset coverage (5)	239.0%	247.1%	-8.1 p.p.
Dividend/Net profit (6)	90.4%	98.3%	-7.9 p.p.
Dividend/ Operating free cash flows (6)	37.9%	54.3%	-16.4 p.p.

(1) Current assets/Current liabilities

(2) Equity/Total liabilities

(3) Equity/(Total liabilities - net Financial Services payables)

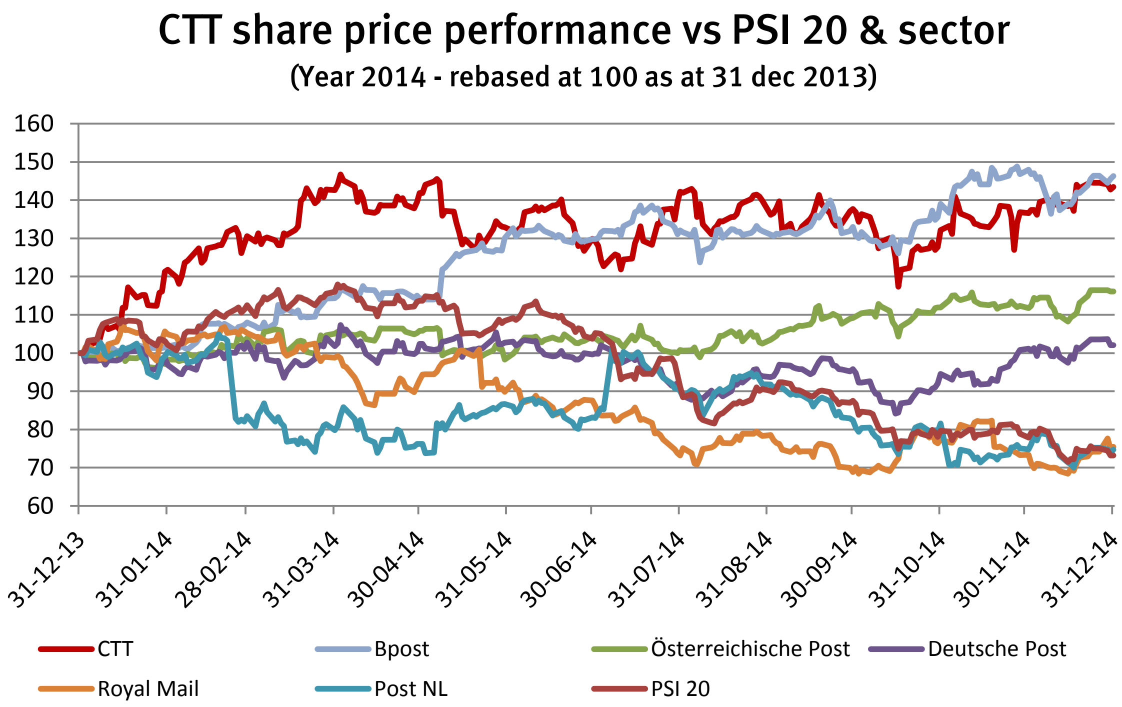
(4) If negative indicates positive net cash situation

(5) (Non-current liabilities+Equity)/Tangible fixed assets *(includes investment properties)*

(6) €69.75m dividends in 2014 and €60.0m dividends in 2013

3.2 CTT share price performance

In 2014, CTT share price appreciated 43.42%, in a period when the Portuguese PSI 20 index depreciated by 26.83%. CTT shares were the PSI 20 best performing shares in the year 2014, followed by EDP Renováveis which appreciated 39.96%.



In the year 2014, CTT paid a dividend of €0.40 per share, corresponding to a total shareholder return or TSR (capital gain + dividend, calculated on the basis of the share price as at 31 December 2013) of 51.46% for the period. In terms of TSR, CTT shares were also the best performing of the PSI 20 during the year 2014, followed by EDP Renováveis with a 41.10% performance. The European postal sector companies' share prices fluctuated between a decrease of 25.30% (Post NL) and an increase of 46.27% (Bpost), with a 14.75% average appreciation in terms of TSR, where CTT had the second best performance, close to Bpost which had a 55.64% total return.

On 24 March 2014, CTT shares joined the PSI 20 index, the main index of the Portuguese Stock Market. Changes in the composition of this index are made under the annual review Euronext Lisbon carries out in March every year. PSI 20 consists of shares issued by the top 20 listed companies in terms of market capitalisation, free float and liquidity.

Throughout the year 2014, 190.2 million CTT shares were traded at Euronext Lisbon stock exchange, corresponding to a daily average of 744,000 shares, which translates into an annualised ratio of 127% of the share capital. As at 31 December 2014 market close, the CTT share price was €8.017.

4. HUMAN RESOURCES

Culture and Values. Talent Management Plan. Recognition and Reward

Talent Management creates value for the organisation and for each person. CTT is integrating the values, giving them life, developing systems and policies to transform the organisation, developing skills and holding leadership responsible, as well as engaging the structure. We are also recognising and rewarding contributions.

During 2014, the experience of Culture and Values defined in 2013 continued to be deepened, with several initiatives for this purpose.

A **Talent Management Plan** was approved, which aims to:

- Guide employees to the main challenges of business and desired culture;
- Provide CTT with the best market practices in terms of Talent Management;
- Reinforce the Value Proposal for Employees, positioning CTT as one of the best and most attractive companies to work for;
- Ensure business sustainability through the development of Talent, dissemination of Knowledge and Enthusiasm of the Employees;
- Put the Customer at the centre of the organisation, strengthening the Innovation variable in CTT's Excellence formula;
- Place Talent Management in the strategic agenda and in the daily lives of CTT leaders.

The plan integrates the five axes of the **Talent Management Cycle**: **Attract** new employees; **Clarify** their responsibilities, expectations, opportunities and modus operandi in CTT; **Engage** employees with business, team and individual objectives and results; **Empower** employees for current challenges and prepare them for the future; Make employees **Grow** and thus make CTT grow.

Actions were identified at various time horizons for each of these axes, with systematisation of priorities and the corresponding implementation plan. During 2014, the Organisational Framework and Functional Groups was completed, a salary benchmarking was conducted and the salary policy was defined with the organisation's position at various levels, the Employer Brand and the Trainee Programme were designed and will start in 2015, profiles for Leader and Key duties were defined, and the new Performance Management system was conceived and designed, which is being implemented in a first full cycle in 2015, a measure with great impact.

The Performance Management system is aimed at the whole CTT structure, and seeks to align Employees with the strategy and business, consolidating a culture of meritocracy, recognition and reward of differentiated performances. Hence, it was decided to assign the total variable remuneration of €11m already relative to the performance in 2014, payable in Q2 2015, and also consider variable remuneration in future financial years, obviously depending on corporate and individual performance, according to the detailed criteria of the Performance Management system.

Current Activity

As a result of the necessary policy to match human resources to market developments, as at 31 December 2014, CTT headcount (permanent staff and employees on fixed-term contracts) consisted of 12,120 employees, 263 (-2.1%) less than on 31 December 2013. This includes 6,596 employees in the areas of Operations and mail delivery (including 4,943 postmen / postwomen) and 2,675 employees in the Retail Network.

In 2014, 103 employees were hired (27 in Portugal and 76 in Spain), while 228 left the company, of these, 86 employees retired, 122 terminated their contracts and 20 deceased. Also, employees with special needs were reassessed, to assign them to more adequate jobs within the CTT group companies and business units, promoting mobility among the various CTT companies and business and, where possible, insourcing of operating activities. In this context, the integration process of distribution networks will bring increased use and resource efficiency.

CTT Headcount

	31.12.2014	31.12.2013	Δ 2014/2013	
Mail	9,717	10,013	-296	-3.0%
Mail & Business Solutions	7,042	7,315	-273	-3.7%
Retail Network	2,675	2,698	-23	-0.9%
Express & Parcels	1,205	1,170	35	3.0%
Financial Services	101	103	-2	-1.9%
Other	1,097	1,097	0	0.0%
Total, of which:	**12,120**	**12,383**	**-263**	**-2.1%**
Permanent	11,527	11,730	-203	-1.7%
Fixed-term contracts	593	653	-60	-9.2%
Total in Portugal	11,550	11,830	-280	-2.4%

Skills development and training

Several initiatives were launched aiming at developing and strengthening CTT human capital, involving active policies of training, functional framework and professional development plans.

In 2014, the 1st programme of identification and development of potential for new CTT staff members was carried out, covering a group of 100 participants and involving their respective manager. This programme is part of the human capital development initiatives in a perspective of talent management for a better understanding of the workers' profile and potential and, on the other hand, to perform potential and personal skills development actions, so as to strengthen capabilities and skills for the business world.

Annual performance assessments were carried out for all company employees, so as to assess their activity and contributions to the goals and results achieved. This process aims at supporting performance management, identifying training needs and ensuring that supervisors and employees are jointly responsible for professional development, as well as the merit and contribution recognition policy.

In 2014, employees' training was guided by CTT Values, and was predominantly focused in Trust (Always deliver), Excellence (Always do better) and Customer Oriented (Your success is our success).

"Always deliver" requires well prepared managers, an objective pursued through the "General Management Course", in partnership with Nova School of Business and Economics, and the course "Management for Leaders", both completed this year by 327 representatives of middle and operational management, who were better prepared to face the challenges of creating value for the customer, quality and efficiency, so as to keep CTT as a world-class operator.

The perception and realisation by each worker that "The success of our customers is our success" is an objective throughout the whole training, with special emphasis on the duties more directly involved in the value creation. To promote an excellent service in post offices, effectiveness in selling CTT products and services from new partnerships with PT, EDP, Fidelidade, Mapfre, Agência para a Modernização Administrativa / Rede Espaço do Cidadão (Citizen's Bureau Network) and Cetelem formative objectives were pursued by deepening the knowledge of the products and services from each business unit, and by integrating solutions from the CTT product and services offer. In this context, CTT also had the support of its partners with specific training activities and on the job training, strengthening the technical and theoretical training provided. The approximately 2,700 professionals from the Retail Network attended around 100,000 hours of training.

Similarly, knowledge about quality of service and logistics flow of mail operations was increased for more than 2,000 operatives and supervisors from the Operations and Delivery area, through among others, the "Quality in Operations" training course.

In 2014, CTT invested about 264,000 hours (+18% than in the previous year) in training, distributed by 52,000 participations (-0.6%), organised to achieve even more efficiency in overcoming workplace dispersion, which resulted in an increase of about 7% relative to the previous year in terms of remote training and training at workplace.

In the recruitment and mobility area, 331 positions were advertised internally, and there were 2 external recruitment processes, leading to 282 positions being filled.

Eleven externships for young graduates and Master degree holders were granted under the "Movimento para o Emprego" (Employment Promotion) programme. Five professional internship programmes and 5 traineeships were also carried out.

Occupational safety and social support

A flexible and balanced remuneration policy, which allows for the reward of performance and productivity, is being implemented, with the gradual introduction of a human capital variable remuneration component. This policy was developed along with several initiatives to rationalise and

make more efficient and objective some of the employee benefits, the most relevant being the new Company Agreement and the review of several components of the Healthcare Benefits Plan.
As part of Hygiene, Safety and Ergonomics, in this year of internalisation of Occupational Safety services, there were 268 interventions to assess working and risk conditions in CTT establishments, performed by company employees.

Regarding work-related accidents, 955 accidents were reported, 5.2% more relative to 2013, and 25,252 days were lost to temporary sickness or injury, 1% more than in 2013. There has been one fatality. A worker was a victim of a road accident *"In itinere"*, with third party liability.

The social support service to CTT Social Works beneficiaries carried out a survey of the socio-economic status or social problems faced by the beneficiaries involved and their families, with the objective of finding the most suitable solutions. Within this scope, 464 cases were monitored (drug abuse, mental health problems, social integration and age-related issues) that lead to about 29 visits to institutions and home visits, around 216 face-to-face interviews and 1,839 telephone calls.

On 14 August, CTT terminated the 2013 Company Agreement (CA), in force from 27 April 2013 to 27 October 2014, reported that termination to the twelve trade unions representing the workers, and also sent a new Company Agreement proposal.

On 15 September, the company started a negotiating process with ERCT – Estruturas de Representação Coletiva dos Trabalhadores (Employee Unions and Workers' Committee) with the objective of introducing amendments to the Regulation of the Social Works (RSW) in respect of health and social benefits, making CTT health system more balanced and allowing for its sustainability. The negotiation of a new company agreement that allows greater homogeneity in conditions and work schedules, incorporating greater mobility and flexibility, began on that date.

The process, which took place in a constructive environment to find solutions, culminated with the signing on 9 February 2015 of a new Company Agreement, valid for the next two years, and a reviewed Regulation of the Social Works (RSW), the internal healthcare and social protection system of CTT, which was also endorsed by CTT Workers' Committee.

This new CA strengthens a labour framework adapted to the specific nature of the company's business, promoting greater flexibility and mobility, a good social climate and stable collective working relations, all of which are fundamental for CTT in order to face the current and future challenges. For that purpose, the new CA provides for greater alignment with general labour laws, the discontinuing of some specific allowances, the harmonisation of working hours across the company and, for the first time in five years, a 2% increase in fixed salaries in CTT.

The new RSW of CTT maintains a high protection level, with better balance of the share of payments to be borne by the company and the beneficiaries, while rationalising the use of benefits. Accordingly, the fees that the beneficiaries pay to the system were increased by raising the monthly contributions and co-payments, while the all-encompassing feature of the system was maintained and some social support measures were strengthened.

The changes to the Healthcare Benefits Plan, allowances and working hours will result in annual cost savings to the company, while salary increases will impact costs in the opposite direction.

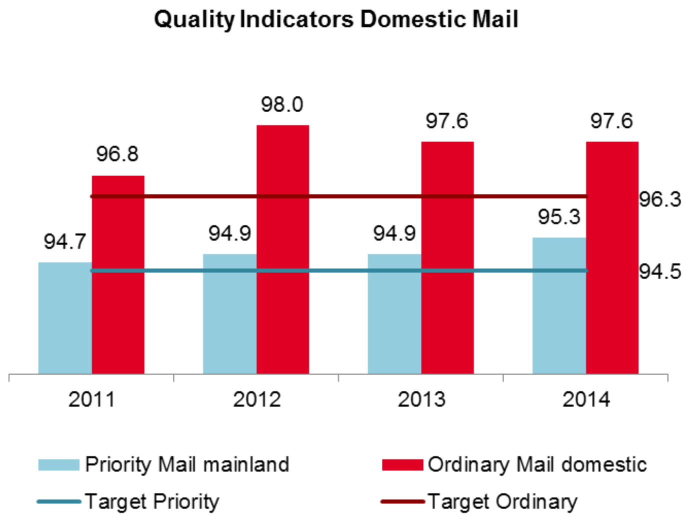
From 1 January 2015 and, in addition to the RSW review mentioned above, CTT health plan, previously managed by PTACS, started to be managed by Médis, after a tendering process involving four reference entities. The transition to Médis ensures continuity of the whole healthcare system for employees in a similar manner as that of the previous supplier, benefiting from a broader network. This change will allow for a reduction in current costs with the healthcare management and with medical services, which derives from this manager's economies of scale.

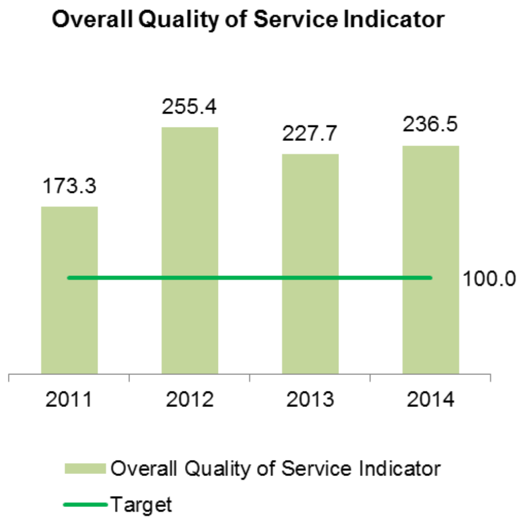
5. QUALITY, INNOVATION AND SUSTAINABILITY IN CTT PERFORMANCE

5.1. Quality of Service

In 2014, CTT continued to achieve high quality of service levels, with the OQSI – Overall Quality of Service Indicator – registering 236.5 points, compared to a target of 100, and 8.8 points above those achieved in 2013. This performance confirms that the increased efficiency is not achieved through the reduction of quality of service.

Quality of Service





In international mail, the quality of service targets set out by the EU Postal Directive for the postal sector were exceeded in the Portuguese case.

In 2014, all the variables of the quality agreement with the Regulator surpassed the specified targets:

Quality level	Minimum	Target	Score
Priority Mail			
% Delivered on the following day (Mainland)	93.50	94.50	95.30
% Delivered within two days (Azores and Madeira)	84.00	87.00	93.30
% Delivered within ten days	99.75	99.85	99.91
Ordinary Mail			
% Delivered within three days	95.50	96.30	97.60
% Delivered within fifteen days	99.77	99.86	99.91
Newspapers and Periodicals			
% Delivered within three days	95.50	96.30	97.90
International Mail			
% Delivered within three days	85.00	88.00	90.80 *
% Delivered within five days	95.00	97.00	98,40 *
Parcels			
% Delivered within three days	90.50	92.00	94.30
Waiting time at post offices			
% Customers assisted within 10 minutes	75.00	85.00	91.10

* Average from October 2013 to September 2014.

Efforts continued to be undertaken in order to maintain certified management systems. In March 2014, the Quality Certification of the Control Systems associated to the calculation of the Quality of Service Indicators (QSI) was obtained, now including QSI 6 (transit time for newspapers and periodicals), QSI 9 (transit time for domestic parcels) and QSI 10 (time in queue to be assisted), in addition to QSI 1 to 5 (transit time for ordinary mail and priority mail), already certified since 2002.

CTT submitted a new application to the Committed to Excellence level of the European Excellence Model of EFQM (European Foundation for Quality Management), now covering the whole CTT operational network: Retail Network, postal delivery offices and sorting centres. Following this application, 3 improvement actions are now at the final stages of implementation; and will be assessed in April 2015 to verify if the Committed to Excellence level is once more attributed to CTT. This methodology has undoubtedly contributed to acknowledged operational improvements and its increasingly comprehensive operational coverage. CTT has been the first European postal operator to have achieved this recognition.

The Service Certification process was maintained in all post offices and postal delivery offices, now including the certification of 25 postal agencies, a project that will be extended in 2015.

The good operating performance has been translated into positive quality of service perceptions by customers, 84.8% of customers who visited post offices say the postal quality of service is good or very good.

Contact Centre

Telephone (67%) and email (33%) were the communication channels predominantly used by customers to contact CTT via the Contact Centre.

A total of 737,140 telephone calls were answered in 2014, which represents a 17% increase relative to 2013. This increase was essentially due to an increase in the number of telephone calls received through the CTT line (+18%), telecommunication line (+33%) and toll card (toll payment service) (+46%), since the use of ViaCTT (-9%) has been progressively decreasing.

Regarding the CTT line, demand for various services has increased steeply, namely toll payment service (+10%), general information (+11%), item tracking & tracing, which includes questions related to customs clearance (+20%) and complaints (+59%). Postcode enquiry service continued the downward trend (-8%).

A total of 362,706 e-mails were received, which represents a 54% increase relative to 2013, predominantly related to virtual store (+19%), toll payment (+46%), information (+54%), complaints (+59%), international services (+80% for questions related to customs clearance) and telecommunications (+86%). The only exception was ViaCTT mailbox, which decreased 32% as a result of streamlining the process for recovering the access password to the electronic mailbox, and postal code which maintained the same volume as the previous year.

5.2. Innovation and development

CTT's mission and values set innovation as, respectively, a guarantee for the accomplishment of that mission – today and in the future – and as a focus on continuously exploring new ideas, processes and solutions that contribute to the future growth of CTT and the development of society and business.

Thus, in the context of I&D in 2014, the highlights are:

Development of solutions, products and services

- Launching of the market consultation aimed at providing software development services to "App CTT" 2.0, and accommodating new features for toll payment and delivery of mail items to other addresses (SIGA).

- Making available on CTT website the request acceptance service of ATM references for toll payments.

- Cooperating with the MBA team of a national university, in a project to modernise the P.O. Boxes service.

- Concluding the development of an application tool for the automatic processing of client address databases, introducing significant quality improvements in addressing and sorting.

- Preparation, together with IPC – International Post Corporation and three other postal operators (from Sweden, Spain and USA), of an international standard – the 1st in the world, published in February 2014 – for environmental certification of the “Green Mail” product, EPD/PCR (Environmental Product Declaration / Product Category Rules).

- Provision of the Easy Return (IPC) solution that will allow recipients to return, at no cost, postal items to the European country of origin (as long as it is an IPC member).

- Completion of the prior notice and batch customs clearance project with Jersey Post, with an impact in terms of convenience and speed to the recipient, since it ensures advance information on duties and taxes regarding the dispatch, and speeds up the customs clearance process.

- Expansion of the D.S.A. – Distribuição Sequenciada Automaticamente – automatically sequenced (mail) delivery – methodology to 42 postal delivery offices, in line with international best practices, and to increase operational efficiency and significantly speed up the delivery process to end customers (in urban density areas).

- Pursuit of work under the e*CIP (IPC) project, which currently brings together 30 operators, including CTT, and aims to promote – through the provision of an attractive offer to e*retailers and e*buyers – the growth of postal volumes generated by cross-border e-commerce (B2C).

Corporate-level initiatives

- Production of eBIZ (monthly) newsletter with information on the latest technological advances in strictly postal technologies or other ICT which, by influencing the postal activity, may constitute opportunities for new solutions and business for CTT.

- Preparation and submission of CTT application, relative to 2014, to the SIFIDE – Sistema de Incentivos Fiscais em Investigação e Desenvolvimento Empresarial (Corporate Research & Development Tax Incentive System), which allows companies to deduct R&D expenses on Corporate Income Tax returns;

- Completion of work – started after the creation of a "trends observatory" (2013) – in the 3 CTT business units, aimed to determine the company's "state-of-the-innovation" and define future strategies for business development.

5.3. Sustainability

CTT had a year marked by its recent status as a private company, having reached the end of 2014 with 100% of its capital as free float and a wide shareholder base of Portuguese and foreign investors, the majority being institutional investors. This transition process resulted in the consolidation of the new model of corporate governance, including the appointment of non-executive

Directors, and the company's new reporting practices. The Code of Ethics was updated and the Ethics Committee was renewed. The shareholder change allowed to clearly separate value creation for the shareholders from the concessionaire duties of a public service – the universal postal service. Thus, the company began to focus more strongly on creating shareholder value, strictly complying with its obligations under the concession, and continued the cost rationalisation programme, as well as the effort to develop new business.

Regarding the other stakeholders, customers benefited from a more comprehensive offering, with the usual excellence in service levels: quality of service reached 236.5 points comparing to the 100-point target agreed with the Regulator, with 84.8% of customers being satisfied or very satisfied with the services provided, according to the "Customer Satisfaction Questionnaires". The customer is a growing concern for CTT, assuming a central role in defining the company's strategy, with a number of initiatives aimed at anticipating needs, identifying trends and predicting the evolution of habits.

With the change of capital ownership, some remuneration practices were also reintroduced, benefiting employees. The several initiatives for the assessment, framework and development of CTT human capital described above seek to improve employees' job satisfaction and their present and future appreciation, maximising the value created by them.

The performance assessment model was reformulated this year, based on more focused goals and objectives, while seeking to value the workers' merit, and 264,000 training hours were given, 18% more than the previous year. In terms of occupational safety, there were 955 work-related accidents (one of them fatal, although with third party liability), +5.2% relative to 2013. Absenteeism rate declined slightly (0.4%), to 6.1%. A new occupational health service provider was hired, having performed more than 6,000 medical exams. The decision to change the health care provider to a new provider was announced at the end of the year.

The relationship with the community and society was strengthened through environmental and social initiatives. CTT was the exclusive sponsor of the "Uma árvore pela floresta" (A tree for the forest) campaign, aimed to fight the spread of fires, in partnership with Quercus: cardboard trees, sold in CTT post offices, finance the planting of forests with native trees, with online monitoring of the planting site and their growth over five years.

This year, CTT energy consumption (not including Tourline and CORRE) dropped again, 0.3% compared to 2013. Fuel consumption increases, which resulted from the partial insourcing of the subcontracted transport activity, could not be fully offset by the reduction of electricity consumption, a direct result of the operational network optimisation. Thus, CO2 emissions of scopes 1 and 2 increased by 1.0%. Energy intensity per delivered postal item deteriorated slightly, as a result of lower economies of scale.

Particular emphasis on CTT's adherence to the United Nations "Caring for Climate", a commitment undertaken by the 370 world leading companies on climate change. CTT improved its score for the carbon ratings in which it participated, in the Carbon Disclosure Project, the most important in the world, being national leader in its sector, and in EMMS/IPC, the most relevant of the postal sector, where CTT reached again the 6th position of carbon and energy proficiency, and was benchmark in the Disclosure and Reporting criterion.

The renewal of the traditional fleet continued, as well as the expansion of the electric fleet (18 new vehicles started to operate, and tests with a 100% electric truck were performed). With about 8% of its total fleet in an electric motoring mode, CTT is currently the national leader of this form of mobility. In terms of commuting, the several initiatives organised as part of the European Mobility Week 2014 involved more than 200 CTT workers and included improving facilities for soft forms of mobility, participating in the "Bike to Work Day", as well as a lecture and demonstrations of electric bicycles.

For sustainable marketing, the participatory compensation process of CTT's carbon emissions was approved, and PCR – Product Category Rule for postal services – a new international standard for Eco portfolios, the preparation of which involved CTT, was published. The Eco portfolio continued to evolve more favourably than general trends for postal volume, although this year its revenues have not grown for the first time since its launch.

Environmental intervention in the value chain (green procurement) was reinforced, while the percentage of pre-contract procedures with environmental criteria has risen to 73.5%, and the value of contracts with environmental criteria represented 99.5% of the total.

In what concerns the environment, in 2014 IPC – International Post Corporation declared CTT as the worldwide postal operator with the largest carbon footprint reduction in the last five years, -51%, as a result of the successful implementation of continuous improvement programmes.

In terms of recognition and awards, highlight goes to the "Trusted Brand" in the environment category, awarded to the company, for the first time, by Reader's Digest Selections. For the 4th consecutive year, CTT was also a runner-up of the "PTI Environmental Achievement of the Year", the most important environmental award in the sector, at a worldwide level.

On the social side, CTT associated with EPIS – Empresários pela Inclusão Social (Entrepreneurs for Social Inclusion), so as to support young people with school difficulties. A vocational internship initiative was hosted, and the first long-term volunteer project (mentoring) was launched, in which ten CTT volunteers accompany young people at risk of dropping out of school, for one to three years. These close relationships between mentor and mentee are intended to have a positive influence in the academic and personal lives of students.

The Agreement of Participation in the Forum of Companies for Equality was renewed, with CTT being a founding member, and the "Appeal to Birth" was signed, both areas being recognised by the "Portugal Human Resources 2013" award in the category "Company that most promotes and defends Gender Equality".

Social and environmental intervention initiatives, worth 500 thousand euros, were supported, with particular attention to CAIS, Associação Salvador, Lisbon and Portugal Half Marathons, Portuguese Association against Leukaemia, Pirilampo Mágico, among others. Five programmes to collect goods were promoted (Fight Against Poverty Project, Banco do Bebé, Food Bank, Movimento Reutilizar and Pai Natal Solidário), and over 31,000 solidarity packages were freely distributed to 83 private social solidarity institutions.

Eleven volunteer initiatives, both social and environmental, were organised with the participation of more than 100 workers and relatives. Boquilobo Reserve was visited, where an area of cork oaks was cleaned, the International Biodiversity Day was celebrated by observing and registering amphibians in Sintra Mountain Range Natural Park, and several activities and initiatives were organised. CTT collaborated with Banco Alimentar (Food Bank) and the Portuguese Cardiology Foundation, took children to CTT Christmas Circus in Lisbon and Oporto, among other activities. Numerous challenges were set throughout the year, encouraging the participation of workers and their relatives, by giving them tickets to the Zoo, Kidzania, as well as music shows or other performances.

6. SUBSEQUENT EVENTS AND FUTURE PERSPECTIVES

Subsequent events

On 13 February 2015, CTT informed the market on a price update that entered into force as of 1 March. This update corresponds to a 2.3% average annual increase in the prices of the basket of letter mail, editorial mail and parcels services and was defined in accordance with the Criteria for the Formulation of the Universal Service Prices laid down by ICP-Autoridade Nacional de Comunicações (ANACOM) under article 14(3) of Law no. 17/2012, of 26 April, as amended by Decree-Law no. 160/2013, of 19 November. Forming part of the company pricing policy for 2015, this update corresponds to an overall average annual price increase of around 4%, taking also into account the increase in the price of bulk mail that took place on the same date.

In November 2013, CTT and the Portuguese Government signed an agreement for the installation of Citizen's Bureau Areas in the CTT Retail Network. The pilot of this project was implemented in 24 post offices during 2014. In the last quarter of the year, the expansion model and the business model underlying this partnership were negotiated with the Government. On 20 January 2015, an agreement was signed between CTT and the Government which lays down the following timetable for the set-up of Citizen's Bureau Areas in the CTT Retail Network:

- Stage I, until 31 December 2015, set-up of 200 Citizen's Bureau Areas (24 pilot post offices of 2014 and 176 new post offices);
- Stage II, depending on the renewal included in the agreement, set-up of 100 more Citizen's Bureau Areas until 31 December 2016.

At a later stage this partnership may be reassessed by the parties and may be expanded, not limiting its economic rationale to the services provided but also and mainly based on the cross-selling potential. The Government intends to put in place up to 1,000 Citizen's Bureau Areas all over the country, having CTT, with its Retail Network, as a main partner.

On 6 February, under the process to constitute the Postal Bank, the company CTT Serviços S.A. was created with a share capital of 5,000,000.00 Euros. This is another important step towards the launch of the bank in 2015, a process that will go through various authorisation procedures with the Bank of Portugal and the connection with several entities that are crucial for the provision of banking services. Within this scope, the contract for the implementation of different components of the Postal Bank core IT system (Core Banking System) was concluded on 18 February 2015.

In December 2014, the principles for a possible conclusion of a new Company Agreement (CA) and a reviewed Regulation of Social Works (RSW), the internal healthcare and social protection system of CTT, were agreed upon. On 9 February 2015, after a negotiating process regarding the final provisions, CTT and the 11 trade unions represented in the company signed the new Company Agreement, valid for the next two years, and the new Regulation of Social Works.

This new CA strengthens a labour framework adapted to the specific nature of the company's business, promoting greater flexibility and mobility, a good social climate and stable collective working relations, all of which are fundamental for CTT in order to face current and future challenges.

For that purpose, the new CA provides for greater alignment with general labour laws, the discontinuing of some specific allowances, the harmonisation of working hours across the company and, for the first time in five years, a 2% increase in fixed salaries in CTT.

The new RSW of CTT maintains a high protection level, with better balance of the share of payments to be borne by the company and the beneficiaries, while rationalising the use of benefits. Accordingly, the fees that the beneficiaries pay to the system were increased by raising the monthly contributions and co-payments, while the all-encompassing feature of the system was maintained and some social support measures were strengthened. The changes to the healthcare benefits plan, allowances and working hours will result in staff costs savings to the company, partly in 2015 and partly gradually in future years, while salary increases will impact costs in the opposite direction.

From 1 January 2015 and in addition to the RSW review mentioned above, CTT Healthcare Plan, previously managed by PTACS, started to be managed by Médis after a tendering process involving four reference entities. The transition to Médis ensures the continuity of all healthcare in a manner identical to that used by the previous supplier. This change will allow a reduction of current spending on health plan management and medical services.

Future perspectives

The more favourable macroeconomic environment, as well as the Transformation Programme initiatives implemented in 2013 and 2014, allow CTT to expect to achieve success in implementing the defined strategy for 2015.

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

Growth in e-commerce will be the main driver of the parcels business, as long as the economic activity does not promote the B2B market growth, both in Portugal and Spain, due to the expected and growing migration of Iberian retailers to online sales platforms. For that, CTT is speeding up the Transformation Programme initiatives in the Express & Parcels business in order to be able to lead the offer of logistics solutions in this market, both at offer level and, most of all, in the restructuring and optimisation of the distribution networks in Portugal and Spain. With regard to the offer, new features of the products and services addressed to the B2C market (e-commerce), taking into account concerns as capillarity, convenience and information, will be developed during the year.

Regarding Financial Services, in 2015 CTT will be able to consolidate its relevant positioning as main player in the placement of savings products, it will also launch new products and services and start the Postal Bank's operation (expected to happen in the 4th quarter), thus driving the growth of this business unit, which is one of the Company’s levers of revenues and, first and foremost, profitability growth. Regardless, but related to Postal Bank's launch, new financial products and / or new partnerships are under review, so as to complement the current offer and ensure the sustainability of the growth achieved by this business unit. Health insurance and prepaid cards are some of the initiatives under review.

A number of necessary proceedings for the incorporation and launch of the Postal Bank are under way within the scope of the authorisation granted by the Bank of Portugal and valid through 27 November 2015. The start-up of the Postal Bank's activity (which is estimated to occur in the last quarter of 2015) depends on a wide number of tasks, as well as on the conclusion of the incorporation process, on the compliance with the applicable regulatory requirements and conditions (particularly those referred to in the above-mentioned authorisation of the Bank of Portugal and related to, among other aspects, the banking systems and products) and on the special registration with the Bank of Portugal.

The company aims to achieve stable revenues. This objective is based on the expectation that the growing businesses (Financial Services and Express & Parcels) will offset the possible declining trend in Mail revenues, as a result of volume decline not mitigated by price increases.

Balance sheet optimisation measures will continue, such as the working capital optimisation and the optimisation / use of vacant buildings. CTT will continue the management of employee benefits, so as to monetise the associated tax assets.

7. PROPOSAL FOR THE APPLICATION OF RESULTS

Under the terms of article 23 of the Articles of Association of CTT - Correios de Portugal, S.A. ("CTT" or "Company"), the annual net profit, duly approved, will be appropriated as follows:

a) a minimum of 5% will be transferred to the legal reserve, until the required amount is reached;

b) a percentage will be distributed to the shareholders as dividends and as decided by the General Meeting;

c) the remaining amount will be appropriated as deliberated by the General Meeting in the interest of the Company.

Under the terms of article 295, point 1, of the Commercial Companies Code, a minimum of 5% is intended for the constitution of the legal reserve and, if necessary, its reintegration until this reserve reaches 20% of the share capital.

Considering a share capital of 75,000,000.00 Euros, 20% corresponds to 15,000,000.00 Euros; hence, the legal reserve as at 31 December 2014 exceeds the minimum amount required according to the Articles of Association and the Commercial Companies Code.

Under the terms of article 294, point 1, of the Commercial Companies Code, half of the distributable profit must be distributed to the shareholders, unless otherwise established in the Articles of Association or by a deliberation of a General Meeting called for this purpose, in which case 3/4 of shareholder votes are required.

No clause in the Articles of Association establishes any terms that might oppose the provisions included in the aforementioned code.

Distributable profit corresponds to the net profit for the year after constitution or reinforcement of the legal reserve and coverage of retained losses, if applicable. As at 31 December 2014, the legal reserve is fully constituted and retained earnings are positive.

For the financial year ended 31 December 2014 the net profit in the corporate accounts amounted to 77,171,128.00 Euros.

Given the accounting rules in force, the aforementioned net profit already includes an amount of 11,000,000.00 Euros regarding profit sharing with CTT employees and Executive Directors.

Regarding CTT governing bodies and under the terms of said article 23 of the Articles of Association of the Company, a variable remuneration may be added to the Executive Directors' fixed remuneration which may consist of a percentage of the Company's consolidated profit. In such case, the overall percentage of that profit allocated to the variable remuneration may not exceed, every year, an amount corresponding to 5% of the consolidated profit for the financial year.

Accordingly and in compliance with the provisions applicable under the law and the Articles of Association, the Board of Directors proposes that:

a) the net profit for the financial year of 2014, totalling 77,171,128.00 Euros, as per the corporate financial statements, is appropriated as follows:

   Dividends * €69,750,000.00
   To Retained Earnings ....€ 7,421,128.00
   * distribution of €69,750,000.00 of dividends corresponds to €0.465 per share.

b) the attribution of a maximum amount of 11,000,000.00 Euros (already considered in the corporate financial statements) to CTT employees and Executive Directors as profit sharing, under the terms laid down by the competent bodies.

8. DECLARATION OF CONFORMITY

In compliance of paragraph 1(c) of article 245 of the Portuguese Securities Code, the members of the Board of Directors and the members of the Audit Committee of CTT - Correios de Portugal, S.A. ("CTT") hereby declare that, to their best knowledge, the management report, the corporate and consolidated accounts, the legal certification of accounts and other financial statements i) were prepared in compliance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial position and the results of CTT and of the companies included in the consolidation perimeter; ii) faithfully describe the business evolution, the performance and position of CTT and of the companies included in the consolidation perimeter; and iii) contain a description of the major risks faced by CTT in its activity.

Lisbon, 26 March 2015

The Chairman & CEO

Francisco José Queiroz de Barros de Lacerda

The Vice-Chairman of the Board of Directors and Chairman of the Audit Committee

António Sarmento Gomes Mota

The Vice-Chairman of the Board of Directors and Member of the Executive Committee

Manuel Cabral de Abreu Castelo-Branco

The Members of the Board of Directors and of the Executive Committee

André Manuel Pereira Gorjão de Andrade Costa

Dionizia Maria Ribeiro Farinha Ferreira

Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

The Member of the Board of Directors

António Manuel de Carvalho Ferreira Vitorino

The Member of the Board of Directors and of the Audit Committee

Nuno de Carvalho Fernandes Thomaz

The Member of the Board of Directors and of the Audit Committee

Diogo José Paredes Leite de Campos

The Member of the Board of Directors

Rui Miguel de Oliveira Horta e Costa

The Member of the Board of Directors

José Manuel Baptista Fino

PART II – FINANCIAL STATEMENTS

Consolidated accounts

CTT-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2014 AND 31 DECEMBER 2013

Euros

	NOTES	31.12.2014	31.12.2013
ASSETS			
Non-current assets			
Tangible fixed assets	5	212,466,058	225,364,429
Investment properties	7	23,329,763	21,761,886
Intangible assets	6	13,426,007	13,049,308
Goodwill	9	7,705,457	25,083,869
Investments in associated companies	10	227,418	710,723
Other investments	11	1,106,812	130,829
Other non-current assets	18	790,601	1,951,139
Deferred tax assets	41	91,428,940	103,645,256
Total non-current assets		**350,481,056**	**391,697,439**
Current assets			
Inventories	13	5,785,277	5,993,971
Accounts receivable	14	131,682,269	135,589,645
Deferrals	15	5,692,895	4,875,139
Other current assets	18	22,785,382	17,102,436
Cash and cash equivalents	17	664,569,744	544,875,803
Total current assets		**830,515,567**	**708,436,994**
Total assets		**1,180,996,623**	**1,100,134,433**
EQUITY AND LIABILITIES			
Equity			
Share capital	20	75,000,000	75,000,000
Reserves	21	31,773,967	30,397,559
Retained earnings	21	84,374,563	83,367,465
Other changes in equity	21	(18,786,310)	24,548,756
Net profit attributable to equity holders of parent company		77,171,128	61,016,067
Non-controlling interests	24	(323,703)	1,604,372
Total equity		**249,209,645**	**275,934,219**
Liabilities			
Non-current liabilities			
Medium and long term debt	25	1,913,118	3,282,126
Employee benefits	26	255,541,102	278,638,868
Provisions	27	45,671,517	38,501,835
Deferrals	15	6,426,807	8,837,037
Deferred tax liabilities	41	4,841,684	5,481,878
Total non-current liabilities		**314,394,228**	**334,741,744**
Current liabilities			
Accounts payable	28	499,536,907	391,958,039
Employee benefits	26	21,750,445	19,904,186
Income taxes payable	29	6,173,214	93,968
Short term debt	25	1,846,070	3,716,557
Deferrals	15	5,502,183	4,103,751
Other current liabilities	30	82,583,931	69,681,969
Total current liabilities		**617,392,750**	**489,458,470**
Total liabilities		**931,786,978**	**824,200,214**
Total equity and liabilities		**1,180,996,623**	**1,100,134,433**

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

CTT-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED INCOME STATEMENT FOR THE PERIODS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013

Euros

	NOTES	2014	2013
Revenues		**718,774,422**	**704,847,008**
Sales and services rendered	4	703,283,590	690,068,682
Other operating income	33	15,490,832	14,778,326
Operating costs		**(583,356,761)**	**(617,611,428)**
Cost of sales	13	(16,998,498)	(16,906,127)
External supplies and services	34	(237,679,808)	(242,058,580)
Staff costs	36	(258,006,736)	(313,072,477)
Impairment of inventories and accounts receivable, net	37	(5,877,266)	(3,530,198)
Impairment of non-depreciable assets	9	(18,932,073)	0
Provisions, net	27	(14,009,576)	(5,647,982)
Depreciation/amortisation and impairment of investments, net	38	(21,405,600)	(25,715,129)
Other operating costs	39	(10,447,204)	(10,680,935)
Earnings before financial income and taxes		**135,417,661**	**87,235,580**
Financial results		**(7,418,971)**	**(3,982,396)**
Interest expenses	40	(11,797,721)	(11,874,463)
Interest income	40	4,325,187	7,871,559
Gains/losses in associated companies	10	53,562	20,508
Earnings before taxes		**127,998,690**	**83,253,184**
Income tax for the period	41	(51,155,054)	(22,147,899)
Net profit for the period		**76,843,636**	**61,105,285**
Net profit for the period attributable to:			
Equity holders of parent company		77,171,128	61,016,067
Non-controlling interests	24	(327,492)	89,218
Earnings per share of the parent company	23	0.51	0.41

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

CTT-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIODS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013

Euros

	NOTES	2014	2013
Net profit for the period		**76,843,635**	**61,105,285**
Adjustments from application of the equity method (non re-classifiable adjustment to profit and loss)	21	-	(29,043)
Employee benefits (non re-classifiable adjustment to profit and loss)	26	(61,041,103)	(11,680,870)
Deferred tax/Employee benefits (non re-classifiable adjustment to profit and loss)	41	17,706,037	3,150,049
Other changes in equity	21/24	(1,411,128)	(28,181)
Other comprehensive income for the period after taxes		**(44,746,194)**	**(8,588,045)**
Comprehensive income for the period		**32,097,442**	**52,517,240**
Attributable to non-controlling interests		(1,729,652)	61,038
Attributable to shareholders of CTT		33,827,094	52,456,203

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 31 DECEMBER 2014 AND 31 DECEMBER 2013

Euros

	NOTES	Share capital	Reserves	Other changes in equity	Retained earnings	Net profit for the year	Non-controlling interests	Total
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**
Share capital reduction		(12,325,000)	12,325,000	-	-	-	-	-
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)	(50,064,175)
		(12,325,000)	**1,769,051**	**-**	**(3,708,784)**	**(35,735,268)**	**(64,174)**	**(50,064,175)**
Other movements		-	-	-	-	-	(28,181)	(28,181)
Actuarial gains/losses - Health Care	21	-	-	(8,530,821)	-	-	-	(8,530,821)
Adjustments from the application of the equity method	21	-	-	-	(29,043)	-	-	(29,043)
Net profit for the period		-	-	-	-	61,016,067	89,218	61,105,285
Comprehensive income for the period		**-**	**-**	**(8,530,821)**	**(29,043)**	**61,016,067**	**61,038**	**52,517,241**
Balance on 31 December 2013		**75,000,000**	**30,397,559**	**24,548,756**	**83,367,465**	**61,016,067**	**1,604,372**	**275,934,219**
Balance on 1 January 2014		**75,000,000**	**30,397,559**	**24,548,756**	**83,367,465**	**61,016,067**	**1,604,372**	**275,934,219**
Share capital reduction		-	-	-	-	-	-	-
Appropriation of net profit for the year of 2013		-	-	-	61,016,067	(61,016,067)	-	-
Dividends	22/24	-	-	-	(60,000,000)	-	(198,423)	(60,198,423)
Share plan	21/24	-	1,376,408	-	-	-	-	1,376,408
		-	**1,376,408**	**-**	**1,016,067**	**(61,016,067)**	**(198,423)**	**(58,822,015)**
Other movements	21/24	-	-	-	(8,968)	-	(6,482)	(15,450)
Participation sale	24	-	-	-	-	-	(1,395,678)	(1,395,678)
Actuarial gains/losses - Health Care	21	-	-	(43,335,066)	-	-	-	(43,335,066)
Adjustments from the application of the equity method		-	-	-	-	-	-	-
Net profit for the period		-	-	-	-	77,171,128	(327,492)	76,843,636
Comprehensive income for the period		**-**	**-**	**(43,335,066)**	**(8,968)**	**77,171,128**	**(1,729,652)**	**32,097,442**
Balance on 31 December 2014		**75,000,000**	**31,773,967**	**(18,786,310)**	**84,374,563**	**77,171,128**	**(323,703)**	**249,209,645**

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

CTT-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIODS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013

Euro

	NOTES	2014	2013
Operating activities			
Collections from customers		690,618,115	670,109,743
Payments to suppliers		(248,103,826)	(265,494,002)
Payments to employees		(309,218,520)	(309,118,788)
Cash flow generated by operations		133,295,769	95,496,953
Payments/receivables of income taxes		(21,370,682)	(23,244,745)
Other receivables/payments		66,781,084	37,177,844
Cash flow from operating activities (1)		178,706,171	109,430,053
Investment activities			
Receivables resulting from:			
Tangible fixed assets		1,434,725	821,346
Financial investments		4,046,849	58,030
Interest income		6,951,935	11,336,129
Dividends		434,128	-
Payments resulting from:			
Intangible assets		-	(571,700)
Tangible fixed assets		(7,519,161)	(10,635,123)
Cash flow from investment activities (2)		5,348,477	1,008,682
Financing activities			
Receivables resulting from:			
Loans obtained		6,174,600	4,783,472
Payments resulting from:			
Loans repaid		(7,758,020)	(7,350,872)
Interest expenses		(1,023,841)	(746,333)
Finance leases		(1,061,358)	(1,552,661)
Dividends	22	(60,000,000)	(50,000,000)
Cash flow from financing activities (3)		(63,668,619)	(54,866,394)
Net change in cash and cash equivalents (1+2+3)		120,386,029	55,572,341
Changes in the consolidation perimeter		(692,087)	-
Cash and equivalents at the beginning of the period		544,875,803	489,303,463
Cash and cash equivalents at the end of the period	17	664,569,744	544,875,803

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

CTT – CORREIOS DE PORTUGAL, S.A.

Notes to the consolidated financial statements
(Amounts expressed in Euro)

TABLE OF CONTENTS

1. INTRODUCTION

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

CTT – Correios de Portugal, S. A. – Sociedade Aberta ("CTT, SA", "Parent Company" or "Company"), with head office at Avenida D. João II, no 13, 1999-001 in Lisbon, had its origin in the "Administração Geral dos Correios Telégrafos e Telefones" government department and its legal form is the result of successive re-organizations carried out by the Portuguese state business sector in the communications area.

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

On 31 January 2014 the Portuguese State through the Order 2468/12 – SETF, of 28 December determined the transfer of the investment owned by the Portuguese State in CTT to Parpública.

At the General Meeting held on 30 October 2013, the registered capital of CTT was reduced from 87,325,000 Euro to 75,000,000 Euro, being from that date onward represented by 150.000.000 shares, as a result of a stock split which was accomplished through the reduction of the nominal value from 4.99 Euros to 0.50 Euros.

For the year ended 31 December 2013 CTT's capital was opened to the private sector. Thus, and supported by Decree-Law No. 129/2014 of 6 September and the Resolution of the Council of Ministers ("RCM") No. 62-A/2014, of October 10, the RCM No. 62-B/2014 of October 10 and RCM No. 72-B/2014, of November 14, on 5 December 2014 took place the first phase of privatisation of the capital of CTT. From this date, 63.64% of the shares of CTT (95.5 million shares) were owned by the private sector, of which 14% (21 million shares) were sold in a Public Offering and 49.64% (74.5 million shares) by Institutional Direct Selling. On 31 December 2013 the Portuguese State, through Parpública-Participações Públicas, SGPS, S.A. held 36.36% of the shares of CTT, 30.00% by detention and 6.36% by allocation.

On 5 September, 2014 the second phase of the privatization of CTT's capital took place. The shares held by Parpública-Participações Públicas, SGPS, S.A., which represented 31.503% of CTT's capital, were subject to a private offering of Shares (the "Equity Offering") via an accelerated bookbuilding process. The Equity Offering was addressed exclusively to institutional investors.

The shares of CTT are listed on Euronext Lisbon.

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

These consolidated financial statements were approved by the Board of Directors on 26 March, 2015.

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 its subsidiaries, Tourline Express Mensajería, SLU and its subsidiaries, and Corre – Correio Expresso de Moçambique, 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 services, networks and electronic communication services, including related resources and services and a mobile virtual network operator (MVNO), with the trade mark “Phone-ix” operated by TMN - Telecomunicações Móveis Nacionais, S. A..

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

Following the amendments introduced by Directive 2008/6/EC of 20 February 2008 of the European Parliament and of the Council to the regulatory framework that governs the provision of postal services, it took place in 2012 its transposition into the national legal order through the adoption of Law no. 17/2012, of 26 April ("new Postal Law"), with the changes introduced in 2013 by Decree-Law no. 160/2013, of 19 November, revoking the Law no. 102/99, of 26 July.

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

Thus, since the new Postal Law has become effective, the postal market in Portugal has been fully open to competition, eliminating areas within the universal service that were still reserved to the provider of the universal postal service CTT – Correios de Portugal, SA ("CTT"). However, for reasons of general interest, the following activities and services remained reserved: placement of mailboxes on public roads for the acceptance of mail, issuance and sale of postage stamps with the word "Portugal" and registered mail used in legal or administrative proceedings.

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

• A postal service for letter mail (excluding direct mail) books, catalogues, newspapers and other periodicals up to 2 kg;
• A postal service for postal parcels up to 10 kg, as well as delivery in the country of parcels received from other Member States of the European Union weighing up to 20kg;
• A delivery service for registered items and a service for declared value items.

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

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

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

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

Once the concession ends, in the event that it is not granted to CTT, CTT may provide, together with any other operators, 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.

In summary, considering the legal and regulatory framework in force, CTT considers that there are no grounds for the introduction of any relevant change to the accounting policies of the 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 and are prepared under the historical cost convention, in accordance with the International Financial Reporting Standards, as adopted by the European Union as at 31 December 2014.

These standards include the IFRS issued by the International Accounting Standards Board ("IASB"), or the IAS issued by the International Accounting Standards Committee ("IASC"), as well as the respective interpretations – IFRIC and SIC, issued, respectively, by the International Financial Reporting Interpretation Committee ("IFRIC") and by the Standing Interpretation Committee ("SIC"). Hereinafter, these standards and interpretations are generally referred to as "IFRS".

In addition to the standards that became effective as of 1 January 2014 and which are set out in the accounting policies adopted in the preparation of the consolidated financial statements as at 31 December 2014 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 2014.

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:

- IAS 32 (Amended) - Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities. The IASB amended IAS 32 adding application guidance to address the inconsistent application of the standard in practice. The application guidance clarifies that the phrase 'currently has a legal enforceable right of set-off' means that the right of set-off must not be contingent on a future event and must be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy, of the entity and all of the counterparties. The application guidance also specifies the characteristics of gross settlement systems in order to be considered equivalent to net settlement. The adoption of this amendment had no impact in the consolidated financial statements.
- IAS 27 (Revised) – Separate Financial Statements. Taking in consideration that IFRS 10 addresses the principles of control and the requirements relating to the preparation of consolidated financial statements, IAS 27 was amended to cover exclusively separate financial statements. The amendments aimed, on one hand, to clarify the disclosures required by an entity preparing separate financial statements so that the entity would be required to disclose the principal place of business (and country of incorporation, if different) of significant investments in subsidiaries, joint ventures and associates and, if applicable, of the parent. The previous version required the disclosure of the country of incorporation or residence of such entities. On the other hand, it was aligned the effective dates for all consolidated standards (IFRS10, IFRS11, IFRS12, IFRS13 and amendments to IAS 28). The adoption of this amendment had no impact in the consolidated financial statements.
- IFRS 10 Consolidated Financial Statements. IFRS 10, withdraw one part of IAS 27 and SIC 12, and introduced a single control model to determine whether an investee should be consolidated. The new concept of control involves the assessment of power, exposure to variability in returns and a linkage between the two. An investor controls an investee when it is exposed, or has rights, to variability of returns from its involvement with the investee and is able to affect those returns through its power over the investee (facto control).The investor considers whether it controls the relevant activities of the investee, taking into consideration the new concept. The assessment should be done at each reporting period because the relation between power and exposure to the variability of returns may change over the time.

Control is usually assessed over a legal entity, but also can be assessed over only specified assets and liabilities of an investee (referred to as silo).The new standard also introduced other changes such as: i) accounting requirements for subsidiaries in consolidation financial statements that are carried forward from IAS 27 to this new standards and ii) enhanced disclosures requirements, including specific disclosures for consolidated and unconsolidated structured entities. This adoption had no impact in the consolidated financial statements.

- IFRS 11 – Joint Arrangements. IFRS 11 withdraw IAS 31 and SIC 13, defines “joint control” by incorporating the same control model as defined in IFRS 10 and requires an entity that is part of a “join arrangement” to determine the nature of the joint arrangement (“joint operations” or ”joint ventures”) by assessing its rights and obligations. IFRS 11 removes the option to account for joint ventures using the proportionate consolidation. Instead, joint arrangements that meet the definition of “joint venture” must be account for using the equity method (IAS 28). The adoption of this standard had no impact in the consolidated financial statements.
- IAS 28 (Revised) – Investments in Associates and Joint Ventures. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed as IAS 28 Investments in Associates and Joint ventures, and describes the application of the equity method to investments in joint ventures and associates. The adoption of this standard had no impact in the consolidated financial statements.
- IFRS 12 – Disclosures of Interest in Other Entities. The objective of this new standard is to require an entity to disclose information that enables users of its financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special vehicles and other off balance sheet vehicles. The adoption of this interpretation had no impact in the consolidated financial statements.
- Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27 (issued by IASB on 31st October 2012). The amendments apply to a particular class of business that qualify as investment entities. The IASB uses the term ‘investment entity’ to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds. The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The amendments were effective from 1 January 2014. These amendments were endorsed by EU Commission Regulation 1174/2013, 20th November. The adoption of these amendments had no impact in the consolidated financial statements.
- IAS 36 (Revised) – Recoverable Amount Disclosures for Non-Financial Assets. The objective of the amendments is to clarify that the scope of the disclosures of information about the recoverable amount of assets, where that amount is based on fair value less costs of disposal, is limited to impaired assets.
- IAS 39 (Revised) – Novation of Derivatives and Continuation of Hedge Accounting. The objective of the amendments was to provide relief in situations where a derivative, which has

been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. Such a relief means that hedge accounting can continue irrespective of the novation which, without the amendment, would not be permitted. The adoption of these amendments had no impact in the consolidated financial statements.

- IFRIC 21 Levies. IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. This adoption had no impact in the consolidated financial statements.

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

In 2014, 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	**Effetive date**
New standards	
IFRS 9 - Financial instruments (issued in 2009 and revised in 2010, 2013 and 2014)	01-jan-18
IFRS 15 - Revenue from Contracts with Customers	01-jan-17
IFRS 14 – Regulatory Deferral Accounts	undetermined
Improvements to IFRS (2012-2014)	01-jul-16
IAS 27 - Equity Method in Separate Financial Statements	01-jan-16
Amendments	
IAS 19 (Revised) – Defined Benefit Plans: Employee Contributions	01-jul-14
Improvements to IFRS 2010-2012	01-jul-14
Improvements to IFRS 2011-2013	01-jul-14
Other amendments	01-jan-16

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

These new standards and amendments to the standards and interpretations are effective for years starting on or after the referred date, and were not applied during the preparation of these consolidated financial statements. With the exception of IFRS 9, IFRS 15, IFRS 14, Improvements 2012-2014, IAS 27 and Other amendments, 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 Financial instruments (issued in 2009 and revised in 2010, 2013 and 2014) (to be applied in the EU to financial years that begin on or after 01 January 2018). IFRS 9 (2009) and IFRS 9 (2010) introduces new requirements for the classification and measurement of financial assets and financial liabilities. Under this new approach, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IASB published IFRS 9 (2013) addressing new requirements for hedging accounting. It was also published

IFRS 9 (2014) that introduced limited amendments to the classification and measurement requirements of IFRS 9 (including enlarge the instruments measured at fair value with the changes present in other comprehensive income, from some investments in equity instruments to other investments such as bonds) and add new requirements to address the impairment of financial assets, under the expected loss model. The adoption of IFRS 9 (2010) is expected to have an impact on the Group's financial assets, but not any impact on the Group's financial liabilities.

IFRS 15 – Revenue from Contracts with Customers (to be applied in the EU to financial years that begin on or after 01 January 2017). IFRS 15 provides a model based on 5 steps of analysis in order to determine when revenue should be recognized and the amount. The model specifies that the revenue should be recognized when an entity transfers goods or services to the customer, measured by the amount that the entity expects to be entitled to receive. Depending on the fulfilment of certain criteria, revenue is recognized: i) At a time when the control of the goods or services is transferred to the customer; or ii) Over the period, to the extent that represents the performance of the entity. The Group is still evaluating the impact from the adoption of this standard.

IFRS 14 – Regulatory Deferral Accounts (effective date of adoption undetermined). The IASB issued on 30th January 2014 a standard that defines interim measures for those adopting IFRS for the first time and has activity with regulated tariff. This standard is not applicable to the group.

Improvements to IFRS (2012-2014) (to be applied to financial years that begin on or after 01 January 2016, at the latest). The annual improvements of the 2012-2014 cycle, issued by the IASB on September 25, 2014 made changes, with an effective date of application for periods beginning on or after July 1, 2016 to IFRS 5, IFRS 7, IAS 19, IAS 34. The Group expects no material impact from the adoption of this amendment on its financial statements.

IAS 27: Equity Method in Separate Financial Statements (to be applied in the EU to financial years that begin on or after 01 January 2016, at the latest). IAIASB issued on August 12, 2014, amendments to IAS 27, with an effective date of application for periods beginning on or after January 1, 2016, introducing an option for the measurement of subsidiaries, associates or joint ventures the equity method in the separate financial statements. As the individual accounts follow the SNC this amendment does not apply to group.

IAS 19 (Revised) – Defined Benefit Plans: Employee Contributions (to be applied in EU at the latest in the annual years beginning on or after 1 February 2015). The Amendment clarifies the guidance on attributing employee or third party contributions linked to service and requires entities to attribute the contributions linked to service in accordance with paragraph 70 of IAS 19 (2011). Therefore, such contributions are attributed using plan's contribution formula or on a straight line basis. The amendment addresses the complexity by introducing a practical expedient that allows an entity to recognise employee or third party contributions linked to service that are independent of the number of years of service (for example a fixed percentage of salary), as a reduction in the service cost in the period in which the related service is rendered. The Group expects no impact from the adoption of this amendment on its financial statements.

Improvements to IFRS (2010-2012) (to be applied to financial years that begin on or after 01 February 2015). The annual improvements cycle 2010-2012, issued by IASB on 12th December 2013, introduce amendments, with effective date on, or after, 1st July 2014, to the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS16, IAS24 and IAS38. The Group will apply 2010-2012 annual improvements in the period it becomes effective, however no significant impact is expected in the consolidated financial statements.

Improvements to IFRS (2011-2013) (to be applied in financial years beginning on or after 01 Jan 2015). The annual improvements cycle 2011-2013, issued by IASB on 12th December 2013, introduce amendments, with effective date on, or after, 1st July 2014, to the standards IFRS 1, IFRS 3, IFRS 13 and IAS 40. The Group will apply 2011-2013 annual improvements in the period it becomes effective, however no significant impact is expected in the consolidated financial statements.

Other Amendments. It was also issued by IASB in 2014, and applicable effective by 1 January 2016, the following amendments:

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (issued on 18 December 2014);
- Amendments to IAS 1: Disclosure Initiative (issued on 18 December 2014);
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014);
- Amendments to IAS 16 and IAS 41: Bearer Plants (issued on 30 June 2014);
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014);
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014).

The Group expects no impact from the adoption of this amendment on its financial statements.

2.2 Consolidation principles

Investments in companies in which the Group holds the control, in other words, when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee, 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. Any excess of cost over the fair value of the net assets and liabilities acquired is recognised as goodwill. If the difference between the cost and the fair value of the assets and liabilities acquired is negative, it is recorded directly in profit and loss.

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

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

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

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

Associated companies

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

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

The excess of cost in relation to the fair value of the identifiable assets and liabilities of each associated company at the date of acquisition is recognised as goodwill related to the associated and presented as part of the financial investment in the caption Investments in associates. If the difference between cost and fair value of the assets and liabilities acquired is negative, it is recognised in the income statement under 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 is 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 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 reflect 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 loss, and by other changes in equity in Other comprehensive income. Additionally, investments in joint ventures may also be adjusted through the recognition of impairment losses. Whenever there are indications that the assets may be impaired, an assessment is carried out and the existing impaired losses are recorded as costs in the consolidated income statement.

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 reflect 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. At 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 updated.

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

The exchange rates used in the translation of the financial statements expressed in foreign currency the closing exchange rates for assets and liabilities and the average exchange rate for the year for income and expenses.

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

	2014		2013	
	Close	Average	Close	Average
Mozambican Metical (MZM)	38.53000	40.66583	41.24000	39.66750
United States Dollar (USD)	1.21410	1.32884	1.37910	1.32815
Special Drawing Right (SDR)	1.19332	1.14454	1.11732	1.14440

Source: Bank of Portugal

2.5 Tangible fixed assets

Tangible fixed assets are recorded at their acquisition or production cost, less accumulated depreciation and impairment losses, where applicable. The acquisition cost includes: (i) the purchase price of the asset, (ii) the expenses directly attributable to the purchase, and (iii) the estimated costs of dismantlement or removal of the assets and restoration of the location (Notes 2.19 and 27). Under the exception of IFRS1 – First-time Adoption of the International Financial Reporting Standards, the revaluation of tangible assets made in accordance with the Portuguese legislation applying monetary indices, for the years up to 1 January 2009, was maintained, and the revalued amounts were referred to as “deemed cost” for IFRS purposes and were included under Retained earnings.

The depreciation of tangible assets, minus their residual estimated value, is calculated in accordance with the straight line method, from the month when the assets are available for use, over 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 indicators exist, the tangible fixed assets are subject to impairment tests, where any surplus of the carrying value relative to the recoverable amount, should this exist, is recognised in the consolidated income statement. The recoverable amount corresponds to the highest amount between the fair value of an asset minus the costs of selling it and its value in use.

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

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

The gain or loss arising from the disposal of fixed tangible assets is defined by the difference between the sale proceeds and the carrying amount of the assets and is 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 at the acquisition cost, less 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, from 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 indefinite useful life, which are not amortised, but, rather, are subject to impairment tests on an annual basis and whenever there is indication that they might be impaired.

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

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

2.7 Investment Properties

The investment properties are properties (land or buildings) held by the Group to obtain rentals or for capital appreciation or both, rather than for:

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

b) sale in the ordinary course of business.

Investment properties comprise mainly properties that the Group did not affect to the rendering of services by the Group and holds to earn rentals or for capital appreciation.

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

The depreciation rates are between 10 and 50 years.

The Group ensures that an annual assessment of assets qualified as investment properties is 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 in which they are 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The value in use arises from the future and estimated cash flows discounted from the assets during the estimated useful life. The discount rate used in the discounted cash flows reflects the current market assessments of time value of money and the specific risk of the asset.

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

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

2.9 Goodwill

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

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

Impairment losses are not reversible.

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

2.10 Financial assets

2.10.1 Classification

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

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

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in Loans and receivables. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.10.2 Recognition and measurement

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

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

2.11 Equity

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

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

2.12 Financial liabilities

Debt

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

Accounts payable

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

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

Accounts payable (balances of suppliers and other creditors) are liabilities related to the acquisition of goods or services, by the Group, in the normal course of its business. If their payment falls due within one year or less, then they are classified as current liabilities. Otherwise, they are classified as non-current liabilities.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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 indicators 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 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.

<u>Assets classified as available for sale</u>

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 in 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 assigning cost.

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 and transport and insurance costs.

Whenever cost exceeds net realizable value, the difference is recorded in the operating costs 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 the item Depreciation / amortisation and impairment of investments, net in the consolidated income statement.

Non-current assets held for sale are presented in a separate caption in the consolidated balance sheet.

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

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

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

2.17 Distribution of dividends

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

2.18 Employee benefits

The Group adopts the accounting policy for the recognition of its responsibilities 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 income 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 rights when they become pensioners, or in a situation of 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 financing 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 included a fee is also paid, corresponding to 1.5% or 2% of the pension, depending the percentage on the value 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. Resulting from the amendment to the Health Care Plan this fee shall, from 1 January 2015, correspond to 2.25% of the pension.

The liabilities recorded on 31 December 2014 already include this change in the value of the fee.

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. The contract with PT-ACS was in force until 31 December 2014, being from 1 January 2015 onwards ensured by Médis – Companhia Portuguesa de Seguros de Saúde, SA (Médis - Portuguese health care insurance company).

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 (7,149 beneficiaries as at 31 December 2014, 7,680 beneficiaries as at 31 December 2013), of the telephone subscription charge, amounting to15.30 Euro per month.
During the year ended on 31 December 2013, the Board of Directors of CTT, decided to modify the economic benefit. Thus, from 1 January, 2014, the cash payment was 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 the state pension scheme (CGA).

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

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

As at 31 December 2014, there were 64 beneficiaries receiving this type of pension (67 as at 31 December 2013).

- 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 2014 there were 30 beneficiaries under these conditions, (48 beneficiaries as at 31 December 2013), receiving a monthly amount of 176.76 Euro, 12 months a year. This value is updated by Order of the Finance Ministry of Finance and Ministry of Social Security.

- **Support for cessation of professional activity**
This benefit is granted to employees who retire with at least 5 years of seniority in the company. Its amount depends on the seniority on the retirement date. As at 31 December 2012, the benefit in force provided for a maximum of 1,847.16 Euro for 36 or more years of seniority. In 2012, the Board of Directors decided to discontinue the compensation awarded to the workers who have reached the end of their working life at the service of CTT, SA. It has also ruled that, in situations of release and

retirement that may occur as a result of the requests for retirement already submitted or that will be submitted until 31 March 2013, the 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.

- Defined contribution plan – Open Pension Fund or Retirement Savings Plan
Following the new remuneration model of the Statutory Bodies defined by the Remuneration Board (elected by the General Meeting of 24 March 2014 and composed of independent members), was determined the allocation of a fixed monthly amount for an Open Pension Fund or Retirement Savings Plan to executive members of the Board of Directors.

This contribution falls into the definition of a Defined contribution plan. Under a defined contribution plan, fixed contributions are paid into a fund but there is no legal or constructive obligation to further payments being made if the fund does not have sufficient assets to pay all of the employees' entitlements to post-employment benefits. The obligation is therefore effectively limited to the amount agreed to be contributed to the fund and the actuarial and investment risk is effectively placed on the employee. For defined contribution plans, the amount recognised in the period is the contribution payable in exchange for services rendered by employees during the period. Contributions to a defined contribution plan which are not expected to be wholly settled within 12 months after the end of the annual reporting period in which the employee renders the related service are discounted to their present value.

2.19 Share based payments

The benefits granted to the executive members of the Board of Directors under the long term remuneration plans are recorded in accordance with the requirements of IFRS 2 – Share-based payments.

In accordance with IFRS 2, the benefits granted to be paid on the basis of own shares (equity instruments), are recognized at fair value at the date of allocation.

Since it is not possible to estimate reliably the fair value of the services received from employees, their value is measured by reference to the fair value of equity instruments.

The fair value determined at the date of allocation of the benefit is recognized as a linear cost over the period in which it is acquired by the beneficiaries as a result of their services, with the corresponding increase in equity.

2.20 Provisions and contingent liabilities

Provisions (Note 27) are recognised when, cumulatively: (i) the Company has a present obligation (legal or implicit) arising from a past event, (ii) it is probable that its payment will be demanded, and (iii) there is a reliable estimate of the value of this obligation.

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

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

Whenever losses in the subsidiary or associated companies exceed the investment made in these entities, the carrying value is reduced to zero and the recognition of future losses is discontinued, except in what concerns the part in which the Company incurs in any legal or constructive obligation to assume all these losses on behalf of the associated or subsidiary company, in which case a Provision is recorded for investments in subsidiaries and associate companies.

Restructuring provisions
Restructuring provisions are made whenever a detailed formal restructuring plan has been approved by the Company and it has been launched or publicly disclosed, which identifies:

- The business or part of the business concerned;
- The main affected locations;
- The location, function and approximate number of employees who will be compensate for the cease of their services;
- The expenditures that will be undertaken;
- When plan will be implemented; and
- It raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The restructuring provision includes direct expenditures arising from the restructuring, which are those necessary entailed by the restructuring, or not associate with the ongoing activities of the entity.

The restructuring provision does not include the cost of retaining or relocating continuing staff, marketing and investment in new systems and distribution networks and are recognized on the same basis as if they appeared independently of a restructuring expenses in the period that they occur.
The expected gains on assets disposals are not taken into account in a restructuring provision measurement, even if the assets sale is seen as a restructuring part.

Dismantling costs provisions
Provisions are made for dismantling costs, costs of removal of the asset and costs of restoration of the site of certain assets, when these assets are in use and it is possible to reliably estimate the respective obligation, or when there is a contractual commitment to restore the spaces rented by

third parties. When the time value effect is material, the environmental liabilities, that are not settle in a near future, are measured at their present value.

Provisions for litigations in progress
A provision for litigation in progress is recorded when there is a reliable estimate of costs to be incurred due to legal actions brought by third parties, based on the evaluation of the effectiveness of the probability of pay based on the opinion of the Company's lawyers.

Provision for onerous contracts
A provision for onerous contracts is measured at the present cost whenever the unavoidable costs to satisfy the contract’s obligations exceeds the expected financial benefits that will be received under the same.

Contingent assets and liabilities
Whenever any of the conditions for the recognition of provisions is not met, the Company discloses the events as contingent liabilities (Note 27). Contingent liabilities are: (i) possible obligations which arise from past events and whose existence will only be confirmed by the occurrence, or not, of one or more future events that are uncertain and not fully under the Company's control, or (ii) present obligations which arises from past events, but which are not recognised because it is not probable that an outflow of resources which incorporate economic benefits will be necessary to settle the obligation, or the value of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed unless the possibility of an outflow of resources is remote.

Contingent assets and liabilities are evaluated continuously to assure that the developments are reflected properly in the financial statements.

If it becomes probable that an outflow of future economic benefits will be demanded for an item previously treated as a contingent liability, a provision is recognized in the financial statements of the period that probability change occurred.

If becomes virtually right that will occur an economic benefits inflow, the asset and related revenue are recognized in the financial statements of the period that probably will occur the change.

The Company does not recognizes contingent assets and liabilities.

2.21 Revenues

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

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

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

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

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

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

Fees from collections made and from the sale 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 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 entities, 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 flow.

2.22 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 attribution.

Investment 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 subsidies.

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.

2.23 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 rewards associated to the ownership of the asset. All other leases are classified as operating leases.

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 financing 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 is 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).

2.24 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.

2.25 Taxes

<u>Corporate income tax</u> (“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.

2.26 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.

2.27 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. Changes to estimates which occur after the date of the financial statements will be corrected prospectively. 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 areas:

(i) Tangible fixed and intangible assets / estimated useful lives
Depreciation/amortisation is calculated on the acquisition cost using the straight line method, from 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. The variations of these assumptions can influence the results and consequent recording of impairments.

(iii) Impairment of accounts receivable
Impairment losses relative to bad debts 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 expected.

(iv) Deferred taxes
The recognition of deferred taxes assumes the existence of future net profit and taxable income. 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 an impact in 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 assess the probability of litigation having a successful outcome. Provisions are recorded when the Group expects that the lawsuits will lead to the outflow of funds, the loss is probable and may be estimated reasonably. Due to the uncertainties inherent to the process of assessment, real losses might be different from those originally estimated in the provision. These estimates are subject to changes as new information becomes available. Reviews to the estimates of these losses might affect future results.

2.28 Consolidated Cash Flow Statement

The Consolidated 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.

2.29 Subsequent events

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

3. CHANGES TO ACCOUNTING POLICIES, ERRORS AND ESTIMATES

In the year ended 31 December 2014 there were no accounting policy changes and no material errors were recognized relative to estimates made in preparing the financial statements of prior years.

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

4. SEGMENT REPORTING

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

The Board of Directors regularly reviews segmental reports, using them to assess and communicate each segment performance, as well as to allocate resources.
It is noted that in 2014 the Business Solutions segment, existing in 2013, became part of the Mail segment.
With the sale in the first half of 2014 of the 51% EAD's participation, held by CTT, S.A., this company was excluded from the scope of the Mail segment in 2014.

The business of CTT is organized in the following segments:

- Mail – CTT, S.A. (without financial services), retail network, business solutions and corporate and support areas, including PostContacto, Mailtec Group and CTT Gest (EAD only in the first quarter of 2013);
- Express & Parcels –includes CTT Expresso, Tourline and CORRE; and
- Financial Services – PayShop and CTT, S.A. financial services.

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

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

Besides the abovementioned segments, there are two sales channels, which are common 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 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 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 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 in the full year of 2014 and 2013 are analyzed as follows:

			2014				
Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	Others non allocated	Total
Revenues	546,178,734	129,012,707	74,908,453	51,573,467	(82,898,939)	-	718,774,422
Sales and services rendered	510,086,693	126,921,380	71,226,579	-	(4,951,062)	-	703,283,590
Sales	21,606,200	1,073,082	-	-	(4,494)	-	22,674,787
Services rendered	488,480,494	125,848,298	71,226,579	-	(4,946,568)	-	680,608,803
Operating revenues external customers	18,753,395	2,091,327	3,602,982	18,873,926	(27,830,798)	-	15,490,832
Internal services rendered	17,338,645	-	78,893	68,360,718	(85,778,256)	-	-
Allocation central CTT structure	-	-	-	(35,661,176)	35,661,176	-	-
Operating costs	395,196,908	123,194,717	36,066,094	51,573,467	(82,898,939)	-	523,132,246
External supplies and services	104,979,473	96,962,567	13,233,439	55,267,717	(32,763,388)	-	237,679,808
Staff Costs	238,834,195	23,761,516	4,384,799	(8,973,774)	-	-	258,006,736
Other costs	20,023,978	2,470,634	732,070	4,237,493	(18,472)	-	27,445,702
Internal services rendered	66,751,982	-	17,984,242	1,042,032	(85,778,256)	-	(0)
Allocation to central CTT structure	(35,392,720)	-	(268,456)	-	35,661,176	-	-
EBITDA[(1)]	**150,981,826**	**5,817,990**	**38,842,360**	**-**	**-**	**-**	**195,642,176**
Depreciation/amortisation and impairment of investments, net	(15,062,055)	(2,345,754)	(582,109)	(2,805,063)	-	(610,618)	(21,405,600)
Impairment of inventories and accounts receivable, net							(5,877,266)
Impairment of non-depreciable assets							(18,932,073)
Provisions net							(14,009,576)
Interest expenses							(11,797,721)
Interest income							4,325,187
Gains/losses in associated companies							53,562
Earnings before taxes							**127,998,690**
Income tax for the year							(51,155,054)
Net profit for the year							**76,843,636**
Non-controlling interests							(327,492)
Equity holders of parent company							**77,171,128**

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

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

Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	Others non allocated	Total
				2013			
Revenues	546,002,721	129,521,210	60,860,268	105,100,326	(136,637,517)	-	704,847,008
Sales and services rendered	510,408,206	127,964,254	57,304,274	-	(5,608,052)	-	690,068,682
Sales	21,093,522	1,269,256	-	-	(20,359)	-	22,342,418
Services rendered	489,314,683	126,694,999	57,304,274	-	(5,587,692)	-	667,726,264
Operating revenues external customers	17,784,972	1,556,956	3,473,295	15,780,809	(23,817,706)	-	14,778,326
Internal services rendered	17,809,543	-	82,699	73,463,081	(91,355,323)	-	-
Allocation central CTT structure	-	-	-	15,856,436	(15,856,436)	-	-
Operating costs	458,636,590	122,155,255	33,463,465	105,100,326	(136,637,517)	-	582,718,119
External supplies and services	108,467,272	96,471,870	10,704,771	55,689,027	(29,274,360)	-	242,058,580
Staff Costs	240,438,690	23,439,807	3,197,664	45,996,315	-	-	313,072,477
Other costs	22,510,846	2,243,578	403,907	2,580,128	(151,397)	-	27,587,062
Internal services rendered	71,482,482	-	19,037,986	834,856	(91,355,323)	-	-
Allocation to central CTT structure	15,737,300	-	119,136	-	(15,856,436)	-	-
EBITDA(1)	**87,366,131**	**7,365,955**	**27,396,804**	**-**	**-**	**-**	**122,128,889**
Depreciation/amortisation and impairment of investments, net	(16,601,878)	(3,053,199)	(710,857)	(3,462,266)	-	(1,886,929)	(25,715,129)
Impairment of inventories and accounts receivable, net							(3,530,198)
Impairment of non-depreciable assets							-
Provisions net							(5,647,982)
Interest expenses							(11,874,463)
Interest income							7,871,559
Gains/losses in associated companies							20,508
Earnings before taxes							**83,253,184**
Income tax for the year							(22,147,899)
Net profit for the year							**61,105,285**
Non-controlling interests							89,218
Equity holders of parent company							**61,016,067**

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

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

The revenues are detailed as follows:

Thousand Euros	2014	2013
Mail	546,179	546,003
Transactional mail	413,740	405,628
Press mail	15,028	15,049
Parcels (USO)	7,179	7,426
Advertising mail	31,071	33,845
Retail	18,614	18,900
Philately	7,344	6,885
Business Solutions	12,154	16,591
Other	41,049	41,679
Express & Parcels	129,013	129,521
Financial Services	74,908	60,860
Central CTT Structure	51,573	105,100
Intragroup eliminations	(82,899)	(136,638)
	718,774	**704,847**

The assets by segment are detailed as follows:

Assets (Euros)	2014 Mail	Express & Parcels	Financial Services	Central CTT Structure	Non allocated assets	Total
Intangible assets	2,110,500	3,213,796	126,432	3,264,482	4,710,797	13,426,007
Tangible fixed assets	181,233,066	12,775,184	830,551	15,988,164	1,639,093	212,466,058
Investment properties					23,329,763	23,329,763
Goodwill	7,299,356		406,101			7,705,457
Deferred tax assets					91,428,940	91,428,940
Accounts receivable					131,682,269	131,682,269
Other assets					36,388,385	36,388,385
Cash and cash equivalents					664,569,744	664,569,744
	190,642,921	**15,988,979**	**1,363,085**	**19,252,646**	**953,748,991**	**1,180,996,623**

Assets (Euros)	2013 Mail	Express & Parcels	Financial Services	Central CTT Structure	Non allocated assets	Total
Intangible assets	3,054,729	3,347,318	255,217	3,983,456	2,408,587	13,049,308
Tangible fixed assets	194,124,953	12,076,231	847,969	16,621,726	1,693,549	225,364,429
Investment properties					21,761,886	21,761,886
Goodwill	8,085,520	16,592,248	406,101			25,083,869
Deferred tax assets					103,645,256	103,645,256
Accounts receivable					135,589,645	135,589,645
Other assets					30,764,237	30,764,237
Cash and cash equivalents					544,875,803	544,875,803
	205,265,201	**32,015,798**	**1,509,287**	**20,605,183**	**840,738,964**	**1,100,134,433**

Debt by segment is detailed as follows:

Other information (Euros)	2014 Mail	Express & Parcels	Financial Services	Central CTT Struture	Total
Medium and long term debt	**1,187,975**	**725,143**	**-**	**-**	**1,913,118**
Bank loans	-	-	-	-	-
Leasings	1,187,975	725,143	-	-	1,913,118
Short term debt	**460,098**	**1,385,972**	**-**	**-**	**1,846,070**
Bank loans	-	890,586	-	-	890,586
Leasings	460,098	495,386	-	-	955,484
	1,648,073	**2,111,115**	**-**	**-**	**3,759,188**

Other information (Euros)	2013 Mail	Express & Parcels	Financial Services	Central CTT Struture	Total
Medium and long term debt	**2,047,077**	**1,235,049**	**-**	**-**	**3,282,126**
Bank loans	-	0	-	-	-
Leasings	2,047,077	1,235,049	-	-	3,282,126
Short term debt	**729,676**	**2,986,881**	**-**	**-**	**3,716,557**
Bank loans	1,990	2,478,647	-	-	2,480,637
Leasings	727,686	508,233	-	-	1,235,919
	2,776,753	**4,221,930**	**-**	**-**	**6,998,683**

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

Thousand Euros	**2014**	**2013**
Revenue - Portugal	624,685	611,837
Revenue - other countries	78,599	78,232
	703,284	690,069

5. TANGIBLE FIXED ASSETS

During the years ended on 31 December 2014 and 31 December 2013, the movement occurred in the cost value of Tangible fixed assets, as well as the respective accumulated depreciation, was as follows:

	2014 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	38,540,555	337,440,722	148,660,979	3,607,333	81,746,922	24,362,622	174,283	754,041	635,287,457
Acquisitions	-	274,607	6,126,576	7,200	2,630,276	728,593	3,062,319	389,863	13,219,435
Disposals	-	-	(7,720)	(166)	(39,509)	(974)	-	-	(48,369)
Transfers and write-offs	-	1,480,911	(8,951,356)	(482,988)	(29,388,060)	(2,525,697)	(1,498,803)	(712,500)	(42,078,492)
Adjustments	-	2,920	681,532	(280,939)	(386,820)	(16,693)	-	-	-
Other variations	(725,969)	(5,467,977)	2,957	-	1,103	(56,521)	-	-	(6,246,407)
Changes in the consolidation perimeter	(982,877)	(3,079,671)	(2,881,147)	(230,355)	(617,644)	-	-	-	(7,791,694)
Closing balance	36,831,709	330,651,512	143,631,822	2,620,085	53,946,268	22,491,331	1,737,799	431,404	592,341,930
Accumulated depreciation									
Opening balance	3,899,830	176,151,489	131,057,686	3,387,271	76,683,934	18,742,818	-	-	409,923,028
Depreciation for the period	-	9,055,496	4,996,397	65,703	2,559,852	1,138,257	-	-	17,815,704
Disposals	-	-	(7,720)	(3,978)	(39,311)	(974)	-	-	(51,983)
Transfers and write-offs	-	-	(9,783,218)	(479,176)	(30,119,633)	(1,658,689)	-	-	(42,040,715)
Adjustments	-	608	292,116	(207,224)	(84,400)	(1,281)	-	-	(181)
Other variations	(11,120)	(2,738,980)	18,645	(3,225)	12,100	313	-	-	(2,722,266)
Changes in the consolidation perimeter	-	(611,746)	(2,041,810)	(219,443)	(595,199)	-	-	-	(3,468,198)
Closing balance	3,888,710	181,856,867	124,532,096	2,539,928	48,417,343	18,220,445	-	-	379,455,389
Accumulated impairment									
Opening balance	-	-	-	-	-	-	-	-	-
Impairments for the period	-	-	-	-	-	2,530	-	-	2,530
Other variations	-	-	-	-	-	417,953	-	-	417,953
Closing balance	-	-	-	-	-	420,483	-	-	420,483
Net Tangible fixed assets	32,942,999	148,794,645	19,099,726	80,157	5,528,924	3,850,403	1,737,799	431,404	212,466,058

	2013								
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advance payments to suppliers	Total
Tangible fixed assets									
Opening balance	44,445,963	379,539,356	148,886,925	3,603,033	80,895,249	23,433,801	230,108	150,174	681,184,609
Acquisitions	393,899	3,865,339	2,771,881	5,037	861,425	1,169,866	166,995	712,500	9,946,942
Disposals	(376,886)	(3,443,845)	(1,256,101)	-	(50,122)	(1,030)	-	-	(5,127,984)
Transfers and write-offs	(19,706)	(34,538)	(1,741,726)	(8,823)	50,094	(189,454)	(222,820)	(111,684)	(2,278,657)
Adjustments	-	(80)	-	-	(8,913)	(33,919)	-	3,051	(39,861)
Other changes	(5,902,715)	(42,485,510)	-	8,086	(811)	(16,642)	-	-	(48,397,592)
Closing balance	38,540,555	337,440,722	148,660,979	3,607,333	81,746,922	24,362,622	174,283	754,041	635,287,457
Accumulated depreciation									
Opening balance	4,200,150	194,808,481	128,603,899	3,243,403	73,670,810	17,581,154	-	-	422,107,897
Depreciation for the period	-	9,199,355	5,569,980	167,315	3,176,149	1,168,689	-	-	19,281,488
Disposals	(26,370)	(2,019,718)	(1,256,101)	-	(49,689)	(203)	-	-	(3,352,081)
Transfers and write-offs	-	(2,226)	(1,860,092)	(8,823)	(107,664)	(6,869)	-	-	(1,985,674)
Adjustments	-	-	-	-	(5,862)	-	-	-	(5,862)
Other changes	(273,950)	(25,834,403)	-	(14,624)	190	47	-	-	(26,122,740)
Closing balance	3,899,830	176,151,489	131,057,686	3,387,271	76,683,934	18,742,818	-	-	409,923,028
Net Tangible fixed assets	34,640,725	161,289,233	17,603,293	220,062	5,062,988	5,619,804	174,283	754,041	225,364,429

As at 31 December 2014 and 31 December 2013, Land and natural resources and Buildings and other constructions include 4,982,117 Euro and 5,205,814 Euro, respectively, related to land and property in co-ownership with PT Comunicações, S.A..

In the year ended 31 December 2014, the caption changes in the consolidation perimeter relates to the balances of the company EAD that was sold in the first half of 2014.

In the year ended 31 December 2014, the Group reclassified to investment properties nine properties that are no longer contributing to the Group's operating activities, of 6,627,890 Euro and respective accumulated depreciation of 2,950,936 Euro. One property, which became a part of the Group's activity, was reclassified to tangible fixed assets of 439,417 Euro and respective accumulated depreciation of 223,473 Euros.

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

According to the concession contract in force, after the latest amendments of 31 December 2013 (Note 1) at the end of the concession the assets included in the public and private domain of the State revert automatically, at no cost, to the conceding entity. As the postal network belongs exclusively to CTT, not being a public domain asset, only the assets that belong to the State revert to it, and as such, at the end of the concession CTT will continue to own its assets. The Board of Directors, supported by its legal advisors, believes that CTT's assets do not include any public or private domain assets of the Portuguese state.

During the year ended 31 December 2014, the most significant movements in Tangible Fixed Assets were the following:

Buildings and other constructions:
The movements associated to additions relate mostly to the capitalization of repairs in own and third party buildings of CTT, CTT Expresso and Tourline.

In the year ended 31 December 2014, the company reclassified to investment properties nine properties that are no longer contributing to the company's operating activities. One property which became a part of the company's activity was reclassified to tangible fixed assets.

Basic equipment:
The amount concerning acquisitions relates to direct purchases of electric bikes of 75 thousand Euro, motorcycles of 439 thousand Euro, trailers of 228 thousand Euros, trucks worth approximately around 2,172 thousand Euro, postal containers of 143 thousand Euros, upgrades to mail sorting machines of 182 thousand Euro and upgrade of the labelling system of the OCR machines amounting to 76 thousand Euros, acquisition of payment terminals, by Payshop, totaling 396 thousand Euros, and acquisition of PDA's, by CTT Expresso totaling 1,500 thousand Euro.

Office equipment:
The amount of acquisitions relates essentially to the purchase of IBM servers of 1,459 thousand euros and the purchase of computers (desktops and laptops) and monitors with a total value of approximately 788,000 Euros.

Other tangible fixed assets:
The acquisitions in the amount of 728,093 Euros, consider 459 thousand Euros of prevention and safety equipment, 59 thousand Euros of marketing equipment, as well as a variety of warehouse equipment amounting to 57 thousand Euro.

Tangible fixed assets in progress:
The amounts under this heading are related to improvements on own property.

The amounts recorded under write-offs, with particular emphasis in Basic equipment and Office equipment, are mainly due to the write-offs of CTT assets that were fully depreciated and which were acquired up to 2008.

The depreciation recorded amounting to 17,815,704 Euro (19,281,488 Euro on 31 December 2013), were booked under the heading Depreciation/amortisation and impairment of investments, net (Note 38).

The tangible fixed assets commitments relate to the acquisition of displays to Star Cosmos machines in the amount of 12,372 Euros, acquisition of pallet trucks (15,535 Euro) electric light vans worth 66,974 Euro, upgrades to mail sorting machines of 335,670 Euros in CTT and motorcycles, by CTT Expresso, of 12,300 Euro.

6. INTANGIBLE ASSETS

During the years ended 31 December 2014 and 31 December 2013, the movements which occurred in the main categories of intangible assets, as well as the respective accumulated amortisation, were as follows:

	2014						
	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Advance payments to suppliers	Total
Intangible assets							
Opening balance	4,372,922	36,540,593	11,718,920	444,739	2,672,064	-	55,749,238
Acquisitions	-	586,266	-	-	2,790,181	-	3,376,447
Transfers and write-offs	-	1,810,188	-	-	(735,847)	-	1,074,341
Adjustments	-	-	1,618	-	-	-	1,618
Changes in the consolidation perimeter	-	(316,797)	(60,846)	-	-	-	(377,643)
Closing balance	4,372,922	38,620,250	11,659,692	444,739	4,726,397	-	59,824,001
Accumulated amortisation							
Opening balance	4,350,799	30,479,661	7,472,614	396,856	-	-	42,699,930
Amortisation for the period	9,647	2,544,357	382,492	42,783	-	-	2,979,278
Transfers and write-offs	(19,681)	1,094,023	-	-	-	-	1,074,342
Adjustments	-	-	11,570	-	-	-	11,570
Changes in the consolidation perimeter	-	(316,797)	(50,330)	-	-	-	(367,127)
Closing balance	4,340,765	33,801,244	7,816,346	439,639	-	-	46,397,993
Net intangible assets	32,157	4,819,006	3,843,346	5,100	4,726,397	-	13,426,007

	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	47,230	961,720	10,554	-	2,027,086	-	3,046,590
Transfers and write-offs	-	2,032,613	(28,086)	-	(2,356,239)	(22,366)	(374,078)
Adjustments	-	-	-	444,739	75,706	-	520,445
Other changes	-	-	48,833	-	-	-	48,833
Closing balance	4,372,922	36,540,593	11,718,920	444,739	2,672,064	-	55,749,238
Accumulated amortisation							
Opening balance	4,325,692	26,795,624	7,031,072	-	-	-	38,152,388
Amortisation for the period	25,107	3,684,037	440,712	396,856	-	-	4,546,712
Other variations	-	-	830	-	-	-	830
Closing balance	4,350,799	30,479,661	7,472,614	396,856	-	-	42,699,930
Net intangible assets	22,123	6,060,932	4,246,306	47,883	2,672,064	-	13,049,308

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

The transfers occurred in 2014 in Intangible Assets in progress refer to IT projects, which were completed during the year.

The amounts of 407,280 Euro and 295,915 Euro, capitalized in IT software under intangible assets in progress as at 31 December 2014 and 31 December 2013, respectively, relate to staff costs incurred in the development of these projects.

As at 31 December 2014 intangible assets in progress relate to IT projects which are under development, of which the most relevant are:

	2014
New humam resources management application	1,164,113
Evolution SAP	428,829
Certification of invoices	375,676
Repository business information Nave (Commercial ODF)	292,292
International (E-CIP)	281,384
Security Operational Control	197,842
Sales force automation	195,682
Mail products evolution	130,362
Invoice management	110,604
Corvendas	107,359
Occasional customers data base	106,133
Transport Management Information System	105,641
Geo 10 (georeferencing system)	85,060
Treasury management system	84,216
Automatic processing addresses software	79,607
Aplicational Software	70,625
	3,815,423

The amortisation, amounting to 2,979,278 Euro (4,546,712 Euro at 31 December 2013) 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 a guarantee of liabilities.

Contractual commitments relative to Intangible Assets are as follows:

(i) Computer Programmes
The purchase commitments relate to developments in the Distribution Route Control System solution in the amount of 52,100 Euro.

7. INVESTMENT PROPERTIES

As at 31 December 2014 and 31 December 2013, the Group has the following assets classified as investment properties:

	2014		
	Land and natural resources	Buildings and other constructions	Total
Investment properties			
Opening balance	7,237,214	42,551,163	49,788,377
Disposals	(247,126)	(2,290,703)	(2,537,829)
Transfers/Adjustments	725,970	5,462,503	6,188,473
Closing balance	7,716,058	45,722,963	53,439,021
Accumulated depreciation			
Opening balance	273,950	26,146,036	26,419,986
Depreciation for the period	-	764,567	764,567
Disposals	(25,568)	(1,227,215)	(1,252,783)
Transfers/Adjustments	11,119	2,716,343	2,727,463
Closing balance	259,501	28,399,732	28,659,233
Accumulated impairment			
Opening balance	-	1,606,505	1,606,505
Impairments for the period	-	(156,480)	(156,480)
	-	1,450,025	1,450,025
Net Investment properties	7,456,557	15,873,206	23,329,763

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

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 property, in accordance with the valuations obtained at the end of fiscal year 2014 which were conducted by independent entities, amounts to 35,978,503 Euros (29,374,185 Euro at 31 December 2013).

The movements associated with disposals relate to the sale of three properties, which occurred during the year 2014.

In the year ended 31 December 2014, the Group reclassified to investment properties nine properties that are no longer contributing to the Group's operating activities, of 6,627,890 Euros and respective accumulated depreciation of 2,950,936 Euros. One property, which became a part of the Group's activity, was reclassified to tangible fixed assets of 439,417 Euros and respective accumulated depreciation of 223,473 Euros.

During the year ended 31 December 2013, the Other changes in tangible fixed assets include 48,388,225 Euro transferred to investment properties, as well as the respective accumulated depreciation of 25,606,240 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, being held to obtain rents or capital appreciation.

Depreciation for the year, of 764,567 Euro (782,537 Euro on 31 December 2013) was recorded in the caption Depreciation / amortisation and impairment of investments (losses / reversals) (Note 38).

Impairment losses for the period, amounting to 156,480 Euro (1,104,392 Euro on 31 December 2013) were recorded in the caption Depreciation / amortisation and impairment of investments (losses / reversals) (Note 38).

8. COMPANIES INCLUDED IN THE CONSOLIDATION

Subsidiary companies

As at 31 December 2014 and 31 December 2013, the parent company, CTT - Correios de Portugal, SA and the following subsidiaries in which it holds control were included in the consolidation:

Company name	Head office	2014 Percentage of ownership Direct	Indirect	Total	2013 Percentage of ownership Direct	Indirect	Total
Parent company:							
CTT - Correios de Portugal, S.A.	Rua de S. José, 20 1166-001 Lisboa	-	-	-	-	-	-
Subsidiaries:							
PostContacto - Correio Publicitário, Lda. ("PostContacto")	Rua de S. José, 20 1166-001 Lisboa	100	-	100	95	5	100
CTT Expresso - Serviços Postais e Logística, S.A. ("CTT Expresso")	Lugar do Quintanilho 2664-500 São Julião do Tojal	100	-	100	100	-	100
Payshop Portugal, S.A. ("Payshop")	Av. D. João II lote 01.12,03 1999-001 Lisboa	100	-	100	100	-	100
CTT GEST - Gestão de Serviços e Equipamentos Postais, S.A. ("CTT Gest")	Rua de S. José, 20 1166-001 Lisboa	100	-	100	100	-	100
Mailtec Holding, SGPS, S.A. ("Mailtec SGPS")	Estrada Casal do Canas, 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 CON")	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
Correio Expresso de Moçambique, S.A. ("CORRE")	Av. Zedequias Manganhela, 309 Maputo - Moçambique	50	-	50	50	-	50

The company CORRE as the Group has rights to variable returns has the ability to affect those returns through its power over the Company, is included in the consolidation due to the fact that the Group controls its operating and financial business.

During the first half of 2014 the participation in subsidiary Tourline Express Mensajeria, SLU, held by the parent company, was sold to its subsidiary CTT Expresso, SA. This transaction was done at net book value.

It also took place the sale of the 5% participation held by CTT Expresso, SA in PostContacto Lda to the parent company, which now holds, directly, 100% of PostContacto, Lda. The sale was done at net book value.

None of these transactions had any impact on the consolidation perimeter.

Joint ventures

As at 31 December 2014 and 31 December 2013, the Group held the following interests in joint ventures, registered through the equity method:

Company name	Head office	2014 Percentage of ownership Direct	Indirect	Total	2013 Percentage of ownership 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 31 December 2014 and 31 December 2013, the Group held the following interests in associated companies accounted for by the equity method:

		2014			2013		
		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 Lisboa	20	-	20	20	-	20
Payshop Moçambique, S.A. (a)	R. da Sé, 114-4º. Maputo - Moçambique	-	35	35	-	35	35
Mafelosa, SL (b)	Castellon Espanha	-	25	25	-	25	25
Urpacksur, SL (b)	Málaga Espanha	-	30	30	-	30	30

(a) Company held by Payshop Portugal, S.A., which is currently in termination process

(b) Company held by Tourline Mensajeria S.A.

Changes in the consolidation perimeter

In the year ended 31 December 2014, the consolidation perimeter was changed due to the sale of the subsidiary EAD.

Resulting from this sale a gain of 256,383 Euro was recorded under Gains / losses in associates in the consolidated income statement.

9. GOODWILL

As at 31 December 2014 and 31 December 2013, the Goodwill was made up as follows:

	acquisition	2014	2013
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
Tourline Express Mensajería, SLU (other)	2005	-	-
EAD - Empresa de Arquivo de Documentação, S.A.	2006	-	786,164
		7,705,457	25,083,869

During the years ended on 31 December 2014 and 31 December 2013, the movements in Goodwill were as follows:

	2014	2013
Opening balance	25,083,869	25,528,608
Transfer / adjustments	-	(444,739)
Disposals	(786,164)	-
Impairment	(16,592,248)	-
Closing balance	7,705,457	25,083,869

In the year ended 31 December 2014, following the sale of the investment in EAD, Goodwill in the amount of 786,164 Euros, was eliminated.

During the year ended 31 December 2014, due to the deterioration in the business conditions in Spain, namely because Tourline lost two of its major franchises in 2014, Tourline's results in 2014 were lower than the estimates of management. So, the Group has revised the estimates of the evolution of Tourline business, which were incorporated into future cash flows used in the impairment test performed in 2014 and an impairment loss of 16,592,248 Euro was recorded related to the goodwill of Tourline.

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

<u>Goodwill impairment assessment</u>

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

As at 31 December 2014 and 31 December 2013, CTT Group performed an impairment test, based in the following set of assumptions to determine the recoverable amount of the investments made:

		2014			
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Perpetutiy rate growth
Tourline Express Mensajeria, SLU	CEP and Logistics	Equity Value/DCF	5 years	9.86%	0.50%
Mailtec Group	Documental services	Equity Value/DCF	5 years	10.80%	0.50%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	10.30%	0.50%

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

The decrease in the discount rate (WACC) for the year ended 31 December 2014 was a result of the increase in the market risk premium combined with the marked decrease in yields of Portuguese and Spanish government bonds.

The cash flow projections were based on the historical performance and the medium and long term business plans, approved by the Board of Directors. As a consequence of this impairment analysis, the Group concluded that as at 31 December 2014 there were impairment losses relating to Tourline's goodwill.

	2014					
Company	Year of acquisition	Initial value	Impairment losses for the period	Accumulated impairment losses	Disposals	Carrying value
Tourline Express Mensajería, SLU	2005	20,671,985	16,592,248	4,079,737	-	-
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	16,592,248	4,611,534	(786,164)	-

	2013					
Company	Year of acquisition	Initial value	Impairment losses for the period	Accumulated impairment losses	Disposals	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 PayShop and Mailtec Group do not indicate impairment. Regarding Tourline, the results of the sensitivity analyses conclude that taking into account the level of impairment recorded there is no sensitivity to any of the variables studied, according to the following tables:

Maitec Comunicação

Variation of sovereign risk and variation of perpetuity growth (g)

Impairment *		WACC				
		8.8%	9.8%	**10.8%**	11.8%	12.8%
g	0.00%	9,367,009	7,264,838	5,556,115	4,140,559	2,949,265
	0.25%	9,791,434	7,592,836	5,815,212	4,348,954	3,119,434
	0.50%	10,241,466	7,938,492	**6,086,901**	4,566,580	3,296,528
	0.75%	10,719,494	8,303,272	6,372,124	4,794,065	3,480,977
	1.00%	11,228,214	8,688,808	6,671,918	5,032,094	3,673,251

* impairment if negative

Maitec Consultoria

Variation of sovereign risk and variation of perpetuity growth (g)						
Impairment *		**WACC**				
		8.8%	9.8%	**10.8%**	11.8%	12.8%
g	0.00%	2,303,543	2,058,027	1,858,810	1,694,071	1,555,688
	0.25%	2,359,919	2,102,115	1,894,042	1,722,731	1,579,351
	0.50%	2,419,696	2,148,576	**1,930,987**	1,752,660	1,603,977
	0.75%	2,483,191	2,197,608	1,969,772	1,783,946	1,629,625
	1.00%	2,550,764	2,249,430	2,010,538	1,816,681	1,656,361

* impairment if negative

Payshop

Variation of sovereign risk and variation of perpetuity growth (g)						
Impairment *		**WACC**				
		8.3%	9.3%	**10.3%**	11.3%	12.3%
g	0.00%	86,107,734	76,719,454	69,153,009	62,925,319	57,710,217
	0.25%	88,425,393	78,526,972	70,596,914	64,101,500	58,683,963
	0.50%	90,891,340	80,437,018	**72,114,377**	65,332,060	59,698,917
	0.75%	93,520,276	82,458,570	73,711,167	66,620,858	60,757,753
	1.00%	96,328,912	84,601,687	75,393,669	67,972,130	61,863,379

* impairment if negative

Tourline

Variation of sovereign risk and variation of perpetuity growth (g)						
Impairment *		**WACC**				
		7.9%	8.9%	**9.9%**	10.9%	11.9%
g	0.00%	-15,253,561	-17,681,037	-19,587,210	-21,117,091	-22,366,748
	0.25%	-14,632,212	-17,205,306	-19,213,171	-20,816,650	-22,121,141
	0.50%	-13,968,670	-16,701,135	**-18,819,158**	-20,501,714	-21,864,726
	0.75%	-13,258,488	-16,165,893	-18,403,528	-20,171,208	-21,596,775
	1.00%	-12,496,568	-15,596,617	-17,964,451	-19,823,947	-21,316,492

* impairment if negative

10. INVESTMENTS IN ASSOCIATED COMPANIES

As at 31 December 2014 and 31 December 2013, the investments in associated companies were as follows:

	2014	2013
Multicert, S.A.	226,937	710,242
Urpacksur, SL	481	481
	227,418	710,723

Investments in associated companies

For the years ended 31 December 2014 and 31 December 2013, the investments in associated companies had the following movements:

	2014								
	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	3,300,404	2,165,716	3,122,809	(37,161)	20%	226,937	-	(7,432)
Payshop Moçambique, S.A. (b)	Maputo - Mozambique	n.d.	n.d.	n.d.	n.d.	35%	-	215,772	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.	n.d.	n.d.	30%	481	-	n.d.
							227,418	215,772	(7,432)

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

(a) Data reported September 2014
(b) Company held by Payshop Portugal, which is currently in liquidation process
(c) Companies held by Tourline Express Mensajeria
(d) Companies without activity

The amount of (7,432) Euro relates to the proportion of income for the period ended 30 September 2014. It was also recognised the amount of (240,167) Euro concerning the proportion of 2013 income that had not been recognized in that year. During the year ended 31 December 2014 no additional movements occurred in the participation in Multicert, SA since the Company does not have the most updated financial information.

11. OTHER INVESTMENTS

The other investments assets include non-listed capital instruments whose fair value cannot be reliably measured. The amounts of these instruments recognised at cost at 31 December 2014 and 31 December 2013 were as follows:

Company	Head office	2014	2013
IPC - International Post Corporation	Brussels - Belgium	6,157	6,157
Eurogiro Network	Copenhagen - Denmark	124,435	124,435
CEPT	Copenhagen - Denmark	237	237
Tagus Park	Lisbon - Portugal	975,982	-
		1,106,812	130,829

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

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

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

12. FINANCIAL RISK MANAGEMENT

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

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

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

Financial risk management integrates the Risk Management System of the Group with direct reporting to the Executive Committee. CTT's departments of Finance and Risk Management, and Accounting and Treasury ensure 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 Executive Committee. 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 to 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 ageing of the accounts receivable; (ii) the risk profile of each client; and (iii) the financial situation of the client.

The movement of impairment losses of accounts receivable is disclosed in Notes 19 and 37. As at 31 December 2014, 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. With 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 2014 and 31 December 2013, the heading Cash and cash equivalents included cash term deposits investments of 498,232,900 Euro and 483,229,000 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 the consolidated balance sheet:

	2014	2013
Other non-current assets	790,601	1,951,139
Accounts receivable	131,682,269	135,589,645
Other current assets	16,272,945	10,676,882
Cash and cash equivalents	627,995,792	535,514,521
	776,741,607	683,732,187

Interest rate risk

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

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

The investment of surplus liquidity, on 31 December 2014 and 31 December 2013, generated interest income of 4,225,231 Euro and 7,763,801 Euro, respectively (Note 40). Additionally, interest income is recorded for financial services in the caption Other operating income in the years 2014 and 2013, amounting to Euro 2,305,688 and Euro 3,287,305, respectively (Note 33).

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

If the interest rates had been lower by 1%, during the year ended on 31 December 2014, the earnings before taxes would have been lower by 3,818 thousand Euro (31 December 2013: lower by 4,074 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 Rights (SDR).

The management of foreign exchange risk relies on the periodic monitoring of the degree of exposure to the exchange rate risk of assets and liabilities, with the reference of previously defined objectives based on the evolution of the international business activities. As at 31 December 2014 and 31 December 2013, the net exposure (assets minus liabilities) of the Group amounted to 895,251 SDR (1,068,321 Euro at the exchange rate €/SDR 1.19332), and 160,414 SDR (179,234 Euro at the exchange rate €/SDR 1.11732), respectively.

Based in the sensitivity analysis performed for the balances of accounts receivable and payable to foreign Postal Operators, on 31 December 2014 and 31 December 2013, assuming an increase / decrease in the exchange rate € / SDR of 10%, the earnings before taxes would have been higher by 106,832 Euro and lower by 17,923 Euro, respectively.

Liquidity risk

Liquidity risk might occur if the funding sources, such as cash balances, operating cash flows 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 financing received (essentially financial leases) and respective interest, the employees' benefits, the operating leases and other non-contingent financial commitments. The following table details the expected contractual obligations and financial commitments as at 31 December 2014 and 31 December 2013 and does not reconcile with the consolidated balance sheet:

	2014			
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	1,866,056	1,926,723	-	3,792,779
Accounts payable	491,269,984	-	-	491,269,984
Other current liabilities	18,037,952	-	-	18,037,952
Non-financial liabilities				
Operating leases (Note 35)	9,345,242	14,456,925	-	23,802,167
Non-contingent financial commitments (1)	494,954	-	-	494,954
	521,014,188	16,383,648	-	537,397,836

	2013			
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	3,762,250	3,255,164	113,063	7,130,477
Accounts payable	385,912,923	-	-	385,912,923
Other current liabilities	13,425,256	-	-	13,425,256
Non-financial liabilities				
Operating leases (Note 35)	8,901,867	16,433,847	-	25,335,714
Non-contingent financial commitments (1)	967,710	-	-	967,710
	412,970,007	19,689,011	113,063	432,772,081

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

Capital risk

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

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

The balance of capital structure is monitored on the basis of the adjusted solvency ratio, calculated as: Equity / Liabilities.

During the years ended 31 December 2014 and 2013, the Group's strategy was to maintain the solvency ratio higher than 35%. The solvency ratio at 31 December 2014 and 31 December 2013 was as follows:

	2014	2013
Equity	249,209,645	275,934,219
Liabilities	931,786,978	824,200,214
Amounts of third parties	385,678,898	308,058,255
Adjusted solvency ratio(1)	**45.6%**	**53.5%**

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

13. INVENTORIES

As at 31 December 2014 and 31 December 2013, the Group's Inventories are detailed as follows:

	2014			2013		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Merchandise	5,240,512	1,527,827	3,712,685	5,018,085	1,812,893	3,205,192
Raw, subsidiary and consumable materials	2,716,730	676,836	2,039,894	3,410,775	685,925	2,724,850
Advances on purchases	32,698	-	32,698	63,929	-	63,929
	7,989,940	2,204,663	5,785,277	8,492,789	2,498,818	5,993,971

Cost of sales

During the years ended on 31 December 2014 and 31 December 2013, the details of Cost of sales were as follows:

2014	Merchandise	Raw, subsidiary and consumable materials	Change in consolidation perimeter	Total
Opening balance	5,018,085	3,410,775	(30,453)	8,398,407
Purchases	13,868,917	3,528,006	-	17,396,923
Offers	(39,334)	(24,807)	-	(64,141)
Adjustments	(265,997)	(509,452)	-	(775,449)
Closing balance	(5,240,512)	(2,716,730)	-	(7,957,242)
Cost of sales	13,341,159	3,687,792	(30,453)	16,998,498

2013	Merchandise	Raw, subsidiary and consumable materials	Change in consolidation perimeter	Total
Opening balance	5,687,910	3,583,586	-	9,271,496
Purchases	12,344,623	3,975,606	-	16,320,229
Offers	(39,145)	(17,354)	-	(56,499)
Adjustments	(123,775)	(76,464)	-	(200,239)
Closing balance	(5,018,085)	(3,410,775)	-	(8,428,860)
Cost of sales	12,851,528	4,054,599	-	16,906,127

Impairment

During the years ended on 31 December 2014 and 31 December 2013, the movement in Accumulated impairment losses (Note 19) was as follows:

	2014				
	Opening balance	Increases	Reversals	Utilization	Closing balance
Merchandise	1,812,893	43,671	(323,990)	(4,747)	1,527,827
Raw, subsidiary and consumable materials	685,925	4,863	(13,952)	-	676,836
	2,498,818	48,534	(337,942)	(4,747)	2,204,663

	2013				
	Opening balance	Increases	Reversals	Utilization	Closing balance
Merchandise	1,903,511	4,906	(95,524)	-	1,812,893
Raw, subsidiary and consumable materials	715,248	28,623	(13,846)	(44,100)	685,925
	2,618,759	33,529	(109,370)	(44,100)	2,498,818

For the years ended 31 December 2014 and 31 December 2013, impairment losses of inventories were recorded net of reversals amounting to (289,407) Euro and (75,841) Euro, respectively, in the heading Impairment of inventories and accounts receivable net (Note 37).

14. ACCOUNTS RECEIVABLE

As at 31 December 2014 and 31 December 2013 the heading Accounts receivable showed the following composition:

	2014	2013
Customers	131,682,077	135,589,453
Associated companies	192	192
	131,682,269	135,589,645

Customers

As at 31 December 2014 and 31 December 2013, the ageing of customers is detailed as follows:

	2014			2013		
	Gross amount	Accumulated impairment	Carrying amount	Gross amount	Accumulated impairment	Carrying amount
Current						
Overdue	63,040,222	151,682	62,888,540	58,373,041	2,450	58,370,591
Past due:						
0-30 days	17,089,136	105,192	16,983,944	22,324,251	-	22,324,251
30-90 days	10,948,465	211,018	10,737,447	16,266,015	5,243	16,260,771
90-180 days	5,512,173	395,193	5,116,980	7,913,980	22,586	7,891,394
180-360 days	13,167,307	2,831,679	10,335,628	10,226,203	475,953	9,750,250
› 360 days	52,423,561	26,804,022	25,619,539	44,847,949	23,855,753	20,992,196
	162,180,863	30,498,785	131,682,077	159,951,437	24,361,985	135,589,453

The gross amount of accounts receivable overdue over 360 days was as follows:

	2014	2013
National accounts receivable	2,673,966	1,159,451
Foreign operators	22,945,573	19,832,745
Total	25,619,539	20,992,196
Foreign operators - payable	(21,714,470)	(19,568,630)

The caption of Foreign Operators relates to receivables associated with the distribution of postal traffic in Portugal with origin in other countries. These operations fall within the scope of the regulation of the Universal Postal Union (UPU), that establish the closing of the accounts on an annual basis which therefore is only made after year end and originates the significant overdue of balance with 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 payable balances and customers with debt payment plans.

For the national customers, the banks guarantees and advance deposits coverage over the customers receivables decreased from 1.9% in 2013 and to 1.0% on 31 December 2014.

	2014	2013
Advance deposits	894,069	1,614,064
Bank guarantees	83,753	273,674
Total	977,822	1,887,738

Customer's impairment

During the years ended 31 December 2014 and 31 December 2013, the movement in Accumulated impairment losses (Note 19) was as follows:

	2014					
	Opening balance	Increases	Reversals	Reduction	Change in consolidation perimeter	Closing balance
Customers	24,361,985	7,575,359	(875,184)	(497,000)	(66,375)	30,498,785
	24,361,985	7,575,359	(875,184)	(497,000)	(66,375)	30,498,785

	2013					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Customers	22,313,026	4,413,997	(1,505,980)	(859,058)	-	24,361,985
	22,313,026	4,413,997	(1,505,980)	(859,058)	-	24,361,985

For the years ended 31 December 2014 and 31 December 2013, impairment losses of accounts receivable were recorded (net of reversals) amounting to 6,700,175 Euro and 2,908,017 Euro, respectively in the heading Impairment of inventories and accounts receivable, net (Note 37).

15. DEFERRALS

As at 31 December 2014 and 31 December 2013, the Deferrals included in current assets and current and non-current liabilities showed the following composition:

	2014	2013
Assets deferrals		
Current		
Rents payable	1,313,235	1,370,452
Meal allowances	1,698,085	1,727,311
Other	2,681,575	1,777,376
	5,692,895	4,875,139
Liabilities deferrals		
Non-current		
Deferred capital gains	6,076,311	8,475,340
Tangible fixed assets	350,496	361,697
	6,426,807	8,837,037
Current		
Deferred capital gains	2,399,029	2,399,029
Phone-ix top ups	258,669	453,150
Deferred comissions	1,800,000	-
Tangible fixed assets	11,201	11,201
Other	1,033,284	1,240,371
	5,502,183	4,103,751
	11,928,989	12,940,788

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 31 December 2014 and 31 December 2013, 1,511,128 Euro, were recognised under Other operating income in the consolidated income statement, in both years, related to the above mentioned gains.

In 2014 CTT signed an agreement with Cetelem, according to which CTT received an amount of 3 million Euro on the signing date. An amount of 1 million Euro, related to an entry fee was recognized at the beginning of the contract and the remaining 2 million Euro, for the non-refundable fees will be recognized over the period of the contract. As at 31 December 2014 an amount of € 1.8 million related to this contract was deferred.

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

As at 31 December 2014 and 31 December 2013, the Group did not have non-current assets classified as held for sale, nor were there operations classified as discontinued operations.

17. CASH AND CASH EQUIVALENTS

As at 31 December 2014 and 31 December 2013, 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:

	2014	2013
Cash	36,573,952	9,361,282
Sight deposits	129,762,892	52,285,521
Time deposits	498,232,900	483,229,000
Cash and cash equivalents (Consolidated balance sheet)	664,569,744	544,875,803
Bank overdrafts	-	-
Cash and cash equivalents (Consolidated cash flow statement)	664,569,744	544,875,803

18. OTHER NON-CURRENT AND CURRENT ASSETS

As at 31 December 2014 and 31 December 2013, the headings “Other non-current assets” and “Other current assets” had the following composition:

	2014	2013
Non-current		
Advances to staff	512,079	463,546
Other receivables from staff	1,699,523	1,296,044
Ministry of Health	-	1,487,593
INESC loan	371,891	1,397,613
Impairment	(1,792,892)	(2,693,657)
	790,601	1,951,139
Current		
Advances to suppliers	101,457	137,692
Advances to staf	2,776,653	3,421,376
Ministry of Health	-	1,531,568
INESC loan	49,740	49,740
Postal financial services	12,352,806	1,932,246
State and other public entities	290,714	-
Debtors by accrued revenues	2,703,244	5,488,909
Amounts collected on CTT behalf	2,791,459	3,650,377
Guarantees	360,977	357,748
CGA reimbursements	302,004	77
Advances to lawyers	162,686	263,592
Debtors by asset disposals	137,054	158,647
Other current assets	10,268,251	9,259,137
Impairment	(9,511,662)	(9,148,673)
	22,785,382	17,102,436

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 was fully paid during the year ended 31 December 2014.

The amounts recorded in the heading Postal financial services refer to receivables from amortization of saving products and the marketing of insurance.

Debtors by accrued revenues

As at 31 December 2014 and 31 December 2013, the debtors by accrued revenues refer to accrued interest, philatelic products, philatelic agents and other values not invoiced.

Impairment

For the years ended 31 December 2014 and 31 December 2013, the movement in Accumulated impairment losses (Note 19) was as follows:

	2014					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Other accounts receivable	10,394,977	1,539,178	(1,046,957)	(4,275)	-	10,882,923
INESC loan	1,447,353	-	(1,025,722)	-	-	421,631
	11,842,330	1,539,178	(2,072,679)	(4,275)	-	11,304,554

	2013					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Other accounts receivable	10,048,037	903,564	(147,512)	(84,410)	(324,702)	10,394,977
INESC loan	1,505,383	-	(58,030)	-	-	1,447,353
	11,553,420	903,564	(205,542)	(84,410)	(324,702)	11,842,330

For the years ended 31 December 2014 and 31 December 2013, impairment losses (net increases of reversals) of Other current and non-current assets amounted to (533,502) Euro and 698,022 Euro, respectively, and were booked under the heading Impairment of inventories and accounts receivable, net (Note 37).

19. ACCUMULATED IMPAIRMENT LOSSES

During the years ended 31 December 2014 and 31 December 2013, the following movements occurred in the impairment losses:

	2014					
	Opening balance	Increases	Reversals	Utilization	Change in consolidation perimeter	Closing balance
Other non-current assets (Note 18)						
Other accounts receivable	1,296,044	124,957	-	-	-	1,421,001
INESC loan	1,397,613	-	(1,025,722)	-	-	371,891
	2,693,657	124,957	(1,025,722)	-	-	1,792,892
Customers and Other current assets (Notes 14 and 18)						
Customers	24,361,985	7,575,359	(875,184)	(497,000)	(66,375)	30,498,785
Other accounts receivable	9,098,933	1,414,221	(1,046,957)	(4,275)	-	9,461,922
INESC loan	49,740	-	-	-	-	49,740
	33,510,658	8,989,580	(1,922,141)	(501,275)	(66,375)	40,010,447
Inventories (Note 13)						
Merchandise	1,812,893	43,671	(323,990)	(4,747)	-	1,527,827
Raw, subsidiary and consumable	685,925	4,863	(13,952)	-	-	676,836
	2,498,818	48,534	(337,942)	(4,747)	-	2,204,663
	38,703,133	9,163,071	(3,285,805)	(506,022)	(66,375)	44,008,002

	2013					
	Opening balance	Increases	Reversals	Utilization	Transfers	Closing balance
Other non-current assets (Note 18)						
Other accounts receivable	1,123,171	172,873	-	-	-	1,296,044
INESC loan	1,455,643	-	(58,030)	-	-	1,397,613
	2,578,814	172,873	(58,030)	-	-	2,693,657
Customers and Other current assets (Notes 14 and 18)						
Customers	22,313,026	4,413,997	(1,505,980)	(859,058)	-	24,361,985
Other accounts receivable	8,924,866	730,691	(147,512)	(84,410)	(324,702)	9,098,933
INESC loan	49,740	-	-	-	-	49,740
	31,287,632	5,144,688	(1,653,492)	(943,468)	(324,702)	33,510,658
Inventories (Note 13)						
Merchandise	1,903,511	4,906	(95,524)	-	-	1,812,893
Raw, subsidiary and consumable	715,248	28,623	(13,846)	(44,100)	-	685,925
	2,618,759	33,529	(109,370)	(44,100)	-	2,498,818
	36,485,205	5,351,090	(1,820,892)	(987,568)	(324,702)	38,703,133

Impairment losses regarding tangible fixed assets, investment properties and goodwill are detailed respectively in Notes 5, 7 and 9.

20. EQUITY

As at 31 December 2014, the Company's share capital was composed of 150,000,000 shares with the nominal value of 0.50 Euros each. The share capital is fully underwritten and paid-up.

At the General Meeting held on 30 October 2013, the registered capital of CTT was reduced from 87,325,000 Euro to 75,000,000 Euro, being from that date onward represented by 150.000.000 shares, as a result of a stock split which was accomplished through the reduction of the nominal value from 4.99 Euros to 0.50 Euros. The amount of 12,325,000 Euro related to the reduction of the capital was transferred to "Other reserves" (Note 20).

As at 31 December 2014 and 31 December 2013 the Company’s shareholders with, greater than or equal to, 2% shareholdings are as follows:

Shareholder		2014 Nr shares	%	Nominal value
Standard Life Investments Limited [1]		9,910,580	6.607%	4,955,290
Ignis Investment Services Limited [1]		97,073	0.065%	48,537
Standard Life Investments (Holdings) Limited	**Total**	**10,007,653**	**6.672%**	**5,003,827**
Kames Capital plc [2]		2,045,003	1.363%	1,022,502
Kames Capital Management Limited [2]		3,096,134	2.064%	1,548,067
Aegon NV [3]	**Total**	**5,141,137**	**3.427%**	**2,570,569**
Allianz Global Investors Europe GmbH (AGIE) [4]	**Total**	**4,695,774**	**3.131%**	**2,347,887**
UBS AG [5]		3,705,257	2.470%	1,852,629
UBS Fund Management (Switzerland) AG [5]		55,397	0.037%	27,699
UBS Fund Services (Luxembourg) AG [5]		57,770	0.039%	28,885
UBS Global Asset Management (UK) Limited [5]		8,330	0.006%	4,165
UBS Global Asset Management (Australia) Ltd [5]		3,715	0.002%	1,858
UBS Group AG [6]	**Total**	**3,830,469**	**2.554%**	**1,915,235**
Morgan Stanley & Co. International plc [7]		3,553,396	2.369%	1,776,698
Morgan Stanley [7]	**Total**	**3,553,396**	**2.369%**	**1,776,698**
Pioneer Funds - European Equity Target Income [8]		613,645	0.409%	306,823
Pioneer Funds - Global Equity Target Income [9]		170,047	0.113%	85,024
Pioneer Funds - ABS Return European Equities [9]		95,475	0.064%	47,738
Pioneer Funds - European Potential [9]		825,082	0.550%	412,541
Pioneer Funds - European Equity Value [9]		764,953	0.510%	382,477
Pioneer Funds - European Equity Market Plus [9]		15,876	0.011%	7,938
Pioneer Funds - European Research [9]		643,204	0.429%	321,602
UniCredit S.p.A.	**Total**	**3,128,282**	**2.086%**	**1,564,141**
Artemis Fund Managers Limited [10]		3,104,624	2.070%	1,552,312
Artemis Investment Management LLP	**Total**	**3,104,624**	**2.070%**	**1,552,312**
FMRC-FMR CO., INC. [11]		716,444	0.478%	358,222
FMR UK-FIDELITY MANAGEMENT & RESEARCH (U.K.) INC. [11]		2,379,854	1.587%	1,189,927
FMR LLC	**Total**	**3,096,298**	**2.064%**	**1,548,149**
DSAM Partners LLP [12]		3,096,079	2.064%	1,548,040
DSAM Cayman Ltd.	**Total**	**3,096,079**	**2.064%**	**1,548,040**
Goldman Sachs International [13]				
Goldman Sachs Asset Management, L.P. [13]				
Goldman Sachs Asset Management International [13]				
The Goldman Sachs Group, Inc. [13]	**Total**	**3,019,750**	**2.013%**	**1,509,875**
Other shareholders	**Total**	**107,326,538**	**71.551%**	**53,663,269**
Total		**150,000,000**	**100.000%**	**75,000,000**

(1) Company held by Standard Life Investments (Holdings) Limited.

(2) As of 1 January 2015, as a result of a group corporate restructuring the client portfolios managed by Kames Capital Management Limited (a subsidiary of Kames Capital plc) have been transferred and are currently managed by Kames Capital plc.

(3) This qualified shareholding is imputable to the following chain of entities: (i) Kames Capital Holdings Limited, which holds 100% of Kames Capital plc; (ii) Aegon Asset Management Holding BV, which holds 100% of Kames Capital Holdings Limited; and (iii) Aegon NV, which holds 100% of Aegon Asset Management Holding BV.

(4) By virtue of the merger of Allianz Global Investors Luxembourg, S.A. (AGIL) into Allianz Global Investors Europe (AGIE), the qualified shareholding mentioned above became imputable to AGIE.

(5) Subsidiary of the UBS Group AG.

(6) As a result of the acquisition of UBS AG by UBS Group AG the shares of UBS AG were transferred to UBS Group AG. The UBS AG subsidiaries also became controlled by UBS Group AG.

(7) The parent company is Morgan Stanley and the chain of companies between the parent company and the shareholder is: Morgan Stanley, Morgan Stanley International Holdings Inc., Morgan Stanley International Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley Investments (UK) and Morgan Stanley & Co. International plc.

(8) Fund managed by Pioneer Investments Kapitalangesellschaft GmbH, appointed by Pioneer Asset Management, S.A., which is fully owned by UniCredit S.p.A.

(9) Fund managed by Pioneer Investments Management Limited Dublin, appointed by Pioneer Asset Management, S.A., which is entirely owned by UniCredit S.p.A.

(10) Company held by Artemis Investment Management LLP.

(11) Company owned by FMR LLC.

(12) The chain of undertakings between the parent company and the shareholder is: DSAM Cayman Ltd, DSAM Cayman LP, DSAM Capital Partners Ltd and DSAM Partners LLP. The holding is exclusively an economic long position resulting from an over the counter equity swap transaction with trade date 10 September 2014, settlement date 15 September 2014 and termination date 2 September 2015. The swap transaction referred to foresees cash settlement as the settlement option.

(13) The chain of controlled undertakings through which the voting rights and/or the financial instruments are effectively held is as follows: The Goldman Sachs Group, Inc. (parent company); Goldman Sachs (UK) L.L.C. (Controlled by The Goldman Sachs Group, Inc.); Goldman Sachs Group UK Limited (Controlled by Goldman Sachs (UK) L.L.C.); Goldman Sachs International (Controlled by Goldman Sachs Group UK Limited); Goldman Sachs Asset Management International (Controlled by Goldman Sachs Group UK Limited); Goldman Sachs Asset Management, L.P. (Controlled by The Goldman Sachs Group, Inc.). The holding includes 1.42% corresponding to 2,131,364 CTT shares and 0.59% held through economic long position via CFD and corresponding to 888,386 shares. The CFD details are as follows:

Expiration / Exercise / Conversion Period/Date	No. of shares/ voting rights that may be acquired if the instrument is exercised / converted	% of voting rights that may be obtained if the instrument is exercised/converted
25-Nov-2019	2,453	0.0016%
22-Nov-2019	1,278	0.0009%
4-Dec-2024	506,660	0.3378%
4-Dec-2024	4,869	0.0032%
9-Dec-2024	600	0.0004%
23-Sep-2024	11,502	0.0077%
26-Sep-2024	360,000	0.2400%
11-Nov-2024	1,024	0.0007%
Total Number of voting rights and percentage of voting rights	**888,386**	**0.59%**

	2013		
Shareholder	**Nr shares**	**%**	**Nominal value**
Parpública - Participações Públicas (SGPS), SA (1)	45,000,000	30.000%	22,500,000
Parpública - Participações Públicas (SGPS), SA (2)	9,545,455	6.364%	4,772,728
Total (3)	54,545,455	36.364%	27,272,728
Goldman Sachs International (4)	7,496,479	4.998%	3,748,240
Deutsche Bank AG London (5)	3,063,798	2.043%	1,531,899
Other shareholders (6)	84,894,268	56.596%	42,447,134
Total	**150,000,000**	**100.000%**	**75,000,000**

(1) Shares held by Parpública – Participações Públicas (SGPS), SA, which in turn is fully owned by the Portuguese State.

(2) Shares allocated to Parpública - Participações Públicas (SGPS), SA, in accordance with the call option on the Underwriters, represented for the purpose by the Stabilisation Agent (Stabilisation Manager) under direct sales institutional Contract (institutional Underwriting agreement) signed with the Underwriters in the privatization process of CTT. Under this contract the Underwriters also held an option to sell (put option) on Parpública - Participações Públicas (SGPS), SA. The share stabilisation operations were completed on 3 January 2014, having the underwriters exercised the option to sell 2,253,834 shares of all 9,545,455 shares, representing 1.5% of the share capital of CTT.

(3) Full participation Parpública - Participações Públicas (SGPS), SA as at 31 December 2014, which in turn is owned entirely by the Portuguese State. From 3 January 2014 Parpública - Participações Públicas (SGPS), SA holds 47,253,834 shares, i.e. 31.5% of the share capital of CTT.

(4) Shares held by Goldman Sachs International, controlled by Goldman Sachs Holding (UK), which in turn is controlled by Goldman Sachs Group Holdings (UK) Limited, controlled by Goldman Sachs Group UK Limited, controlled by Goldman Sachs (UK) LLC, which in turn is controlled by the Goldman Sachs Group, Inc..

(5) Shares held by Deutsche Bank AG London which in turn is a branch of Deutsche Bank AG.

(6) Includes 2,064,660 shares held by CTT workers who, according to the terms of the offer reserved for employees under the privatization of CTT, are unavailable until 5 March 2014.

21. RESERVES, OTHER CHANGES IN EQUITY AND RETAINED EARNINGS

Reserves

As at 31 December 2014 and 31 December 2013, the heading Reserves is detailed as follows:

	2014	2013
Legal reserves	18,072,559	18,072,559
Other reserves	13,701,407	12,325,000
	31,773,967	30,397,559

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 all 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.

As at 31 December 2014 it also records the amount recognised in the year related to the Share Plan, that constitutes the long term variable remuneration to be paid to the executive members of the Board of Directors under the new remuneration model of the Statutory Bodies defined by the Remunerations Board.

In 2013, the amount of 10,555,949 Euro was used for the payment of an extraordinary dividend (Note 22).

The value of 12,325,000 Euro refers to the amount of reduction of the share capital and was transferred to this caption.

Retained earnings

During the years ended 31 December 2014 and 31 December 2013, the following movements were made in the heading Retained earnings:

	2014	2013
Opening balance	83,367,465	87,105,292
Application of the net profit of the prior year	61,016,067	35,735,268
Distribution of dividends (Note 22)	(60,000,000)	(39,444,051)
Adjustments from the application of the equity method	-	(29,044)
Other movements	(8,969)	-
Closing balance	84,374,563	83,367,465

Other changes in equity

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

Thus, for the years ended 31 December 2014 and 31 December 2013 the movements occurred in this heading were as follows:

	2014	2013
Opening balance	24,548,756	33,079,577
Actuarial gains/losses	(61,041,103)	(11,680,870)
Tax effect	17,706,037	3,150,049
Closing balance	(18,786,310)	24,548,756

22. DIVIDENDS

At the General Assembly held on 5 May 2014, the shareholders approved the distribution of a dividend of 0.40 Euros per share (which took into consideration the 150,000,000 shares existing at 31.12.2013) relative to 31 December 2013 and a total dividend of 60,000,000 Euros was paid in May 2014.

At the General Assembly held on 30 May 2013, the shareholder approved the distribution of a dividend of approximately 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 2014. 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.

23. EARNINGS PER SHARE

During the years ended on 31 December 2014 and 31 December 2013, the earnings per share were calculated as follows:

	2014	2013
Net profit for the year	77,171,128	61,016,067
Average number of ordinary shares	150,000,000	150,000,000
Earnings per share:		
Basic	0.51	0.41
Diluted	0.51	0.41

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

The number of shares varied in the course of 2013, from 17,500,000 to 150,000,000 following the capital reduction made to reserves and a stock split by reducing the nominal value.

There are no dilutive factors of earnings per share.

24. NON-CONTROLLING INTERESTS

During the years ended 31 December 2014 and 31 December 2013, the following movements occurred in non-controlling interests:

	2014	2013
Opening balance	1,604,372	1,607,508
Net profit for the year attributable to non-controlling interests	(327,492)	89,218
Distribution of dividends	(198,423)	(64,174)
Disposals	(1,395,678)	-
Other movements	(6,482)	(28,180)
Closing balance	(323,703)	1,604,372

As at 31 December 2014 and 31 December 2013, non-controlling interests related to the following companies:

	2014	2013
EAD - Empresa de Arquivo de Documentação, S.A.	-	1,594,101
Correio Expresso de Moçambique, S.A.	(323,703)	10,271
	(323,703)	1,604,372

25. DEBT

As at 31 December 2014 and 31 December 2013, debt is detailed as follows:

	2014	2013
Non-current liabilities		
Bank loans	-	-
Leasing	1,913,118	3,282,126
	1,913,118	3,282,126
Current liabilities		
Bank loans	824,650	2,393,536
Leasing	955,484	1,235,919
Other loans	65,936	87,102
	1,846,070	3,716,557
	3,759,188	6,998,683

At 31 December 2014, the interest rates applied to finance leases were between 0.62% and 0.91% (31 December 2013: between 0.82% and 1.47%) and the interest rates applied to other loans were between 0.56% and 3.84% (31 December 2013: 0.14% and 4.69%).

Bank loans and other loans

As at 31 December 2014 and 31 December 2013, the details of the bank loans were as follows:

	Financing entity	2014 Limit	2014 Amount used Current	2014 Amount used Non-current	2013 Limit	2013 Amount used Current	2013 Amount used Non-current
Bank loans:							
	Banco Sabadell (Spain)	400,000	-	-	400,000	-	-
	BBVA (Spain)	500,000	-	-	500,000	-	-
	Millennium BCP (Spain)	5,000,000	818,911	-	5,000,000	2,346,626	-
	BIM - (Mozambique)	218,270	5,739	-	218,270	46,910	-
Other loans:							
	Millennium BCP	5,000,000	-	-	5,000,000	-	-
	Millennium BCP	250,000	-	-	250,000	-	-
	Millennium BCP	150,000	-	-	150,000	1,990	-
	BIM - (Mozambique)	77,861	65,936		72,745	60,864	
	Millennium BCP (Mozambique)	25,954	-	-	24,248	24,248	-
		11,622,085	890,586	-	11,615,263	2,480,638	-

The financing negotiated with Spanish banks is intended to finance the operating activity of the Tourline subsidiary, subject to Eonia interest rate.

Leasings

As at 31 December 2014 and 31 December 2013, the Group has the following assets under finance leases:

	2014 Gross amount	2014 Depreciation/accumulated impairment losses	2014 Change in consolidation perimeter	2014 Carrying amount	2013 Gross amount	2013 Depreciation/accumulated impairment losses	2013 Carrying amount
Land	9,651,895	815,990	(226,000)	8,609,905	9,651,895	815,990	8,835,905
Buildings and other constructions	5,641,685	1,296,022	(678,000)	3,667,663	5,641,685	1,396,499	4,245,186
Basic equipment	856,109		(856,109)		856,109	365,739	490,370
Transport equipment	87,790	18,854	(68,419)	517	87,790	79,732	8,058
	16,237,479	2,130,866	(1,828,528)	12,278,085	16,237,479	2,657,960	13,579,519

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 Mail Operating Centre is located. The type of lease contract determines its classification as a lease, namely 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 CTT Expresso is the lessee of a property located in Perafita (Matosinhos) where is located the Operating Centre of the Northern Region, which includes an option to buy the asset at the end of the contract for a residual value considered significantly lower than the estimated market value at the end of the contract.

The monthly rents are calculated based on the initial contract value, and it is possible to exercise the call option by paying a residual value.

There are no other restrictions in the contracts that have been signed.

As at 31 December 2014 and 31 December 2013, Group's liabilities with financial lease contracts presented the following plan of due dates:

	2014			2013		
	Capital	Interest	Total	Capital	Interest	Total
Due within 1 year	955,484	19,986	975,470	1,235,919	42,443	1,278,362
Due between 1 to 5 years	1,913,118	13,605	1,926,723	3,183,268	71,896	3,255,164
Over 5 years	-	-	-	98,858	14,205	113,063
	1,913,118	13,605	1,926,723	3,282,126	86,101	3,368,227
Total	2,868,602	33,591	2,902,192	4,518,045	128,544	4,646,589

In the year ended 31 December 2014 and the year ended 31 December 2013, the values paid in relation to leasing interest amounted to 34,441 Euro and 54,416 Euro, respectively.

26. EMPLOYEE BENEFITS

Liabilities related to employee benefits refer to (i) post-employment benefits – health care, (ii) other benefits and (iii) other long term benefits for the Statutory Bodies. During the years ended 31 December 2014 and 31 December 2013, these liabilities presented the following movement:

	2014				
	Liabilities			Equity	Total
	Health care	Other long term employee benefits	Total	Other long term benefits statutory bodies	
Opening balance	263,371,000	35,172,054	298,543,054	-	298,543,054
Movement of the period	(22,205,000)	953,493	(21,251,507)	1,376,407	(19,875,100)
Closing balance	241,166,000	36,125,547	277,291,547	1,376,407	278,667,954

	2013				
	Liabilities			Equity	Total
	Health care	Other long term employee benefits	Total	Other long term benefits statutory bodies	
Opening balance	252,803,000	50,513,360	303,316,360	-	303,316,360
Movement of the period	10,568,000	(15,341,306)	(4,773,306)	-	(4,773,306)
Closing balance	263,371,000	35,172,054	298,543,054	-	298,543,054

The heading Other long term benefits essentially refers to the on-going staff reduction programme.

Other long term benefits for the Statutory Bodies refers to the long term variable remuneration assigned to the executive members of the Board of Directors.

The details of liabilities related to employee benefits, considering their clarification, are as follows:

	2014	2013
Equity (Other reserves)	1,376,407	-
Non-current liabilities	255,541,102	278,638,868
Current liabilities	21,750,445	19,904,186
	278,667,954	298,543,054

As at 31 December 2014 and 31 December 2013, the costs related to employee benefits recognised in the consolidated income statement and the amount recognised directly in Other changes in equity were as follows:

	2014	2013
Costs for the period		
Health care	(68,905,327)	13,747,000
Other long term employee benefits	7,602,753	(5,034,183)
Other long term benefits statutory bodies	1,376,407	-
	(59,926,168)	8,712,817
Other changes in equity		
Health care	(61,041,103)	(11,680,870)
	(61,041,103)	(11,680,870)

Health care

As mentioned in Note 2.18, CTT is responsible for financing the health care plan applicable to certain employees. In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is made by an independent entity every year, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable, having, as at 31 December 2014, performed an actuarial study.

As at 31 December 2014, the Company requested an actuarial study from an independent entity to assess the liabilities at the reporting date.

The main assumptions followed in the actuarial study were:

	2014	2013
Financial assumptions		
Discount rate	2.50%	4.00%
Salaries expected growth rate	2.75%	0% in 2013 and 2014 2.75% from that date
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP ‹ 2%)	Law no. 53-B/2006 (with Δ GDP ‹ 2%)
Inflation rate	2.00%	2.00%
Health costs growth rate		
- Infation rate	2.00%	2.00%
- Growhth due to ageing	2.00%	0% in 2013 and 2014 2% from that date
Demographic assumptions		
Mortality table	TV 88/90	TV 88/90
Disability table	Swiss RE	Swiss RE

The discount rate is estimated based on interest rates of private debt bonds with high credit rating ("AA" or equivalent) at the date of the balance sheet and with a duration equivalent to that of the liabilities with health care.

The decrease of the discount rate to 2.50% 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:

	2014	2013	2012	2011	2010
Liabilities at the end of the period	241,166,000	263,371,000	252,803,000	272,102,000	272,123,000

For the years ended 31 December 2014 and 31 December 2013, the movement which occurred in the present value of the defined benefits liability regarding the health care plan was as follows:

	2014	2013
Opening balance	263,371,000	252,803,000
Service costs of the period	3,825,000	3,882,000
Interest cost of the period	10,268,000	9,865,000
Curtailment	(82,998,327)	-
Pensioners contributions	3,607,690	3,552,478
(Payment of benefits)	(16,894,342)	(17,249,738)
(Other costs)	(1,054,123)	(1,162,610)
Actuarial (gains)/losses	61,041,103	11,680,870
Closing balance	241,166,000	263,371,000

In February 2015 CTT signed with effects as at 31 December 2014, with the eleven trade unions represented in the company, the new Regulation of the Social Works ("RSW") system, the internal healthcare and social protection system of CTT. The new RSW of CTT maintains a high but balanced protection level, while rationalising the use of benefits. Accordingly, the fees that the beneficiaries pay to the system were increased by raising the monthly contributions and co-payments, while the all-encompassing feature of the system was maintained and some social support measures were strengthened.

The new plan entailed a significant reduction in the estimate of CTT future health care expenses and therefore a corresponding reduction in past services liability as at 31 December 2014, which has been considered an amendment to the plan and therefore recognized in profit and loss.

During the years ended 31 December 2014 and 31 December 2013, the total costs for the period are recognised as follows:

	2014	2013
Staff costs/employee benefits (Note 36)	(80,227,450)	2,719,390
Other costs	1,054,123	1,162,610
Interest expenses (Note 40)	10,268,000	9,865,000
	(68,905,327)	13,747,000

The actuarial (gains)/losses amounting to 61,041,103 Euro (11,680,870 Euro as at 31 December 2013) were recognised in equity under Other changes in equity, net of deferred taxes of 17,706,037 Euro (3,150,049 Euro as at 31 December 2013).

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 2015 is 9,942 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 300,242 thousand Euro, increasing by approximately 24.5%;
(ii) If the discount rate was reduced 0.5 per cent and keeping all the remaining variables constant, the liabilities would increase by approximately 7.8%, amounting to 259,977 thousand Euro.

<u>Other long term employee benefits</u>
As mentioned in Note 2.18, in certain situations, the Group has liabilities related to the payment of salaries in situations of “Suspension of contracts, redeployment and release of employment”, the allocation of subsidies of “Support for termination of professional activity”, which was eliminated as of 1 April 2013, the payment of the “Telephone subscription fee”, “Pensions for work accidents”, and “Monthly life annuity”. In order to obtain the estimate of the value of these liabilities and the costs to be recognised for each period, every year, an actuarial study is made by an independent entity, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable.

As at 31 December 2014, the Company requested an actuarial study from an independent entity to assess the liabilities at the reporting date.

The main assumptions followed in the assessment of these liabilities were:

	2014	2013
Financial assumptions		
Discount rate	2.50%	4.00%
Salaries growth rate	2.75%	0% in 2013 and 2014 2.75% from that date
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP ‹ 2%)	Law no. 53-B/2006 (with Δ GDP ‹ 2%)
Inflation rate	2.00%	2.00%
Demographic assumptions		
Mortality table	TV 88/90	TV 88/90
Disability rate	Swiss RE	Swiss RE

For the determination of the Group's liabilities to employees in situations of “Suspension of contracts, redeployment and release of employment”, salary growth rates of 2.75% were considered for 2014, and the following years. The salary growth rate of 2.75% was applied to the remaining employee benefits, except for the “Telephone subscription fee” and “Support for cessation of professional activity" for which no value update was considered.

For the years ended 31 December 2014 and 31 December 2013, the movement of liabilities with other employee long-term benefits was as follows:

	2014	2013
Suspension of contracts, redeployment and release of employment		
Opening balance	19,743,891	24,084,448
Interest cost of the period	696,465	844,267
Liabilities relative to new beneficiaries	393,318	1,914,115
(Payment of benefits)	(5,738,282)	(7,459,833)
Actuarial (gains)/losses	2,714,852	360,894
Closing balance	17,810,243	19,743,891
Telephone subscription charge		
Opening balance	4,800,195	14,242,125
Interest cost of the period	178,544	451,814
Curtailment	-	(8,211,129)
(Payment of benefits)	(303,781)	(1,445,398)
Actuarial (gains)/losses	157,817	(237,217)
Closing balance	4,832,775	4,800,195
Pension for accidentes at work		
Opening balance	7,004,370	7,563,939
Interest cost of the period	271,647	293,948
(Payment of benefits)	(437,324)	(422,708)
Actuarial (gains)/losses	1,322,707	(430,809)
Closing balance	8,161,400	7,004,370
Monthly life annuity		
Opening balance	3,544,784	3,691,640
Interest cost of the period	139,714	145,503
(Payment of benefits)	(112,271)	(108,120)
Actuarial (gains)/losses	1,710,168	(184,239)
Closing balance	5,282,395	3,544,784
Support for cessation of professional activity		
Opening balance	78,814	931,208
Interest cost of the period	1,576	18,624
(Payment of benefits)	(57,602)	(871,064)
Actuarial (gains)/losses	15,946	46
Closing balance	38,734	78,814
Total closing balances	36,125,547	35,172,054

During the years ended 31 December 2014 and 31 December 2013, the total costs for the period were recognised as follows:

	2014	2013
Staff costs/employee benefits (Note 36)		
Suspension of contracts, redeployment and release of employment	3,108,170	2,275,009
Telephone subscription charge	157,817	(8,448,346)
Pension for accidents at work	1,322,707	(430,809)
Monthly life annuity	1,710,168	(184,239)
Support for cessation of professional activity	15,946	46
subtotal	6,314,808	(6,788,339)
Interest expenses (Note 40)	1,287,945	1,754,156
	7,602,753	(5,034,183)

In the year ended 31 December 2013, due to Order 378-G/2014 of 31 December, the retirement age changed from 65 to 66 years of age for employees covered by Social Security. This change had a more significant impact on the liability related to the "Suspension of contracts, relocation and release of employment" where the increase in the liability was about 642 thousand Euros.

In the year ended 31 December 2014, due to Law 11/2014, 6 of March, which establishes convergence mechanisms of social protection system for civil servants to the general social security scheme, by modifying the retirement schemes, the retirement age has changed from 65 to 66 years of age for employees covered by "Caixa Geral de Aposentações" ("CGA"). This change had a more significant impact on the liability related to the "Suspension of contracts, relocation and release of employment" where the increase in the liability was about 2,137 thousand Euros.

As at 31 December 2013, the Board of Directors of CTT, decided to modify the economic benefit related to the Telephone Subscription Charge. Thus, from 1 January 2014, the cash payment was replaced by a benefit in kind.

The best estimate that the Group has at this date for costs with other long-term benefits, which it expects to recognise in the next annual period, is 822,731 Euros.

The sensitivity analysis done for the Other long term benefits leads to the conclusion that, if the discount rate was reduced by 50 b.p., keeping everything else constant, this would give rise to an increase in liabilities for past services of approximately 4%, increasing to 37,571 thousand Euro.

<u>Other long term benefits for the Statutory Bodies</u>
CTT approved with effect on 31 December 2014 the Remuneration Regulations for Members of the Statutory Bodies, which defines the allocation of a long-term variable remuneration, to be paid in Company's shares (Note 2.19). The number of shares allocated to members of the Executive Board of CTT is based on the performance evaluation results during the mandate period until 1 January 2017, which consists in the comparison of the recorded performance of the Total Shareholder Return (TSR) of CTT's shares and the TSR of a weighted peer group, composed of national and international companies (vesting conditions).

The evaluation period of CTT TSR performance compared to peers is 1 January 2014 to 31 December 2016. The long-term variable remuneration is paid on 31 January 2017, by allocating shares of the Company subject to a positive TSR of the shares of the Company at the end of the evaluation period, according to a maximum number of shares defined in the Regulation and corrected by maximum limits for each member of the Executive Committee.

On 31 December 2014 the liability of this long term remuneration was calculated, based on the fair value of shares, by an independent expert and by using a Black-Scholes methodology and through the production of a Monte Carlo model simulation, assuming a volatility of the shares of 30% and a risk free rate of -0.12%, corresponding to a cost of 4,129,221 Euro for the evaluation period.

Thus, in 31 December 2014 CTT recorded a cost of 1,376,407 Euro corresponding to the period from 1 January 2014 to 31 December 2014, against Other reserves.

27. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

For the years ended 31 December 2014 and 31 December 2013, in order to face legal proceedings and other liabilities arising from past events, the Group recognised provisions, which showed the following movement:

	2014					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Non-current provisions						
Litigations	10,868,975	4,848,272	(4,019,596)	(3,216,034)	1,425,810	9,907,427
Onerous contracts	12,643,714	6,728,727	-	(2,517,486)	-	16,854,955
Other provisions	14,775,306	6,452,173	-	(690,354)	(1,843,762)	18,693,363
Investments in associated companies	213,840	-	-	-	1,932	215,772
	38,501,835	18,029,172	(4,019,596)	(6,423,874)	(416,020)	45,671,517

	2013					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Non-current provisions						
Litigations	9,268,429	3,757,359	(3,595,059)	(1,269,365)	2,707,611	10,868,975
Onerous contracts	13,212,379	1,844,338	-	(2,413,003)	-	12,643,714
Other provisions	13,894,565	4,387,527	(746,183)	(377,694)	(2,382,909)	14,775,306
Investments in associated companies	220,816	-	-	(6,976)	-	213,840
	36,596,189	9,989,224	(4,341,242)	(4,067,038)	324,702	38,501,835

Litigations

The provisions for litigations are due to the liabilities raised from lawsuits brought against the Group and are estimated based on information from its lawyers.

Onerous Contracts

During the year ended 31 December 2014 the provision to cover the estimate of the net present value of the expenditure associated with onerous contracts was increased by 6,728,727 Euro. Part of this increase refers to the creation in, Mailtec Comunicação, SA, of a provision of this nature in the amount of 911,108 Euros. The remaining value was obtained from the update of the parameters used on 31 December 2013, namely the discount rates.

As at 31 December 2014 and 31 December 2013 the amount provisioned for contracts is 16,854,955 Euro and 12,643,714 Euro, respectively.

Other provisions

As at 31 December 2014 the provision to cover any contingencies relating to employment litigation actions not included in the current court proceedings, and related to remuneration differences required by workers, was increased by 5,287,767 Euro, amounting to 16,374,091 Euro (12,512,193 Euro as at 31 December 2013). During the year ended on 31 December 2013 this provision had been increased by 3,9 million Euro.

As at 31 December 2014, in addition to the previously mentioned situations, this heading also included:

- the amount of 282,929 Euros for coverage of costs of dismantlement of tangible fixed assets and/or removal of facilities and restoration of the location;

- the amount of 890,000 Euros, which arise from the assessment made by management regarding the possibility of the enforcement of tax contingencies.

Investments in associated companies

The provision for investments in subsidiary and associated companies corresponds to the assumption by the Group of legal or constructive obligations regarding the associated company PayShop Moçambique, S.A..

The net amount between increases and reversals of provisions was recorded in the Consolidated income statement under the headings “Provisions, net” and amounted to 14,009,576 Euro and 5,647,982 Euro as at 31 December 2014 and 2013, respectively.

Guarantees provided

As at 31 December 2014 and 31 December 2013 the Group had provided bank guarantees to third parties as follows:

Description	2014	2013
Tribunais	325,684	754,399
FUNDO DE PENSÕES DO BANCO SANTANDER TOTTA	3,030,174	-
EURO BRIDGE-Sociedade Imobiliária, Lda	2,944,833	-
PLANINOVA - Soc. Imobiliária, S.A.	2,033,582	-
LandSearch, Compra e Venda de Imóveis	1,792,886	-
NOVIMOVESTE - Fundo de Investimento Imobiliário	1,523,201	-
LUSIMOVESTE - Fundo de Investimento Imobiliário	1,274,355	-
Autoridade Tributária e Aduaneira	590,000	390,000
Lisboagás, S.A.	190,000	190,000
Autarquias	154,677	153,674
Sofinsa	91,618	91,618
Solred	80,000	80,000
Parc Logistics Zona Franca	77,969	77,969
Alfândega do Porto	74,820	74,820
Secretaria Geral do Ministério da Administração Interna	44,547	14,000
ACT Autoridade Condições Trabalho	67,638	45,733
PT PRO - Serv Adm Gestao Part, S.A.	50,000	50,000
DRCAL Direcção Regional Contencioso Administrativo Lis	-	49,880
Record Rent a Car (Cataluña, Levante)	40,000	40,000
SetGás, S.A.	30,000	30,000
ANA - Aeroportos de Portugal	34,000	29,000
Santa Casa da Misericórdia de Lisboa	-	86,917
TIP - Transportes Intermodais do Porto, ACE	50,000	50,000
Ministério Educação	-	38,700
EPAL - Empresa Portuguesa de Águas Livres	21,433	21,433
Natur Import (nave Barbera)	-	18,096
Natur Import (nave Barbera)	18,096	-
Portugal Telecom, S.A.	16,657	16,657
SPMS - Serviços Partilhados do Ministério da Saúde	30,180	16,092
Poczta Polska Uslugi Cyfrowe Sp	-	257,783
Petrogal, S.A.	10,774	10,774
Águas do Porto, E.M	10,720	-
Alquiler Nave Tarragona	7,155	7,155
TNT Express Worldwide	6,010	6,010
SMAS Torres Vedras	4,001	4,001
Infarmed IP	-	8,223
Instituto do emprego e formação profissional	3,718	3,718
Controlplan S.L	3,400	3,400
Inmobiliaria Ederkin	7,800	7,800
Instituto Infra-Estruturas Rodoviárias	3,725	3,725
Estradas de Portugal, EP	5,000	5,000
ARM - Águas e Resíduos da Madeira , SA	12,681	4,752
REN Serviços, S.A.	9,818	9,818
EMEL, S.A.	19,384	19,384
IFADAP	1,746	1,746
Casa Pia de Lisboa, I.P.	1,863	1,863
Martinez Estevez	3,000	3,000
Gexploma	3,000	3,000
Consejeria Salud	6,433	6,433
Universidad Sevilha	4,237	4,237
Fonavi, Nave Hospitalet	40,477	40,477
Other entities	7,694	2,735
	14,758,985	2,734,022

Guarantees for Contracts
According to the determinations in some lease contracts of the buildings occupied by the Company's services, having the Portuguese State ceased to hold the majority of the share capital of CTT-Correios de Portugal, S.A., bank guarantees on first demand should be provided.

These guarantees have already been issued and amount to 12.6 million Euro.

Commitments
As at 31 December 2014 and 31 December 2013 the Group subscribed promissory notes amounting to approximately 73.8 thousand Euro and 670.6 thousand Euro, respectively, for various rental companies intended to secure complete and timely compliance with the corresponding lease contracts.

In addition, the Group also assumed commitments relating real estate rents under lease contracts and rents for operating and financial leases.

The contractual commitments related to tangible fixed assets and intangible assets that are detailed respectively in Notes 5 and 6.

28. ACCOUNTS PAYABLE

As at 31 December 2014 and 31 December 2013, the heading Accounts payable showed the following composition:

	2014	2013
Advances from customers	2,996,416	2,826,481
CNP money orders	200,879,441	202,301,462
Suppliers	64,572,970	59,737,076
Invoices pending confirmation	12,958,575	8,816,225
Fixed assets suppliers	8,063,263	2,463,632
Invoices pending confirmation (fixed assets)	1,997,480	523,341
Rent of Concessions	-	201,424
Values collected on behalf of third parties	5,645,991	4,180,724
Postal financial services	197,152,263	107,689,039
Other accounts payable	5,270,507	3,218,635
	499,536,907	391,958,039

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, insurance, savings certificates and other money orders.

Suppliers, fixed assets suppliers

As at 31 December 2014 and 31 December 2013, the ageing of the balance of the headings Suppliers and fixed assets suppliers is detailed as follows:

	2014	2013
Suppliers		
Not due	14,865,726	19,936,179
0-30 days	8,694,897	5,219,465
30-90 days	8,659,132	4,789,328
90-180 days	2,551,882	2,653,581
180-360 days	7,657,452	7,521,660
› 360 days	22,143,881	19,616,862
	64,572,970	59,737,076

	2014	2013
Fixed assets suppliers		
Not due	7,367,690	2,121,192
0-30 days	400,198	118,356
30-90 days	29,847	48,355
90-180 days	43,697	6,840
180-360 days	59,389	128,539
› 360 days	162,443	40,350
	8,063,263	2,463,632

The increase in the caption “Fixed assets suppliers” is directly related to the investment in basic equipment (with particular emphasis in the acquisition of heavy vehicles) and office equipment.

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

	2014	2013
National accounts payable	429,411	48,232
Foreign operators	21,714,470	19,568,630
Total	22,143,881	19,616,862
Foreign operators - receivable	(22,945,573)	(19,832,745)

The balances between Foreign Operators are cleared by netting accounts. These amounts are related to the accounts receivable balances related to these entities (Note 14).

29. INCOME TAXES PAYABLE

As at 31 December 2014 and 31 December 2013 the heading “Income taxes payable” showed the following composition:

	2014	2013
Current liabilities		
Corporate income tax	6,173,214	93,968
	6,173,214	93,968

30. OTHER CURRENT LIABILITIES

As at the year ended on 31 December 2014 and the year ended 31 December 2013, the heading "Other current liabilities" showed the following composition:

	2014	2013
Current		
Estimated holiday pay, holiday subsidy and other remunerations	50,315,835	37,049,207
Estimated supplies and external services	18,037,952	13,425,256
State and other public entities		
Value Added Tax	3,740,619	3,280,693
Personal income tax with-holdings	3,543,152	3,468,536
Social Security contributions	5,124,264	5,333,117
Caixa Geral de Aposentações	860,878	961,880
Local Authority taxes	521,000	512,055
Other taxes	20	77
Other	440,211	5,651,148
	82,583,931	69,681,969

In the year ended 31 December 2014, the Board of Directors decided the attribution of performance bonuses for CTT group workers, as well as bonuses to be granted by the General Assembly to the executive members of the Board of Directors, under the regulation approved by the Remuneration Board. Both facts explain the increase observed in the heading Estimated holiday pay, holiday subsidy and other remuneration.

31. FINANCIAL ASSETS AND LIABILITIES

As at 31 December 2014 and 31 December 2013, the categories of financial assets and liabilities were as follows:

	2014				
	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/liabilities	Total
Assets					
Other investments	-	1,106,812	-	-	1,106,812
Other non-current assets	790,601	-	-	-	790,601
Accounts receivable	133,290,415	-	-	-	133,290,415
Other current assets	16,953,369	-	-	5,832,013	22,785,382
Cash and cash equivalents	664,580,080	-	-	-	664,580,080
Total Financial Assets	**815,614,466**	**1,106,812**	**-**	**5,832,013**	**822,553,290**
Liabilities					
Medium and long term debt	-	-	1,913,118	-	1,913,118
Accounts payable	-	-	491,269,983	8,266,923	499,536,907
Short term debt	-	-	1,846,070	-	1,846,070
Cash and cash equivalents	-	-	18,478,162	64,105,769	82,583,931
Total Financial Liabilities	**-**	**-**	**513,507,333**	**72,372,692**	**585,880,026**

	2013				
	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/liabilities	Total
Assets					
Other investments	-	130,829	-	-	130,829
Other non-current assets	1,951,139	-	-	-	1,951,139
Accounts receivable	135,589,645	-	-	-	135,589,645
Other current assets	10,676,882	-	-	6,425,554	17,102,436
Cash and cash equivalents	544,875,803	-	-	-	544,875,803
Total Financial Assets	**693,093,468**	**130,829**	**-**	**6,425,554**	**699,649,851**
Liabilities					
Medium and long term debt	-	-	3,282,126	-	3,282,126
Accounts payable	-	-	385,912,923	6,045,116	391,958,039
Short term debt	-	-	3,716,558	-	3,716,558
Cash and cash equivalents	-	-	19,076,404	50,605,565	69,681,969
Total Financial Liabilities	**-**	**-**	**411,988,011**	**56,650,681**	**468,638,692**

The Group believes that the fair value of its financial assets and liabilities is similar to its book value.

32. SUBSIDIES OBTAINED

As at 31 December 2014 and 31 December 2013, the information regarding European Union subsidies or grants (Note 2.21) was as follows:

	2014					2013				
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	9,453,925	361,697	9,815,622	9,662,306	153,316	9,442,724	372,898
IEFP	94,486	79,132	15,354	82,390	12,096	-	-	-	-	-
	9,910,108	9,741,438	168,670	9,536,315	373,792	9,815,622	9,662,306	153,316	9,442,724	372,898

The amounts received as investment subsidy – FEDER - are recognised in the Consolidated income statement, in the heading Other operating income, as the corresponding assets are amortised.

The financial contribution of the Instituto do Emprego e da Formação Profissional, I.P. (“IEFP”), received under the Employment Internships Program configures the typology of Grants related to income or operational expenses and is recognized as revenue in the same period of the related expense.

The amounts received were initially deferred (Note 16), and transferred to the Income statement in the Operational Grants heading, to the extent that the expenses were recognized.

33. OTHER OPERATING INCOME

For the years ended 31 December 2014 and 31 December 2013, the composition of the heading Other operating income was as follows:

	2014	2013
Own work capitalised	-	332,883
Supplementary revenues	4,348,820	3,424,447
Prompt-payment discounts obtained	114,757	162,619
Gains in inventories	39,519	25,840
Favourable exchange rate differences of assets and liabilities different from financing	1,990,205	3,490,736
Income from financial investments	684,122	563,426
Income from non-financial investments	2,121,308	1,959,175
Interests income and expenses - financial services	2,305,688	3,287,305
Other	3,886,415	1,531,895
	15,490,832	14,778,326

The interest related to the Financial Services segment is recognised under this caption when previously it was included under Interest income (Note 2.21).

34. EXTERNAL SUPPLIES AND SERVICES

For the years ended 31 December 2014 and 31 December 2013, the composition of the heading External supplies and services was as follows:

	2014	2013
Transportation of goods	63,934,867	66,325,292
Specialised services	65,771,170	63,713,719
Rents	34,637,236	36,660,569
Energy and fuel	15,508,445	15,798,613
Remuneration to postal operators	17,242,525	16,186,241
Other services	12,980,182	11,939,854
Communication	4,058,295	6,031,577
Agencing	4,940,226	5,903,553
Subcontracts	4,750,345	5,584,449
Cleaning, hygiene and comfort	3,778,809	4,137,874
Remuneration to Postal Agencies	4,496,988	4,331,920
Insurance	3,128,038	2,778,918
Materials	1,656,662	1,794,286
Litigation and notary	307,177	384,779
Staff transportation	270,949	272,707
Royalties	217,896	214,231
	237,679,808	242,058,580

(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 by sea, air and 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 fuel/diesel refers mainly to diesel for vehicles used in the operating process.

35. OPERATING LEASES

As 31 December 2014 and 31 December 2013, 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:

	2014	2013
Due within 1 year	9,345,242	8,901,867
Due between 1 to 5 years	14,456,925	16,433,847
Over 5 years	-	-
	23,802,167	25,335,714

During the years ended 31 December 2014 and 31 December 2013, the costs incurred with operating lease contracts of 6,927,430 Euro and 7,943,693 Euro, respectively, were recognised under the caption Rents in the heading Supplies and external services of the Consolidated income statement.

The operating leases relate to leasing agreements of short duration, in which the lessor transfers the temporary use of the asset to a third party upon payment of an income or rental.

Lease payments are made monthly by equal amounts during the period of the lease agreement and the recognition of the rent is considered as an expense which will also be performed on a linear basis (straight-line basis).

There is no recognition of any leased asset, because the lease is a rental in substance and there is no evidence that demonstrate the lessee will obtain future economic benefits from the asset beyond the contract period.

The transfer of the legal ownership of the assets to the lessee at the end of the contract is not expected.

36. STAFF COSTS

During the years ended 31 December 2014 and 31 December 2013, the composition of the heading Staff Costs was as follows:

	2014	2013
Statutory bodies remuneration (Note 42)	3,768,528	1,253,044
Staff remuneration	256,671,440	244,542,405
Employee benefits	(72,385,347)	(4,068,949)
Indemnities	2,423,911	2,058,112
Social Security charges	55,373,290	53,399,408
Occupational accident and health insurance	1,851,651	2,795,986
Social welfare costs	10,233,119	12,986,712
Other staff costs	70,144	105,761
	258,006,736	313,072,477

Remuneration of the statutory bodies

As at 31 December 2014 and 31 December 2013, the fixed and variable remunerations attributed to the members of the statutory bodies of the different companies of the Group were as follows:

	2014				
	Board of Directors	Audit Comittee /Statutory Auditor	Remuneration Board	General Meeting of Shareholders	Total
Short term remuneration					
Fixed remuneration	2,028,033	284,459	28,808	-	2,341,300
Annual variable remuneration	1,427,228		-	-	1,427,228
	3,455,261	284,459	28,808	-	3,768,528
Long term remuneration					
Defined contribution plan RSP	144,517	-	-	-	144,517
Long term variable remuneration - Share Plan	1,376,407	-	-	-	1,376,407
	1,520,924	-	-	-	1,520,924
	4,976,185	284,459	28,808	-	5,289,452

	2013				
	Board of Directors	Audit Comittee /Statutory Auditor	Remuneration Board	General Meeting of Shareholders	Total
Fixed remuneration	1,085,542	166,242	-	-	1,251,784
Variable remuneration	-	-	-	1,260	1,260
	1,085,542	166,242	-	1,260	1,253,044

As a result of the company's privatization process the Board Members are no longer subject to the remuneration limitations established for public managers. Bearing in mind the new reality of CTT as an entity of private capital and admitted to trading on a regulated market, the Remuneration Board (elected by the General Meeting on 24 March 2014 and composed of independent members) defined the new remuneration model for the statutory bodies which followed a benchmark study performed by a specialist firm. Thus, the increase in the caption Remuneration of statutory bodies results from the application of this remuneration policy with effect from the date of the election for the term 2014-2016.

Following the remuneration model approved by the Remuneration Board, it was determined the allocation of a fixed monthly amount for an Open Pension Fund or Retirement Savings Plan to the executive members of the Board of Directors.

The long term variable remuneration awarded to the executive members of the Board of Directors shall be paid at the end of the 2014-2016 mandate in company shares, and the amount of 1,376,407 Euros corresponds to the expense to be recognised in the year ended 31 December 2014 and was determined by an actuarial study performed by an independent entity. The annual variable remuneration will be determined and paid on an annual basis and was also defined by an actuarial study performed by an independent entity.

Staff remuneration

The variation in the heading "Staff remuneration" is mainly a result of the combined effect between the reduction in the average number of employees working for the Company and the remuneration increase that resulted from the cessation of the salary reductions, the reintroduction of seniority-based payments as well as the modifications on the contributory base of retirement discounts. It is also explained by the fact that the Board of Directors has, for the year ended 31 December 2014, decided the attribution of performance bonuses to the company workers.

Indemnities

The caption Indemnities includes 1,223,908 Euro related to compensations paid for termination of employment contracts by mutual agreement.

Social welfare costs

Social welfare costs relate almost entirely, to health costs incurred by the Group with the active workers, as well as expenses related to the Health and Safety at work.

During the years ended 31 December 2014 and 31 December 2013 Staff costs includes 828,060 Euros and 838,647 Euros, respectively, related to expenses with workers' representative bodies.

For the years ended 31 December 2014 and 31 December 2013, the average number of staff of the Group was 12,448 and 12,904 employees, respectively.

37. IMPAIRMENT OF INVENTORIES AND ACCOUNTS RECEIVABLE

For the years ended 31 December 2014 and 31 December 2013, the detail of Impairment of inventories and accounts receivable, net was as follows:

	2014	2013
Impairment losses		
Customers (Note 14)	7,575,359	4,413,997
Other accounts receivable (Note 18)	1,539,178	903,564
Inventories (Note 13)	48,534	33,529
	9,163,071	5,351,090
Reversals of impairment losses		
Customers (Note 14)	875,184	1,505,980
Other accounts receivable (Note 18)	1,046,957	147,512
INESC loan (Note 18)	1,025,722	58,030
Inventories (Note 13)	337,942	109,370
	3,285,805	1,820,892
Net movement of the period	5,877,266	3,530,198

38. DEPRECIATION/ AMORTISATION (LOSSES/REVERSALS)

For the years ended 31 December 2014 and 31 December 2013, the detail of Depreciation/ amortisation and impairment losses, net” was as follows:

	2014	2013
Tangible fixed assets		
Depreciation (Note 5)	17,815,704	19,281,488
Impairment losses (Note 5)	2,530	-
Intangible assets		
Amortisation (Note 6)	2,979,278	4,546,712
Investment properties		
Depreciation (Note 7)	764,567	782,537
Impairment losses (Note 7)	(156,480)	1,104,392
	21,405,600	25,715,129

39. OTHER OPERATING COSTS

For the years ended 31 December 2014 and 31 December 2013, the breakdown of the heading Other operating costs was as follows:

	2014	2013
Taxes	1,627,497	924,465
Bad debts	569,304	177,112
Losses in inventories	397,190	206,330
Costs and losses from non-financial investments	390,193	587,836
Concession rent	11,287	196,240
Unfavourable exchange rate differences of assets and liabilities different from financing	1,934,484	3,664,931
Donations	1,038,825	813,664
Banking services	1,110,280	981,081
Interest on arrears	14,651	645,388
Subscriptions	763,775	657,380
Income tax estimate	-	18,142
Contractual penalties	-	103,296
Other costs	2,589,718	1,705,069
	10,447,204	10,680,935

40. INTEREST EXPENSES AND INTEREST INCOME

For the years ended 31 December 2014 and 31 December 2013, the heading "Interest Expenses" had the following detail:

	2014	2013
Interest expenses		
Bank loans	153,478	177,576
Other interest	66,218	57,315
Unfavourable exchange rate differences of financing liabilities	-	2,602
Interest costs from employee benefits	11,555,946	11,619,156
Other interest costs	22,079	17,814
	11,797,721	11,874,463

During the years ended 31 December 2014 and 31 December 2013, the heading Interest income was detailed as follows:

	2014	2013
Interest income		
Deposits in credit institutions	4,225,231	7,763,801
Other supplementary income	99,956	107,758
	4,325,187	7,871,559

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 23% (25% in 2013), 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 7,500,000 until 35,000,000 Euro. Tourline is subject to income taxes in Spain, through income tax (Impuesto sobre Sociedades - “IS”) at a rate of 30%, and the subsidiary Corre is subject to corporate income tax in Mozambique (“IRPC”).

Corporate income tax (IRC) is levied on the Group and its subsidiaries Postcontacto – Correio Publicitário, Lda., CTT – Expresso, S.A., Mailtec Holding, SGPS, S.A., Mailtec Comunicação, S.A., Mailtec Consultoria, S.A., Mailtec Processos, Lda., Payshop Portugal, S.A. (“Payshop”), and CTT GEST – Gestão de Serviços e Equipamentos Postais, S.A. (“CTT Gest”), through the Special Regime for the Taxation of Groups of Companies (“RETGS”). The remaining companies are taxed individually.

Reconciliation of the income tax rate

As at the years ended on 31 December 2014 and 31 December 2013, the reconciliation between the nominal rate and the effective income tax rate is as follows:

	2014	2013
Earnings before taxes	127,998,690	83,253,185
Nominal tax rate	23.0%	25.0%
	29,439,699	**20,813,296**
Tax Benefits	(270,373)	(418,783)
Accounting capital gains	(51,057)	(2,158)
Tax capital gains	(338,751)	(164,575)
Equity method	56,948	(5,127)
Provisions not considered in the calculation of deferred taxe	13,633	(186,546)
Impairment losses and reversals	4,319,294	209,890
Other situations, net	5,920,739	(1,028,997)
Adjustments related with - autonomous taxation	582,101	728,426
Adjustments related with - Municipal Surcharge	1,242,098	1,055,713
Adjustments related with - State Surcharge	3,951,454	2,784,895
Extraordinary investment tax credit	-	(841,698)
Impact of the change in income tax rate (deferred tax)	4,616,986	-
Tax losses without deferred tax	2,418,712	-
Excess estimated income tax	(746,429)	(796,437)
Income taxes for the períod	51,155,054	22,147,899
Effective tax rate	39.97%	26.60%
Income taxes for the períod		
Current tax	24,823,529	21,469,361
Deferred tax	27,077,954	1,474,975
Excess estimated income tax	(746,429)	(796,437)
	51,155,054	22,147,899

In the year ended 31 December 2014 the heading Excess estimated income tax includes of 487,839 Euros relating to the tax credit allocated under the SIFIDE program of 2006 and 2008 of the subsidiary CTT Expresso. As at 31 December 2013 the same heading includes 621,190 Euro related to the resolution of the claims regarding the amounts of Autonomous Taxation and Municipal and State Surcharge in the years 2008 to 2011.

Deferred taxes

As at the years ended on 31 December 2014 and 31 December 2013, the balance of deferred tax assets and liabilities was composed as follows:

	2014	2013
Deferred tax assets		
Employee benefits - health care	67,864,112	78,221,187
Employee benefits - other long term benefits	10,160,424	10,433,440
Deferred accounting capital gains	2,384,961	3,229,688
Impairment losses and provisions	10,134,884	8,651,941
Conversion adjustments - derecognition of inventories	-	77,821
Conversion adjustments - value deducted from staff debts	-	18,692
Tax losses carried forward	-	2,432,702
Impairment losses in tangible fixed assets	497,238	452,859
Stock purchase plan	387,321	-
Other	-	126,926
	91,428,940	103,645,256

	2014	2013
Deferred tax liabilities		
Revaluation of tangible fixed assets before IFRS	3,793,815	4,288,852
Suspended capital gains	994,953	1,082,455
Other	52,916	110,571
	4,841,684	5,481,878

As at 31 December 2014, expected deferred tax assets and liabilities to be settled within 12 months amounts to 4,023,034 Euro and 640,194 Euro, respectively.

During the years ended 31 December 2014 and 31 December 2013, the movements which occurred under the deferred tax headings were as follows:

	2014	2013
Deferred tax assets		
Opening balances	103,645,256	102,228,537
Effect on net profit	-	-
Employee benefits - health care	(28,063,112)	1,757,201
Employee benefits - other long term benefits	(273,016)	(4,354,755)
Deferred accounting gains	(844,727)	(667,578)
Impairment losses and provisions	1,482,942	(105,163)
Impairment losses in tangible fixed assets	44,378	307,246
Derecognition of inventories	(77,821)	(79,395)
Value deducted from debts	(18,692)	(19,069)
Tax losses carried forward	(2,432,701)	1,358,869
Share plan	387,321	-
Other	(124,155)	66,544
Effect on net profit		
Employee benefits - health care	17,706,037	3,150,049
Change in consolidation perimeter		
Other	(2,770)	2,770
Closing balance	91,428,940	103,645,256

	2014	2013
Deferred tax liabilities		
Opening balances	5,481,878	5,740,233
Effect on net profit		
Revaluation of tangible fixed assets before IFRS adoption	(495,037)	(240,583)
Suspended capital gains	(87,502)	(14,067)
Other	(57,655)	(3,705)
Closing balance	4,841,684	5,481,878

The tax losses carried forward were entirely related to the losses of the subsidiary Tourline in the years 2008, 2009, 2011, 2012 and 2013. These losses may be tax reported in the next 15 years, except the tax loss related to 2012 and 2013, which may be carried forward in the next 18 years.

The sensitivity analysis performed allows us to conclude that a 1% reduction in the underlying rate of deferred tax would imply an increase in the income tax for the period of about 2.9 million Euros.

SIFIDE

The Group policy for recognition of fiscal credits regarding SIFIDE is to recognize the credit at the moment of the effective receipt from the commission certification statement, certifying the eligibility of expenses presented in the applications for tax benefits.

Regarding the expenses incurred with R&D during 2011 of 5,287,949 Euros, the Group will have the possibility of benefiting from a tax deduction estimated to be 2,553,349 Euros, however through notification on 16 April 2014 of the Certification Commission, the non-eligibility of the presented projects was confirmed.

Regarding the expenses incurred with R&D during 2012 of 97,792 Euro, the Group would have the possibility of benefiting from a tax deduction in IRC estimated at 8,913 Euros. According to the notification dated 16 January 2014 of the Certification Commission a tax credit of 3,885 Euros was attributed to CTT.

Relating the expenses incurred with R&D during 2013, of 33,987 Euro, the Group will have the possibility of benefiting from a tax deduction in IRC estimated as 9,519 Euros. According to the notification dated 16 January 2014 of the Certification Commission a tax credit of 8,337 Euros was attributed to CTT.

Regarding the expenses incurred with R&D during 2014 of 736,033 Euro, the Group will have the possibility of benefiting from a tax deduction in IRC estimated at 514,753 Euros.

Other information

Pursuant to the legislation in force, income tax returns are subject to review and correction by the tax authorities for a period of four years (five years 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 years are extended or suspended. Therefore, the Group's income tax returns after 2011 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 2014.

42. RELATED PARTIES

The Regulation on Assessment and Control of transactions with CTT's related parties defines a related party as a qualified shareholder, officer, or even a third party related by any commercial or relevant personal interest and subsidiaries or associates or jointly controlled entities (joint ventures).

According to the Regulation the significant transactions with related parties must be previously approved by the Audit Committee of CTT.

During the years ended on 31 December 2014 and 31 December 2013, the following transactions took place and the following balances existed with related parties:

	2014				
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Shareholders	-	-	-	60,000,000	-
Other shareholders Group companies	-	-	-		
Associated companies	2,901	226	18,048	-	84,300
Jointly controlled	51,389	945	250,988	-	177,272
Members of the				-	-
Board of Directors	-	-	-	-	3,455,261
General Meeting	-	-	-	-	-
Audit Committee	-	-	-	-	284,459
Remuneration Board	-	-	-	-	28,808
	54,291	1,171	269,036	60,000,000	4,030,100

	2013				
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Parpública, SGPS	-	-	-	50,000,000	-
Other shareholders Group companies	-	-	-		
Associated companies	-	(14,084)	19,493	-	29
Jointly controlled	44,671	56,932	238,808	-	61,107
Members of the				-	-
Board of Directors	-	-	-	-	1,218,108
General Meeting	-	-	-	-	1,260
Statutory Auditor	-	-	-	-	128,636
	44,671	42,847	258,301	50,000,000	1,409,140

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

The information concerning the fees and services provided by the Group's external auditors is detailed in items 46 and 47 of the Corporate governance report.

44. OTHER INFORMATION

The following situations do not represent probable liabilities and thus no amount was recorded as a provision for these items.

<u>Privatisation</u>
CTT privatisation process was successfully concluded in the 3rd quarter of 2014 at a turbulent moment for the Portuguese capital market, following the events involving the financial sector in July 2014.

The 2nd stage took place on 5 September 2014 when the remaining 31.5% stake of the Portuguese State in CTT capital was sold through an accelerated bookbuilding process.

The full privatisation of CTT was a very successful process which allowed for the creation of value for all stakeholders:

- Portuguese State: €909m sales proceeds in the several stages of the privatisation, besides the payment of a €19m dividend in May 2014.
- CTT: Solid shareholder base and the necessary conditions to face future challenges.
- Staff: Option to become shareholders and be part of a company that promotes merit and the delivery of results.

CTT became the first Portuguese listed company with a 100% free float.

Postal Bank

Following the process started in 2013 with the request to and the concession by the Bank of Portugal of a license for the creation of the Postal Bank, in 2014 CTT updated the corresponding business model on the basis of a more detailed and in-depth market survey, incorporating current market trends, as well as the capabilities, resources and distinctive factors of CTT.

After confirmation of the value of the project, on 4 November 2014, the Board of Directors of CTT approved the launch of the Postal Bank, as a continuation of the established strategy to expand the Financial Services product offer. The Bank of Portugal authorised a 12-month extension (until 27 November 2015) of the deadline for the Postal Bank to initiate its activity.

The Postal Bank will be based on a low-cost principle leveraging on the CTT Retail Network, and aims at mass-market consumers, who look for a bank to perform their daily banking operations and simple but competitive banking products. Relying on its wide Retail Network, experienced in the business of financial services, with physical proximity to the customers, and offering integrated channels (post offices, online, mobile), CTT will have a clear advantage in offering competitive banking services. The business plan and projected accounts foresee that the funding requirements will amount to €100m within 5 years and from that moment on the bank will be able to release resources to CTT. The Postal Bank was planned to not have any impact on the CTT dividend policy and the key projections were already disclosed in November 2014.

Memorandum of understanding with Altice Portugal, SA

In November 2014, CTT signed a Memorandum of Understanding (MoU) with Altice Portugal, S.A. (a company fully held by Altice, SA), which was at the time bidding to acquire PT Portugal S.A., aiming at a conclusion of a Framework Agreement to maximise the joint synergies of CTT and PT Portugal.

Under the terms of this Memorandum of Understanding, upon the acquisition of PT Portugal by Altice, CTT will receive an initial payment of €15m, which shall be increased by an additional €15m upon the signature of the above-mentioned Framework Agreement. These payments represent a share of the minimum value of the synergies to be obtained in PT Portugal in the context of a much broader commercial and strategic joint venture.

In the context of the development of its strategy and to further develop the announced growth levers, CTT considers that there are substantial commercial synergies and business opportunities with telecommunications operators, including PT Portugal. This vision is shared by Altice, based on its other successful business ventures with postal operators (SFR with La Poste).

The Framework Agreement shall materialise in specific business partnerships to be defined and generate value for both companies, in particular the joint optimisation of the retail networks, taking advantage of the scale and capillarity of the CTT Retail Network, and the development of joint ventures in the area of e-commerce and physical-digital convergence.

New Post, ACE
Following the tender for procurement of information and communications technology services, respecting the Infrastructure Services base, helpdesk services and Desktop Management and Fixed Voice and Data Telecommunications Services, was terminated, with effect on 31 December 2014, the activity of two ACEs (Tipost and PostalNetwork) existing between CTT and previous companies providing these services (IBM and PT).

Based on the award of the Voice Service and Fixed Data, a new ACE (New Post), was created with the company that won the respective tender.

45. SUBSEQUENT EVENTS

Memorandum of understanding with Altice Portugal, SA
At the present date, the sale of PT Portugal to Altice has already been approved by the interested parties - Oi and its shareholder PT SGPS via approval by the General Meeting – the process awaits, at the moment, for the position of the relevant regulatory entities according to publicly available information. It is expected the sale will take place during the 1st semester of 2015, then entering into force the conditions agreed upon in the MoU.

Company Agreement
On 9 February 2015 CTT signed with the eleven trade unions represented in the company, the new Company Agreement (“CA”) valid for the next two years.

This new CA strengthens a labour framework adapted to the specific nature of the company’s business, promoting good social climate and stable collective working relations, all of which are fundamental for CTT in order to face the current and future challenges. For that purpose, the new CA provides for greater alignment with general labour laws, the discontinuing of some specific allowances, the harmonisation of working hours and, for the first time in five years, a 2% increase in fixed salaries in CTT.

Postal services prices
Effecting from 1 March 2015, CTT updated prices corresponding to an average increase of 2.3% of the basket of letter mail, editorial mail and parcels services (which does not cover the universal service offer to bulk mailers who benefit from the special price scheme).

The new prices were defined in accordance with the Criteria for the Formulation of the Universal Service Prices laid down by ICP-Autoridade Nacional de Comunicações (ANACOM) under article 14(3) of Law no. 17/2012, of 26 April, amended by Decree-Law no. 160/2013, of 19 November.

In accordance with the pricing policy of the company for 2015, the current update corresponds to an average annual price increase of around 4%, which also takes into account the increase in the price of bulk mail.

Mailtec SGPS, SA merger into CTT – Correios de Portugal, SA

The merger of Mailtec Holding, SGPS CTT - Correios de Portugal, SA, through the global transference of the assets of Mailtec Holding, SGPS, SA was registered on 20 January 2015.

CTT Services, SA

Following the launching process of the Postal Bank, the company CTT Serviços, SA was incorporated on 6 February of 2015 with a share capital of 5,000,000 Euros.

Corporate accounts

CTT-CORREIOS DE PORTUGAL, S.A.

CORPORATE BALANCE SHEET AS AT 31 DECEMBER 2014 AND 31 DECEMBER 2013

Euro

	NOTES	31.12.2014	31.12.2013
ASSETS			
Non-current assets			
Tangible fixed assets	7	196,761,737	205,899,314
Investment property	8	23,329,763	21,761,886
Goodwill	9	7,705,457	25,083,869
Intangible assets	10	8,934,087	8,382,995
Investment in subsidiaries and associated companies	11	35,876,915	45,900,095
Investment in other companies	12	1,106,812	130,829
Accounts receivable from Group companies	6	9,103,098	13,302,473
Other accounts receivable	15	790,601	1,951,139
Deferred tax assets	38	90,547,447	100,849,449
Total non-current assets		**374,155,917**	**423,262,049**
Current assets			
Inventories	14	5,002,908	5,106,627
Accounts receivable	15	96,513,372	97,129,660
Accounts receivable from Group companies	6	733,318	744,621
Other accounts receivable	15	20,049,456	13,658,366
Deferrals	16	4,670,967	3,479,632
Cash and cash equivalents	4	649,688,918	528,519,241
Total current assets		**776,658,939**	**648,638,147**
Total assets		**1,150,814,856**	**1,071,900,196**
EQUITY AND LIABILITIES			
Equity			
Share capital	19	75,000,000	75,000,000
Legal reserves	20	18,072,559	18,072,559
Other reserves	20	13,701,407	12,325,000
Retained earnings	20	62,752,243	57,823,615
Adjustments in investments	20	21,622,320	25,543,850
Other changes in equity	20	(18,526,395)	24,810,903
Net income for the year		77,171,128	61,016,067
Total equity		**249,793,262**	**274,591,994**
Liabilities			
Non-current liabilities			
Provisions	23	41,715,256	37,915,283
Medium and long term debt	25	1,187,975	1,647,925
Employee benefits	26	255,527,808	278,484,455
Deferrals	16	6,076,311	8,475,340
Deferred tax liabilities	38	4,890,550	5,482,058
Total non-current liabilities		**309,397,900**	**332,005,061**
Current liabilities			
Accounts payble	27	66,845,568	56,871,632
Portuguese State and other public entities	28	18,247,579	12,078,644
Accounts payble to Group companies	6	295,103	244,953
Short term debt	25	460,098	456,263
Employee benefits	26	21,594,809	19,748,171
Other accounts payable	27	478,688,808	372,002,897
Deferrals	16	5,491,729	3,900,581
Total current liabilities		**591,623,694**	**465,303,141**
Total liabilities		**901,021,594**	**797,308,202**
Total equity and liabilities		**1,150,814,856**	**1,071,900,196**

The attached notes are an integral part of these financial statements

CTT- CORREIOS DE PORTUGAL, S.A.

CORPORATE INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013

Euro

	Notes	2014	2013
Sales and services rendered	30	**544,860,686**	**524,797,466**
Grants	29	**62,745**	**-**
Gains/losses from subsidiaries and associated companies	11	**(18,672,591)**	**8,800,827**
Own work capitalised		**407,280**	**295,915**
Cost of sales	14	**(14,655,528)**	**(14,148,463)**
Supplies and external services	32	**(161,177,888)**	**(159,583,221)**
Staff costs	33	**(226,759,946)**	**(279,439,972)**
Impairment of inventories, net	14, 18	**332,471**	**71,182**
Impairment of accounts receivable, net	15, 18	**46,382**	**240,016**
Provisions, net	23	**(9,668,919)**	**(5,769,333)**
Other operating revenues	31	**47,278,332**	**45,406,125**
Other operating costs	35	**(8,399,468)**	**(9,253,199)**
Earnings before interest, taxes, depreciation and amortisation		153,653,556	111,417,343
Depreciation and amortisation, net	34	(18,395,130)	(20,059,693)
Impairment of depreciable/amortisable assets, net	7	153,950	(1,104,392)
Operating income (earnings before interest and taxes)		135,412,376	90,253,258
Interest and similar income received	36	519,287	681,141
Interest and similar expenses	36	(11,629,302)	(11,662,948)
Income before taxes		124,302,361	79,271,451
Income tax	38	**(47,131,233)**	**(18,255,384)**
Net income for the year		77,171,128	61,016,067
Earnings per share	22	0.51	0.41

The attached notes are an integral part of these financial statements

CTT-CORREIOS DE PORTUGAL, S.A.

CORPORATE STATEMENT OF CHANGES IN EQUITY FOR THE PERIODS ENDED ON 31 DECEMBER 2013 AND 2012

Euro

	Notes	Share capital	Legal reserves	Other reserves	Retained earnings	Adjustments in investments	Other changes in equity	Net income for the year	Total equity
Balance on 1 January 2013		87,325,000	18,072,559	10,555,947	61,787,635	25,317,659	33,352,062	35,735,269	272,146,131
CHANGES DURING THE PERIOD									
Actuarial gains/losses - health care	20	-	-	-	-	-	(8,530,822)	-	(8,530,822)
Other changes in equity	20	-	-	-	(255,235)	226,191	(10,338)	-	(39,383)
		-	-	-	(255,235)	226,191	(8,541,160)	-	(8,570,204)
NET INCOME FOR THE PERIOD								61,016,067	61,016,067
COMPREHENSIVE INCOME								61,016,067	52,445,863
TRANSACTIONS WITH STAKEHOLDERS IN THE YEAR									
Share Capital reduction		(12,325,000)	- #	12,325,000	-	-	-	-	-
Appropriation of net income for the year of 2012	20	-	-	-	(2,818,861)	-	-	2,818,861	-
Distribution of dividends	21	-	-	(10,555,947)	(889,924)	-	-	(38,554,129)	(50,000,000)
		(12,325,000)	- #	1,769,053	(3,708,785)	-	-	(35,735,268)	(50,000,000)
Balance on 31 December 2013		75,000,000	18,072,559	12,325,000	57,823,615	25,543,850	24,810,903	61,016,067	274,591,994
CHANGES DURING THE PERIOD									
Actuarial gains/losses - health care	20	-	-	-	-	-	(43,335,066)	-	(43,335,066)
Other changes in equity	20	-	-	1,376,407	3,912,561	(3,921,530)	(2,232)	-	1,365,207
		-	-	1,376,407	3,912,561	(3,921,530)	(43,337,298)	-	(41,969,859)
NET INCOME FOR THE PERIOD								77,171,128	77,171,128
COMPREHENSIVE INCOME								77,171,128	35,201,269
TRANSACTIONS WITH STAKEHOLDERS IN THE YEAR									
Appropriation of net income for the year of 2013	20	-	-	-	61,016,067	-	-	(61,016,067)	-
Distribution of dividends	20, 21	-	-	-	(60,000,000)	-	-	-	(60,000,000)
		-	-	-	1,016,067	-	-	(61,016,067)	(60,000,000)
Balance on 31 December 2014		75,000,000	18,072,559	13,701,407	62,752,243	21,622,320	(18,526,395)	77,171,128	249,793,262

The attached notes are an integral part of these financial statements

CTT-CORREIOS DE PORTUGAL, S.A.

CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013

Euro

	Notes	2014	2013
OPERATING ACTIVITIES:			
Collection from customers		552,932,792	525,241,517
Payments to suppliers		(167,588,299)	(181,008,788)
Payments to staff		(279,279,756)	(277,404,185)
Cash flow generated by operations		106,064,737	66,828,543
Payment of income tax		(15,303,753)	(18,973,692)
Payment of other taxes		(7,010,065)	(9,595,584)
Other receivables/payments		83,353,459	61,109,260
		61,039,641	32,539,984
Cash flow from operating activities (1)		167,104,378	99,368,527
INVESTING ACTIVITIES:			
Receivables remeting from:			
Tangible fixed assets		1,434,725	820,569
Financial investments		22,293,518	58,030
Loans granted		9,905,569	-
Interest and related income		6,704,914	11,010,737
Dividends	11	15,392,297	12,942,029
		55,731,024	24,831,364
Payments remeting from:			
Tangible fixed assets		(5,717,843)	(8,160,100)
Intangible assets		(210,199)	(4,728,476)
Financial investments	11	(23,153,803)	-
Loans granted		(11,205,569)	-
		(40,287,414)	(12,888,576)
Cash flow from investment activities (2)		15,443,610	11,942,788
FINANCING ACTIVITIES:			
Receivables remeting from:			
Loans obtained		-	-
		-	-
Payments remeting from:			
Loans repaid		-	(2,995,872)
Finance leases - repayment of principal		(456,115)	(453,057)
Interest and related expenses		(922,195)	(691,657)
Dividends	20	(60,000,000)	(50,000,000)
		(61,378,310)	(54,140,587)
Cash flow from financing activities (3)		(61,378,310)	(54,140,587)
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		121,169,677	57,170,728
Cash and cash equivalents at the beginning of the year	4	528,519,241	471,348,513
Cash and cash equivalents at the end of the year	4	649,688,918	528,519,241

The attached notes are an integral part of these statements

CTT – CORREIOS DE PORTUGAL, S.A.

NOTES TO THE CORPORATE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2014

(AMOUNTS EXPRESSED IN EURO)

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1 INTRODUCTION

1.1 CTT – Correios de Portugal, S.A.

CTT – Correios de Portugal, S. A. ("CTT, SA", "Parent Company" or "Company"), with head Office at Avenida D. João II, no 13, 1999-001 in Lisbon, had its origin in the "Administração Geral dos Correios Telégrafos e Telefones" government department and its legal form is the result of successive re-organizations carried out by the Portuguese state business sector in the Communications area.

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

On 31 January 2013 the Portuguese State through the Order 2468/12 – SETF, of 28 December determined the transfer of the investment owned by the Portuguese State in CTT to Parpública.

At the General Meeting held on 30 October 2013, the registered capital of CTT was reduced from 87,325,000 Euro to 75,000,000 Euro, being from that date onward represented by 150.000.000 shares, as a result of a stock split which was accomplished through the reduction of the nominal value from 4.99 Euro to 0.50 Euro.

For the year ended 31 December 2013 CTT's capital was opened to the private sector. Thus, and supported by Decree-Law No. 129/2014 of 6 September and the Resolution of the Council of Ministers ("RCM") No. 62-A/2014, of October 10, the RCM No. 62-B/2014 of October 10 and RCM No. 72-B/2014, of November 14, on 5 December 2014 took place the first phase of privatisation of the capital of CTT. From this date, 63.64% of the shares of CTT (95.5 million shares) were owned by the private sector, of which 14% (21 million shares) were sold in a Public Offering and 49.64% (74.5 million shares) by Institutional Direct Selling. On 31 December 2013 the Portuguese State, through Parpública-Participações Públicas, SGPS, S.A. held 36.36% of the shares of CTT, 30.00% by detention and 6.36% by allocation.

On 5 September, 2014 the second phase of the privatization of CTT's capital took place. The shares held by Parpública-Participações Públicas, SGPS, S.A., which represented 31.503% of CTT's capital, were subject to a private offering of Shares (the "Equity Offering") via an accelerated bookbuilding process. The Equity Offering was addressed exclusively to institutional investors.

The shares of CTT are listed on Euronext Lisbon.

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

1.2 Activity

The main activity of CTT is to establish, manage and operate the infrastructures of the Universal Postal Service in Portugal, and to render financial services, which include the transfer of funds by means of current accounts that can be operated by a financial operator or para-banking entity to be founded under the Company. In addition, the corporate object includes any activities that are complementary, subsidiary or related to these services, as well as the marketing of goods or provision of services on its own account or on behalf of third parties, provided that they are convenient or compatible with the normal operation of public postal network, namely, the provision of information services, networks and electronic communications services, including related resources and services.

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

Following the amendments introduced by Directive 2008/6/EC of 20 February 2008 of the European Parliament and of the Council to the regulatory framework that governs the provision of postal services, it took place in 2012 its transposition into the national legal order through the adoption of Law no. 17/2012, of 26 April ("new Postal Law"), with the changes introduced in 2013 by Decree-Law no. 160/2013, of 19 November and Law no. 16/2014, of 4 April, revoking the Law no. 102/99, of 26 July.

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

Thus, since the new Postal Law has become effective, the postal market in Portugal has been fully open to competition, eliminating areas within the universal service that were still reserved to the provider of the universal postal service CTT – Correios de Portugal, SA ("CTT"). However, for reasons of general interest, the following activities and services remained reserved: placement of mailboxes on public roads for the acceptance of mail, issuance and sale of postage stamps with the word "Portugal" and registered mail used in legal or administrative proceedings.

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

- A postal service for letter mail (excluding direct mail) books, catalogs, newspapers and other periodicals up to 2 kg;
- A postal service for postal parcels up to 10 kg, as well as delivery in the country of parcels received from other Member States of the European Union weighing up to 20kg;
- A delivery service for registered items and a service for declared value items.

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

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

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

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

Once the concession ends, in the event that it is not granted to CTT, CTT may provide, together with any other operators, 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.

In summary, in view of the legal and regulatory framework in force, namely the ongoing process of amendment of the concession agreement, CTT considers that there are no grounds for the introduction of any relevant alteration to the accounting policies of the Company.

2 ACCOUNTING STANDARDS USED TO PREPARE THE FINANCIAL STATEMENTS

The present financial statements were drawn up on a going concern basis from the Company's ledgers and accounting records kept in conformity with the standards of the Sistema de Contabilização Contabilistica ("SNC"), regulated by the following legal diplomas:

- Decree-Law number 158/2009, of 13 July , as rectified by Declaration of Rectification number 67-B/2009, of 11 September, and as amended by Law number 20/2010, of 23 August;
- Implementing Order number 986/2009, of 7 September (Financial Statement Models);
- Notice number 15652/2009, of 7 September (Conceptual Structure);
- Notice number 15655/2009, of 7 September (Accounting and Financial Reporting Standards);
- Notice number 15654/2009, of 7 September (Interpretative Standards);
- Implementing Order number 1011/2009, of 9 September (Code of Accounts).

The Accounting and Financial Reporting Standards ("NCRF") which are an integral part of the SNC were used for all aspects relative to recognition, measurement and disclosure. The financial statements were prepared using the financial statement models established in article 1 of

Implementing Order number 986/2009, of 7 September, namely the balance sheet, income statement, statement of changes in equity, cash flow statement and notes.

The SNC standards were used to prepare the financial statements for the first time in 2010, and became the reference basis for subsequent periods.

Pursuant to the Annex to Decree-Law number 158/2009, the Company supplementarily applies the International Accounting Standards (IAS) adopted under Regulation (EC) No. 1606/2002 of the European Parliament and Council, the International Accounting and Financial Reporting Standards ("IAS/IFRS") and their respective interpretations ("SIC/IFRIC") of the IASB, in order to address any gaps or omissions relative to aspects of some transactions or particular situations that are not covered by the SNC.

During the years of 2014 and 2013, to which the present financial statements refer, there was no derogation of any provisions of the SNC which might have produced materially relevant effects and place in question the true and appropriate image of the information that was disclosed.

3 SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies adopted by the Company in the preparation of these financial statements are described below and were applied consistently.

3.1 Tangible fixed assets

Tangible fixed assets (Note 7) are initially recorded at acquisition or production cost. The acquisition cost includes: (i) the purchase price of the asset, (ii) the expenses directly imputable to the purchase, and (iii) the estimated costs of dismantlement or removal of the assets and restoration of the location (Notes 3.13 and 23). After their initial recognition, tangible fixed assets are measured at cost minus any accumulated depreciation and accumulated impairment losses, when applicable. Under the exception of NCRF3 – First-time Adoption of the Accounting Financial Reporting Standards, the reassessment of the tangible assets made, according with Portuguese legislation applying monetary indices, in the years prior to 1 January 2009, were kept, for the purposes of the NCRF, and the revalued amounts were referred to as “deemed cost”.

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

	Years of useful life
Buildings and other constructions	10 – 50
Basic equipment	4 – 10
Transport equipment	4 – 7
Tools and utensils	4
Office equipment	3 – 10
Other tangible fixed assets	5 – 10

Land is not subject to depreciation.

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

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

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

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

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

3.2 Investment Property

The investment properties are properties (land or buildings) held by the Group to obtain rentals or for capital appreciation or both, rather than for:

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

b) sale in the ordinary course of business.

Investment properties comprise mainly properties that the Group did not affected to the rendering of services by the company and holds to earn rentals or for capital appreciation.

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

The depreciation rates are between 10 and 50 years.

The Company ensures the annual assessment of assets qualified as investment properties, in order to determine any impairment and perform the required fair value disclosure.

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

3.3 Concentration of corporate activities and Goodwill

Investments in subsidiaries, joint ventures and associates are recorded at acquisition cost and subsequently measured by the equity method (Note 3.6).

At the date of acquisition of a subsidiary, jointly controlled entity or associate any excess of the acquisition cost compared with the identifiable fair value of the assets, liabilities and contingent liabilities of each acquired entity is considered goodwill (Note 9), in accordance with NCRF 14 – Business Combinations. Under the exception provided by NCRF 3 – First-time Adoption of the Accounting Financial Reporting Standards, the Company applied the provisions of NCRF 14 only to acquisitions occurred after 1 January 2009. The goodwill values corresponding to acquisitions before 1 January 2009 were kept, at the net amounts presented on that date.

Goodwill is not amortised, and its recoverable amount is assessed annually or whenever there is indication of an eventual loss of value. Impairment losses are recognised in the costs for the period. The recoverable amount is determined based on the value in use of the assets, and is calculated by using assessment methods based on cash flow discounting, considering market conditions, the time value and business risks. Impairment losses are not reversible.

In cases where the acquisition cost is less than the fair value of the acquired assets and liabilities, the difference is recorded as a financial gain in the corporate Income Statement for the period when the acquisition takes place.

Whenever the cost of acquisition is less than the fair value of assets and liabilities acquired, the difference is recorded as financial gain in the income statement in the period in which the acquisition occurs after confirmation of the estimated fair value.

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

3.4 Intangible assets

Intangible assets (Note 10) are initially recorded at acquisition cost. After their initial recognition, intangible assets are measured at cost minus any accumulated amortisation and impairment losses, when applicable. Intangible assets are only recognised when it is probable that they will result in future economic benefits for the Company, and which can be measured reliably.

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

The cost of internally generated intangible assets comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended.

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

	Years of useful life
Development projects	3
Industrial property	3 – 20
Computer programes	3 – 10

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

The Company performs impairment testing whenever events or circumstances indicate that the carrying amount exceeds the recoverable amount, being the difference, if any, recognized in the income statement. The recoverable amount is determined as the higher of its net selling price and value in use, which is calculated based on the present value of estimated future cash flows that are expected to be derived from continuing use of the asset and its disposal at the end of its useful life.

Gains or losses arising from the divestment of intangible assets are determined by the difference between the sales value and their carrying value on the date of the divestment, and are stated in the Corporate Income Statement as "Other operating revenues " or "Other operating costs ".

3.5 Foreign currency transactions and balances

Transactions in foreign currency (a currency different from the Company's functional currency) are recorded at the exchange rates in force on the transaction date. Monetary assets and liabilities in foreign currency for which there is no agreement on the determination of the exchange rate are converted to Euro at the exchange rates in effect at the reporting date. Non-monetary assets and liabilities recorded at historical cost, denominated in foreign currencies, are converted at the exchange rate of the transaction date.

Favourable and unfavourable currency conversion differences arising from differences between the exchange rates in force on the transaction dates and those in force on the collection, payment or reporting date are recorded as “Other operating revenues” or “Other operating costs” in the Corporate Income Statement for the period (Notes 31, 35, and 37). When a gain or a loss on a non-monetary item is recognized directly in equity, any exchange difference included in that gain or loss is recognized directly in equity. When a gain or a loss on a non-monetary item is recognized in the income statement, any exchange difference included in that gain or loss is recognized in the income statement.

Positive currency conversion differences regarding financing activities are recorded in the corporate income statement as “Interest and similar income” and negative differences as “Interest and similar expenses” (Notes 36 and 37).

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

The following exchange rates were used in the conversion of the balances and financial statements in foreign currency (X foreign currency for 1 Euro):

	2014		2013	
	Close	Average	Close	Average
Mozambican Metical (MZM)	38.53000	40.66583	41.24000	39.66750
United States Dollar (USD)	1.21410	1.32884	1.37910	1.32815
Special Drawing Right (SDR)	1.19332	1.14454	1.11732	1.14440

Source: Bank of Portugal

3.6 Investments in subsidiaries, associates and other companies

Investments in which the Company holds control, usually represented by more than half the voting rights (subsidiary companies), in which it exercises a significant influence, usually where the investment represents between 20% and 50% of the voting rights (associated companies), or those it controls jointly with other entities, are recorded on the corporate statement of financial position in Investment in subsidiaries and associates companies, at acquisition cost and are measured subsequently by the equity method (Note 11).

Control is presumed to exist when the Company holds more than half of the voting rights or when it has the power to manage the financial and operating policies of an enterprise or an economic activity to obtain benefits from it, even if it has less than 50%.

The existence of significant influence by the Group is usually evidenced in one or more of the following ways:

- Representation on the Board of Directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the Company and the investee;
- Interchange of the management team;
- Provision of essential technical information.

In accordance with the equity method, the investments are initially recorded at their cost and subsequently, adjusted by the value corresponding to the investment in the income statement of the subsidiary, joint ventures or associated companies, against “Gains/losses from subsidiaries and associated companies”, and through other changes in equity against “Adjustments to financial assets in investments”. Additionally, the investments may also be adjusted through the recognition of impairment losses. Whenever there are indicators that the assets may be impaired, assessments are carried out and the existing impaired losses are recorded as costs in the Corporate Income Statement.

The net income of subsidiaries, which have been acquired or disposed of during the period, are included in the income statement, from the date the Company holds control, significant influence or joint control until the date in which the company loses control, significant influence or joint control.

Whenever losses in associated or subsidiary companies exceed the investment made in these entities, the carrying value is reduced to zero and the recognition of future losses is discontinued, except in what concerns the part in which the Company incurs in any legal or constructive obligation of assuming all those losses in the name of the associated or subsidiary company, in which case a provision is recorded (Note 23).

Dividends received from subsidiary and associated companies are recorded as a decrease in value of the Investment in subsidiaries and associates companies.

When the impairment losses recognized in prior years no longer exist are subject to reversal, with the exception of those related to goodwill.

The unrealized gains and losses on transactions with subsidiaries, jointly controlled entities and associates are eliminated in proportion to the Company's interest in subsidiary, jointly controlled entity or associate, against the investment in the subsidiary, jointly controlled entity or associate entity. Unrealised losses are eliminated similarly but only to the extent that the loss does not show that the transferred asset is impaired.

Financial investments are recorded in Investment in subsidiaries and associates companies at acquisition cost (Note 12). Whenever there are indicators that assets may be impaired, an assessment is carried out to these investments, and if there is an impairment loss, this is recorded as “Impairment of others assets, net”. Dividends received from companies thus classified are recorded in the income statement for the period when their distribution is decided and announced.

3.7 Impairment of tangible and intangible assets, except goodwill

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

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

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

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

3.8 Financial instruments

A financial instrument is an agreement which leads to a financial asset at an entity or a financial liability or equity instrument at another entity.

Financial assets, liabilities and equity instruments are recognised in the corporate statement of financial position when the Company becomes a party in the corresponding contractual provisions. A financial asset is any asset, whether money or a contractual right to receive money. A financial instrument is classified as a financial liability when there is a contractual obligation by the issuer to settle a principal amount and/or interest, by delivering cash or another financial asset, regardless of their legal form.

The Company's financial assets are basically its Customers and other accounts receivable, Cash, and Cash equivalents. The financial liabilities are fundamentally its Debt and suppliers and other accounts payable. The financial assets and liabilities are measured on the reporting date at cost or amortised cost minus any impairment loss, or at fair value with the amendments to the fair value being recognised in the income statement. The Company measures the financial instruments at cost or amortized cost less impairment losses when they met the following conditions:

- The obligation is on demand or has a defined maturity date;
- The returns for the obligation holder are (i) of a fixed amount, (ii) of a fixed interest rate over the instrument's life, or of a variable rate that is indexed to a typical market for financing transactions (e.g.: Euribor), or includes a spread over the same index; and
- The obligation contains no contractual clause that would result in a face value loss and accrued interest loss for the holder (excluding the typical cases of credit risk).

At each financial reporting date an assessment is made as to whether there is objective evidence of impairment, namely of which an adverse effect may result on estimated future cash flows of the financial asset or group of financial assets, and whether it may be reliably measured at any time.

If there is objective evidence of impairment for the financial assets, the relating recoverable amount of the financial asset is determined, and the impairment loss is recognized in the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after their initial recognition.

An equity instrument is defined as any agreement which provides evidence of an interest in the Company's assets after subtraction of all the liabilities. Equity instruments are basically Company shares, supplementary and additional capital payments, whenever they comply with the concept of an equity instrument.

Accounts receivable

The balances of customers and other debtors constitute the accounts receivable derived from services rendered by the Company during normal business activity (Note 15). When it is expected that their collection will occur within one year or less, they are classified as current assets. Otherwise, they are classified as non-current assets.

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

Accounts receivable classified as non-current assets are measured at their respective amortised cost, determined in accordance with the effective interest rate method.

When there is evidence that they are impaired, the corresponding loss is recorded in income statement.

Their de-recognition only occurs when the contractual rights expire.

Cash and cash equivalents

The amounts included under the heading of cash and cash equivalents correspond to cash, sight deposits, time deposits and other cash investments which are repayable on demand with insignificant risk of change of value. These assets are measured at the amortised cost. Usually, their amortised cost does not differ from the nominal value.

For the purposes of the cash flow statement, the heading "Cash and cash equivalents" does not include the bank overdrafts reported in the corporate statement of financial position under "Debt" (Note 4).

Debt

Debt (Note 25) is recorded at cost or at amortised cost. They are expressed in current or non-current liabilities, depending on whether their maturity is less or more than a year, respectively. Their de-recognition only occurs when the obligations arising from contracts terminate, namely when their full payment, cancellation or expiry has taken place.

Financial charges are calculated according to the effective interest rate and stated through net income statement according to the accrual basis principle, and the due and unpaid amounts as at the reporting date are classified under "Other accounts payable"(Note 27).

Accounts payable

The balances of suppliers and other accounts payable (Note 27) are liabilities relative to the acquisition of goods or services by the Company during normal business activity. If their payment falls due within one year or less, then they are classified as current liabilities. Otherwise, they are classified as non-current liabilities.

Accounts payable classified as current liabilities are recorded at cost, which normally does not difer from their nominal value.

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

Their de-recognition only occurs when the obligations arising from agreements terminate, namely when their full payment, cancellation or expiry has taken place.

Equity instruments

An equity instrument is only recognised when it is issued and underwritten. If an equity instrument is issued and underwritten, and if the funds are not provided, the amount receivable is stated as a deduction from equity.

Should the Company acquire its own equity instruments, these instruments are recognised as a deduction from equity.

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

The costs related to an issue of equity which fails to be realized are recognised as expenditure in the income statement.

3.9 Inventories

Goods and raw materials, subsidiary materials and consumables (Note 14), are valued at the lowest cost between the acquisition cost and net realizable value, using the weighted average cost, as the method of valuing warehouse outputs.

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

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 under the caption “Impairment of inventories (losses/reversals).

The inventory system used in the Company's perpetual inventory system.

3.10 Non-current assets available for sale and discontinued operations

Non-current assets, namely tangible fixed assets and equity holdings, are classified as available for sale (Note 17) if the corresponding value can be achieved through its sale and not its continuous use. It is considered that this situation occurs only when: (i) the sale is highly probable and the asset is available for immediate sale in its present condition, (ii) the Company has made a commitment to sell, and (iii) the sale is expected to be completed within a 12-month period.

Non-current assets, which are classified as available for sale, are measured at the lowest value between the carrying value before this classification and fair value minus the expected sale costs. Whenever the fair value is less than the carrying value, the difference is recognised in "Impairment of depreciable/amortisable assets, net" or in "Impairment of non-depreciable assets, net"

Non-current assets available for sale are presented on a specific line of the balance sheet.

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

If an asset no longer meets the requirements to be classified as held for sale, this classifications must cease and its value must be stated as the lowest of: (i) the carrying value before the classification as available for sale, adjusted by any depreciation or amortisation that would be made if it had not been classified as such; and, (ii) the recoverable amount at the date of the later decision not to sell. Any adjustment is recognised through the Corporate income statement.

A discontinued operation is a component of the Company that has been sold or classified for sale, and (i) represents an important separate business line or operational geographic area, or (ii) is part of a single coordinated plan to sell an important separate business line or operational geographic area.

The earnings of discontinued operations are presented in a specific line, in the income statement, after the net income for the period.

3.11 Earnings per share

Earnings per share (Note 22) are calculated by dividing the profit attributable to the shareholders by the weighted number of ordinary shares in circulation during the period.

However if a change in the number of shares that does not imply the input or output of Company funds, the calculation of earnings per share will take into consideration the number of shares existing today.

3.12 Distribution of dividends

The distribution of dividends, when approved at the General Meeting of the Company, and until the shareholders are paid, is recognised as a liability (Note 21).

3.13 Provisions and contingent liabilities

Provisions (Note 23) are recognised when, cumulatively: (i) the Company has a present obligation (legal or implicit) arising from a past event, (ii) it is probable that its payment will be demanded, and (iii) there is a reliable estimate of the value of this obligation.

The amount of the provisions corresponds to the present value of the obligation, with the financial updating being recorded as a financial cost under the heading "Interest and similar expenses" (Note 36).

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

Whenever losses in the subsidiary or associated companies exceed the investment made in these entities, the carrying value is reduced to zero and the recognition of future losses is discontinued, except in what concerns the part in which the Company incurs in any legal or constructive obligation to assume all these losses on behalf of the associated or subsidiary company, in which case a Provision is recorded for investments in subsidiaries and associate companies.

Restructuring provisions
Restructuring provisions are made whenever a detailed formal restructuring plan has been approved by the Company and it has been launched or publicly disclosed, which identifies:

- The business or part of the business concerned;
- The main affected locations;

- The location, function and approximate number of employees who will be compensate for the cease of their services;
- The expenditures that will be undertaken;
- When plan will be implemented; and
- It raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The restructuring provision includes direct expenditures arising from the restructuring, which are those necessary entailed by the restructuring, or not associate with the ongoing activities of the entity.

The restructuring provision does not include the cost of retaining or relocating continuing staff, marketing and investment in new systems and distribution networks and are recognized on the same basis as if they appeared independently of a restructuring expenses in the period that they occur.
The expected gains on assets disposals are not taken into account in a restructuring provision measurement, even if the assets sale is seen as a restructuring part.

Dismantling costs provisions
Provisions are made for dismantling costs, costs of removal of the asset and costs of restoration of the site of certain assets, when these assets are in use and it is possible to reliably estimate the respective obligation, or when there is a contractual commitment to restore the spaces rented by third parties. When the time value effect is material, the environmental liabilities, that are not settle in a near future, are measured at their present value.

Provisions for litigations in progress
A provision for litigation in progress is recorded when there is a reliable estimate of costs to be incurred due to legal actions brought by third parties, based on the evaluation of the effectiveness of the probability of pay based on the opinion of the Company's lawyers.

Provision for onerous contracts
A provision for onerous contracts is measured at the present cost whenever the unavoidable costs to satisfy the contract's obligations exceeds the expected financial benefits that will be received under the same.

Contingent assets and liabilities
Whenever any of the conditions for the recognition of provisions is not met, the Company discloses the events as contingent liabilities (Note 23). Contingent liabilities are: (i) possible obligations which arise from past events and whose existence will only be confirmed by the occurrence, or not, of one or more future events that are uncertain and not fully under the Company's control, or (ii) present obligations which arises from past events, but which are not recognised because it is not probable that an outflow of resources which incorporate economic benefits will be necessary to settle the obligation, or the value of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed unless the possibility of an outflow of resources is remote.

Contingent assets and liabilities are evaluated continuously to assure that the developments are reflected properly in the financial statements.

If it becomes probable that an outflow of future economic benefits will be demanded for an item previously treated as a contingent liability, a provision is recognized in the financial statements of the period that probability change occurred.

If becomes virtually right that will occur an economic benefits inflow, the asset and related revenue are recognized in the financial statements of the period that probably will occur the change.

The Company does not recognizes contingent assets and liabilities.

3.14 Leases

Leases are classified as financial or operating according to the substance of the transition and not the form of the contract. Leases are classified as financial whenever their terms imply the substantial transfer, to the lessee, of all the risks and advantages associated to the ownership of the asset (Note 25). All other leases are classified as operating (Note 24).

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

For operating leases, the instalments that are owed are recognised as a cost in the Income Statement, during the lease period (Note 32).

3.15 Employee benefits

The Company adopts the accounting policy for the recognition of its liability for the payment of post-retirement health care and other benefits, whose criteria are set out in NCRF 28 - Employee Benefits, namely using the projected unit credit method (Note 26).

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

The discount rate used is based on market rates associated to Company’s high rating bonds, denominated in the currency in which benefits will be paid and a similar ending date of maturity plan’s bonds.

The actuarial gains and losses resulting (i) gains and losses resulting from differences between actuarial assumptions used and the amounts actually observed (experience gains and losses) and (ii) changes in actuarial assumptions, are recognized in reserves, in accordance with the alternative method allowed by IAS 19 – Employee's Benefits, adopted by the original text Regulation (CE) n.º 1126/2008 of Commission, 3 November.

The Company recognize as an expense, in the financial statements, a net total value that includes (i) current service cost, (ii) interest cost and (iii) expected income from fund's assets.

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

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

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

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

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

The maintenance of the post-employment health plan benefits requires that the beneficiaries (retirees and pensioners) pay a fee corresponding to 1.5% of their respective pension. For each family member enrolled a fee is also paid, corresponding to 1.5% or 2% of the pension, depending on the percentage of the amount of the pension. In certain special situations, an exemption from the payment of the fee may be granted, either for the beneficiaries or for family members. Resulting from the amendment to the Health Care Plan this fee shall, from 1 January 2015, correspond to 2.25% of the pension.

Note that liabilities recorded on 31 December 2014 already include this change in the value of the fee.

The management of the health care plane is ensured by the IOS – Instituto das Obras Sociais (Institute of Social Work), which in turn, hired Portugal Telecom – Associação de Cuidados de Saúde (Health Care Association) ("PT-ACS") to provide health care services. The contract with PT-ACS was in force until 31 December 2014, being from 1 January 2015 onwards ensured by Médis – Companhia Portuguesa de Seguros de Saúde, SA (Médis - Portuguese health care insurance company).

<u>Other long term benefits</u>
CTT also assumed a series of constructive obligations to certain groups of workers (Note 26), namely:

- Suspension of contracts, redeployment, pre-retirement contracts, and release from employment
The liability for the payment of salaries to employees in the abovementioned situations or equivalent, are fully recognised at the time they move into these conditions.

- Telephone subscription charges
CTT has assumed the obligation of the life-long payment, to a closed group of retired workers and surviving spouses (7,149 beneficiaries as at 31 December 2014, and 7,680 beneficiaries as at 31 December 2013), of the telephone rental charges, to a monthly amount of 15.30 Euro.
During the year ended 31 December 2013, the Board of Directors of CTT, decided to modify the economic benefit. Thus, from 1 January, 2014, the cash payment was replaced by a benefit in kind.

- Pensions for accidents at work
The liabilities related to the payment of pensions for accidents at work is restricted to workers integrated in CGA

The Company also supports other liabilities arising from accidents at work suffered by these workers.

According to the legislation in force concerning employees integrated in CGA, CTT is liable for the costs incurred with pensions that have been attributed for damages resulting from accidents at work, and which have resulted in permanent handicap or death of the worker. The value of these pensions is updated pursuant to a legal diploma. Currently, because it is not considered as economically justifiable, no insurance policy has been taken out to meet these liabilities. As at 31 December 2014 and 31 December 2013 there were 64 and 67 beneficiaries, respectively, receiving this type of pension.

- Monthly life annuity
This is an annuity provided for in the family benefits legal system set out in DL no. 133-B/97 of 30 May, as amended by the Declaration of Rectification number 15-F/97, of 30 September, amended by D.L. no. 248/99, of 02 July, 341/99 of 25 August, 250/2001 of 21 September, and 176/2003, of 02 August.
Beneficiaries are workers, still working or retired, who have descendants over 24 years old, with physical, organic, sensorial, motor or mental disabilities, who are in a situation that prevents them from normally providing for their subsistence through the exercise of professional activity. In the case of beneficiaries integrated in the CGA, the cost of the monthly life annuity is the responsibility of CTT. As at 31 December 2014 there were 30 beneficiaries under these conditions, (48 beneficiaries as at 31 December 2013), receiving a monthly amount of 176.76 Euro, 12 months a year. This value is

updated by Implementing Order of the Ministério das Finanças and the Ministério do Trabalho e Segurança Social.

- Support for termination of professional activity
This benefit is granted to employees who retire with at least 5 years of seniority at the Company. Its amount depends on the seniority on the retirement date. As at 31 December 2012, the table in force determined a maximum amount of 1,847.16 Euro for 36 or more years of service. In 2012, the Board of Directors decided to discontinue the compensation awarded to the workers who have reached the end of their active life at the service of CTT, SA. It has also ruled that, in situations of disconnection and retirement that may occur as a result of the requests for retirement submitted until 31 March, 2013, the benefit referred to above would be maintained (Note 26).

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.

- Defined contribution plan – Open Pension Fund or Retirement Savings Plan
Following the new remuneration model of the Statutory Bodies defined by the Remuneration Board (elected by the General Meeting of 24 March 2014 and composed of independent members), was determined the allocation of a fixed monthly amount for an Open Pension Fund or Retirement Savings Plan to executive members of the Board of Directors.

This contribution falls into the definition of a defined contribution plan under NCRF 28 - Employee benefits. The accounting for defined contribution plans is straightforward because the reporting obligation for each period is determined by the amounts to be contributed for that period. Consequently, no further actuarial assumptions to measure the obligation or the expense are needed and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except when they are not settled completely within twelve months after the end of the period in which the employees render the respective service.

3.16 Share based payments

The benefits granted to the executive members of the Board of Directors under the long term remuneration plans are recorded in accordance with the requirements of IFRS 2 – Share-based payments.

In accordance with IFRS 2, the benefits granted to be paid on the basis of own shares (equity instruments), are recognised at fair value at the date of allocation.

Since it is not possible to estimate reliably the fair value of the services received from employees, their value is measured by reference to the fair value of equity instruments in accordance with their share price at the grant date.

The fair value determined at the date of allocation of the benefit is recognised as a linear cost over the period in which it is acquired by the beneficiaries as a result of their services, with the corresponding increase in equity.

3.17 Revenues

The revenue relative to sales, services rendered, royalties, interests and dividends (from investments not stated by the equity method), arising from the Company's normal business activity is measured at the fair value of the consideration that has been or will be received, which is defined as the sums established freely between the contractual parties on an independent basis, where, in relation to sales and services rendered, their fair value reflects any discounts granted and does not include Value Added Tax (Notes 30, 31, and 36).

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

Revenue from the sale of merchandising products and from postal business is recognised when the risks and benefits of ownership of the products are transferred to the buyer, which usually occurs at the time of the transaction.
The revenue from rendering postal services is recognised at the moment the customer requests the service, since CTT has no information that would allow a reliable estimate of the amount concerning the deliveries not made on the date of the balance sheet, although it is understood that this issue is not materially relevant, as the date of the service request does not significantly differ from the date of delivery.

The prices of the services rendered 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 for Post Office Boxes is recognized over the period of the respective contracts.

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

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

Revenue concerning royalties is recognised under to the accrual method, according to the substance of the respective contracts, provided it is probable that economic benefits will flow to the Group and their costs may be measured reliably.

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

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

Revenue from dividends, from investments not stated by the equity method, is recognised when the Company's right to receive the payment is determined, which usually occurs through deliberation of the shareholders company.

3.18 Subsidies obtained

Subsidies are recognised when there is reasonable assurance that they will be received and that the Company will comply with the conditions required for their assignment (Note 29).

Subsidies associated with the acquisition or production of tangible fixed assets or intangible assets are initially recognised in equity (Note 20), and are later recognised in the Income Statement on a systematic basis as revenues of the period (Note 31), in a consistent and proportional way to the depreciation of the assets for which they were acquired. If the subsidies relate to non-depreciable assets with undefined useful life, the amounts will be kept in equity, except if they are necessary to offset any impairment loss.

Operating subsidies, namely those for the employees training, are recognised in the Income statement as income, for the periods necessary to balance them with the expenses incurred (Note 31), to the extent that these subsidies are not refundable.

3.19 Borrowings costs

Financial charges related to loans are recognised in net income, in which they are incurred (Note 36). Except interest, which is capitalised when loans are directly attributable to the acquisition or construction of an asset that requires a substantial period of time (over one year) in order to reach its intended use.

3.20 Taxes

Corporate income tax ("IRC")
Corporate income tax (Note 38) corresponds to the sum of current taxes and deferred taxes. Current taxes and deferred taxes are recorded through net income, unless they refer to items stated directly under equity. In these cases, current and deferred taxes are also recorded under equity.

Current tax payable is based on the taxable income for the period, calculated in accordance with the tax laws in force on the reporting date. Taxable income differs from carrying amounts, since it excludes various costs and income which will only be deductible or taxable in other financial years, as well as costs and revenue that will never be deductible or taxable.

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

Deferred tax liabilities are generally recognised for all taxable temporary differences.

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

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

The Company is covered by the Special Taxation Group Regime for groups of companies which includes all the companies where CTT holds, directly or indirectly, at least 90% of their share capital and are simultaneously resident in Portugal and subject to IRC, hence the estimated income tax and withholdings enforced by third parties are recorded in the balance sheet as accounts payable and receivable by CTT.

Value Added Tax ("VAT")
For purposes of VAT, CTT follows the monthly normal regime, in accordance with the provisions of paragraph a) of no. 1 of article 40 of the Portuguese VAT Code, with the exemption to various operations in its activity that fall under the provisions of article 9 of the Portuguese VAT Code, as well as non-exemption to other operations which are subject to VAT, and for this reason, using the effective allocating method and the *pro rata* method

3.21 Accrual principle

Revenues and costs are recorded in accordance with the accrual principle, hence they are recognised as they generated or incurred, regardless of when they are received or paid.

Revenues and costs recognised in the income statement which have not yet been invoiced or whose acquisition invoice has not yet been received are recorded against "Accrued income" or " Accruals" stated under the balance sheet headings "Other accounts receivable" and "Other accounts payable", respectively (Notes 15 and 27). Deferred revenues and costs paid in advance are recorded against the "Deferrals" headings of the liabilities and assets, respectively (Note 16).

3.22 Judgements and estimates

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

The main judgements and estimates made in the preparation of the financial statements occur in the following areas:

(i) Tangible fixed and intangible assets / estimated useful lives (Note 3.1/Note 3.4/Note 7/Note 10)
Depreciation and amortisation are calculated on the acquisition cost using the straight line method, as of the month when the asset is available for use. The depreciation and 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 (Note 9)
The Company tests the goodwill, at least once a year, for the purpose of verifying if it is impaired, in accordance with the accounting policy referred to in Note 3.3. The recoverable amounts of the cash generating units are determined based on the calculation of values in use involving the same judgments, residing substantially in the analysis of the Management based on past experience, as well as future expectations of evolution of the corresponding activity. The assessment underlying the calculations that have been made uses assumptions based on the available information, both concerning the business and macro-economic environment. The variations of these assumptions can influence the results and consequent recording of impairments.

(iii) Impairment of accounts receivable (Note 5)
Impairment losses relative to bad debt are based on the Company's assessment of the probability of recovery of the balances of customers and other accounts receivable. This assessment is made according to the period of time of default, the credit history of the customer and other debtors, and the deterioration of the credit situation of the main customers and other debtors. Should the customers' financial conditions deteriorate, the impairment losses might be higher than that expected.

(iv) Deferred taxes (Note 38)
The recognition of deferred taxes assumes the existence of future net income and taxable amount. The deferred tax assets and liabilities were determined based on the tax legislation currently in force, or on legislation that has already been published for future application. Amendments to tax legislation may influence the value of the deferred taxes.

(v) Employee benefits (Note 3.15/Note 26)
The determination of the liabilities related to the payment of post-employment benefits and other long term benefits, namely with health care plans, requires the use of assumptions and estimates, including the use actuarial projections, discount rates and other factors that could have an impact on the costs and liabilities associated to these benefits. Any changes in the assumptions used, which are described in Note 26, will have impact the carrying amount of employee benefits. CTT has a policy of periodically reviewing the major actuarial assumptions, in case its impact is relevant for the financial statements.

(vi) Provisions (Note 3.13/ Note 23)
The Company exercises considerable judgement in the measurement and recognition of provisions. Judgement is required in order to appraise the probability of litigation having a successful outcome. Provisions are constituted when the Company expects that the lawsuits underway will lead to the outflow of funds, the loss is probable and may be estimated reasonably. Due to the uncertainties inherent to the process of assessment, real losses might be different from those originally estimated in the provision. These estimates are subject to alterations as new information becomes available. Reviews to the estimates of these losses might affect future results.

3.23 Environmental matters

The Company is legally bound to prevent, reduce or repair environmental damages arising from its activities, and can incur in expenditures to assure full compliance with its obligations (Note 40).

However, the Company's activity is essentially non-industrial in nature, and the incorporation of material inputs in its process of rendering services is relatively reduced, therefore its direct ecological footprint is limited.

Based on an empirical comparative analysis, the environmental impact of the Company’s activity is much smaller than its contribution to the generation of value to the national economic and social fabric.

In terms of environmental policy, CTT’s priority is to cover and master all the aspects of legal compliance, and has taken on commitments to continuously improve its environmental performance, in particular regarding:

(i) Pollution prevention,
(ii) Compliance with the legislation,
(iii) Communication and disclosure to all the stakeholders of the Company's environmental policy,
(iv) Training and awareness raising of the employees,
(v) Analyses of environmental impact arising from the Company's activity,

(vi) Definition of environmental standards for suppliers and partners.

This subject is developed in greater depth in the 2014 “Sustainability Report”.

3.24 Cash Flow Statement

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

3.25 Subsequent events

Events which have occurred after the reporting date but before the date of approval of the financial statements by the Company's management body and, provided that they offer additional information on conditions which existed as at the reporting date, are reflected in the financial statements of the period. Events that occurred after the reporting date which are indicative of conditions that emerged after the reporting date (non-adjusting events) are disclosed in the notes to the financial statements, if considered of material relevance (Note 43).

4 CASH FLOW

The cash flow statement discloses the cash receipts and cash payments from operating, financing and investing activities.

Operating activities cover receipts from customers, payments to suppliers, payments to staff and other related to operating activity, namely income tax. Investment activities namely include acquisitions and divestments in participated companies, payments and receipts arising from the purchase and sale of assets, and receipts of interest and dividends. Financing activities include payments and receipts relative to loans received, financial lease contracts, interest paid and payments of dividends.

On 31 December 2014 and 31 December 2013, cash and cash equivalents includes cash, bank deposits repayable on demand and cash investments on the monetary market, net bank overdrafts and other equivalent short term financing, and is detailed as follows:

	2014	2013
Cash	36,536,610	9,321,167
Sight deposits	119,105,308	47,003,074
Time deposits	494,047,000	472,195,000
Cash and cash equivalents (Balance sheet)	649,688,918	528,519,241
Cash and cash equivalents (Cash flow statement)	649,688,918	528,519,241

5 CHANGES TO ACCOUNTING POLICIES, ERRORS AND ESTIMATES

During the year ended 31 December 2014 no changes to accounting policies occurred nor material errors were recognised relative to estimates made in the preparation of the financial statements of previous periods.

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

6 RELATED PARTIES

The Regulation on Assessment and Control of transactions with CTT's related parties defines related party as qualified shareholder, officer, or even a third party related by any commercial or relevant personal interest and subsidiaries or associates or jointly controlled entities (joint ventures).

According to the Regulation the significant transactions with related parties must be previously approved by the Audit Board of CTT.

SUBSIDIARY COMPANIES:

As at 31 December 2014 and 31 December 2013, the Company held investments in the following subsidiary companies:

Subsidiary	Head office	Percentage of Ownership	
		2014	2013
Post Contacto - Correio Publicitário, Lda.	Lisbon	100%	95%*
CTT - Expresso, S.A.	S. Julião do Tojal	100%	100%
CTT - Gestão de Serviços e Equipamentos Postais, S.A.	Lisbon	100%	100%
Payshop Portugal, S.A.	Lisbon	100%	100%
Mailtec Holding, SGPS, S.A.	Amadora	100%	100%
Tourline Express Mensajeria, SLU	Barcelona	-	100%
EAD - Empresa de Arquivo de Documentação, S.A.	Palmela	-	51%
CORRE - Correio Expresso de Moçambique, S.A.	Maputo	50%	50%

* Directly and indirectly, CTT fully owns this entity.

During the first quarter of 2014, the investment in EAD was sold. Resulting from this sale a gain in the amount of 256,383 Euro was recorded under Gains/losses from subsidiaries and associated companies in the income statement.

In the first half of 2014 the investment in the subsidiary Tourline Express Mensajería, SLU, owned by the CTT- Correios de Portugal, SA was sold to the subsidiary CTT Expresso, SA. This transaction was done at net book value.

It has also registered the acquisition by CTT of the 5 % held by CTT Expresso, SA in PostContacto, Lda Consequently CTT now holds, directly, 100 % of PostContacto, Lda. This acquisition was effected at the net book value.

ASSOCIATED COMPANIES:

As at 31 December 2014 and 31 December 2013, the Company held the following investments in associated companies:

		Percentage of Ownership	
Associated company	Head office	2014	2013
Multicert - Serviços de Certificação Electrónica, S.A.	Lisbon	20%	20%
Mailtec Comunicação , S.A.	Amadora	17.695%*	17.695%*
Mailtec Consultoria, S.A.	Amadora	10%*	10%*

* Directly and indirectly, CTT fully owns these entities.

JOINT VENTURES:

As at 31 December 2014 and 31 December 2013, the Company held the following interests in joint ventures:

		Percentage of Ownership	
	Head office	2014	2013
TI-Post Prestação de Serviços Informáticos, ACE	Lisbon	49%	49%
Postal Network - Prestação de Serviços de Gestão de Infra estruturas de Comunicações, ACE	Lisbon	49%	49%
PTP & F (ACE)	Amadora	51%*	51%

OTHER COMPANIES OF THE CTT GROUP:

As at 31 December 2014 and 31 December 2013, through indirect investments, the Company held the following interests in other companies of the Group:

	Head office	Percentage of Ownership 2014	2013
Payshop Moçambique, SARL	Mozambique	35%	35%
Mailtec Processos, Lda.	Amadora	100%*	100%*
Mafelosa, SL	Spain	25%	25%
Urpacksur, SL	Spain	30%	30%
Tourline Express Mensajeria, SLU	Barcelona	100%*	-

* Indirectly, CTT fully owns this entity.

During the years ended 31 December 2014 and 31 December 2013, the following transactions took place and the following balances existed with related parties:

2014	Accounts receivable	Shareholders and Group companies (DB)	Accounts payable	Shareholders and Group companies (CB)	Revenues	Costs	Interest income	Dividends
Shareholders								
Dividends	-	-	-	-	-	-	-	60,000,000
CTT Group companies								
Subsidiaries	3,804,609	9,658,701	2,993,472	253,806	26,993,335	8,370,542		-
Associated companies	81,593	177,716	552,682		992,027	3,539,538	-	-
Joint Ventures	50,926		945		246,450	4,646	-	-
Other related parties	1,499,388		200,426	41,297	1,370,781	1,197,660	492,402	-
Members of the								
Board of Directors	-	-	-	-	-	2,003,280	-	-
General Meeting	-	-	-	-	-	-	-	-
Audit Committee	-	-	-	-	-	173,303	-	-
Remuneration Board						28,808		
	5,436,516	9,836,417	3,747,525	295,103	29,602,593	15,317,775	492,402	60,000,000

2013	Accounts receivable	Shareholders and Group companies (DB)	Accounts payable	Shareholders and Group companies (CB)	Revenues	Costs	Interest income	Dividends
Shareholders								
Dividends	-	-	-	-	-	-	-	50,000,000
CTT Group companies								
Subsidiaries	4,217,833	13,988,240	981,306	12,458	23,116,458	8,322,280	681,140	-
Associated companies	64,796		455,918	231,788	1,444,190	4,280,898	-	-
Joint Ventures	44,671		56,932		238,808	61,107	-	-
Other related parties	14,898	58,454	203,629		252,421	3,115,582	-	-
Members of the								
Board of Directors	-	-	-	-	-	843,733	-	-
General Meeting	-	-	-	-	-	1,260	-	-
Statutory Auditor	-	-	-	-	-	74,521	-	-
	4,342,198	14,046,694	1,697,785	244,245	25,051,877	16,699,380	681,140	50,000,000

The costs with the members of the Board of Directors, Audit Committee and Remuneration Board correspond to all the staff for the stated period.

As at 31 December 2014 and 31 December 2013, the nature and detail, by company of the CTT Group, of the main debit and credit balances was as follows:

	2014					
	Accounts receivable	Shareholders and Group companies (DB)	Total accounts receivable	Accounts payable	Shareholders and Group companies (CB)	Total accounts payable
Subsidiaries						
Post Contacto - Correio Publicitário, Lda.	583,596		583,596	191,257	179,546	370,803
CTT Expresso, S.A.	2,465,042	9,427,262 [1]	11,892,305	2,244,398	-	2,244,398
Payshop Portugal, S.A.	185,000	50,513	235,513	451,356	-	451,356
CTT Gestão de Serviços e Equipamentos Postais, S.A.	61,332	-	61,332	106,460	41,028	147,488
Mailtec SGPS, S.A.	-		-	-	33,233	33,232.60
CORRE - Correio Expresso Moçambique, S.A.	509,638	180,925 [1]	690,564	-	-	-
Associated companies						
Mailtec Consultoria, S.A.	910	103,631	104,541	148,636	-	148,636
Mailtec Comunicação, S.A.	77,782	74,084	151,867	403,820	-	403,820
Multicert - Serviços de Certificação Electrónica, S.A.	2,901	-	2,901	226	-	226
Joint Ventures						
Ti-Post Prestação Serviços Informáticos, ACE	1,778	-	1,778	945	-	945
Postal Network - Prestação de Serviços de Gestão	49,148	-	49,148	-	-	-
Other related parties						
Tourline Express Mensajeria, S.A.	1,485,714	-	1,485,714	78,297	-	78,297
Payshop Moçambique, S.A.R.L.	192	-	192	-	-	-
Mailtec Processos, Lda.	13,482	-	13,482	122,130	41,297	163,427
	5,436,516	9,836,417	15,272,933	3,747,525	295,103	4,042,629

[1] These amounts include the values related to loan contracts from CTT to the respective susbsidiaries.

	2013					
	Accounts receivable	Shareholders and Group companies (DB)	Total accounts receivable	Accounts payable	Shareholders and Group companies (CB)	Total accounts payable
Subsidiaries						
Tourline Express Mensajeria, S.A.	1,163,138	11,700,000 [1]	12,863,138	188,237	-	188,237
Post Contacto - Correio Publicitário, Lda.	555,714	63,041	618,755	36,313	-	36,313
CTT Expresso, S.A.	1,978,359	95,232	2,073,591	178,492	-	178,492
Payshop Portugal, S.A.	182,554	467,661	650,215	421,104	-	421,104
CTT Gestão de Serviços e Equipamentos Postais, S.A.	43,193	-	43,193	140,813	12,458	153,271
EAD - Empresa de Arquivo de Documentação, S.A.	32,569	1,499,375 [1]	1,531,944	16,346	-	16,346
Mailtec SGPS, S.A.	-	2,988	2,988	-	-	-
CORRE - Correio Expresso Moçambique, S.A.	262,306	159,942 [1]	422,248	-	-	-
Associated companies						
Mailtec Consultoria, S.A.	881		881	155,495	45,796	201,291
Mailtec Comunicação, S.A.	63,915	-	63,915	314,508	185,992	500,500
Multicert - Serviços de Certificação Electrónica, S.A.	-	-	-	(14,084)	-	(14,084)
			-			
Joint Ventures						
Ti-Post Prestação Serviços Informáticos, ACE	6,036	-	6,036	56,932	-	56,932
Postal Network - Prestação de Serviços de Gestão	38,635	-	38,635	-	-	-
Other related parties						
Payshop Moçambique, S.A.R.L.	192	-	192	-	-	-
Mailtec Processos, Lda.	14,706	58,454	73,160	203,629	-	203,629
	4,342,198	14,046,694	18,388,892	1,697,785	244,245	1,942,030

[1] These amounts relate to loan contracts from CTT to the respective susbsidiaries.

During the years ended 31 December 2014 and 31 December 2013, the nature and detail, by company of the CTT Group, of the main transactions was as follows:

	2014							
	Fixed assets acquired	Services to be reinvoiced	Fixed assets sold	Sales and services rendered	Other operating revenues	Supplies and external services	Other operating costs	Interest Income
Subsidiaries								
Post Contacto - Correio Publicitário, Lda.	-	137,913	-	5,562	5,266,469	336,643	-	-
CTT Expresso,S.A.	-	37,513	272,773	206,555	19,226,880	2,514,818	14,557	-
Payshop Portugal, S.A.	-	-	-	81,400	1,551,025	4,089,073	-	-
CTT Gestão de Serviços e Equipamentos Postais, S.A.	-	-	-	-	546,130	1,415,451	-	-
CORRE - Correio Expresso Moçambique, S.A.	-	-	-	-	109,314	-	-	-
Associated companies								
Mailtec Consultoria, S.A.	28,003	38,024	-	-	4,378	1,421,645	-	-
Mailtec Comunicação, S.A.	-	1,027,629	-	199,983	769,617	2,033,592	-	-
Multicert - Serviços de Certificação Electrónica, S.A.	-	-	-	18,048	-	84,300	-	-
Joint Ventures								
Ti-Post Prestação Serviços Informáticos, ACE	-	-	-	-	21,306	4,646	-	-
Postal Network - Prestação de Serviços de Gestão	-	-	-	-	225,145	-	-	-
Other related parties								
Tourline Express Mensajeria, S.A.	79,105	744	-	-	1,193,545	66,757	-	492,402
Payshop Moçambique, S.A.R.L.	-	-	-	-	-	-	-	-
Mailtec Processos, Lda.	-	-	-	-	177,236	1,130,903	-	-
	107,108	1,241,823	272,773	511,548	29,091,045	13,097,828	14,557	492,402

	2013							
	Fixed assets acquired	Services to be reinvoiced	Fixed assets sold	Sales and services rendered	Other operating revenues	Supplies and external services	Other operating costs	Interest Income
Subsidiaries								
Tourline Express Mensajeria, S.A.	190,252	8,392	-	10,101	1,122,055	1,647	-	584,572
Post Contacto - Correio Publicitário, Lda.	-	231,369	25,782	-7,389	3,987,284	264,904	685	-
CTT Expresso,S.A.	-	37,375	22,321	210,629	15,570,528	1,684,142	20,934	-
Payshop Portugal, S.A.	-	-	-	87,190	1,545,288	4,104,378	50	-
CTT Gestão de Serviços e Equipamentos Postais, S.A.	-	-	-	37	512,071	1,804,315	-	-
EAD - Empresa de Arquivo de Documentação, S.A.	-	1,918	-	-	6,990	441,224	-	96,569
CORRE - Correio Expresso Moçambique, S.A.	-	-	-	-	71,674	-	-	-
Associated companies								
Mailtec Consultoria, S.A.		-	-	-	201,873	1,749,144	-	-
Mailtec Comunicação, S.A.	-	853,466	-	173,131	1,049,694	2,531,725	-	-
Multicert - Serviços de Certificação Electrónica, S.A.	-	-	-	19,493	-	-	29	-
Joint Ventures								
Ti-Post Prestação Serviços Informáticos, ACE	-	-	-	-	22,333	61,107	-	-
Postal Network - Prestação de Serviços de Gestão	-	-	-	-	216,474	-	-	-
Other related parties								
Payshop Moçambique, S.A.R.L.	-	-	-	-	-	-	-	-
Mailtec Processos, Lda.	-	-	-		252,421	2,995,891	119,691	-
	190,252	1,132,521	48,103	493,191	24,558,686	15,638,477	141,389	681,140

7 TANGIBLE FIXED ASSETS

During the years ended 31 December 2014 and 31 December 2013, the movement which occurred in the cost carrying value of the "Tangible fixed assets", as well as the respective accumulated depreciation, was as follows:

2014	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advances to suppliers	Total
Tangible fixed assets									
Opening balance	35,740,806	319,723,303	117,680,370	2,117,321	73,659,820	22,428,688	54,193	754,041	572,158,541
Acquisitions	-	-	3,829,070	7,200	2,300,930	728,093	3,062,319	222,750	10,150,361
Disposals	-	-	(7,417)	-	(34,175)	(974)	-	-	(42,566)
Transfers and write-offs	-	1,360,821	(8,243,933)	(479,010)	(29,383,860)	(2,524,335)	(1,378,713)	(712,500)	(41,361,529)
Other variations	(725,970)	(5,467,980)	3,650	-	1,103	(56,523)	-	-	(6,245,720)
Closing balance	35,014,836	315,616,144	113,261,739	1,645,511	46,543,817	20,574,950	1,737,799	264,291	534,659,087
Accumulated depreciation									
Opening balance	3,899,830	168,523,276	105,152,324	2,043,608	69,707,937	16,932,252	-	-	366,259,227
Depreciation for the period	-	8,307,542	3,713,671	29,393	2,177,395	1,105,819	-	-	15,333,819
Disposals	-	-	(7,417)	-	(33,976)	(974)	-	-	(42,367)
Transfers and write-offs	-	-	(9,075,797)	(479,010)	(30,117,261)	(1,651,072)	-	-	(41,323,140)
Other variations	(11,119)	(2,739,030)	(41)	-	-	(483)	-	-	(2,750,672)
Closing balance	3,888,711	174,091,789	99,782,739	1,593,991	41,734,094	16,385,542	-	-	337,476,866
Accumulated impairment									
Opening balance	-	-	-	-	-	-	-	-	-
Impairment for the period	-	-	-	-	-	2,530	-	-	2,530
Other variations	-	-	-	-	-	417,953	-	-	417,953
Closing balance	-	-	-	-	-	420,483	-	-	420,483
Net tangible fixed assets	31,126,125	141,524,356	13,479,000	51,520	4,809,723	3,768,925	1,737,799	264,291	196,761,737

2013	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advances to suppliers	Total
Tangible fixed assets									
Opening balance	41,646,214	362,171,843	119,498,894	2,124,912	73,355,334	21,502,242	58,114	38,490	620,396,042
Acquisitions	393,899	3,430,068	1,290,986	1,232	284,216	1,149,408	46,905	712,500	7,309,214
Disposals	(376,886)	(3,443,845)	(1,256,101)	-	(48,298)	-	-	-	(5,125,130)
Transfers and write-offs	(19,706)	50,826	(1,853,409)	(8,823)	77,481	(189,043)	(50,826)	-	(1,993,500)
Adjustments	-	(79)	-	-	-	-	-	-	(79)
Other variations	(5,902,715)	(42,485,510)	-	-	(8,913)	(33,919)	-	3,051	(48,428,006)
Closing balance	35,740,806	319,723,303	117,680,370	2,117,321	73,659,820	22,428,688	54,193	754,041	572,158,541
Accumulated depreciation									
Opening balance	4,200,150	188,177,906	104,069,612	2,019,385	67,226,741	15,818,369	-	-	381,512,163
Depreciation for the period	-	8,199,490	4,198,903	33,046	2,623,517	1,120,341	-	-	16,175,297
Disposals	(26,370)	(2,019,717)	(1,256,101)	-	(48,298)	-	-	-	(3,350,486)
Transfers and write-offs	-	-	(1,860,090)	(8,823)	(94,023)	(6,458)	-	-	(1,969,394)
Other variations	(273,950)	(25,834,403)	-	-	-	-	-	-	(26,108,353)
Closing balance	3,899,830	168,523,276	105,152,324	2,043,608	69,707,937	16,932,252	-	-	366,259,227
Net tangible fixed assets	31,840,976	151,200,027	12,528,046	73,713	3,951,883	5,496,436	54,193	754,041	205,899,314

The balances of Land and Buildings and other constructions include 4,982,117 Euro (5,205,814 Euro as at 31 December 2013) related to land and property in co-ownership with PT Comunicações, S.A..

In the year ended 31 December 2014, the Group reclassified to investment properties nine properties that are no longer contributing to the Group's operating activities, of 6,627,890 Euro and respective accumulated depreciations of 2.950.936 Euro. One property, which became a part of the Group's activity was reclassified to tangible fixed assets of 439,417 Euro and respective accumulated depreciations of 223,473 Euro.

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

According to the concession contract in force, after the latest amendments of 31 December 2013 (Note 1) at the end of the concession the assets included in the public and private domain of the State revert automatically, at no cost, to the conceding entity. As the postal network belongs exclusively to CTT, not being a public domain asset, only the assets that belong to the State revert to it, and as such, at the end of the concession CTT will continue to own its assets. The Board of Directors, supported by its legal advisors, believes that CTT's assets do not include any public or private domain assets of the Portuguese state.

During the year ended 31 December 2014, the most significant movements in the headings of Tangible Fixed Assets are the following:

Buildings and other constructions:
The movements associated to additions relate mostly to the capitalization of repairs in own and third party buildings of CTT.

In the year ended 31 December 2014, the company reclassified to investment properties nine properties that are no longer contributing to the company's operating activities. One property which became a part of the company's activity was reclassified to tangible fixed assets.

Basic equipment:
The amount concerning acquisitions relates to direct purchases of electric bikes of 75 thousand Euro, motorcycles of 439 thousand Euro, trailers of 228 thousand Euro, trucks worth approximately around 2,172 thousand Euro, postal containers of 143 thousand Euro, upgrades to mail sorting machines of 182 thousand Euro and upgrade of the labelling system of the OCR machines amounting to 76 thousand Euro.

Office equipment:
The amount of acquisitions relates essentially to the acquisition of IBM servers of 1,459 thousand euros and the purchase of computers (desktops and laptops) and monitors with a total value of approximately 788,000 Euro.

Other tangible fixed assets:
The acquisitions in the amount of 728,093 Euro, consider 459 thousand Euro of prevention and safety equipment, 59 thousand Euro of marketing equipment, as well as a variety of warehouse equipment amounting to 57 thousand Euro.

Tangible fixed assets in progress:
The amounts under this heading are related to improvements on own property.

The amounts recorded under write-offs, with particular emphasis in Basic equipment and Office equipment, are mainly due to the write-offs of CTT assets that were fully depreciated and which were acquired up to 2008.

The depreciation recorded during the year of 15,333,819 Euro (16,175,297 Euro in 2013), was booked under the heading Depreciation and amortisation, net of the Corporate statement income (Note 34).

Contractual commitments relative to Tangible Fixed Assets are detailed in Note 23.

8 INVESTMENT PROPERTY

As at 31 December 2014 and 31 December 2013, the Company has the following assets classified as investment properties:

	2014		
	Land and natural resources	Buildings and other constructions	Total
Investment property			
Opening balance	7,237,214	42,551,163	49,788,377
Disposals	(247,126)	(2,290,703)	(2,537,829)
Other variations	725,970	5,462,503	6,188,473
Closing balance	7,716,058	45,722,963	53,439,021
Accumulated depreciation			
Opening balance	273,950	26,146,036	26,419,986
Depreciation for the period	-	764,567	764,567
Disposals	(25,568)	(1,227,215)	(1,252,783)
Other variations	11,119	2,716,343	2,727,463
Closing balance	259,501	28,399,732	28,659,233
Accumulated impairment			
Opening balance	-	1,606,505	1,606,505
Impairment losses for the period	-	(156,480)	(156,480)
Closing balance	-	1,450,025	1,450,025
Net investment property	7,456,557	15,873,206	23,329,763

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

These assets are not allocated to the operating activities of the Company, nor have a specific future use.

The market value of these fixed assets, which are classified as investment property, in accordance with the valuations recorded as at the end of fiscal year 2014 which were conducted by independent entities, amounts to 35,978,503 Euro (29,374,185 Euro at 31 December 2013).

In the year ended 31 December 2014, the Group reclassified to investment properties nine properties that are no longer contributing to the Group's operating activities of 6,627,890 Euro and respective accumulated depreciations of 2.950.936 Euro. One property, which became a part of the Group's activity was reclassified to tangible fixed assets in the amount of 439,417 Euro and respective accumulated depreciations of 223,473 Euro.

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

For the years ended 31 December 2014 and 2013, 764,567 Euro and 782,537 Euro, respectively, were recorded in Depreciation and amortisation, net relative to depreciation (Note 34).

9 GOODWILL

As at 31 December 2014 and 31 December 2013, the composition of Goodwill was as follows:

Company	Year of acquisition	2014	2013
Subsidiary companies			
Mailtec Consultoria, S.A. (51%)	2004	4,718	4,718
Mailtec Comunicação, S.A. (51%)	2004	69,767	69,767
Mailtec Holding, SGPS, S.A. (51%)	2004	582,970	582,970
Mailtec Holding, SGPS, S.A. (49%)	2005	6,641,901	6,641,901
Payshop Portugal, S.A.	2004	406,101	406,101
Tourline Express Mensajeira, SLU	2005	-	16,592,248
EAD - Empresa de Arquivo de Documentação, S.A.	2006	-	786,164
		7,705,457	25,083,869

During the years ended 31 December 2014 and 31 December 2013, the movements in Goodwill were as follows:

	2014	2013
Opening balance of the period	25,083,869	25,083,869
Disposals	(17,378,412)	-
Closing balance of the period	7,705,457	25,083,869

In the year ended 31 December 2014, following the sale of the participations in the companies EAD and Tourline, the related Goodwill of 786,164 Euro and 16,592,248 Euro, respectively, was eliminated.

Impairment

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

As at 31 December 2014 and 31 December 2013, CTT Group performed an impairment test, based in the following set of assumptions to determine the recoverable amount of the investments made:

Company	Activity	2014 Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Growth rate in perpetuity
Mailtec Group	Documental services	Equity Value/DCF	5 years	10.80%	0.5%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	10.30%	0.5%

Company	Activity	2013 Base for determining the recoverable	Explicit period for cash flows	Discount rate (WACC)	Growth rate in perpetuity
Tourline Express Mensajeria, SLU	CEP and Logistics	Equity Value/DCF	5 years	10.20%	2.0%
EAD - Empresa de Arquivo de Documentação, S.A.	Custody and archive management	Equity Value/DCF	5 years	11.72%	2.0%
Mailtec Group	Documental services	Equity Value/DCF	5 years	11.98%	2.0%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	12.73%	2.0%

The decrease in the discount rate (WACC) for the year ended 31 December 2014 was a result of the increase in the market risk premium combined with a marked decrease in yields of Portuguese government bonds.

The cash flow projections were based on the historical performance and the medium and long term business plans, approved by the Board of Directors, and were prolonged in perpetuity. As a consequence of this impairment analysis, the Company concluded that as at 31 December 2014 and 31 December 2013 there were no impairment losses.

Company	2014 Year of acquisition	Initial value	Impairment losses for the period	Accumulated impairment losses	Disposals	Carrying value	2013 Carrying value
Mailtec Consultoria, S.A. (51%)	2004	4,718	-	-	-	4,718	4,718
Mailtec Comunicação, S.A. (51%)	2004	69,767	-	-	-	69,767	69,767
Mailtec Holding, SGPS, S.A. (51%)	2004	582,970	-	-	-	582,970	582,970
Mailtec Holding, SGPS, S.A. (49%)	2005	6,641,901	-	-	-	6,641,901	6,641,901
Payshop Portugal, S.A.	2004	406,101	-	-	-	406,101	406,101
Tourline Express Mensajeria, SLU	2005	20,671,985	-	(4,079,737)	(16,592,248)	-	16,592,248
EAD - Empresa de Arquivo de Documentação, S.A.	2006	1,082,015	-	(295,851)	(786,164)	-	786,164
		29,459,457	-	(4,375,588)	(17,378,412)	7,705,457	25,083,869

The impairment loss is recorded in the income statement for the period under the heading Impairment of depreciable/amortisable investments (losses/reversals).

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

The results of the sensitivity analyses for Payshop and the Mailtec Group do not determine that there are indicators of impairment, according to the following tables:

Maitec Comunicação

Variation of sovereign risk and variation of perpetuity growth (g)						
Impairment *		WACC				
		8.8%	9.8%	**10.8%**	11.8%	12.8%
g	0.00%	9,367,009	7,264,838	5,556,115	4,140,559	2,949,265
	0.25%	9,791,434	7,592,836	5,815,212	4,348,954	3,119,434
	0.50%	10,241,466	7,938,492	**6,086,901**	4,566,580	3,296,528
	0.75%	10,719,494	8,303,272	6,372,124	4,794,065	3,480,977
	1.00%	11,228,214	8,688,808	6,671,918	5,032,094	3,673,251

* impairment if negative

Maitec Consultoria

Variation of sovereign risk and variation of perpetuity growth (g)						
Impairment *		WACC				
		8.8%	9.8%	**10.8%**	11.8%	12.8%
g	0.00%	2,303,543	2,058,027	1,858,810	1,694,071	1,555,688
	0.25%	2,359,919	2,102,115	1,894,042	1,722,731	1,579,351
	0.50%	2,419,696	2,148,576	**1,930,987**	1,752,660	1,603,977
	0.75%	2,483,191	2,197,608	1,969,772	1,783,946	1,629,625
	1.00%	2,550,764	2,249,430	2,010,538	1,816,681	1,656,361

* impairment if negative

Payshop

Variation of sovereign risk and variation of perpetuity growth (g)						
Impairment *		WACC				
		8.3%	9.3%	**10.3%**	11.3%	12.3%
g	0.00%	86,107,734	76,719,454	69,153,009	62,925,319	57,710,217
	0.25%	88,425,393	78,526,972	70,596,914	64,101,500	58,683,963
	0.50%	90,891,340	80,437,018	**72,114,377**	65,332,060	59,698,917
	0.75%	93,520,276	82,458,570	73,711,167	66,620,858	60,757,753
	1.00%	96,328,912	84,601,687	75,393,669	67,972,130	61,863,379

10 INTANGIBLE ASSETS

During the years ended 31 December 2014 and 31 December 2013, the movement which occurred in the main categories of intangible assets, as well as the respective accumulated amortisation and accumulated impairment losses, were as follows:

	2014				
	Development projects	Computer programmes	Industrial property	Intangible assets in progress	Total
Intangible assets					
Opening balance	3,907,578	26,596,077	3,223,072	2,408,588	36,135,315
Acquisitions	-	230,973	-	2,616,864	2,847,837
Transfers and write-offs	(190,252)	1,638,605	-	(314,655)	1,133,698
Closing balance	3,717,326	28,465,655	3,223,072	4,710,797	40,116,850
Accumulated amortisation					
Opening balance	3,695,203	21,140,403	2,916,714	-	27,752,320
Amortisation for the period	9,647	2,247,976	39,121	-	2,296,744
Transfers and write-offs	(19,681)	1,153,380	-	-	1,133,699
Closing balance	3,685,169	24,541,759	2,955,835	-	31,182,763
Net intangible assets	32,157	3,923,896	267,237	4,710,797	8,934,087

	2013				
	Development projects	Computer programmes	Industrial property	Intangible assets in progess	Total
Intangible assets					
Opening balance	3,670,096	24,158,494	3,220,203	2,779,775	33,828,568
Acquisitions	237,482	569,969	2,869	1,496,427	2,306,747
Transfers and write-offs	-	1,867,614	-	(1,867,614)	-
Closing balance	3,907,578	26,596,077	3,223,072	2,408,588	36,135,315
Accumulated amortisation					
Opening balance	3,670,096	18,104,669	2,875,696	-	24,650,461
Amortisation for the period	25,107	3,035,734	41,018	-	3,101,859
Closing balance	3,695,203	21,140,403	2,916,714	-	27,752,320
Net intangible assets	212,375	5,455,674	306,358	2,408,588	8,382,995

Intangible assets in progress concern some computer projects, which are being implemented with the participation of internal and external resources.

The amounts of 407,280 Euro and 295,915 Euro, capitalized in IT software on intangible assets in progress on 31 December 2014 and 31 December 2013, respectively, relates to the staff costs incurred in the development of these projects.

Under Computer Software, there are 1,133,699 Euro included in the Transfers and write-offs caption that respect to the reclassification occurred in CTT of the HR Access software which was previously classified under Office Equipment.

As at 30 December 2014 intangible assets in progress relates to IT projects which are under development, of which the most relevant are:

	2014
New humam resources management application	1,164,113
Evolution SAP	428,829
Certification of invoices	375,676
Repository business information Nave (Commercial ODF)	292,292
International (E-CIP)	281,384
Security Operational Control	197,842
Sales force automation	195,682
Mail products evolution	130,362
Invoice management	110,604
Corvendas	107,359
Occasional customers data base	106,133
Transport Management Information System	105,641
Geo 10 (georeferencing system)	85,060
Treasury management system	84,216
Automatic processing addresses software	79,607
Aplicational Software	70,625
	3,815,423

The amortisation for the year of 2,296,744 Euro (3,101,859 Euro in 2013) was recorded under the heading Depreciation and amortisation, net (Note 34).

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

Contractual commitments relative to Intangible Assets are detailed in Note 23.

11 INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

During the years ended 31 December 2014 and 31 December 2013, the movements occurred in Investment in subsidiaries and associates companies were as follows:

	2014		
	Subsidiary companies	Associated companies	Total
Gross carrying value			
Opening balance	44,434,518	1,465,577	45,900,095
Equity method - proportion of net income	(18,650,689)	(278,286)	(18,928,975)
Provisions	306,162	-	306,162
Distribution of dividends	(15,142,737)	(249,559)	(15,392,296)
Other	23,991,928	-	23,991,928
Closing balance	34,939,183	937,732	35,876,915

	2013		
	Subsidiary companies	Associated companies	Total
Gross carrying value			
Opening balance	48,487,346	1,582,131	50,069,477
Equity method - proportion of net income	8,769,523	31,304	8,800,827
Distribution of dividends	(12,794,170)	(147,858)	(12,942,028)
Other	(28,181)	-	(28,181)
Closing balance	44,434,518	1,465,577	45,900,095

As at 31 December 2014 and 31 December 2013, the detail by company of Investment in subsidiaries and associates companies was as follows:

	2014				2013			
Corporate name	% held	Investment	Provision for investments	Proportion of net income	% held	Investment	Provision for investments	Proportion of net income
Subsidiaries:								
CORRE - Correio Expresso Moçambique, S.A.	50	-	306,162	(316,433)	50	10,271	-	(101,424)
EAD - Empresa de Arquivo de Documentação, S.A. (b)	51	-	-	46,710	51	1,659,166	-	198,423
Post Contacto - Correio Publicitário, Lda. (c)	95	1,739,985	-	1,179,545	95	2,169,583	-	1,662,947
CTT Expresso,S.A.	100	20,490,994	-	(23,260,120)	100	24,648,820	-	3,997,706
CTT Gestão de Serviços e Equipamentos Postais, S.A.	100	1,233,561	-	873,561	100	2,825,374	-	905,375
Mailtec Holding, SGPS, S.A.	100	4,106,949	-	133,363	100	5,119,907	-	546,321
Payshop Portugal, S.A.	100	7,367,694	-	5,566,929	100	7,472,730	-	5,671,966
Tourline Express Mensajeria, S.A. (b)	100	-	-	(2,874,244)	100	528,666	-	(4,111,791)
		34,939,183	306,162	(18,650,689)		44,434,518	-	8,769,523
Associated companies:								
Mailtec Consultoria, S.A.	10	59,708	-	30,337	10	29,369	-	(3,057)
Mailtec Comunicação, S.A.	17.695	651,086	-	(61,023)	17.695	725,965	-	13,853
Multicert - Serviços de Certificação Electrónica, S.A. (a)	20	226,937	-	(247,599)	20	710,243	-	20,508
		937,732	-	(278,286)		1,465,577	-	31,304
Joint Ventures								
Ti-Post Prestação Serviços Informáticos, ACE	49	-	-	-	49	-	-	-
Postal Network - Prestação de Serviços de Gestão	49	-	-	-	49	-	-	-
		-	-	-		-	-	-
		35,876,915	306,162	(18,928,975)		45,900,095	-	8,800,827

(a) The amount of 2014 reflects the effect of the Equity method 2013, and the September 2014 results. In 2013 the amount recorded relates to the differential for the definitive amount for 2012.

(b) The proportion in the results of Tourline and EAD corresponds to the results of these companies until the moment of the sale and consequent loss of control by CTT.

(c) In the case of PostContacto were considered in the proportion in the results the 5% acquired in June 2014.

The main disclosure regarding the abovementioned companies was as follows:

Company	2014 Assets	Liabilities	Sales and services rendered	Net income	Equity
Subsidiaries:					
CORRE - Correio Expresso Moçambique, S.A.	2,462,441	3,040,112	1,699,851	(632,867)	(577,671)
Post Contacto - Correio Publicitário, Lda.	2,987,558	1,247,574	11,425,205	1,206,683	1,739,984
CTT Expresso,S.A.	48,249,330	27,758,336	76,726,551	(23,260,120)	20,490,994
CTT Gestão de Serviços e Equipamentos Postais, S.A.	1,548,746	315,185	1,730,207	873,561	1,233,561
Mailtec Holding, SGPS, S.A.	4,126,080	19,131	270,000	133,363	4,106,949
Payshop Portugal, S.A.	9,395,798	2,028,104	15,544,280	5,566,929	7,367,694
Associated companies:					
Mailtec Consultoria, S.A.	1,333,598	736,561	3,127,738	303,367	597,037
Mailtec Comunicação, S.A.	6,864,797	3,185,418	11,349,579	(344,862)	3,679,379
Multicert - Serviços de Certificação Electrónica, S.A. (a)	3,300,404	2,165,716	3,122,809	(37,161)	1,134,687
(a) Values of September 2014					
Joint Ventures					
Ti-Post Prestação Serviços Informáticos, ACE	281,036	281,036	1,231,306	-	-
Postal Network - Prestação de Serviços de Gestão	104,728	104,728	(210,265)	-	-
(b) Values of September 2014					

Company	2013 Assets	Liabilities	Sales and services rendered	Net income	Equity
Subsidiaries:					
CORRE - Correio Expresso Moçambique, S.A.	1,673,777	1,653,235	1,612,547	(202,847)	20,543
EAD - Empresa de Arquivo de Documentação, S.A.	6,197,828	2,944,561	4,211,150	389,065	3,253,267
Post Contacto - Correio Publicitário, Lda.	3,619,247	1,335,475	11,574,156	1,750,470	2,283,772
CTT Expresso,S.A.	38,494,093	13,845,273	74,708,131	3,997,706	24,648,820
CTT Gestão de Serviços e Equipamentos Postais, S.A.	3,217,899	392,524	1,838,151	905,375	2,825,374
Mailtec Holding, SGPS, S.A.	5,174,676	54,769	480,000	546,321	5,119,907
Payshop Portugal, S.A.	9,888,517	2,415,786	16,091,894	5,671,966	7,472,731
Tourline Express Mensajeria, S.A.	24,149,411	23,620,745	53,252,162	(4,111,791)	528,666
Associated companies:					
Mailtec Consultoria, S.A.	960,228	666,559	3,312,892	(30,569)	293,670
Mailtec Comunicação, S.A.	6,234,615	2,132,083	12,066,411	78,291	4,102,532
Multicert - Serviços de Certificação Electrónica, S.A. (a)	4,832,986	1,281,774	3,716,304	758,251	3,551,213
(a) Values of 2012					
Joint Ventures					
Ti-Post Prestação Serviços Informáticos, ACE	244,364	244,364	1,714,143	-	-
Postal Network - Prestação de Serviços de Gestão	158,613	158,613	183,662	-	-
(b) Values of September 2013					

Equity method

For the years ended 31 December 2014 and 2013, the net income in subsidiary, associated and joint ventures companies arising from the application of the equity method, and stated under Gains/losses from subsidiaries, associated companies and joint ventures of the income statement were recognised against the following items on the statement of financial position:

	2014	2013
Investment in subsidiaries and associated companies		
CORRE - Correio Expresso Moçambique, S.A.	(10,271)	(101,424)
EAD - Empresa de Arquivo de Documentação, S.A.	46,710	198,423
Post Contacto - Correio Publicitário, Lda.	1,179,545	1,662,947
CTT Expresso, S.A.	(23,260,120)	3,997,706
CTT Gestão de Serviços e Equipamentos Postais, S.A.	873,561	905,375
Payshop Portugal, S.A.	5,566,929	5,671,966
Tourline Express Mensajeria, S.A.	(2,874,244)	(4,111,791)
Mailtec Holding, SGPS, S.A.	133,363	546,321
Mailtec Comunicação , S.A.	(61,023)	13,853
Mailtec Consultoria, S.A.	30,337	(3,057)
Multicert, Serviços de Certificação Electrónica, S.A.	(247,599)	20,508
	(18,622,813)	8,800,827
Provisions - Investment in subsidiaries and associated companies		
CORRE - Correio Expresso Moçambique, S.A.	(306,162)	-
	(306,162)	-

During the year ended 31 December 2014, the investments in EAD and Tourline were sold. The sale of Tourline was done at net book value. With the sale of EAD a gain in the amount of 256,383 Euro was recorded under Gains/losses from subsidiaries and associated companies in the income statement.

The amount of (247,599) Euro concerns the proportion of 2013 income that had not been recognized in that year as well as the proportion of 2014 September's results. During the year ended 31 December 2014 no additional records in Multicert, SA participation took place since the Company does not have more updated financial information.

12 INVESTMENT IN OTHER COMPANIES

For the years ended 31 December 2014 and 2013 the Investment in others companies balance is detailed as follows:

Company	Head office	2014	2013
IPC - International Post Corporation	Brussels - Belgium	6,157	6,157
Eurogiro Network	Copenhagen - Denmark	124,435	124,435
CEPT	Copenhagen - Denmark	237	237
Tagus Park	Lisbon - Portugal	975,982	-
		1,106,812	130,829

13 FINANCIAL RISK MANAGEMENT

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

The categories of financial assets and liabilities as at 31 December 2014 and 31 December 2013 are detailed as follows:

FINANCIAL ASSETS	2014	2013
Accounts receivable	127,189,845	126,786,259
Cash and cash equivalents	649,688,918	528,519,241
	776,878,763	655,305,500

FINANCIAL LIABILITIES		
Account payable	66,845,568	56,871,632
Other accounts payable	480,631,984	374,352,038
	547,477,552	431,223,670

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

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

Financial risk management integrates the Risk Management System of the Group with direct reporting to the Executive Committee. CTT’s departments of Finance and Risk Management, and Accounting and Treasury assure ensure 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 Executive Committee. 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 risks, market risks and liquidity risks.

Credit risk

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

The credit risk in the accounts receivable is monitored on a regular basis by each business of the Company with the objective of limiting the credit granted to customers, considering the respective profile and the aging of receivable from each costumer, 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 difficulty or incapacity of customers to pay their liabilities, with consequent negative effects on the Company's net income. For this purpose, an effort has been made to reduce the average receivable term and amount of credit granted to clients.

The Company is not exposed to significant credit risk relative to any single customer in particular, since its accounts receivable refer to a large number of customers.

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

The movement of impairment losses of accounts receivable is disclosed in Note 15. As at 31 December 2014, the Company believes that impairment losses in accounts receivable are adequately estimated and recorded in the financial statements.

The risk arising from treasury activities essentially results from the cash deposits investments made by the Company. With the purpose of reducing that risk, the Company uses a methodology of risk assessment of the counterparty in its treasury operations, providing a support tool in setting plafonds for financial entity, allowing the credit risk to be mitigated by diversifying their investments.

For the purpose of reducing that risk, the Company's policy is to invest on short/medium term periods applications, with several financial institutions, and all with a relatively high credit rating (considering the rating of the Portuguese Republic).

<u>Interest rate risk</u>
Interest rate risk is essentially associated to the interest received from the investment of reserve liquidity and to the determination, through the impact on the discount rate, of the estimated liabilities related to employee benefits.

Gains arising from financial operations are important, hence alterations in interest rates have a direct impact on the Company's interest income.

In order to reduce the impact of interest rate risk, the Company monitors market trends on a regular and systematic basis, with a view to leveraging the period/rate relationship on the one hand and the risk/yield relationship on the other hand. The Treasury Applications follow criteria of diversification of financial risks, both in terms of timing and institutions, and are reviewed and updated regularly.

In 2014, results from financial investments were adversely affected by the steep decline in rates in the money markets, in particular the Euribor rate, which limited the remuneration offered by the banking sector. This fact combined with the slight decrease in the volume of investments contributed to reinforce the decrease of the interest income.

The investment of reserve liquidity received interest income of approximately 6,287,495 Euro during the year of 2014 and 10,673,605 Euro during the year of 2013 (Note 31).

If the interest rates had been lower by 1b.p. during the year ended 31 December 2014, the interest received would be lower by 3,959 thousand Euro.

With a reduction of 0.5 per cent in the discount rate and keeping all other variables constant, the liabilities with employee benefits – health care would increase by approximately 18.8 million Euro (Note 26).

Foreign currency exchange rate risk

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

The management of foreign exchange risk relies on the periodic monitoring of the degree of exposure to the exchange rate risk of assets and liabilities, with reference to previously defined objectives based on the evolution of the international business activities.

As at 31 December 2014 and 31 December 2013, the net exposure (assets minus liabilities) of the Company ascended, respectively, to 7,715 DTS (9,206 Euro at the exchange rate €/SDR 1.19332) and -617,963 SDR (-690,463 Euro at the exchange rate €/SDR of 1.11732).

Based in the sensitivity analysis for the balances of accounts receivable and payable to foreign Postal Operators, on 31 December 2014 and 31 December 2013, assuming an increase / decrease in the exchange rate €/SDR (1.312652 as at 31 December 2014 and 1.229052 as at 31 December 2013) of 10%, the impact on the results would be 921 Euro and (69,046) Euro, respectively.

Liquidity risk

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

The principal contractual obligations of the Company are related to the financing received (essentially financial leases) and respective interest, the operating leases and other non-contingent financial commitments. The following table details the expected contractual obligations and financial commitments of the Company as at 31 December 2014 and 31 December 2013:

2014	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial Liabilities				
Debt (Note 25)	460,098	1,187,975	-	1,648,073
Interest expenses (Note 25)	8,740	8,094	-	16,833
Accounts payable and Other accounts payable	545,829,479	-	-	545,829,479
Non-financial liabilities				
Operating leases (Note 24)	7,657,607	11,864,514	-	19,522,121
Non-contingent financial commitments (1)	430,553	-	-	430,553
Total contractual obligations	554,386,476	13,060,583	-	567,447,059

(1) As mentioned in Note 23, the non-contingent financial commitments are essentially related to contracts concluded with suppliers of tangible fixed assets.

2013	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial Liabilities				
Debt (Note 25)	456,263	1,647,925	-	2,104,188
Interest expenses (Note 25)	13,912	20,326	-	34,237
Accounts payable and Other accounts payable	429,119,482	-	-	429,119,482
Non-financial liabilities				
Operating leases (Note 24)	7,274,279	15,776,043	-	23,050,322
Non-contingent financial commitments (1)	965,949	-	-	965,949
Total contractual obligations	437,829,885	17,444,294	-	455,274,178

(1) As mentioned in Note 23, the non-contingent financial commitments are essentially related to contracts with suppliers of tangible fixed assets.

14 INVENTORIES

As at 31 December 2014 and 31 December 2013, the Company's Inventories are detailed as follows:

	2014			2013		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net amount
Merchandise	4,678,616	1,489,626	3,188,990	4,425,452	1,808,145	2,617,307
Raw, subsidiary and consumable materials	2,437,601	656,380	1,781,221	3,095,723	670,332	2,425,391
Advances on purchases	32,698	-	32,698	63,929	-	63,929
	7,148,915	2,146,006	5,002,908	7,585,104	2,478,477	5,106,627

<u>Cost of sales</u>

During the years ended 31 December 2014 and 31 December 2013, the details of Cost of sales were as follows:

	2014		
	Merchandise	Raw, subsidiary and consumable materials	Total
Opening balance	4,425,452	3,095,723	7,521,175
Purchases	12,898,984	2,116,031	15,015,015
Inventory offers	(39,334)	(24,807)	(64,141)
Inventory adjustments	(177,394)	(522,910)	(700,304)
Closing balance	(4,678,616)	(2,437,601)	(7,116,217)
Cost of sales	12,429,092	2,226,436	14,655,528

	2013		
	Merchandise	Raw, subsidiary and consumable materials	Total
Opening balance	5,007,339	3,154,285	8,161,624
Purchases	11,400,389	2,357,868	13,758,257
Inventory offers	(39,145)	(17,354)	(56,499)
Inventory adjustments	(108,233)	(85,512)	(193,745)
Closing balance	(4,425,452)	(3,095,723)	(7,521,175)
Cost of sales	11,834,898	2,313,564	14,148,463

<u>Impairment in inventories</u>

For the years ended 31 December 2014 and 31 December 2013, the movement in Accumulated impairment losses (Note 18) was as follows:

	2014			
	Closing balance	Increases	Reversals	Closing balance
Merchandise	1,808,145	-	(318,519)	1,489,626
Raw, subsidiary and consumable materials	670,332	-	(13,952)	656,380
	2,478,477	-	(332,471)	2,146,006

	2013			
	Closing balance	Increases	Reversals	Closing balance
Merchandise	1,903,511	-	(95,366)	1,808,145
Raw, subsidiary and consumable materials	646,148	24,184	-	670,332
	2,549,659	24,184	(95,366)	2,478,477

For the years ended 31 December 2014 and 31 December 2013, impairment losses of inventories were recorded (net increases of reversals) amounting to (332,471) Euro and (71,182) Euro, respectively, in the heading Impairment of inventories, net.

15 ACCOUNTS RECEIVABLE AND OTHER ACCOUNTS RECEIVABLE

As at 31 December 2014 and 31 December 2013, the headings Accounts receivable and Other accounts receivable showed the following composition:

	2014			2013		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net amount
Accounts receivable						
Current						
Third parties	59,476,827	4,791,624	54,685,203	64,660,110	3,570,265	61,089,845
Group companies (Note 6)	5,356,106	-	5,356,106	4,342,198	-	4,342,198
Postal operators	36,680,866	208,803	36,472,063	31,904,730	207,113	31,697,617
	101,513,799	5,000,427	96,513,372	100,907,038	3,777,378	97,129,660
Other accounts receivable						
Current						
Third parties	27,289,174	7,239,718	20,049,456	21,627,047	7,968,681	13,658,366
Group companies (Note 6)	-	-	-	-	-	-
Non-current	2,583,493	1,792,892	790,601	4,644,796	2,693,657	1,951,139
	29,872,667	9,032,610	20,840,057	26,271,843	10,662,338	15,609,505
	131,386,466	14,033,037	117,353,429	127,178,881	14,439,716	112,739,165

<u>Accounts receivable</u>

As at 31 December 2014 and 31 December 2013, the ageing of Customers is detailed as follows:

	2014				2013			
	Third parties	Postal operators	Group companies	Total	Third parties	Postal operators	Group companies	Total
Accounts receivable								
Not due	39,135,695	2,543,508	2,867,770	44,546,972	32,700,672	2,188,393	3,068,619	37,957,683
Overdue balance:								
0-30 days	10,959,199	-	821,806	11,781,005	16,141,204	-	179,690	16,320,893
30-90 days	2,984,042	3,171,525	305,945	6,461,512	8,460,574	1,797,946	317,174	10,575,693
90-180 days	1,225,327	1,210,750	445,684	2,881,761	2,415,997	2,405,382	309,634	5,131,012
180-360 days	931,021	7,634,175	601,869	9,167,064	572,913	6,392,630	284,245	7,249,789
› 360 days	4,241,543	22,120,910	313,033	26,675,485	4,368,751	19,120,379	182,837	23,671,968
	59,476,827	36,680,866	5,356,106	101,513,799	64,660,110	31,904,730	4,342,198	100,907,038

The gross amount of accounts receivable overdue over 360 days was as follows:

	2014	2013
National accounts receivable	4,554,575	4,551,559
Foreign operators	22,120,910	19,120,379
Total	26,675,485	23,671,938
Foreign operators - payable	(21,335,993)	(18,862,566)

The caption of Foreign Operators relates to receivables associated with the distribution of postal traffic in Portugal with origin in other countries. These operations fall within the scope of the regulation of the Universal Postal Union (UPU) 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 balance with 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 27).

The balance of national customers includes receivables of public entities and other clients that are also suppliers which will be netted with accounts payable balances and customers with debt payment plans.

For the national customers, the banks guarantees and advance deposits coverage over the customers receivables is 1.2% for the year ended on 31 December 2014.

	2014	2013
Advance deposits	894,069	1,614,064
Bank guarantees	83,753	273,674
Total	977,822	1,887,738

Other accounts receivable

As at 31 December 2014 and 31 December 2013, the carrying values in Accounts receivable and Other accounts receivable showed the following detail:

	2014			2013		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net amount
Non-current						
Advances to staff	512,079	-	512,079	463,546	-	463,546
Other amounts receivable from staff	1,699,523	1,421,001	278,522	1,296,044	1,296,044	-
Ministry of Health	-	-	-	1,487,593	-	1,487,593
INESC financing loan	371,891	371,891	-	1,397,613	1,397,613	-
	2,583,493	1,792,892	790,601	4,644,796	2,693,657	1,951,139
Current						
Advances to staff	2,788,353	879,331	1,909,022	3,338,227	944,895	2,393,332
Ministry of Health	-	-	-	1,531,568	-	1,531,568
Postal financial services	12,352,806	680,427	11,672,379	1,932,246	752,322	1,179,924
Accrued income	1,735,296	-	1,735,296	4,938,297	-	4,938,297
Other current assets						
Philatelic agents	50,029	-	50,029	52,788	-	52,788
Sundry invoicing CT	1,737,849	525,439	1,212,410	1,397,876	442,993	954,883
Caixa Geral de Aposentações - Social Work	302,004	-	302,004	77	-	77
INESC financing loan	49,740	49,740	-	49,740	49,740	-
Office for media	206,077	-	206,077	97,799	-	97,799
Debtors - escrow accounts	184,163	170,557	13,606	175,787	175,787	-
Foreign postal operators	-	-	-	55,641	-	55,641
Sundry debtors	4,918,697	4,918,637	60	5,412,398	5,412,398	-
Other	2,964,160	15,587	2,948,573	2,644,603	190,546	2,454,057
	27,289,174	7,239,718	20,049,456	21,627,047	7,968,681	13,658,366

The account receivable from the Ministério da Saúde that refered to the Portuguese state contribution to health care costs during 2000 to 2006, under the CTT health plan, and according to the protocol signed with this entity, which ended 31 December 2006 was fully paid during the year ended 31 December 2014.

The amounts recorded in the heading “Postal financial services” refer to amounts receivable from redemption of savings products and the marketing of insurance.

Accounts receivable and other accounts receivable impairments

For the years ended 31 December 2014 and 31 December 2013, the movement occurred in "Accumulated impairment losses" (Note 18) was as follows:

	2014					
	Opening balance	Increases	Reversals	Uses	Transfers	Closing balance
Accounts receivable	3,777,378	1,607,492	(24,145)	(360,298)	-	5,000,427
Other accounts receivable	10,662,338	410,908	(2,040,637)	-	-	9,032,609
	14,439,716	2,018,400	(2,064,782)	(360,298)	-	14,033,036

	2013					
	Opening balance	Increases	Reversals	Uses	Transfers	Closing balance
Accounts receivable	4,814,776	93,181	(981,200)	(149,379)	-	3,777,378
Other accounts receivable	10,339,037	850,264	(202,261)	-	(324,702)	10,662,338
	15,153,813	943,445	(1,183,461)	(149,379)	(324,702)	14,439,716

For the years ended 31 December 2014 and 31 December 2013, increases of impairment losses (net of reversals) were recorded in debts receivable for the amount of (46,382) Euro and (240,016) Euro, respectively.

16 DEFERRALS

As at 31 December 2014 and 31 December 2013, the headings "Deferrals" of the current assets and current and non-current liabilities had the following composition:

	2014	2013
Deferred assets		
Current		
Rents payable	1,044,942	1,049,402
Meal allowances	1,698,085	1,727,311
Other	1,927,940	702,919
	4,670,967	3,479,632
Deferred liabilities		
Non-current		
Deferred capital gains	6,076,311	8,475,340
	6,076,311	8,475,340
Current		
Deferred capital gains	2,399,029	2,399,029
Prepaid Phone-ix	258,669	453,150
Deferred comissions	1,800,000	-
Other	1,034,031	1,048,402
	5,491,729	3,900,581
	11,568,040	12,375,921

In prior years the Company sold certain property, which it subsequently leased. The gain on that sale was deferred and is being recognised over the period of the lease contracts.

During the years ended 31 December 2014 and 31 December 2013, 1,511,128 Euro was recognised under Other operating income in the company's income statement, for both years, related to the above mentioned capital gains.

In 2014 CTT signed an agreement with Cetelem, according to which CTT received 3 million Euro on the signing date. An amount of 1 million Euro, related to an entry fee was recognized at the beginning of the contract and the remaining 2 million Euro, for the non-refundable fees will be recognized over the period of the contract. As at 31 December 2014 1.8 million Euro related to this contract was deferred.

17 NON-CURRENT ASSETS AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS

As at 31 December 2014 and 31 December 2013, the Company did not have any non-current assets classified as available for sale.

18 ACCUMULATED IMPAIRMENT LOSSES

During the years ended 31 December 2014 and 31 December 2013, the following movements occurred in the impairment losses:

	2014					
	Opening balance	Increases	Reversals	Uses/ Disposals	Transfers	Closing balance
Goodwill (Note 9)	4,375,588	-	-	(4,375,588)	-	-
Tangible fixed assets (Note 7)	-	41,815	(39,285)	-	417,952	420,483
Investment properties (Note 8)	1,606,505	331,877	(488,357)	-	-	1,450,025
Inventories (Note 14)	2,478,477	-	(332,471)	-	-	2,146,006
Accounts receivable and other accounts receivable (Note 15)	14,439,716	2,018,400	(2,064,782)	(360,298)	-	14,033,037
	22,900,286	2,392,093	(2,924,895)	(4,735,886)	417,952	18,049,551

	2013					
	Opening balance	Increases	Reversals	Uses	Transfers	Closing balance
Goodwill (Note 9)	4,375,588	-	-	-	-	4,375,588
Tangible fixed assets (Note 7)	502,113	-	-	-	(502,113)	-
Investment properties (Note 8)	-	1,104,392	-	-	502,113	1,606,505
Inventories (Note 14)	2,549,659	24,184	(95,366)	-	-	2,478,477
Accounts receivable and other accounts receivable (Note 15)	15,153,813	943,445	(1,183,461)	(149,379)	(324,702)	14,439,716
	22,581,173	2,072,021	(1,278,827)	(149,379)	(324,702)	22,900,286

The goodwill impairment reduction in 2014 its explained by the sale of the financial participation of CTT in Tourline, for which accumulated impairment losses of 4,375,588 Euro had been recognized in prior years.

19 EQUITY

Share capital

As at 31 December 2014, the Company's share capital was composed of 150,000,000 shares with the nominal value of 0.50 Euro each. The share capital is fully underwritten and paid-up.

At the General Meeting held on 30 October 2013, the registered capital of CTT was reduced from 87,325,000 Euro to 75,000,000 Euro, being from that date onward represented by 150,000,000 shares, as a result of a stock split which was accomplished through the reduction of the nominal value from 4.99 Euro to 0.50 Euro. The amount of 12,325,000 Euro related to the reduction of the capital was transferred to "Other reserves" (Note 20).

As at 31 December 2014 and 31 December 2013 the Company's shareholders with, greater than or equal to, 2% shareholdings are as follows:

Shareholder		2014 Nr shares	%	Nominal value
Standard Life Investments Limited (1)		9,910,580	6.607%	4,955,290
Ignis Investment Services Limited (1)		97,073	0.065%	48,537
Standard Life Investments (Holdings) Limited	**Total**	**10,007,653**	**6.672%**	**5,003,827**
Kames Capital plc (2)		2,045,003	1.363%	1,022,502
Kames Capital Management Limited (2)		3,096,134	2.064%	1,548,067
Aegon NV (3)	**Total**	**5,141,137**	**3.427%**	**2,570,569**
Allianz Global Investors Europe GmbH (AGIE) (4)	**Total**	**4,695,774**	**3.131%**	**2,347,887**
UBS AG (5)		3,705,257	2.470%	1,852,629
UBS Fund Management (Switzerland) AG (5)		55,397	0.037%	27,699
UBS Fund Services (Luxembourg) AG (5)		57,770	0.039%	28,885
UBS Global Asset Management (UK) Limited (5)		8,330	0.006%	4,165
UBS Global Asset Management (Australia) Ltd (5)		3,715	0.002%	1,858
UBS Group AG (6)	**Total**	**3,830,469**	**2.554%**	**1,915,235**
Morgan Stanley & Co. International plc (7)		3,553,396	2.369%	1,776,698
Morgan Stanley (7)	**Total**	**3,553,396**	**2.369%**	**1,776,698**
Pioneer Funds - European Equity Target Income (8)		613,645	0.409%	306,823
Pioneer Funds - Global Equity Target Income (9)		170,047	0.113%	85,024
Pioneer Funds - ABS Return European Equities (9)		95,475	0.064%	47,738
Pioneer Funds - European Potential (9)		825,082	0.550%	412,541
Pioneer Funds - European Equity Value (9)		764,953	0.510%	382,477
Pioneer Funds - European Equity Market Plus (9)		15,876	0.011%	7,938
Pioneer Funds - European Research (9)		643,204	0.429%	321,602
UniCredit S.p.A.	**Total**	**3,128,282**	**2.086%**	**1,564,141**
Artemis Fund Managers Limited (10)		3,104,624	**2.070%**	1,552,312
Artemis Investment Management LLP	**Total**	**3,104,624**	**2.070%**	**1,552,312**
FMRC-FMR CO., INC. (11)		716,444	0.478%	358,222
FMR UK-FIDELITY MANAGEMENT & RESEARCH (U.K.) INC. (11)		2,379,854	1.587%	1,189,927
FMR LLC	**Total**	**3,096,298**	**2.064%**	**1,548,149**
DSAM Partners LLP (12)		3,096,079	**2.064%**	1,548,040
DSAM Cayman Ltd.	**Total**	**3,096,079**	**2.064%**	**1,548,040**
Goldman Sachs International (13)				
Goldman Sachs Asset Management, L.P. (13)				
Goldman Sachs Asset Management International (13)				
The Goldman Sachs Group, Inc. (13)	**Total**	**3,019,750**	**2.013%**	**1,509,875**
Other shareholders	**Total**	**107,326,538**	**71.551%**	**53,663,269**
Total		**150,000,000**	**100.000%**	**75,000,000**

(14) Company held by Standard Life Investments (Holdings) Limited.

(15) As of 1 January 2015, as a result of a group corporate restructuring the client portfolios managed by Kames Capital Management Limited (a subsidiary of Kames Capital plc) have been transferred and are currently managed by Kames Capital plc.

(16) This qualified shareholding is imputable to the following chain of entities: (i) Kames Capital Holdings Limited, which holds 100% of Kames Capital plc; (ii) Aegon Asset Management Holding BV, which holds 100% of Kames Capital Holdings Limited; and (iii) Aegon NV, which holds 100% of Aegon Asset Management Holding BV.

(17) By virtue of the merger of Allianz Global Investors Luxembourg, S.A. (AGIL) into Allianz Global Investors Europe (AGIE), the qualified shareholding mentioned above became imputable to AGIE.

(18) Subsidiary of the UBS Group AG.

(19) As a result of the acquisition of UBS AG by UBS Group AG the shares of UBS AG were transferred to UBS Group AG. The UBS AG subsidiaries also became controlled by UBS Group AG.

(20) The parent company is Morgan Stanley and the chain of companies between the parent company and the shareholder is: Morgan Stanley, Morgan Stanley International Holdings Inc., Morgan Stanley International Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley Investments (UK) and Morgan Stanley & Co. International plc.

(21) Fund managed by Pioneer Investments Kapitalangesellschaft GmbH, appointed by Pioneer Asset Management, S.A., which is fully owned by UniCredit S.p.A.

(22) Fund managed by Pioneer Investments Management Limited Dublin, appointed by Pioneer Asset Management, S.A., which is entirely owned by UniCredit S.p.A.

(23) Company held by Artemis Investment Management LLP.

(24) Company owned by FMR LLC.

(25) The chain of undertakings between the parent company and the shareholder is: DSAM Cayman Ltd, DSAM Cayman LP, DSAM Capital Partners Ltd and DSAM Partners LLP. The holding is exclusively an economic long position resulting from an over the counter equity swap transaction with trade date 10 September 2014, settlement date 15 September 2014 and termination date 2 September 2015. The swap transaction referred to foresees cash settlement as the settlement option.

(26) The chain of controlled undertakings through which the voting rights and/or the financial instruments are effectively held is as follows: The Goldman Sachs Group, Inc. (parent company); Goldman Sachs (UK) L.L.C. (Controlled by The Goldman Sachs Group, Inc.); Goldman Sachs Group UK Limited (Controlled by Goldman Sachs (UK) L.L.C.); Goldman Sachs International (Controlled by Goldman Sachs Group UK Limited); Goldman Sachs Asset Management International (Controlled by Goldman Sachs Group UK Limited); Goldman Sachs Asset Management, L.P. (Controlled by The Goldman Sachs Group, Inc.). The holding includes 1.42% corresponding to 2,131,364 CTT shares and 0.59% held through economic long position via CFD and corresponding to 888,386 shares. The CFD details are as follows:

Expiration / Exercise / Conversion Period/Date	No. of shares/ voting rights that may be acquired if the instrument is exercised / converted	% of voting rights that may be obtained if the instrument is exercised/converted
25-Nov-2019	2,453	0.0016%
22-Nov-2019	1,278	0.0009%
4-Dec-2024	506,660	0.3378%
4-Dec-2024	4,869	0.0032%
9-Dec-2024	600	0.0004%
23-Sep-2024	11,502	0.0077%
26-Sep-2024	360,000	0.2400%
11-Nov-2024	1,024	0.0007%
Total Number of voting rights and percentage of voting rights	**888,386**	**0.59%**

	2013		
Shareholder	**Nr shares**	**%**	**Nominal value**
Parpública - Participações Públicas (SGPS), SA (1)	45,000,000	30.000%	22,500,000
Parpública - Participações Públicas (SGPS), SA (2)	9,545,455	6.364%	4,772,728
Total (3)	54,545,455	36.364%	27,272,728
Goldman Sachs International (4)	7,496,479	4.998%	3,748,240
Deutsche Bank AG London (5)	3,063,798	2.043%	1,531,899
Other shareholders (6)	84,894,268	56.596%	42,447,134
Total	**150,000,000**	**100.000%**	**75,000,000**

(7) Shares held by Parpública – Participações Públicas (SGPS), SA, which in turn is fully owned by the Portuguese State.

(8) Shares allocated to Parpública - Participações Públicas (SGPS), SA, in accordance with the call option on the Underwriters, represented for the purpose by the Stabilisation Agent (Stabilisation Manager) under direct sales institutional Contract (institutional Underwriting agreement) signed with the Underwriters in the privatization process of CTT. Under this contract the Underwriters also held an option to sell (put option) on Parpública - Participações Públicas (SGPS), SA. The share stabilisation operations were completed on 3 January 2014, having the underwriters exercised the option to sell 2,253,834 shares of all 9,545,455 shares, representing 1.5% of the share capital of CTT.

(9) Full participation Parpública - Participações Públicas (SGPS), SA as at 31 December 2013, which in turn is owned entirely by the Portuguese State. From 3 January 2014 Parpública - Participações Públicas (SGPS), SA holds 47,253,834 shares, i.e. 31.5% of the share capital of CTT.

(10) Shares held by Goldman Sachs International, controlled by Goldman Sachs Holding (UK), which in turn is controlled by Goldman Sachs Group Holdings (UK) Limited, controlled by Goldman Sachs Group UK Limited, controlled by Goldman Sachs (UK) LLC, which in turn is controlled by the Goldman Sachs Group, Inc..

(11) Shares held by Deutsche Bank AG London which in turn is a branch of Deutsche Bank AG.

(12) Includes 2,064,660 shares held by CTT workers who, according to the terms of the offer reserved for employees under the privatization of CTT, are unavailable until 5 March 2014.

20 RESERVES AND OTHER EQUITY ITEMS

Legal reserves

The commercial legislation establishes that at least 5% of the annual net income must be allocated to reinforce the legal reserve, until it represents at least 20% of the share capital. This reserve is not distributable except in the event of the liquidation of the Company, but may be used to absorb losses after all the other reserves have been depleted, or incorporated in the share capital.

As at 31 December 2014 and 31 December 2013, the heading "Legal reserves" was detailed as follows:

	2014	2013
Opening balance	18,072,559	18,072,559
Application of the net profit of the previous period	-	-
Closing balance	18,072,559	18,072,559

The legal reserve is now fully incorporated, corresponding to over 20% of the share capital.

Other reserves

This heading records the profits transferred to reserves that are not imposed by the law or statutes, nor constituted pursuant to contracts signed by the Company.

As at 31 December 2014 it also records the amount recognised in the year related to the Share Plan, that constitutes the long term variable remuneration to be paid to the executive members of the Board of Directors under the new remuneration model of the Statutory Bodies defined by the Remunerations Board.

As at 31 December 2014 and 31 December 2013, the heading “Other reserves” corresponding to “Free Reserves” was as follows:

	2014	2013
Opening balance	12,325,000	10,555,947
Share Plan (Note 26)	1,376,407	-
Distribution of extraordinary dividend (Note 21)	-	(10,555,947)
Share capital reduction (Note 19)	-	12,325,000
Closing balance	13,701,407	12,325,000

Retained earnings

For the years ended 31 December 2014 and 31 December 2013, the following movements were made in the heading Retained earnings:

	2014	2013
Opening balance	57,823,615	61,787,635
Application of the net profit of the previous period	61,016,067	35,735,267
Distribution of dividends (Note 22)	(60,000,000)	(38,554,127)
Distribution of extraordinary dividend (Note 21)	-	(889,924)
Net profit not attributed by subsidiaries and associated companies	3,921,530	(254,372)
Other	(8,969)	(863)
Closing balance	62,752,243	57,823,615

Adjustments in investments

This heading reflects the adjustments arising from the application of the equity method on equity terms other than the net income for the year. Its distribution only occurs when the subsidiary is sold.

Other changes in equity

The company recognises in this heading the subsidies related with the acquisition or production of non-current assets (subsidies to fixed assets), which were fully received and are non-refundable. These subsidies are subsequently allocated on a systematic basis as revenues of the period during the useful lives of the assets with which they are related, having been recognised revenues of 11,201 Euro in 2014 and 2013 (Note 31). The balance of this heading corresponds to the part of these subsidies that have not yet been allocated to revenues of the period.

Actuarial gains/losses associated with Health Care benefits, as well as the corresponding deferred income tax, are recognised in this heading.

Thus, for the years ended 31 December 2014 and 31 December 2013 the movements occurred in this heading were as follows:

	2014	2013
Opening balance	24,810,903	33,352,062
Allocation of subsidies to the financial year	(11,201)	(11,201)
Deferred income taxes related to the subsidies	8,969	863
Actuarial gains/losses - Health Care (Note 26)	(61,041,103)	(11,680,870)
Deferred income taxes actuarial gains/losses - Health Care (Note 38)	17,706,037	3,150,049
Closing balance	(18,526,395)	24,810,903

21 DIVIDENDS

At the General Assembly held on 5 May 2014, the shareholders approved the distribution of a dividend of 0.40 Euro per share (which took into consideration the 150,000,000 shares existing at 31.12.2013) relative to 31 December 2013 and a total dividend of 60,000,000 Euro was paid in May 2014.

At the General Assembly held on 30 May 2013, the shareholder 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.

22 EARNINGS PER SHARE

During the years ended 31 December 2014 and 31 December 2013, the earnings per share were calculated as follows:

	2014	2013
Net income for the year	77,171,128	61,016,067
Average number of ordinary shares	150,000,000	150,000,000
Earnings per share	0.51	0.41

The number of shares varied in the course of 2013, from 17,500,000 to 150,000,000 following the capital reduction made to reserves and a stock split by reducing the nominal value.

23 PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

During the years ended 31 December 2014 and 31 December 2013, the "Provisions" constituted by the Company showed the following movements:

	2014					
	Opening balance	Increases	Reversals	Uses	Transfers	Closing balance
Non-current provisions						
Litigations	10,672,139	4,259,580	(3,905,765)	(3,099,948)	1,425,810	9,351,816
Other risks and charges	27,243,144	9,315,104	-	(2,657,208)	(1,843,762)	32,057,278
subtotal	37,915,283	13,574,684	(3,905,765)	(5,757,156)	(417,952)	41,409,094
Investments in subsidiary companies	-	306,162	-	-	-	306,162
	37,915,283	13,880,846	(3,905,765)	(5,757,156)	(417,952)	41,715,256

	2013					
	Opening balance	Increases	Reversals	Uses	Transfers	Closing balance
Non-current provisions						
Litigations	8,950,243	3,677,667	(3,394,017)	(1,269,365)	2,707,611	10,672,139
Other risks and charges	26,917,781	6,231,864	(746,181)	(2,777,411)	(2,382,909)	27,243,144
	35,868,024	9,909,531	(4,140,198)	(4,046,776)	324,702	37,915,283

The provisions for legal actions are intended to meet the requirements arising from cases brought against the Company, estimated based on information from its lawyers.

The provision for investments in subsidiary companies corresponds to the assumption by the company of legal or constructive obligations regarding the losses incurred by the subsidiary CORRE - Correio Expresso Moçambique, S.A..

The recognition of this provision is recorded against Expenses and losses in subsidiaries and associates. For this reason the Provisions (increases / decreases) in the Income statement relates only to the movements made in the provisions for Litigations and Other risks and charges.

The provisions for Other risks and charges includes mainly the items Labour contingencies, Onerous contracts and several other situations:

- Labour Contingencies

  As at 31 December 2014 the provision 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, was increased in 3,318,582 Euro, amounting to 14,404,906 Euro (12,512,193 Euro as at 31 December 2013). During the year ended 31 December 2013 this provision had been increased in 3,9 million Euro.
- Onerous Contracts

  During the current year the provision to cover the estimated of the net present value of the expenditure associated with onerous contracts was increased by 5,817,619 Euro. This value was obtained from the update of the assumptions used in the 31 December 2012, namely the the discount rate.

  As at 31 December 2014 the provisioned amount for contracts is 15,943,847 Euro (12,643,714 Euro in 31 December 2013).
- Other Provisions

  As at 31 December 2014, in addition to the previously mentioned situations, the provision for Other Risks and Charges also included:

  - the amount of 282,929 Euro for coverage of costs of dismantlement of tangible fixed assets and/or removal of facilities and restoration of the location;

  - the amount of 890,000 Euro, which arise from the assessment made by management regarding the possibility of the enforcement of tax contingencies.

  The net amount between increases and reversals of provisions was recorded in the Income statement under the headings “Provisions, net ” as (6,350,337) Euro ((5,769,333) Euro in 2013).

Guarantees provided

As at 31 December 2014 and 31 December 2013, the Company had undertaken commitments relative to guarantees provided to third parties of 13,776,878 Euro and 1,325,579 Euro, respectively.

The details of these guarantees were as follows:

Description	2014	2013
Bank guarantees in favour of courts	170,723	539,437
Bank guarantees requested by companies in favour of third parties:		
FUNDO DE PENSÕES DO BANCO SANTANDER TOTTA	3,030,174	-
EURO BRIDGE-Sociedade Imobiliária, Lda	2,944,833	-
PLANINOVA - Soc. Imobiliária, S.A.	2,033,582	
LandSearch, Compra e Venda de Imóveis	1,792,886	-
NOVIMOVESTE - Fundo de Investimento Imobiliário	1,523,201	-
LUSIMOVESTE - Fundo de Investimento Imobiliário	1,274,355	-
Autoridade Tributária e Aduaneira	590,000	390,000
Câmaras Municipais	154,677	148,737
Alfândega do Freixo	74,820	74,820
Direção Regional de Contenciosos e Administrativo de Lisboa (DRCAL)	-	49,880
Secretaria Geral do Ministério da Administração Interna	16,000	-
Autoridade Nacional de Segurança Rodoviária	-	-
SPMS - Serviços Partilhados Ministério da Saúde	30,180	16,092
Governo Civil de Lisboa	-	-
ANACOM	-	-
Portugal Telecom, S.A.	16,657	16,658
Instituto Gestão Financeira Segurança Social	12,681	
ARM - Águas e Resíduos da Madeira, SA	-	4,752
Estradas de Portugal, E.P.	5,000	5,000
Instituto de Infra Estruturas Rodoviárias	3,725	3,725
IFADAP	1,746	1,746
	13,776,878	1,325,579

Guarantees for Contracts

According to the determinations in some lease contracts of the buildings occupied by the Company's services, having the Portuguese State ceased to hold the majority of the share capital of CTT-Correios de Portugal, S.A., bank guarantees on first demand were provided.

These guarantees have already been issued and amount to 12.6 million Euro.

Contingent liabilities

As at 31 December 2014, the Company does not have contingent liabilities.

Commitments

For the years ended 31 December 2014 and 31 December 2013, during the normal course of its activity, the Company assumed purchase commitments as follows:

Description	2014	2013
Purchase commitments to:		
Suppliers of intangible assets	-	264,991
Suppliers of tangible fixed assets	430,553	700,958
	430,553	965,949

The tangible fixed assets commitments relate to the acquisition of displays to Star Cosmos machines of 12,372 Euro, acquisition of pallet trucks (15,535 Euro) electric light vans worth 66,974 Euro and upgrades to mail sorting machines of 335,670 Euro.

The Company assumed financial commitments (comfort letters) before Banco Bilbao Vizcaya Argentaria, S.A and regarding the subsidiary Tourline, SLU of 1,170,769 Euro, which are still active as at 31 December 2014.

In addition, the Company also assumed commitments relating real estate rents under lease contracts and rents for operating and financial leases.

24 OPERATING LEASES

As at 31 December 2014 and 31 December 2013, the Company maintained medium and long term liabilities in operating lease contracts of vehicles, with penalty clause in the case of cancellation. The total amount of the future payments of these operating leases is as follows:

	2014	2013
Due within 1 year	7,657,607	7,274,279
Due between 1 to 5 years	11,864,514	15,776,043
	19,522,121	23,050,322

During the years ended 31 December 2014 and 31 December 2013, the costs incurred with operating lease contracts of vehicles were 6,258,419 Euro and 6,583,293 Euro, respectively, and are recognised under Rents in the heading External supplies and services of the company income statement (Note 32).

The operating leases relates to leasing agreement of short duration, in which the lessor transfers the temporary use of the asset to a third party upon payment of an income or rental.

Lease payments are made monthly by equal amounts during the period of the lease agreement and the recognition of the rent is considered as an expense which will also be performed on a linear basis (straight-line basis).

There is no recognition of any leased asset, because the lease is a rental in substance and there is no evidence that demonstrate the lessee will obtain future economic benefits from the asset beyond the contract period.

The transfer of the legal ownership of the assets to the lessee at the end of the contract is not expected.

25 DEBT

As at 31 December 2014 and 31 December 2013, the heading "Financing received" was detailed as follows:

	2014	2013
Non-current liabilities		
Leasings	1,187,975	1,647,925
	1,187,975	1,647,925
Current liabilities		
Leasings	460,098	456,263
	460,098	456,263

Leasings

As at 31 December 2014 and 31 December 2013, the Company's liabilities with leasing contracts (Note 7) presented the following plan of due dates:

	2014			2013		
	Principal	Interest	Total	Principal	Interest	Total
Due within 1 year	460,098	8,740	468,838	456,263	13,912	470,175
Due between 1 to 5 years	1,187,975	8,094	1,196,069	1,647,925	20,326	1,668,251
Total	1,648,073	16,833	1,664,906	2,104,188	34,238	2,138,426

As at 31 December 2014 and 31 December 2013, the Company has following assets held under finance lease contracts:

	2014			2013		
	Gross Amount	Depreciation/accumulated impairment losses	Carrying value	Gross Amount	Depreciation/accumulated impairment losses	Carrying value
Land and natural resources	7,798,567	815,990	6,982,577	7,798,567	815,990	6,982,577
Buildings and other constructions	81,701	26,706	54,995	81,701	23,251	58,450
	7,880,268	842,696	7,037,572	7,880,268	839,241	7,041,027

The company is the lessee under a leasing contract signed with IMOLEASING – Sociedade de locação financeira imobiliária, S.A., relative to a property in the Municipio da Maia (Oporto) where the Sorting Centre is located. The type of the lease contracts determines their classification as a financial lease.

There are neither contingent rents payable nor the imposition of any restrictions. There is an option to buy for a residual value of approximately 6% of the contract's value.

26 EMPLOYEE BENEFITS

The liabilities with employee benefits refer to (i) post-employment benefits – health care, (ii) other long term employee benefits and (iii) other long term benefits for the statutory bodies.

During the years ended 31 December 2014 and 31 December 2013, these liabilities showed the following movement:

	2014				
	Liabilities			Equity	Total
	Health care	Other long term employee benefits	Total	Other long term benefits statutory bodies	
Opening balance	263,371,000	34,861,626	298,232,626	-	298,232,626
Movement of the period	(22,205,000)	1,094,991	(21,110,009)	1,376,407	(19,733,602)
Closing balance	241,166,000	35,956,617	277,122,617	1,376,407	278,499,024

	2013				
	Liabilities			Equity	Total
	Health care	Other long term employee benefits	Total	Other long term benefits statutory bodies	
Opening balance	252,803,000	50,206,132	303,009,132	-	303,009,132
Movement of the period	10,568,000	(15,344,506)	(4,776,506)	-	(4,776,506)
Closing balance	263,371,000	34,861,626	298,232,626	-	298,232,626

The heading "Other long term employee benefits" liabilities essentially refer to the on-going staff reduction programme.

Other long term benefits for the statutory bodies refers to the long term variable remuneration assigned to the executive members of the Board of Directors.

The details of liabilities related to employee benefits, considering their classification, are as follows:

	2014	2013
Equity (Other reserves)	1,376,407	-
Non-current liabilities	255,527,808	282,915,180
Current liabilities	21,594,809	15,317,446
	278,499,024	298,232,626

The costs with employee benefits recognised in the Corporate income statement and the value recorded directly in Other changes in equity and in Other reserves amounted to:

	2014	2013
Costs for the period		
Health care	(68,905,327)	13,747,000
Other long term employee benefits	7,591,332	(5,206,460)
Other long term benefits statutory bodi	1,376,407	-
	(61,313,996)	8,540,540
Other changes in equity		
Health care	(61,041,103)	(11,680,870)
	(61,041,103)	(11,680,870)

Health care

As mentioned in Note 3.15, CTT is responsible for financing the health care plan applicable to certain employees. In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is made by an independent entity every year, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable, having, as at 31 December 2014, performed an actuarial study.

The main assumptions followed in the actuarial study were:

	2014	2013
Financial assumptions		
Discount rate	2.50%	4.00%
Salaries expected growth rate	2.75%	0% in 2013 and 2014 2.75% from 2015
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP ‹ 2%)	Law no. 53-B/2006 (with Δ GDP ‹ 2%)
Inflation rate	2.00%	2.00%
Health costs growth rate		
Inflation rate	2.00%	2.00%
Growth due to ageing	2.00%	0% and 2013 and 2014 2% from 2015
Demographic assumptions		
Mortality table	TV 88/90	TV 88/90
Invalidity table	Swiss RE	Swiss RE

The discount rate is estimated based on interest rates of private debt bonds with high credit rating ("AA" or equivalent) at the date of the financial position and with a duration equivalent to that of the liabilities with health care.

The decrease of the discount rate to 2.50% is motivated by the analysis performed by the Company of the evolution of the macroeconomic context taking into account a constant need to match the actuarial and financial assumptions to that reality.

The salaries expected growth rate is determined according to the salary policy defined by the Company.

The pensions expected growth rate is determined considering the estimated evolution of inflation and GDP growth rate.

The health care costs growth rate reflects the best estimate for the future evolution of these costs, considering the history of the plan's data.

The demographic assumptions are based on the mortality and disability tables considered appropriate for the actuarial assessment of this plan.

The evolution of the present value of the liabilities related to the health care plan has been as follows:

	2014	2013	2012	2011	2010
Liabilities at the end of the period	241,166,000	263,371,000	252,803,000	272,102,000	272,123,000

For the years ended 31 December 2014 and 31 December 2013, the movement which occurred in the present value of the defined benefits liability regarding the health care plan was as follows:

	2014	2013
Opening balance	263,371,000	252,803,000
Service costs of the period	3,825,000	3,882,000
Interest costs of the period	10,268,000	9,865,000
Curtailment	(82,998,327)	-
Contributions of pensioners	3,607,690	3,552,478
(Payment of benefits)	(16,894,342)	(17,249,738)
(Other costs)	(1,054,123)	(1,162,610)
Actuarial (gains)/losses	61,041,103	11,680,870
Closing balance	241,166,000	263,371,000

In February 2015 CTT signed with effects as at 31 December 2014, with the eleven trade unions represented in the company, the new Regulation of the Social Works (“RSW”) system, the internal healthcare and social protection system of CTT. The new RSW of CTT maintains a high but balanced protection level, while rationalising the use of benefits. Accordingly, the fees that the beneficiaries pay to the system were increased by raising the monthly contributions and co-payments, while the all-encompassing feature of the system was maintained and some social support measures were strengthened.

The new plan entailed a significant reduction in the estimate of CTT future health care expenses and therefore a corresponding reduction in past services liability as at 31 December 2014, which has been considered an amendment to the plan was recognized in profit and loss.

For the years ended 31 December 2014 and 31 December 2013, the composition of costs related to health care was as follows:

	2014	2013
Staff costs/employee benefits (Note 33)	(80,227,450)	2,719,390
Other operating costs	1,054,123	1,162,610
Interest expenses (Note 36)	10,268,000	9,865,000
Total costs for the period	(68,905,327)	13,747,000

The best estimate that Company has at this date for costs with the health care plan, which it expects to recognise in the next annual period of 2015 is 9,942 thousand Euro.

The actuarial (gains)/losses amounting to 61,041,103 Euro (11,680,870 Euro as at 31 December 2013) were recognised in equity under Other Changes in Equity, net of deferred taxes of 17,706,037 Euro (3,150,049 Euro as at 31 December 2013).

The sensitivity analysis performed for the health care plan leads to the following conclusions:

(i) If there was an increase of 1 per cent in the growth rate of medical costs, keeping all other variables constant, the liabilities of the health care plan would be 300,242 thousand Euro, increasing by approximately 24.5%.

(ii) If the discount rate was reduced 0.5 per cent and keeping all the remaining variables constant, the liabilities would increase by approximately 7.8%, amounting to 259,977 thousand Euro.

<u>Other long term benefits</u>

As mentioned in Note 3.15, in certain situations, the Company has liabilities with the payment of salaries in situation of "Suspension of contracts, redeployment, pre-retirement contracts and release of employment", with the allocation of subsidies for the "Support for termination of professional activity", which was terminated from 1 April 2013 onward, with the payment of the "Telephone subscription fee", with "Pensions for accidents at work", and "Monthly life annuity". In order to obtain the estimate of the value of these liabilities and the costs to be recognised for each period, every year, an actuarial study is made by an independent entity, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable.

The main assumptions followed in the assessment of these liabilities were:

	2014	2013
Financial assumptions		
Discount rate	2.5%	4.0%
Salaries growth rate	2.75%	0% in 2013 and 2014 2,75% from that date
Pensions growth rate	Law no. 53-B/2006 (com Δ GDP ‹ 2%)	Law no. 53-B/2006 (com Δ GDP ‹ 2%)
Inflation rate	2.0%	2.00%
Demographic assumptions		
Mortality table	TV 88/90	TV 88/90
Disability rate	Swiss RE	Swiss RE

For the determination of the Company's liabilities to employees in situations of "Suspension of contracts, redeployment and release of employment", salary growth rates of 2.75% were considered for 2014, and following years. The salary growth rate of 2.75% was applied to the remaining employee benefits, except for the "Telephone subscription charge" and "Support for termination of professional activity" for which no value update was considered.

For the years ended 31 December 2014 and 31 December 2013, the movement of liabilities with other employee long-term benefits was as follows:

	2014	2013
Suspension of contracts, redeployment and release of employment		
Opening balance	19,433,462	23,777,219
Interest cost	687,152	833,035
Liabilities relative to new beneficiaries	393,318	1,914,115
(Payment of benefits)	(5,585,363)	(7,290,756)
Actuarial (gains)/losses	2,712,744	199,849
Closing balance	17,641,312	19,433,462
Telephone subscription charge		
Opening balance	4,800,195	14,242,125
Interest cost	178,544	451,814
Curtailment	-	(8,211,129)
(Payment of benefits)	(303,781)	(1,445,398)
Actuarial (gains)/losses	157,817	(237,217)
Closing balance	4,832,775	4,800,195
Pension for accident at work		
Opening balance	7,004,370	7,563,939
Interest cost	271,647	293,948
(Payment of benefits)	(437,324)	(422,708)
Actuarial (gains)/losses	1,322,707	(430,809)
Closing balance	8,161,400	7,004,370
Monthly life annuity		
Opening balance	3,544,784	3,691,640
Interest cost	139,714	145,503
(Payment of benefits)	(112,271)	(108,120)
Actuarial (gains)/losses	1,710,168	(184,239)
Closing balance	5,282,395	3,544,784
Support for termination of professional activity		
Opening balance	78,815	931,209
Interest cost	1,576	18,624
(Payment of benefits)	(57,602)	(871,064)
Actuarial (gains)/losses	15,946	46
Closing balance	38,735	78,815
Total closing balance	35,956,617	34,861,626

In the year ended 31 December 2013, due to Order 378-G/2013 of 31 December, the retirement age has changed from 65 to 66 years of age for employees covered by Social Security. This change had a more significant impact on the liability related to the "Suspension of contracts, relocation and release of employment" where the increase in the liability was about 494 thousand Euro.

In the year ended 31 December 2014, due to Law 11/2014, 6 March, which establishes convergence mechanisms of social protection system for civil servants to the general social security scheme, by modifying the retirement schemes, the retirement age has changed from 65 to 66 years of age for employees covered by “Caixa Geral de Aposentações” ("CGA"). This change had a more significant impact on the liability related to the "Suspension of contracts, relocation and release of employment" where the increase in the liability was about 2,137 thousand Euro.

As at 31 December 2013, the Board of Directors of CTT, decided to modify the economic benefit related to the Telephone Subscription Charge. Thus, from 1 January, 2014, the cash payment was replaced by a benefit in kind.

During the years ended 31 December 2014 and 31 December 2013, the composition of expenditure related to other long term benefits, recognised under the heading "Staff costs" and “Interest and similar expenses”, was as follows (Note 33):

	2014	2013
Staff costs/employee benefits (Note 33)		
Suspension of contracts, redeployment and release of employment	3,106,062	2,113,964
Telephone subscription charge	157,817	(8,448,346)
Pension for accident at work	1,322,707	(430,809)
Monthly living allowance	1,710,168	(184,239)
Support for termination of professional activity	15,946	46
subtotal	6,312,700	(6,949,384)
Interest expenses (Note 36)	1,278,632	1,742,924
Total costs for the period	7,591,332	(5,206,460)

The best estimate that the Company has at this date for costs with other long-term benefits, which it expects to recognise in the next annual period is 818,508 Euro.

The sensitivity analysis done for the Other long term benefits leads to the conclusion that, if the discount rate was reduced by 50 b.p., keeping everything else constant, this would give rise to an increase in liabilities for past services of approximately 4%, increasing to 37,355 thousand Euro.

<u>Other long term benefits for the statutory bodies</u>

CTT approved with effect on 31 December 2014 the Remuneration Regulations for Members of the Statutory Bodies, which defines the allocation of a long-term variable remuneration, to be paid in Company's shares (Note 3.16). The number of shares allocated to members of the Executive Board of CTT is based on the performance evaluation results during the mandate period until 1 January 2017, which consists in the comparison of the recorded performance of the Total Shareholder Return (TSR) of CTT’s shares and the TSR of a weighted peer group, composed of national and international companies (vesting conditions).

The evaluation period of CTT TSR performance compared to peers is 1 January 2014 to 31 December 2016. The long-term variable remuneration is paid on 31 January 2017, by allocating shares of the Company subject to a positive TSR of the shares of the Company at the end of the evaluation period, according to a maximum number of shares defined in the Regulation and corrected by maximum limits for each member of the Executive Committee.

On 31 December 2014 the liability of this long term remuneration was calculated based on the fair value of shares by an independent expert and by using a Black-Scholes methodology and through the production of a Monte Carlo model simulation, assuming a volatility of shares of 30% and a risk free rate of -0.12%, corresponding to a cost of 4,129,221 Euro for the evaluation period.

Thus, in 31 December 2014 CTT recorded a cost of 1,376,407 Euro corresponding to the period from 1 January 2014 to 31 December 2014, against Other reserves.

27 ACCOUNTS PAYABLE

As at 31 December 2014 and 31 December 2013, the headings Accounts payable and Other accounts payable showed the following composition:

Accounts payable
As at 31 December 2014 and 31 December 2013, the age structure of the balance of the "Accounts payable" headings was as follows:

	2014				2013			
	Group companies	Third parties	Postal operators	Total	Group companies	Third parties	Postal operators	Total
Accounts payable, current account:								
Not due	2,244,955	5,006,201	3,213,302	10,464,458	1,464,067	5,201,197	4,976,404	11,641,668
0-30 days	1,949	6,983,769	-	6,985,718	1,410	4,045,410	-	4,046,820
30-90 days	-	4,171,490	3,926,838	8,098,329	54,747	3,529,924	712,236	4,296,908
90-180 days	52	16,888	2,149,887	2,166,827	-	-	2,362,841	2,362,841
180-360 days	-	-	7,295,339	7,295,339	1,527	69,182	7,187,425	7,258,133
› 360 days	-	13,140	21,335,993	21,349,133	-	-	18,862,566	18,862,566
	2,246,956	16,191,489	37,921,359	56,359,804	1,521,750	12,845,714	34,101,473	48,468,936
Accounts payable, invoices pending confirmation	-	10,485,764	-	10,485,764	-	8,402,695	-	8,402,695
	2,246,956	26,677,253	37,921,359	66,845,568	1,521,750	21,248,409	34,101,473	56,871,632

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

	2014	2013
National accounts payable	13,140	-
Foreign operators	21,335,993	18,862,566
Total	21,349,133	18,862,566
Foreign operators - receivable	(22,120,910)	(19,120,379)

The balances between Postal Operators are cleared by netting accounts. These amounts are related to the accounts receivable balances related to these entities (Note 15).

Other accounts payable
As at 31 December 2014 and 31 December 2013, the details of "Other accounts payable" were as follows:

	2014	2013
Current		
Advances from customers	2,980,402	2,800,837
Fixed assets suppliers		
Group companies	107,108	176,168
Third parties	7,233,244	2,375,547
Accruals		
Remunerations payable	40,623,915	28,540,087
Social contributions	6,553,315	6,117,131
Other	13,905,534	14,264,329
Centro Nacional de Pensões (CNP)	200,879,441	202,301,462
Other creditors		
Taxes	15,534,153	14,355,379
Money orders	17,326,284	17,274,707
Postal savings certificates	154,941,101	63,981,098
Cash-on-delivery services	8,110,817	9,307,990
Group companies	1,393,236	1,307,599
Other	9,100,258	9,200,564
	478,688,808	372,002,897

The increase in the caption Fixed assets suppliers is directly related to the investment in basic equipment, with particular emphasis in the acquisition of heavy vehicles, and office equipment.

In the year ended 31 December 2014, the Executive Board of Directors ruled to assign company workers, performance bonuses, as well as bonuses to be granted by the General Assembly to the executive members of the Board of Directors, under the regulation approved by the Remuneration Board. Both facts explain the increase observed in the heading Remuneration payables.

The increase in the heading Postal savings certificates results from the investment in this financial product by the savers.

The heading Centro Nacional de Pensões (CNP) refers to values received from the National Pensions Centre, whose payment date to the corresponding pensioners must occur in the month after the closing of the period.

28 TAXES PAYABLE

As at 31 December 2014 and 31 December 2013, the heading Taxes Payable presented the following composition:

	2014	2013
Current liabilities		
Corporate income tax	6,171,287	70,050
Personal income tax withholding	3,196,872	3,213,968
Value Added Tax	2,801,638	2,367,971
Social Security contributions	4,695,884	4,952,643
Caixa Geral de Aposentações	860,878	961,880
Local Authority taxes	521,000	512,055
Other taxes	20	77
	18,247,579	12,078,644

The current liabilities relative to corporate income tax was calculated as follows:

	2014	2013
Estimated income tax (Note 38)	19,846,209	16,247,993
Estimated Group companies' income tax	4,974,953	5,074,568
Payments on account	(16,127,982)	(17,683,782)
Withholding taxes	(2,521,893)	(3,568,729)
	6,171,287	70,050

29 SUBSIDIES OBTAINED

As at 31 December 2014, the information regarding community subsidies (Note 3.17) was as follows:

	2014						
Subsidy	Attributed value	Value received	Value not received	Accumulated revenues	Value to be used	Deferred tax adjustment	Net value to be used
FEDER	9,815,622	9,662,306	153,316	9,453,925	361,697	101,782	259,915
IEFP	70,864	60,235	10,630	62,745	8,119	-	8,119
	9,886,486	9,722,541	163,946	9,516,671	369,816	101,782	268,034

The amounts received from investment subsidies – FEDER - initially recognised in equity (Note 20), were transferred to the Corporate Income statement, to the heading Other operating revenues, as the subsidised assets were amortised (Note 31).

The financial contribution of the Instituto do Emprego e da Formação Profissional, I.P. (“IEFP”), received under the Employment Internships Program configures the typology of Grants related to income or operational expenses and is recognized as revenue in the same period of the related expense.

The amounts received were initially deferred (Note 16), and transferred to the Income statement in the Operational Grants heading, to the extent that the expenses were recognized.

30 SALES AND SERVICES RENDERED

For the years ended 31 December 2014 and 31 December 2013, the significant categories of the Company's revenue were as follows:

	2014	2013
Sales	21,606,200	21,093,522
Mail services rendered	456,798,816	451,598,973
Postal financial services	54,235,474	40,012,872
Electronic vehicle identification devices	5,381,947	4,888,025
Telecommunication services	2,217,736	3,275,453
Other	4,620,514	3,928,621
	544,860,686	524,797,466

Other services fundamentally concern:

	2014	2013
Exchange of documents	-	355,468
Photocopies Certification	250,954	303,149
Reg. Aut. Madeira transport allowance	442,753	427,799
Others Philately	342,801	99,706
Costums presentation tax	704,685	382,912
Corfax	311,302	415,792
Non-addressed mail	248,119	181,866
Portugal Telecom services	202,171	203,982
Digital mailroom	285,418	276,705
Other	1,832,310	1,281,241
	4,620,514	3,928,621

31 OTHER OPERATING REVENUES

During the years ended 31 December 2014 and 31 December 2013, the composition of Other operating revenues was as follows:

	2014	2013
Amortisation of fixed assets subsidies (Notes 20 and 29)	11,201	11,201
Supplementary revenues	33,066,143	27,572,917
Prompt-payment discounts obtained	34,322	36,431
Gains in inventories	25,636	17,082
Sale of tangible fixed assets	2,110,446	1,951,211
Favourable exchange rate differences of assets and liabilities different from financing	1,756,540	3,409,320
Revenue from non-financial investments	412,838	345,873
VAT-pro rata adjustment	77,136	227,186
Interest from deposits in credit institutions	6,287,495	10,673,605
Other interest and similar income	99,956	107,758
Other	3,396,618	1,053,541
	47,278,332	45,406,125

According to clarification 26 of the Commission of Accounting Standards of May/2012, Interest and similar income that do not directly derive from the entity's funding shall affect the operating profit (before financing costs and taxes).

Supplementary revenues fundamentally concerns:

	2014	2013
Studies, projects and technical assistance	-	112,444
Royalties	500,000	500,000
Services rendered to subsidiaries and associated companies	27,787,754	23,437,794
Rental of spaces in urban buildings	2,833,657	2,673,142
Other	1,944,733	849,538
	33,066,143	27,572,917

32 EXTERNAL SUPPLIES AND SERVICES

During the years ended 31 December 2014 and 31 December 2013, the composition of the heading External supplies and services was as follows:

		2014	2013
Specialised services			
IT services	(i)	22,762,277	23,505,871
Group company services		10,211,503	10,866,203
Maintenance and repair	(ii)	13,119,959	11,516,398
Publicity and Advertising		2,726,283	2,708,859
Surveillance and security		2,263,119	2,411,509
Consulting		6,045,478	4,625,540
Other specialised services		6,491,784	5,457,603
Materials		1,549,879	1,716,036
Energy	(iii)	12,864,043	12,882,544
Travel and hotels		671,132	479,013
Staff transportation		231,761	244,145
Transportation of goods	(iv)	11,872,433	11,871,724
Sundry services			
Rents			
Vehicle operational lease (Note 24)		6,258,419	6,583,293
Other Portal and telecom costs rental charge	(v)	20,856,793	20,742,747
Communication		2,758,211	4,323,793
Other services		40,494,814	39,647,944
		161,177,888	159,583,221

(i) Costs with IT services refer in particular to the outsourcing contracts for rendering the mentioned services;

(ii) Costs with Maintenance and repair concern the maintenance of IT equipment

(iii) Costs with Energy refer fundamentally to diesel for goods vehicles used in the operating process;

(iv) Costs with Transportation of goods refer to costs with the transportation of mail in several ways (sea, air, surface);

(v) Costs with Other rental charges refer to costs with facilities leased from third-parties.

The breakdown of Other Services is as follows:

	2014	2013
Litigation and notary	264,960	329,541
Uniforms	1,663,813	548,972
Insurance	2,182,369	2,020,900
Remuneration to postal agencies	4,496,988	4,331,920
Cleaning, hygiene and comfort	3,432,430	3,764,712
Services for Group companies	3,713,348	3,607,396
Delivery subcontracting	4,940,226	5,903,553
Postal operators	16,482,219	15,435,803
Other	3,318,460	3,705,147
	40,494,814	39,647,944

33 STAFF COSTS

During the years ended 31 December 2014 and 31 December 2013, the composition of Staff Costs was as follows:

	2014	2013
Remuneration of statutory bodies (Note 6)	3,672,830	999,036
Staff remuneration	232,616,906	218,765,735
Employee benefits (Note 26)		
Health care	(80,227,450)	2,719,390
Other benefits	6,312,700	(6,949,384)
Defined contribution plan RSP	144,517	-
Long term variable remuneration - Share Plan	1,376,407	-
Indemnities	2,147,960	1,612,647
Social Security charges	49,203,496	47,029,790
Occupational accident and health insurance	1,492,249	1,352,937
Social welfare costs	10,020,331	12,673,392
	226,759,946	278,203,543

<u>Remuneration of the Board of Directors</u>

During the years ended 31 December 2014 and 31 December 2013, the fixed remunerations allocated to the members of the Board of Directors of the Company were as follows:

	2014	2013
Board of Directors		
Fixed remuneration	2,003,280	843,733
Annual variable remuneration	1,427,228	-
Defined contribution plan RSP	144,517	-
Long term variable remuneration - Share Plan	1,376,407	-
	4,951,432	843,733

As a result of the company's privatization process the Board Members are no longer subject to the remuneration limitations established for public managers. Bearing in mind the new reality of CTT as a society of private capital and admitted to trading on a regulated market, the Remuneration Board (elected by the General Meeting on 24 March 2014 and composed of independent members) defined the new remuneration model for the statutory bodies which followed a benchmark study performed by a specialist firm. Thus, the increase in the caption Remuneration of statutory bodies results from the application of this remuneration policy with effect from the date of the election for the term 2014-2016.

Following the remuneration model approved by the Remuneration Board, it was determined the allocation of a fixed monthly amount for an Open Pension Fund or Retirement Savings Plan to the executive members of the Board of Directors.

The long term variable remuneration awarded to the executive members of the Board of Directors shall be paid at the end of the 2014-2016 mandate in company shares, and the amount of 1,376,407 Euro corresponds to the expense to be recognised in the year ended 31 December 2014 and was determined by an actuarial study performed by an independent entity. The annual variable remuneration will be determined and paid on an annual basis and was also defined by an actuarial study performed by an independent entity.

Staff remuneration

The variation in this heading is mainly a result of the combined effect between the reduction in the average number of employees working for the Company and the remuneration increase that resulted from the cessation of the salary reductions, the reintroduction of seniority-based payments as well as the modifications on the contributory base of retirement discounts. It is also explained by the fact that the Executive Board of Directors has for the year ended 31 December 2014, decided the attribution of performance bonuses to the company workers.

Indemnities

In the year ended 31 December 2014 this caption includes 997,065 Euro related to compensations paid for termination of employment contracts by mutual agreement.

Social welfare cost

During the years ended 31 December 2014 and 31 December 2013, this heading includes, respectively, 5,770,804 Euro and 7,357,040 Euro, relative to costs with health care of active employees.

During the years ended 31 December 2014 and 31 December 2013 the heading "Staff costs" includes the amounts of 828,060 Euro and 838,647 Euro, respectively, related to expenses with workers' representative bodies.

During the years ended 31 December 2014 and 31 December 2013, the average number of staff of the Company was, respectively, 10,904 and 11,217 employees.

34 DEPRECIATION, AMORTISATION AND IMPAIRMENT

During the years ended 31 December 2014 and 31 December 2013, the details depreciation and amortisation, net, and impairment of depreciable/amortisable assets, net were as follows:

	2014	2013
Tangible fixed assets (Note 7)	15,333,819	16,175,297
Investment properties (Note 8)	764,567	782,537
Intangible assets (Note 10)	2,296,744	3,101,859
	18,395,130	20,059,693

Impairments of depreciable/amortisable assets, net

	2014	2013
Tangible fixed assets (Note 7)	2,530	-
Investment properties (Note 8)	(156,480)	1,104,392
	(153,950)	1,104,392

35 OTHER OPERATING COSTS

During the years ended 31 December 2014 and 31 December 2013, the breakdown of "Other operating costs" was as follows:

	2014	2013
Taxes and fees	1,451,763	820,683
Bad debts	416,881	42,692
Write-offs of tangible fixed assets	20,497	24,106
Losses in inventories	365,836	210,826
Concession rent	11,287	196,240
Unfavourable exchange rate differences of assets and liabilities different from financing	1,843,815	3,513,306
Donations	1,038,686	810,122
Subscriptions	709,824	587,086
Alienations	369,696	399,727
Contractual penalties	-	103,296
Indemnities	467,421	323,586
Banking services	829,103	644,299
Interest on arrears	14,651	645,388
Other costs	860,007	931,842
	8,399,468	9,253,199

The variation in the heading “Concession Rent” is caused by the issue of Law no. 17/2012, 26 April, which transposed to national law the 3rd Postal Directive, and introduced significant changes in the scope of universal and reserved service, considerably reducing the base for calculation of that amount.

36 INTEREST EXPENSES AND INTEREST INCOME

During the years ended 31 December 2014 and 31 December 2013, the heading Interest income was detailed as follows:

	2014	2013
Interest income		
Loans to Group companies	519,287	681,141
	519,287	681,141

During the years ended 31 December 2014 and 31 December 2013, the heading Interest expenses was detailed as follows:

	2014	2013
Interest expenses		
Bank overdrafts	14,595	26,313
Financial leases	14,491	16,938
Other interest	53,584	9,171
Interest expenses from employee benefits (Note 26)	11,546,632	11,607,924
Other interest expenses	-	2,602
	11,629,302	11,662,948

37 EXCHANGE RATE EFFECTS

During the years ended 31 December 2014 and 31 December 2013, the Company recognised the following exchange rate differences:

	2014	2013
Favourable exchange rate		
Operating activity		
Other income (Note 31)	1,756,540	3,409,320
	1,756,540	3,409,320
Unfavourable exchange rate		
Operating activity		
Other costs (Note 35)	1,843,815	3,513,306
	1,843,815	3,513,306

38 INCOME TAX FOR THE PERIOD

The company is subject to tax on their profit through Corporate Income Tax (“IRC”) at the normal tax rate of 23% (25% in 2013), whilst the municipal tax is established at a maximum rate of 1.5% of taxable profit, and the state surcharge is 3% of the taxable profit above 1,500,000 Euro, the 5% of taxable profit above 7,500,000 Euro up to for 35,000,000 Euro and 7% on taxable profit exceeding 35,000,000 Euro.

Corporate income tax (IRC) is levied in CTT and its subsidiaries Postcontacto – Correio Publicitário, Lda., CTT – Expresso, S.A., Mailtec Holding, SGPS, S.A., Mailtec Comunicação, S.A., Mailtec Consultoria, S.A., Mailtec Processos, Lda., Payshop Portugal, S.A. ("Payshop"), and CTT GEST – Gestão de Serviços e Equipamentos Postais, S.A. ("CTT Gest"), through the Special Regime for the Taxation of Groups of Companies ("RETGS"). The remaining companies are taxed individually.

Reconciliation of the tax rate

During the years ended 31 December 2014 and 31 December 2013, the reconciliation between the amount arising from the application of the nominal tax rate to earnings before taxes and the cost of income tax was as follows:

	2014	2013
Earnings before taxes	124,302,361	79,271,451
Nominal income tax rate	23.0%	25.0%
Expected tax income	**28,589,543**	**19,817,863**
Permanent differences		
Tax benefits	(225,536)	(310,720)
Accounting capital gains	(51,010)	(2,152)
Tax capital gains	(291,684)	(164,575)
Equity method	4,294,696	(2,200,207)
Provisions not considered in the calculation of deferred taxes	13,633	(186,546)
Impairment losses and reversals	(33,123)	162,001
Other situations, net	354,219	363,192
Autonomous taxation	543,060	609,431
Municipal Surcharge	961,817	787,977
State Surcharge	3,593,478	2,431,590
Extraordinary investment tax credit	-	(713,957)
Impact of the change in income tax rate (deferred tax)	4,303,929	(2,484,264)
Excess estimated and refunded income tax	(131,507)	(711,085)
Other effects, net	5,209,718	856,836
Income taxes for the period	47,131,233	18,255,384
Effective income tax rate	37.92%	23.03%
Income taxes for the period		
Current tax	19,846,209	16,247,993
Deferred tax	27,416,531	2,718,476
Excess estimated income tax	(131,507)	(711,085)
	47,131,233	18,255,384

As at 31 December 2013 the heading "Excess estimated income tax" includes 621,190 Euro related to the deferral of the claims regarding the amounts of Autonomous Taxation and Municipal and State Surcharge in the years 2008 to 2011.

Deferred taxes

As at 31 December 2014 and 31 December 2013, the balance of deferred tax assets and liabilities was composed as follows:

	2014	2013
Deferred tax assets		
Employee benefits - health care	67,864,112	78,221,187
Employee benefits - other long term benefits	10,118,192	10,353,077
Deferred accounting capital gains	2,384,961	3,229,688
Impairment losses and provisions	9,295,624	8,496,125
Adjustments new GAAP - derecognition of inventories	-	77,821
Adjustments new GAAP - value deducted from staff debts	-	18,692
Impairment losses in tangible fixed assets	497,237	452,859
Stock purchase plan	387,321	-
	90,547,447	100,849,449

	2014	2013
Deferred tax liabilities		
Revaluation reserves	3,793,815	4,288,852
Suspended capital gains	994,953	1,082,455
Fixed assets subsidies	101,782	110,751
	4,890,550	5,482,058

During the years ended 31 December 2014 and 31 December 2013, the movement which occurred under the deferred tax headings was as follows:

	2014	2013
Deferred tax assets		
Opening balance	100,849,449	100,673,390
Movements of the period - effect on net profit		
Employee benefits - health care	(28,063,112)	1,758,268
Employee benefits - other long term benefits	(234,885)	(4,347,751)
Impairment losses and provisions	799,499	74,289
Impairment losses in tangible fixed assets	44,378	307,246
Deferred accounting capital gains	(844,727)	(667,578)
Adjustments new GAAP - derecognition of inventories	(77,821)	(79,395)
Adjustments new GAAP - value deducted from staff debts	(18,692)	(19,069)
Stock purchase plan	387,321	-
Movements of the period - effect on equity		
Employee benefits - health care	17,706,037	3,150,049
Closing balance	90,547,447	100,849,449

	2014	2013
Deferred tax liabilities		
Opening balance	5,482,058	5,737,572
Movements of the period		
Revaluation reserves	(495,037)	(240,584)
Suspended capital gains	(87,502)	(14,067)
Fixed assets subsidies	(8,969)	(863)
Closing balance	4,890,550	5,482,058

As at 31 December 2014, expected deferred tax assets and liabilities to be settled within 12 months amounts to 3,979,112 Euro and 591,508 Euro, respectively.

The sensitivity analysis performed allows us to conclude that a 1% reduction in the underlying rate of deferred tax would imply an increase in the income tax for the period of about 3.5 million Euro.

SIFIDE

The Group policy for recognition of fiscal credits regarding SIFIDE is to recognize the credit at the moment of the effective receipt from the commission certification statement, certifying the eligibility of expenses presented in the applications for tax benefits.

Regarding the expenses incurred with R&D during 2012, of 97,792 Euro, the Group would have the possibility of benefiting from a tax deduction in IRC estimated at 8,913 Euro. According to the notification dated 16 January 2014 of the Certification Commission a tax credit of 3,885 Euro was attributed to CTT.

Relating the expenses incurred with R&D during 2013, of 33,987 Euro, the Group will have the possibility of benefiting from a tax deduction in IRC estimated at 9,519 Euro. According to the notification dated 16 January 2015 of the Certification Commission a tax credit of 8,337 Euro was attributed to CTT.

Regarding the expenses incurred with R&D during 2014, of 736,033 Euro, the Group will have the possibility of benefiting from a tax deduction in IRC estimated at 514,753 Euro.

Other information

Pursuant to the legislation in force, income tax returns are subject to review and correction by the tax administration for a period of four years (five years for Social Security), except when there have been tax losses, tax benefits have been received, or when inspections, claims or objections are underway, in which cases, depending on the circumstances, these periods are extended or suspended. Therefore, the Company's income tax returns for 2011 may still be reviewed and corrected, since the income tax returns prior to this date have already been inspected.

The Board of Directors of the Company believes that any corrections arising from reviews/inspections by the tax authority of these income tax returns will not have a significant effect on the financial statements.

39 FEES AND SERVICES OF THE AUDITORS

The information concerning the fees and services provided by the Group's external auditors is detailed in items 46 and 47 of the Corporate governance report.

40 INFORMATION ON ENVIRONMENTAL MATTERS

The Company's activity is essentially non-industrial in nature, and the incorporation of material inputs in its supply processes is relatively reduced, thus having a limited direct ecological footprint.

Based on an empirical comparative analysis, the environmental impact of CTT's activity is much smaller than the company's contribution to the generation of value to the national economic and social fabric.

In terms of environmental policy, the Company's priority is to cover and master all the aspects of legal conformity, and has taken on commitments to continuously improve the environmental performance, and it has underwritten Civil Liability Insurance for the purpose of ensuring the coverage of environmental liabilities arising from the Decree-Law no. 147/2008 of 29 July (Law of Environmental Responsibility), as amended by Decree-Law no. 245/2009 of 22 September, by Decree-Law no. 29A/2011 of March 1 and Decree-Law 60/2012 of 14 March, establishing the legal regime of liability for environmental damage,

This subject is developed in more depth in the "Sustainability Report".

However, to the extent of our knowledge, there are no current environmental liabilities or obligations, whether legal or constructive, related to environmental matters that should lead to the constitution of provisions.

41 PROVISION OF INSURANCE MEDIATION SERVICE

In accordance to the Regulatory Standard of the Instituto de Seguros de Portugal (Portuguese Insurance Institute) no. 15/2009-R of 30 December 2009, the Company discloses the relevant information regarding the activity of insurance mediation according to article 4 of the abovementioned Regulatory Standard.

a) Description of the accounting policies adopted for the recognition of revenue.

   The insurance agent recognises revenue in accordance with the rules in force, i.e. when the mediator closes accounts with the Insurance companies. The issuance and repayment insurance are recorded on each Post Office accounting document and allocated to the respective account, according to the respective nature.

b) Indication of total revenue received disaggregated by nature.

By nature	2014	2013
cash	2,042,531	6,662,523
kind		
	2,042,531	**6,662,523**

By type	2014	2013
Commissions	2,042,531	6,662,523
Fees		
Other remuneration		
	2,042,531	**6,662,523**

c) Indication of total revenues relating to insurance contracts intermediated by itself disaggregated Branch Life and Non-Life.

	2014	
By entity	**Branch Life**	**Branch Non-Life**
Insurance Companies	1,955,442	87,089
Other mediators		
Customers (other)		
	1,955,442	**87,089**

d) Indication of the existence of concentration levels at the level of insurance companies, other mediators, which are equal greater than 25% of total remuneration earned by the portfolio.

By entity	2014	2013
Insurance Companies		
FIDELIDADE	80.53%	93.28%
Other mediators		
Customers (other)		

e) Values of "customers" accounts, at the beginning and end of the year, as well as the volume handled in the year applicable to insurance intermediaries that handle funds related to insurance contracts.

Accounts 'Customers'	2014	2013
Open Balance	-	-
Closing Balance	-	-
Volume handled		
Debt	513,739,965	284,289,846
Credit	204,059,254	546,646,530

f) Accounts receivable and payable broken down by source.

By entity	Accounts receivable 2014	Accounts receivable 2013	Accounts payable 2014	Accounts payable 2013
Policyholders, insureds or beneficiaries				
Insurance companies	8,057,070	36,803	47,009	1,110,213
Reinsurance undertakings				
Other mediators				
Customers (other)				
	8,057,070	**36,803**	**47,009**	**1,110,213**

g) Indication of the aggregate amounts included in accounts receivable and payable.

By entity	Accounts receivable 2014	Accounts receivable 2013	Accounts payable 2014	Accounts payable 2013
Funds received in order to be transferred to insurance companies for payment of insurance premiums	204,059,254	546,646,530	195,042,406	534,657,623
Collecting funds in order to be transferred to insurance companies for payment of insurance premiums				
Funds entrusted to it by insurance companies in order to be transferred to policyholders, insureds or beneficiaries (or insurance companies in case the activity of reinsurance mediation)	501,015,634	277,478,829	513,739,965	284,289,846
Remuneration in respect of insurance premiums already collected and to be collected				
other mediators				
Total	**705,074,888**	**824,125,358**	**708,782,371**	**818,947,469**

Note: The remaining paragraphs of the standard do not apply.

42 OTHER INFORMATION

Privatisation

CTT privatisation process was successfully concluded in the 3rd quarter of 2014 at a turbulent moment for the Portuguese capital market, following the events involving the financial sector in July 2014.

The 2nd stage took place on 5 September 2014 when the remaining 31.5% stake of the Portuguese State in CTT capital was sold through an accelerated bookbuilding process.

The full privatisation of CTT was a very successful process which allowed for the creation of value for all stakeholders:

- Portuguese State: €909m sales proceeds in the several stages of the privatisation, besides the payment of a €19m dividend in May 2014.
- CTT: Solid shareholder base and the necessary conditions to face future challenges.

- Staff: Option to become shareholders and be part of a company that promotes merit and the delivery of results.

CTT became the first Portuguese listed company with a 100% free float.

Postal Bank

Following the process started in 2013 with the request to and the concession by the Bank of Portugal of a license for the creation of the Postal Bank, in 2014 CTT updated the corresponding business model on the basis of a more detailed and in-depth market survey, incorporating current market trends, as well as the capabilities, resources and distinctive factors of CTT.

After confirmation of the value of the project, on 4 November 2014, the Board of Directors of CTT approved the launch of the Postal Bank, as a continuation of the established strategy to expand the Financial Services product offer. The Bank of Portugal authorised a 12-month extension (until 27 November 2015) of the deadline for the Postal Bank to initiate its activity.

The Postal Bank will be based on a low-cost principle leveraging on the CTT Retail Network, and aims at mass-market consumers, who look for a bank to perform their daily banking operations and simple but competitive banking products. Relying on its wide Retail Network, experienced in the business of financial services, with physical proximity to the customers, and offering integrated channels (post offices, online, mobile), CTT will have a clear advantage in offering competitive banking services. The business plan and projected accounts foresee that the funding requirements will amount to €100m within 5 years and from that moment on the bank will be able to release resources to CTT. The Postal Bank was planned to not have any impact on the CTT dividend policy and the key projections were already disclosed in November 2014.

Memorandum of understanding with Altice Portugal, SA

In November 2014, CTT signed a Memorandum of Understanding (MoU) with Altice Portugal, S.A. (a company fully held by Altice, SA), which was at the time bidding to acquire PT Portugal S.A., aiming at a conclusion of a Framework Agreement to maximise the joint synergies of CTT and PT Portugal.

Under the terms of this Memorandum of Understanding, upon the acquisition of PT Portugal by Altice, CTT will receive an initial payment of €15m, which shall be increased by an additional €15m upon the signature of the above-mentioned Framework Agreement. These payments represent a share of the minimum value of the synergies to be obtained in PT Portugal in the context of a much broader commercial and strategic joint venture.

In the context of the development of its strategy and to further develop the announced growth levers, CTT considers that there are substantial commercial synergies and business opportunities with telecommunications operators, including PT Portugal. This vision is shared by Altice, based on its other successful business ventures with postal operators (SFR with La Poste).

The Framework Agreement shall materialise in specific business partnerships to be defined and generate value for both companies, in particular the joint optimisation of the retail networks, taking advantage of the scale and capillarity of the CTT Retail Network, and the development of joint ventures in the area of e-commerce and physical-digital convergence.

New Post, ACE
Following the tender for procurement of information and communications technology services, respecting the Infrastructure Services base, helpdesk services and Desktop Management and Fixed Voice and Data Telecommunications Services, was terminated with effect on 31 December 2014 the activity of two ACEs (Tipost and PostalNetwork) existing between CTT and previous companies providing these services (IBM and PT).

Based on the award of the Voice Service and Fixed Data, has created a new ACE (New Post), was created with the company that won the respective tender (PT – Comunications).

43 SUBSEQUENT EVENTS

Memorandum of understanding with Altice
To At the present date, the sale of PT Portugal to Altice has already been approved by the interested parties - Oi and its shareholder PT SGPS via approval by the General Meeting – the process awaits, at the moment, for the position of the relevant regulatory entities according to publicly available information. It is expected the sale to be effected will take place during the 1st semester of 2015, then entering into force the conditions agreed upon in the MoU.

Company Agreement
On 9 February 2015 CTT signed with the eleven trade unions represented in the company, the new Company Agreement ("CA") valid for the next two years.

This new CA strengthens a labour framework adapted to the specific nature of the company's business, promoting good social climate and stable collective working relations, all of which are fundamental for CTT in order to face the current and future challenges. For that purpose, the new CA provides for greater alignment with general labour laws, the discontinuing of some specific allowances, the harmonisation of working hours and, for the first time in five years, a 2% increase in fixed salaries in CTT.

Postal services prices
Effecting from 1 March 2015, CTT updated prices corresponding to an average increase of 2.3% of the basket of letter mail, editorial mail and parcels services (which does not cover the universal service offer to bulk mailers who benefit from the special price scheme).

The new prices were defined in accordance with the Criteria for the Formulation of the Universal Service Prices laid down by ICP-Autoridade Nacional de Comunicações (ANACOM) under article 14(3) of Law no. 17/2012, of 26 April, amended by Decree-Law no. 160/2013, of 19 November.

In accordance with the pricing policy of the company for 2015, the current update corresponds to an average annual price increase of around 4%, which also takes into account the increase in the price of bulk mail.

Mailtec SGPS, SA merger into CTT – Correios de Portugal, SA

The merger of Mailtec Holding, SGPS CTT - Correios de Portugal, SA, through the global transference of the assets of Mailtec Holding, SGPS, SA was registered on 20 January 2015.

CTT Services, SA

Following the launching process of the Postal Bank, the company CTT Serviços, SA was incorporated on 6 February of 2015 with a share capital of 5,000,000 Euros.

The financial statements for the year ended 31 December 2014 were approved by the Board of Directors of the Company and authorised for issue on 26 March 2015. However, they are still subject to the approval of the General Meeting of Shareholders under the terms of the commercial legislation in force in Portugal.

PART III – AUDIT REPORT AND REPORT OF THE SUPERVISORY BODY

AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

1 In accordance with the applicable legislation, we present our Auditors' Report on the consolidated financial information included in the Management report and in the accompanying consolidated financial statements of **CTT – Correios de Portugal, S.A.**, which comprise the consolidated statement of financial position as at 31 December 2014 (showing total assets of 1,180,996,623 Euros and shareholders' equity of CTT of 249,209,645 Euros, including negative non-controlling interests of 323,703 Euros and a net profit for the year attributable to equity holders of CTT of 77,171,128 Euros), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the corresponding notes.

Responsibilities

2 The Board of Directors is responsible for:

a) the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") that present fairly the consolidated financial position of the group of companies included in the consolidation, the consolidated results of its operations, the consolidated comprehensive income, the consolidated changes in equity and the consolidated cash flows;

b) the historical financial information that is prepared in accordance with IFRS is complete, true, current, clear, objective and lawful as required by the Portuguese Securities Market Code ('CVM');

c) the adoption of adequate accounting policies and criteria;

d) the maintenance of an appropriate internal control system; and

e) the communication of any relevant fact that may have influenced the activity of the companies included in the consolidation, their financial position or results.

3 Our responsibility is to verify the consolidated financial information included in the documents referred to above, namely as to whether it is complete, true, current, clear, objective and lawful as required by the CVM in order to issue a professional and independent report based on our audit.

Scope

4 We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ('Ordem dos Revisores Oficiais de Contas'), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Accordingly our audit included:

- verification that the financial statements of the companies included in the consolidation have been properly audited and in those significant cases in which they were not, verification, on a sample basis, of the documents underlying the figures and disclosures contained therein, and an assessment of the estimates, based on judgments and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
- verification of the consolidation procedures and of the application of the equity method;
- evaluation of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
- assessment of the applicability of the going concern principle;
- assessment of the appropriateness of the overall presentation of the consolidated financial statements; and
- assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.

5 Our audit also included the verification that the consolidated financial information included in the Management report is consistent with the financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of article 451, of the Portuguese Companies Code (*"Código das Sociedades Comerciais"*).

6 We believe that our audit provides a reasonable basis for our opinion.

Opinion

7 In our opinion, the referred consolidated financial statements present fairly, in all material respects, the consolidated financial position of **CTT – Correios de Portugal, S.A.**, as at 31 December 2014, the consolidated results of its operations, the consolidated comprehensive income, the consolidated changes in equity and the consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and the information contained therein is complete, true, current, clear, objective and lawful.

Report on other legal requirements

8 It is also our opinion that the consolidated financial information included in the Management report is consistent with the consolidated financial statements and that the Corporate Governance Report includes the information required by article 245.º-A of the Portuguese Securities Market Code ('CVM').

Lisbon, 26 March 2015

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
represented by
Maria Cristina Santos Ferreira (ROC n.º 1010)

AUDITORS' REPORT

(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTERED AUDITOR)

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

Introduction

1 In accordance with the applicable legislation, we present our Auditors' Report on the financial information included in the Management report and in the accompanying financial statements of **CTT – Correios de Portugal, S.A.**, which comprise the balance sheet as at 31 December 2014 (showing total assets of 1,150,814,856 Euros and shareholders' equity of 249,793,262 Euros, including a net profit of 77,171,128 Euros), the income statement, the statement of changes in equity and the statement of cash flows for the year then ended and the corresponding notes.

Responsibilities

2 The Board of Directors is responsible for:

f) the preparation of the financial statements in accordance with generally accepted accounting principles in Portugal, that present fairly the financial position of the entity, the results of its operations, the changes in equity and the cash flows;

g) the historical financial information that is prepared in accordance with generally accepted accounting principles in Portugal is complete, true, current, clear, objective and lawful as required by the Portuguese Securities Market Code ('CVM');

h) the adoption of adequate accounting policies and criteria;

i) the maintenance of an appropriate internal control system; and

j) the communication of any relevant fact that may have influenced the activity of the company, its financial position or results.

3 Our responsibility is to verify the financial information included in documents referred to above, namely as to whether it is complete, true, current, clear, objective and lawful as required by the CVM in order to issue a professional and independent report based on our audit.

Scope

4 We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ('Ordem dos Revisores Oficiais de Contas'), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. Accordingly our audit included:

- verification, on a sample basis, of the information underlying the figures and disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
- evaluation of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
- assessment of the applicability of the going concern principle;
- assessment of the appropriateness of the overall presentation of the financial statements; and
- assessment of whether the financial information is complete, true, current, clear, objective and lawful.

5 Our audit also included the verification that the financial information included in the Management report is consistent with the financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of article 451, of the Portuguese Companies Code ("Código das Sociedades Comerciais").

6 We believe that our audit provides a reasonable basis for our opinion.

Opinion

7 In our opinion, the referred financial statements present fairly, in all material respects, the financial position of **CTT – Correios de Portugal, S.A.**, as at 31 December 2014, the results of its operations, the changes in equity and the cash flows for the year then ended, in accordance with generally accepted accounting principles in Portugal, and the information contained therein is complete, true, current, clear, objective and lawful.

Report on other legal requirements

8 It is also our opinion that the financial information included in the Management report is consistent with the financial statements and that the Corporate Governance Report includes the information required by article 245.º-A of the Portuguese Securities Market Code ('CVM').

Lisbon, 26 March 2015

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
represented by
Maria Cristina Santos Ferreira (ROC n.º 1010)

Report and Opinion of the Audit Committee on the
CTT – Correios de Portugal, S.A.
2014 Annual Report of Corporate and Consolidated Accounts

1. INTRODUCTION

In compliance with the provisions of Article 423-F, paragraph g) of the Commercial Companies Code, the Audit Committee ("AUC" or "Committee") of CTT–Correios de Portugal, S.A. ("CTT" or "Company") is hereby submitting its report on the supervisory activities and giving its opinion on the CTT 2014 Annual Report of Corporate and Consolidated Accounts as well as on the Proposal for the Application of Results for the financial year ended on 31 December 2014, both submitted by the Board of Directors.

2. COMPANY SUPERVISION

Within the framework of its duties as supervisory body of the business activity of CTT, the AUC has monitored CTT and its subsidiaries' business management and evolution during the 2014 financial year, particularly by:

- Monitoring compliance with the law, the regulations and the articles of association;
- Verifying that the accounting policies and the valuation criteria adopted lead to a correct assessment of the assets and results of CTT;
- Supervising the quality and integrity of the information in the Financial Statements.

The AUC's supervisory activity was carried out namely through i) the participation of its members in the Board of Directors meetings, ii) the contacts with the Executive Committee, especially by attending the meetings of approval of accounts and reading the corresponding minutes, iii) the analysis of the operating and financial information provided, and also iv) other contacts deemed necessary and timely with Directors, especially the Chief Financial Officer, and other senior officers of the Company, particularly the Directors of Accounting & Treasury and Audit & Quality.

The Audit Committee proposed to the CTT General Meeting of Shareholders held on 5 May 2014 the election of the permanent and alternate Statutory Auditor to complete the three-year term of office of 2012/2014.

The AUC met with the Statutory Auditor, who also acts as an External Auditor, to discuss the terms of their relationship and to monitor the issues raised during the work carried out throughout the 2014 financial year, as well as to analyse and assess their results.

With regard to the Statutory Auditor / External Auditor, the AUC also performed its duties in terms of assessment of i) the work carried out, namely by analysing their reports, monitoring their work of auditing and review of accounts and assessing their recommendations, and ii) their independence and exemption. Within this framework and with regard to the provision of additional services, the AUC analysed, appraised and gave its prior approval to the provision of services other than audit services or audit-related services rendered by the Statutory Auditor / External Auditor, which had a weight of only 12.3% in the total amount of services contracted from them in this financial year.

During the 2014 financial year, the first year of the AUC duties as such, it paid particular attention to organisational issues, namely the drafting of its Regulation and other regulations such as that on the Provision of Services by the Statutory Auditor / External Auditor and the one on the Appraisal and Control of Transactions with Related Parties and Prevention of Situations of Conflict of Interest.

This Committee monitored the compliance with the Risk Management Policy and obtained from the Management all the information needed, having checked the adequacy of the action taken to comply with the policies set by the Board of Directors.

The AUC also closely followed up the work of the Audit & Quality Department on internal audit issues by monitoring its annual activity plan, the conclusions of the reports on the work carried out, as well as the actions implemented by the Company as a result of the recommendations issued. The Committee gave a favourable opinion on the annual activity plan and tried to ensure that the necessary resources for its continuation were available.

With regard to accounting policies, the Audit Committee monitored the preparation of quarterly, half-yearly and annual financial information disclosed in accordance with legal provisions.

According to the information provided by the Executive Committee no transactions between CTT and related parties were identified that required the prior opinion of the Committee due to their relevance.

The Audit Committee was not notified of any irregularities, communicated in any manner by shareholders, employees or other, as per CTT's internal regulation on that matter.

The AUC also ensured that the report on the 2014 company governance structure and practices includes the data mentioned in article 245-A of the Portuguese Securities Code and in CMVM Regulation no. 4/2013, applicable to CTT.

In the course of its action, the AUC did not face any constraint or limitation worth noting.

3. DECLARATION OF CONFORMITY

Under the provisions of article 245, paragraph 1(c) of the Portuguese Securities Code, the members of the Audit Committee of CTT identified hereafter, in the framework of the duties they were assigned with, state that, to the best of their knowledge and based on the information they were provided with within the Audit Committee's scope, the information in the Management Report, the annual corporate and consolidated Statements of Accounts, the legal certification of corporate and consolidated accounts, and other Financial Statements required by law or regulation regarding the financial year ended on 31 December 2014:

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

4. OPINION ON THE 2014 ANNUAL REPORT OF CORPORATE AND CONSOLIDATED ACCOUNTS

The AUC has reviewed the Management Report and the Corporate and Consolidated Financial Statements for the financial year ended on 31 December 2014, including the Balance Sheet, the Income Statements by nature, the Statement of Comprehensive Income (within the Consolidated

Financial Statements), the Statement of Changes in Equity and the Cash Flow Statement, as well as its annex, all of which deserve its approval.

The Corporate Financial Statements were made in accordance with the accounting principles generally accepted in Portugal (specifically SNC) and the Consolidated Financial Statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

The AUC appraised the terms of the Legal Certification of Accounts and of the Audit Reports on the Corporate and Consolidated Financial Statements approved by the Board of Directors and issued on 26 March 2015 by KPMG & Associados–Sociedade de Revisores Oficiais de Contas, S.A., which express their favourable opinion on said Financial Statements, with no limitations or qualifications.

Given this mentioned data and the action carried out, as well as in compliance with the provisions of article 420, paragraphs 5 and 6 of the Commercial Companies Code, applicable by reference to the provisions of article 423-F, paragraph 2 of same Code, the Audit Committee's opinion is that:

- The CTT Management Report and the Corporate and Consolidated Financial Statements regarding the financial year ended on 31 December 2014, as well as the Proposal for the Application of Results in the Management Report are in accordance with the applicable accounting and legal rules and the Articles of Association;
- The Corporate Governance Report of the financial year ended on 31 December 2014 includes the data mentioned in article 245-A of the Portuguese Securities Code applicable to CTT.

Accordingly, the Audit Committee recommends that the General Meeting of CTT approves the CTT Annual Report with the corporate and consolidated accounts, as well as the Proposal for the Application of Results for the financial year ended on 31 December 2014.

Lisbon, 26 March 2015

The Audit Committee,

António Sarmento Gomes Mota (Chairman)

Diogo José Paredes Leite de Campos (Member)

Nuno de Carvalho Fernandes Thomaz (Member)

PART IV – CORPORATE GOVERNANCE REPORT

CONTENTS

INTRODUCTION

CTT - Correios de Portugal, S.A. ("CTT" or the "Company") complies with a significant part of recommendations contained in the Corporate Governance Code of the Securities and Exchange Commission ("CMVM"), in the version published in July 2013 ("CMVM Recommendations" or "CMVM Code"), as well as in the Corporate Governance Code of the Portuguese Institute of Corporate Governance ("IPCG"), in its version published in 2014 ("IPCG Recommendations" or "IPCG Code"), two reference instruments in the Portuguese market on matters of corporate governance (the former constitutes an instrument issued by the regulator and consolidates the experience of CMVM over the past few years, and the latter constitutes an instrument derived from the recent contribution of civil society).

The adoption of these recommendations by the Company has contributed to the strengthening of CTT's governance model and practices in 2014, the first year during which (i) the Company's shares were admitted to trading during a complete financial year in the regulated market Euronext Lisbon, (ii) CTT was no longer integrated in the State corporate sector, following the completion of the two phases of its privatisation, and (iii) CTT has a free float of 100% of its share capital dispersed among institutional and private shareholders.

In this report, the Company carries out an assessment of its compliance with the CMVM Recommendations (comply or explain included in Part II), by reference to the report's model provided in Regulation no. 4/2013 of CMVM (corresponding especially to Part I).

PART I – INFORMATION ON THE SHAREHOLDER STRUCTURE, ORGANISATION AND GOVERNANCE OF THE COMPANY

A. SHAREHOLDER STRUCTURE

I. Capital structure

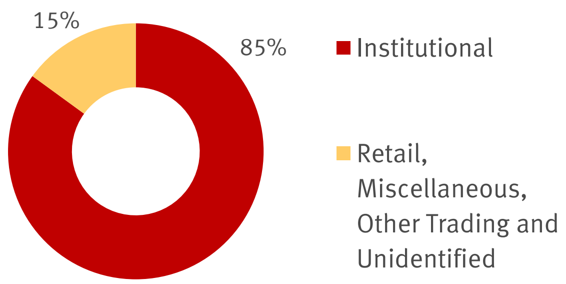
1. Capital structure

CTT's share capital is €75,000,000, fully subscribed and paid-up, and represented by 150,000,000 ordinary shares (with no different categories) registered, book entry, with nominal value of €0.50 each, admitted to trading on the regulated market Euronext Lisbon.

After the completion of the privatisation of CTT in September 2014, the entirety of the share capital became held by private sector shareholders. At the end of the year, CTT conducted a study for their characterisation.

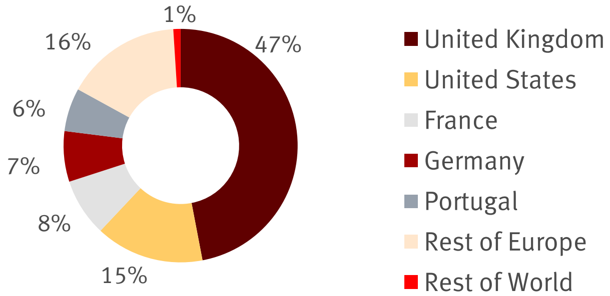
This study identified 193 institutional shareholders with a stake of approximately 85% of the Company's share capital.

TOTAL SHAREHOLDER COMPOSITION



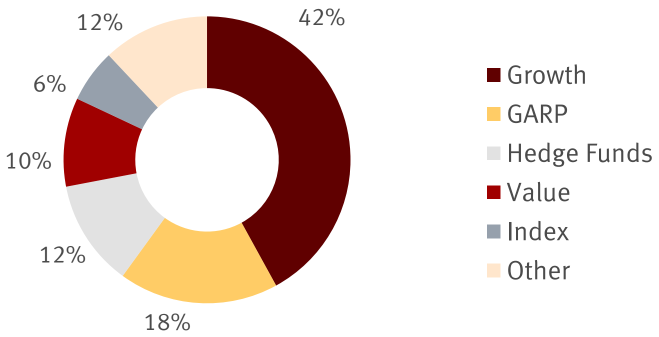
According to this study, investors based in the United Kingdom represented 47% of CTT shares held by identified institutional investors, while institutional investors based in the United States and France held 15% and 8%, respectively. Institutional investors based in Germany (7%) and Portugal (6%) were also identified.

ALLOCATION BY GEOGRAPHY



The investors with a growth strategy represented 42% of the shares held by the identified institutional investors, followed by 18% of investors with a GARP (Growth at a Reasonable Price) type of strategy. Hedge Funds, Value and Index Fund investor's type of strategy together represented less than 1/3 of the total identified institutional investors.

INSTITUTIONAL SHARES BY INVESTMENT STRATEGY



This study also demonstrated that the top 10 shareholders of CTT held 34% of the Company's share capital, while the top 25 held a total of 57%.

2. Restrictions on the transfer of shares

CTT shares are not subject to any limitations (either statutory or legal) regarding the transfer or ownership.

The lock-up period of the shares acquired by CTT employees in the first privatisation phase ended on 5 March 2014.

Although CTT shares are freely transferable, their acquisition will imply compliance with the legal requirements referred to in the following paragraph in the context of the setting up of the Postal Bank (credit institution to be owned by CTT, authorised by the Bank of Portugal and whose start of activity still depends on the completion of the incorporation process, the verification of the applicable regulatory requirements and conditions and the special registration with the Bank of Portugal).

In this context and pursuant to the Legal Framework of Credit Institutions and Financial Companies, established in Decree-Law No. 298/92, of 31 December, in its updated version, anyone intending (i) to hold a qualified holding in CTT and indirectly in said institution (i.e. a direct or indirect holding equal to or higher than 10% of the share capital or voting rights or which, for any reason, allows the exercise of significant influence in the management), (ii) to increase their shareholding to 10%, 20%, 1/3 or 50% or more of the share capital or voting rights of CTT (and indirectly in this institution), or (iii) that this institution is transformed into an affiliate of the acquiring entity, should previously inform the Bank of Portugal of their project for the purpose of the respective non-opposition. The Bank of Portugal shall also be informed any acts triggering the acquisition of a shareholding which reaches at least 5% of the share capital or voting rights of CTT, within the period of 15 days as of its occurrence.

3. Own shares

As at 31 December 2014 and up to the date of this report, the Company did not hold any of its own shares, with no transactions having been carried out by the Company relative to its own shares.

4. Significant agreements with change of control clauses

Some of the real estate lease agreements concluded over the years expressly stipulated that if the Portuguese State ceased to hold at least 50% of the share capital of the Company, the latter would be required to provide a revolving bank guarantee on first demand in favour of the respective leaseholder of the amount equivalent to 6 or 24 months of rent. As at 31 December 2014, all the requested guarantees had been provided and no contractual provision was in force (nor is in force on this date) a change of control in the lease agreements concluded by CTT.

CTT is a party in various relevant contracts for its financial products offer which establish change of control clauses. The contract for the sale and marketing of Cetelem credit products at CTT's Retail Network and on its website, concluded on 23 June 2014 with BNP Paribas Personal Finance, S.A. establishes that, under certain circumstances, either of the parties can unilaterally terminate the contract should a change of shareholder control occur. The contracts concluded on 16 July 2013 and 8 October 2007, respectively, with Fidelidade – Companhia de Seguros, S.A., for the mediation of insurance of this entity, and with Western Union Payment Services Network EU/EEA Limited, for the provision of funds transfer services, establish that any of the parties can terminate these contracts in the case of an change of control in the shareholder structure of the counterparty.

Although these contracts are strategically relevant for CTT's current offer of financial services, these change of control clauses constitute normal market conditions for this type of financial product marketing/distribution contracts (especially for protection of the parties in the case of acquisition of control of the counterparty by competitors) and neither seek nor are capable of hindering the free transfer of CTT shares.

The Company is not a party to any other significant agreements which enter into force, are altered or cease (including the respective effects) in the case of CTT's change of control following a take-over offer.

In line with CMVM Recommendation I.5., there are no significant agreements which CTT is a party to that trigger any payments or the bearing of costs by the Company in the case of change of control or change of composition of the corporate body and which appear capable of hindering the free transferability of CTT shares and the free assessment by the shareholders of the performance of the members of the management body of CTT.

5. Regime applicable to the renewal or revocation of defensive measures in particular limitations on votes held or exercised by a single shareholder individually or acting in concert with other shareholders

There are no limits established in the Articles of Association to the number of votes that may be held or exercised by a single shareholder, individually or acting in concert with other shareholders, pursuant to which the Company considers that CMVM Recommendation I.4. is not applicable to it.

6. Shareholders agreements that are known to the Company and may lead to restrictions on the transfer of securities or voting rights

The Company is not aware of any shareholder agreements relative to CTT, namely on matters of transfer of securities or voting rights.

II. Shareholdings and bonds held

7. Qualified holders, percentage of share capital and votes imputable, source and causes of the attribution

As at 31 December 2014, based on the communications to the Company made up to such date, the structure of the qualified holdings in CTT, calculated under article 20 of the Securities Code, is the following (without prejudice to the changes disclosed to the market up to the date hereof and identified in the table below):

Shareholders [14]		No. of shares	% Share capital	% Voting rights
Standard Life Investments Limited [1]		9,910,580	6.607%	6.607%
Ignis Investment Services Limited [1]		97,073	0.065%	0.065%
Standard Life Investments (Holdings) Limited	**Total**	**10,007,653**	**6.672%**	**6.672%**
Kames Capital plc [2]		2,045,003	1.363%	1.363%
Kames Capital Management Limited [2]		3,096,134	2.064%	2.064%
Aegon NV [3]	**Total**	**5,141,137**	**3.427%**	**3.427%**
Allianz Global Investors Europe GmbH (AGIE) [4]	**Total**	**4,695,774**	**3.131%**	**3.131%**
UBS AG [5]		3,705,257	2.470%	2.470%
UBS Fund Management (Switzerland) AG [5]		55,397	0.037%	0.037%
UBS Fund Services (Luxembourg) AG [5]		57,770	0.038%	0.038%
UBS Global Asset Management (UK) Limited [5]		8,330	0.006%	0.006%
UBS Global Asset Management (Australia) Ltd [5]		3,715	0.002%	0.002%
UBS Group AG [6]	**Total**	**3,830,469**	**2.553%**	**2.553%**
Morgan Stanley & Co. International plc [7]		3,553,396	2.369%	2.369%
Morgan Stanley [7]	**Total**	**3,553,396**	**2.369%**	**2.369%**
Pioneer Funds - European Equity Target Income [8]		613,645	0.409%	0.409%

Pioneer Funds - Global Equity Target Income [9]		170,047	0.113%	0.113%
Pioneer Funds - ABS Return European Equities [9]		95,475	0.064%	0.064%
Pioneer Funds - European Potential [9]		825,082	0.550%	0.550%
Pioneer Funds - European Equity Value [9]		764,953	0.510%	0.510%
Pioneer Funds - European Equity Market Plus [9]		15,876	0.011%	0.011%
Pioneer Funds - European Research [9]		643,204	0.429%	0.429%
UniCredit S.p.A.	**Total**	**3,128,282**	**2.086%**	**2.086%**
Artemis Fund Managers Limited [10]		3,104,624	2.070%	2.070%
Artemis Investment Management LLP	**Total**	**3,104,624**	**2.070%**	**2.070%**
FMRC-FMR CO., INC. [11]		716,444	0.478%	0.478%
FMR UK-FIDELITY MANAGEMENT & RESEARCH (U.K.) INC. [11]		2,379,854	1.586%	1.586%
FMR LLC	**Total**	**3,096,298**	**2.064%**	**2.064%**
DSAM Partners LLP [12]		3,096,079	2.064%	2.064%
DSAM Cayman Ltd.	**Total**	**3,096,079**	**2.064%**	**2.064%**
Goldman Sachs International [13]				
Goldman Sachs Asset Management, L.P. [13]				
Goldman Sachs Asset Management International [13]				
The Goldman Sachs Group, Inc. [13]	**Total**	**3,019,750**	**2.013%**	**2.013%**
Other shareholders	**Total**	**107,326,538**	**71.551%**	**71.551%**
TOTAL		**150,000,000**	**100.000%**	**100.000%**

[1] Company held by Standard Life Investments (Holdings) Limited.

[2] As of 1 January 2015, as a result of a group corporate restructuring the client portfolios managed by Kames Capital Management Limited (a subsidiary of Kames Capital plc) have been transferred and are currently managed by Kames Capital plc.

[3] This qualified shareholding is imputable to the following chain of entities: (i) Kames Capital Holdings Limited, which holds 100% of Kames Capital plc; (ii) Aegon Asset Management Holding BV, which holds 100% of Kames Capital Holdings Limited; and (iii) Aegon NV, which holds 100% of Aegon Asset Management Holding BV.

[4] By virtue of the merger of Allianz Global Investors Luxembourg, S.A. (AGIL) into Allianz Global Investors Europe (AGIE), the qualified shareholding mentioned above became imputable to AGIE. According to a communication of 17 March 2015, funds managed by Allianz Global Investors GmbH acquired on 12 March 2015: (i) 9,768 shares in CTT outside the regulated market; and (ii) 52,842 shares in CTT on Euronext Lisbon, the qualified shareholding imputable to Allianz Global Investors GmbH in CTT has been increased to 7,552,637 shares representing 5.04% of the voting rights corresponding to the share capital in CTT.

[5] Subsidiary of the UBS Group AG.

[6] As a result of the acquisition of UBS AG by UBS Group AG the shares of UBS AG were transferred to UBS Group AG. The UBS AG subsidiaries also became controlled by UBS Group AG. According to a communication of 16 February 2015, the UBS Group AG ceased to hold a qualifying shareholding of 2% or more of the share capital and voting rights of CTT due to the disposal of 55,121 shares (on the market) on 9 February 2015. The total holding then became 2,973,863 shares representing 1.98% of CTT share capital and distributed as follows:
- UBS AG: 2,843,529 shares
- UBS Fund Management (Switzerland) AG: 40,397 shares
- UBS Fund Services (Luxembourg) SA: 77,146 shares
- UBS Global Asset Management (UK) Limited: 9,076 shares
- UBS Global Asset Management (Australia) Limited: 3,715 shares

[7] The parent company is Morgan Stanley and the chain of companies between the parent company and the shareholder is: Morgan Stanley, Morgan Stanley International Holdings Inc., Morgan Stanley International Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley Investments (UK) and Morgan Stanley & Co. International plc. According to a disclosure of 29 January 2015, Morgan Stanley & Co. International plc ceased to hold a qualifying shareholding of 2% or more of the share capital and voting rights of CTT.

(8) Fund managed by Pioneer Investments Kapitalangesellschaft GmbH, appointed by Pioneer Asset Management, S.A., which is fully owned by UniCredit S.p.A.

(9) Fund managed by Pioneer Investments Management Limited Dublin, appointed by Pioneer Asset Management, S.A., which is entirely owned by UniCredit S.p.A.

(10) Company held by Artemis Investment Management LLP. According to a disclosure of 15 January 2015, Artemis Investment Management LLP then held a qualified holding of 5.01% of the share capital and voting rights of CTT, as a result of the direct acquisition of 293,875 CTT shares. According to a communication dated 6 March 2015, it sold a part of those shares and reduced the qualified holding to 6,935,853 CTT shares corresponding to 4.62% of the share capital and voting rights of CTT.

(11) Company owned by FMR LLC. According to a communication of 11 March 2015, FMR LLC ceased to own a qualified holding in CTT, as it then held 2,866,787 shares corresponding to 1.91% of the share capital and voting rights of CTT.

(12) The chain of undertakings between the parent company and the shareholder is: DSAM Cayman Ltd, DSAM Cayman LP, DSAM Capital Partners Ltd and DSAM Partners LLP. The holding is exclusively an economic long position resulting from an over the counter equity swap transaction with trade date 10 September 2014, settlement date 15 September 2014 and termination date 2 September 2015. The swap transaction referred to foresees cash settlement as the settlement option. According to a communication of 11 March 2015, following the mentioned swap transaction with settlement date 9 March 2015, the economic long position imputable to DSAM Partners LLP in CTT was reduced to an economic long position equivalent to 2,724,161 ordinary shares representing 1.82% of the voting rights corresponding to the share capital of CTT.

(13) The chain of controlled undertakings through which the voting rights and/or the financial instruments are effectively held is as follows: The Goldman Sachs Group, Inc. (parent company); Goldman Sachs (UK) L.L.C. (Controlled by The Goldman Sachs Group, Inc.); Goldman Sachs Group UK Limited (Controlled by Goldman Sachs (UK) L.L.C.); Goldman Sachs International (Controlled by Goldman Sachs Group UK Limited); Goldman Sachs Asset Management International (Controlled by Goldman Sachs Group UK Limited); Goldman Sachs Asset Management, L.P. (Controlled by The Goldman Sachs Group, Inc.). The holding includes 1.42% corresponding to 2,131,364 CTT shares and 0.59% held through economic long position via CFD and corresponding to 888,386 shares. The CFD details are as follows:

Expiration / Exercise / Conversion Period/Date	No. of shares/ voting rights that may be acquired if the instrument is exercised / converted	% of voting rights that may be obtained if the instrument is exercised/converted
25-Nov-2019	2,453	0.0016%
22-Nov-2019	1,278	0.0009%
4-Dec-2024	506,660	0.3378%
4-Dec-2024	4,869	0.0032%
9-Dec-2024	600	0.0004%
23-Sep-2024	11,502	0.0077%
26-Sep-2024	360,000	0.2400%
11-Nov-2024	1,024	0.0007%
Total Number of voting rights and percentage of voting rights	**888,386**	**0.59%**

(14) According to communications of 12 and 30 January and 11 March 2015, respectively, (i) Henderson Global Investors Limited became the holder a qualified holding of 3,037,609 CTT shares imputable to the Henderson Group plc, its controlling entity, i.e., 2.03% of the share capital and voting rights of CTT, (ii) Lyxor International Asset Management S.A.S. became the holder directly of a qualified holding of 3,400,000 CTT shares, i.e., 2.27% of the share capital and voting rights of CTT, and (iii) Norges Bank became the holder directly of 3,143,496 shares, i.e., 2.10% of the share capital and voting rights of CTT.

8. Number of shares and bonds held by members of the managing and supervisory bodies

Under article 447(5) of the Companies Code and article 14 of CMVM Regulation 5/2008, and pursuant to the communications made to the Company up to 31 December, the number of shares held by the members of the managing and supervisory bodies of CTT, senior officers of CTT under article 248-B of the Securities Code (list in force up to April 2014) and their related parties, as well as all their acquisitions, encumbrances or disposals of ownership, during the financial year of 2014, are indicated in the following lists:

Board of Directors [a]	No. Shares as at 31.12.2013	Date	Acquisition	Encumbrance	Disposal	Price	No. Shares as at 31.12.2014
Francisco José Queiroz de Barros de Lacerda	3110					€5.52	3110
António Sarmento Gomes Mota	0[b]						0
Manuel Cabral de Abreu Castelo-Branco	1550					€5.52	1550
André Manuel Pereira Gorjão de Andrade Costa	3110					€5.52	3110
Dionizia Maria Ribeiro Farinha Ferreira	0						0
Ana Mª Carvalho Jordão Ribeiro Monteiro de Macedo	0						0
António Manuel de Carvalho Ferreira Vitorino	0[b]						0
Nuno de Carvalho Fernandes Thomaz	0[b]						0
Diogo José Paredes Leite de Campos	0[b]						0
Rui Miguel de Oliveira Horta e Costa	0[d]						0
José Manuel Baptista Fino	0[e]						0
José Alfredo de Almeida Honório	0[b]						0[c]
Parpública - Participações Públicas, SGPS, S.A.	54,545,455	03.01.2014	2,253,834[f]		9,545,455[g]	€5.51-€5.52	
	47,253,834	05.09.2014			47,253,834	€7.25	0[h]

Supervisory Board [i]	No. Shares as at 31.12.2013	Date	Acquisition	Encumbrance	Disposal	Price	No. Shares as at 31.12.2014
António Sarmento Gomes Mota	0						0
Diogo José Paredes Leite de Campos	0						0
Elsa Maria Roncon Santos	0						0[j]

Statutory Auditor and External Auditor	No. Shares as at 31.12.2013	Date	Acquisition	Encumbrance	Disposal	Price	No. Shares as at 31.12.2014
PriceWaterhouseCoopers & Associados, SROC, Lda.[k]	0						0[l]
José Pereira Alves (permanent)	0						0[l]
Ana Maria Ávila de Oliveira Lopes Bertão (alternate)	0						0[l]
José Manuel Henriques Bernardo (alternate)	0						0[l]
KPMG & Associados, SROC, S.A. [m]	0[n]						0
Maria Cristina Santos Ferreira (permanent)	0[n]						0
Vítor Manuel da Cunha Ribeirinho (alternate)	0[n]						0

Related Entities (CA)	No. Shares as at 31.12.2013	Date	Acquisition	Encumbrance	Disposal	Price	No. Shares as at 31.12.2014
Alice Monjardino de Campos de Azevedo Soares [o]	120						120
Manuel Mª Azevedo Soares de Abreu Castelo-Branco [o]	1550						1550
Susana Gorjão Costa [p]	3110						3110

[(a)] Includes the members of the Executive Committee and Audit Committee.

[(b)]Date of his election, on 24 March 2014, at the Extraordinary General Meeting.

[(c)] As at the date of communication of his resignation, on 22 July 2014.

[(d)] Date of his cooptation, on 29 July 2014.

[(e)] As at the date if his cooptation, on 19 December 2014.

[(f)] Exercise by the Stabilisation Manager, as defined in the Institutional Underwriting Agreement of the sales option, held over Parpública, of 2,253,834 shares, corresponding to 1.5% of the share capital and voting rights of CTT, acquired by this Stabilisation Manager, under the stabilisation operations conducted under the terms of the aforesaid underwriting agreement, which was an integral part of the privatisation process of CTT.

[(g)] Consequent termination of the call option held by Parpública over the financial institutions which are part of the Underwriters, as defined in the Underwriting Agreement, represented for the effect by the Underwriting Manager, which allowed the acquisition of 9,545,455 shares, representing 6.36% of the share capital and voting rights of the Company.

[(h)] Following the disposal of the remaining shareholding of Parpública in the share capital of CTT, on 5 September 2014, and as at the date of his resignation from the positions of Non-Executive Director and Member of the Audit Committee, disclosed on 14 November 2014.

[(i)] In the new corporate governance model approved at the Extraordinary General Meeting of 24 March 2014, the Supervisory Board was replaced by the Audit Committee.

[(j)] As at the date of alteration of the corporate governance model, on 24 March 2014.

[(k)] Submitted his resignation from the position, taking effect as of 8 April 2014.

[(l)] As at the date of end of office, on 8 April 2014.

[(m)] As at the date of his election, at the General Meeting of 5 May 2014.

[(n)] As at the date of taking up office, on 5 May 2014.

[(o)] Person closely related to Manuel Cabral de Abreu Castelo-Branco.

[(p)] Person closely related to André Manuel Pereira Gorjão de Andrade Costa.

Other Senior Managers[(a)]	No. Shares as at 31.12.2013	Date	Acquisition	Encumbrance	Disposal	Price	No. Shares as at 22.04.2014 [(a)]
Alberto Alves Maria Pimenta	1000						1000
Ana Rita Baião Matos	2500						2500
Antónia Ascensão Rato	2500						2500
António Augusto Labrincha Correia Marques	500						500
António Manuel Borges Vaz	2500						2500
António Pedro Ferreira Vaz da Silva	240						240
Carla Maria Teixeira Gonçalves Veiga[(b)]	2500						2500[(c)]
Carla Salomé Preto Martins Marques da Cruz	1300	20.03.2014			1300	€7.80	0
Fernando Manuel Costa Afonso	500						500
Filipe Jacinto Flores Ribeiro	200						200
Graça Maria Porto Temudo Pires de Oliveira	2500						2500
Helena Maria Gameiro Carreira Rodrigues	0						0
Hernâni Joaquim Mateus dos Santos	1000						1000
Isabel Maria Lemos Lourenço	1750	16.01.2014			250	€6.75	1250
		20.03.2014			1250	€8.00	0
João Domingues dos Santos da Cunha Leal	620						620
João Manuel da Costa Araújo	2500	21.03.2014			1500	€8.00	1000
João Pedro Namora Gonçalves	2800	19.03.2014			1800	€7.62	1000
José Eduardo Dias de Mendonça David	500						500
Julieta Aurora Barracho Gomes Jorge Cainço	0						0
Laura Maria Falcão da Costa	300						300
Luís Miguel Soares Rodrigues	2500						2500
Maria da Graça Farinha de Carvalho e Sousa Góis	200						200
Maria Helena Henriques Camacho	800						800
Maria Margarida Jarego Colaço da Silva	950						950
Maria Teresa Geraldes Caetano	0						0
Miguel Alexandre Ferreira Amaral Salema Garção	3130	13.03.2014			3130	€7.33	0
Paulo José Carteiro Veiga	2500						2500
Pedro Miguel Lourenço Salvador	0						0
Peter Iordanov Tsvetkov	4990						4990
Raul Manuel Matias Moreira	1000						1000
Rui Pedro Silva	500						500
Sílvia Maria Correia	2500						2500

Related Entities (Other Senior Managers)	No. Shares as at 31.12.2013	Date	Acquisition	Encumbrance	Disposal	Price	No. Shares as at 22.04.2014 [(a)]
Helena Augusta Monteiro Afonso Gonçalves [(d)]	1000						1000
Ana Soraia Teixeira Vaz da Silva [(e)]	240						240
Jaime Francisco Teixeira [(e)]	240						240
Maria José Cabrita da Silva [(f)]	310	19.03.2014			310	€7.62	0

(a) After redefinition of the List of Senior Managers by the Executive Committee communicated to the CMVM on 22 April 2014, the indicated senior managers were no longer part of this list, therefore only the transactions made up to this date are mentioned.

(b) Resigned from the position of Director of the subsidiary EAD on 27 February 2014.

(c) As at the date of his resignation from the position of Director from the subsidiary EAD.

(d) Person closely related to Maria Pimenta.

(e) Person closely related to António Pedro Ferreira Vaz da Silva.

(f) Person closely related to João Pedro Namora Gonçalves.

All the transactions of “Other Senior Officers” and related entities referred to above were conducted in a regulated market.

As at 31 December 2014, none of the members of the managing and supervisory bodies of CTT held any bonds issued by the Company nor any shares or bonds issued by companies in a control or group relationship with CTT, nor did they carry out any transactions relative to those securities during the financial year of 2014, under the terms and for the purposes of article 447 of the Companies Code.

9. Special powers of the Board of Directors, namely resolutions on capital increase

The powers attributed to the Board of Directors of CTT are described in section 21 of Part I below. According to the Articles of Association, there are no provisions conferring special powers to the Board of Directors as regards capital increases, being such matter within the exclusive powers of the Shareholders General Meeting.

10. Information on the existence of significant business relations between the qualified holders and the Company

The significant business relations maintained between the Company and its qualified holders during the financial year of 2014 correspond to the transactions with related parties identified in section 92 of Part I below.

B. CORPORATE BODIES AND COMMITTEES

I. Shareholders General Meeting

a) Composition of the Board of the Shareholders General Meeting

11. Identification, office and term of office (beginning and end) of the members of the Board of the Shareholders General Meeting

Under article 10 of CTT Articles of Association, the Board of the Shareholders General Meeting is composed of a Chairman and Vice-Chairman, elected every three years at the Shareholders General Meeting. In 2014, the composition of the Board of the General Meeting was as follows:

Members	Office	Term of Office [1]
Júlio de Lemos de Castro Caldas	Chairman	2014/2016
Francisco Maria Freitas de Moraes Sarmento Ramalho	Vice-Chairman	2014/2016

[1] Members initially elected on 12 November 2013 to complete the term of office 2012/2014, with the General Meeting of 24 March 2014 having resolved to extend their term of office to 2014/2016.

Pursuant to the same provision, the members of the Board of the Shareholders General Meeting are assisted by the Secretary of the Company, functions discharged in 2014 and currently by Maria da Graça Farinha de Carvalho e Sousa Góis.

b) <u>Exercise of the voting right</u>

12. Possible restrictions on voting rights

CTT Articles of Association do not set out any limitations to voting rights or to the detachment of financial rights.

Pursuant to articles 7 and 8 of the Articles of Association, shareholders who, on the record date, corresponding to 0 hours (GMT) of the fifth trading day prior to the General Meeting, hold at least one share have the right to vote at the Shareholders General Meeting.

Under the same provisions, the right to vote can be exercised by proxy, correspondence or electronic means and can cover all the matters included in the notice to convene. The exercise of the right to vote by any of these methods should be carried out under the terms, within the stipulated periods and through the mechanisms established in detail in the notice to convene in order to encourage shareholder participation (the exercise of the right to vote was permitted by all of these methods at the Shareholders General Meetings held in 2014). In view of the above, CTT fully complies with CMVM Recommendation I.1.

CTT's Articles of Association do not establish any mechanisms causing a mismatch between the right to receive dividends or to subscribe new securities and the right to vote attached to each share, pursuant to which the Company adopts CMVM Recommendation I.3.

13. Maximum percentage of voting rights that may be exercised by a single shareholder or by shareholders who are in any of the relations under article 20 (1) of the Securities Code

CTT's Articles of Association do not establish any percentage limitation to the voting rights that may be exercised by a single shareholder or by shareholders who are in any of the relations under article 20 (1) of the Securities Code, thus CMVM Recommendation I.4. is not considered applicable to CTT.

14. Shareholder resolutions which may only be adopted by qualified majority under the Articles of Association other than those legally established

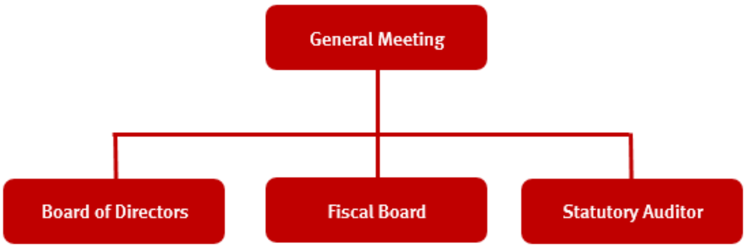
CTT's Articles of Association do not provide for qualified majorities for the adoption of resolutions beyond those legally established, thus complying with CMVM Recommendation I.2.

II. Management and supervision

c) Composition

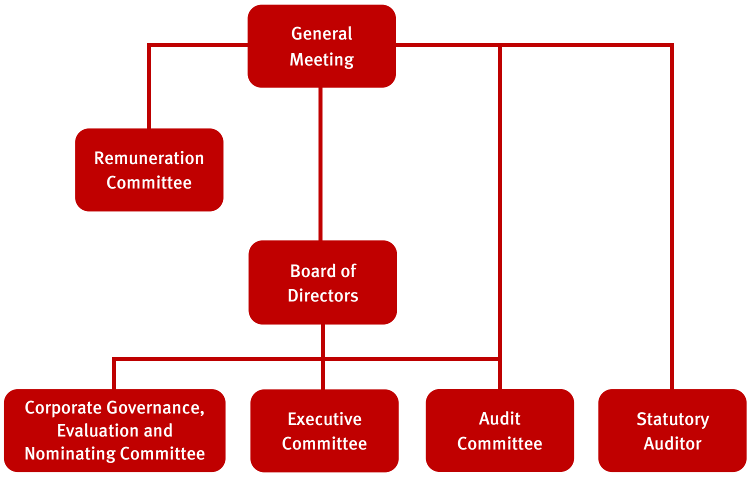
15. Identification of the adopted governance model

Up to the Shareholders General Meeting held on 24 March 2014, the Company had the following governance model, according to which the Board of Directors was responsible for the Company's management and the Fiscal Board (totally separated from the Board of Directors) and the Statutory Auditor were responsible for its oversight:



At the aforesaid General Meeting, the Company adopted the Anglo-Saxon one-tier governance model, according to which the Board of Directors is responsible for the Company's management and the Audit Committee (comprising Non-Executive and independent Directors) and the Statutory Auditor are responsible for its oversight.

The adoption of the model described below enabled, in 2014, the strengthening and consolidation of the governance structure and practices of CTT, in line with national and international best practices, thus promoting the effective performance of duties and coordination of the corporate bodies, the regular operation of a system of checks and balances and the accountability of its management to its shareholders and stakeholders.



In this context, the General Meeting is competent to: (i) elect the members of the corporate bodies (including the members of the Board of the General Meeting, the Board of Directors and the Audit Committee as well as the Statutory Auditor, the latter elected following a proposal by the Audit Committee), (ii) appraise the annual report of the Board of Directors and the opinion of the Audit Committee, (iii) decide on the allocation of profits and (iv) resolve on amendments to the Articles of Association.

In turn, in the context of its management duties, the Board of Directors delegated day to day management powers to the Executive Committee (described in section 21 of Part I below), whose action is supervised by the Non-Executive Directors, in particular by the Corporate Governance, Evaluation and Nominating Committee, currently composed of a majority of independent Directors (in the performance of the duties referred to in the same section).

The Audit Committee (currently exclusively composed of independent members), together with the Statutory Auditor, perform the oversight duties resulting from applicable legal and statutory provisions, with the Audit Committee in particular being responsible for promoting the independence of the external auditors and of the internal audit of the Company, with a view to contributing to the quality of the financial information and effectiveness of the systems of internal control, risk management and internal audit (described in section 38 of Part I below).

Furthermore, the Remuneration Committee (composed of independent members with no relation to the management and elected at the Shareholders General Meeting) is responsible for establishing the remunerations of the members of the corporate bodies (described in section 66 of Part I below).

16. Articles of Association's provisions on procedural and substantive requirements applicable to the appointment and replacement of members of the Board of Directors

Pursuant to articles 9 and 12 of the Articles of Association, (i) the Shareholders General Meeting is entrusted with the election of the members of the Board of Directors, including its Chairman and

Vice-Chairman, by majority of the votes cast by shareholders present or represented (or by the most voted proposal in case of several proposals being submitted), and (ii) one of the members of the Board of Directors can be elected among persons proposed in lists submitted by groups of shareholders, provided that none of these groups holds shares representing more than 20% and less than 10% of the share capital.

The rules contained in the Companies Code are applicable with respect to the replacement of members of the Board of Directors, in the absence of applicable provisions of the Articles of Association. Article 16 of the Articles of Association only provides that the absence of a Director at more than two meetings, consecutive or interpolated, without justification accepted by the Board of Directors, leads to a definitive absence, in which case measures should be taken for the replacement of this Director pursuant to Companies Code.

No other procedural and substantive requirements are defined in the Company's Articles of Association for the purpose of appointment or replacement of members of the Board of Directors.

17. Composition of the Board of Directors and the Executive Committee

Pursuant to article 12 of the Articles of Association, the Board of Directors is composed of five to fifteen members, for a three-year term of office which is renewable.

The Company's Board of Directors in office as at 31 December 2014 and on the present date, is composed of the following eleven Directors, appointed for the term of office 2014/2016:

Members	Board of Directors	Executive Committee	Audit Committee	Independence (1)	Date of 1st Appointment
Francisco José Queiroz de Barros de Lacerda (7)	Chairman	Chairman			24/08/2012
António Sarmento Gomes Mota (2)	Vice-Chairman		Chairman	Yes	24/03/2014
Manuel Cabral de Abreu Castelo-Branco (7)	Vice-Chairman	Member			24/08/2012
André Manuel Pereira Gorjão de Andrade Costa (7)	Member	Member			24/08/2012
Dionizia Maria Ribeiro Farinha Ferreira (7)	Member	Member			24/08/2012
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo (7)	Member	Member			24/08/2012
António Manuel de Carvalho Ferreira Vitorino	Member			Yes	24/03/2014
Nuno de Carvalho Fernandes Thomaz (4)	Member		Member	Yes	24/03/2014
Diogo José Paredes Leite de Campos (5)	Member		Member	Yes	24/03/2014
Rui Miguel de Oliveira Horta e Costa (3)	Member			Yes	29/07/2014
José Manuel Baptista Fino (6)	Member			Yes	19/12/2014

(1) The assessment of independence was conducted in accordance with the criteria defined in CMVM Recommendation II.1.7. and CMVM Regulation 4/2013, as well as the provisions in article 414(5) of the Companies Code for non-executive members there are part of the Audit Committee.

(2) From 12 November 2013 to 24 March 2014, he was Chairman of the Fiscal Board.

(3) Co-opted as non-executive member of the Board of Directors by resolution of the Board of 29 July 2014 (subject to ratification at the next General Meeting), in replacement of José Alfredo de Almeida Honório, elected on 24 March 2014 who informed his resignation as Non-Executive Director on 22 July 2014.

(4) Co-opted as Member of the Audit Committee by resolution of the Audit Committee of 19 December 2014 (subject to ratification at the next General Meeting), in replacement of Parpública – Participações Públicas SGPS, S.A., who informed its resignation as Non-Executive Director and Member of the Audit Committee, on 14 November 2014.

(5) From 12 November 2013 to 24 March 2014, he was Member of the Fiscal Board.

(6) Co-opted as Non-Executive member of the Board of Directors by resolution of the Board of Directors of 19 December 2014 (subject to ratification at the next General Meeting), in replacement of Parpública – Participações Públicas SGPS, S.A., which was elected on 24 March 2014 and informed its resignation as Non-Executive Director and Member of the audit Committee on 14 November 2014.

(7) Performed duties from 1 January to 24 March 2014, as member of the Board of Directors elected for the term of office 2012/2014, which was composed of only five members, who performed executive duties.

18. Distinction between executive and non-executive members of the Board of Directors and, with respect to non-executive members, identification of members who may be deemed independent

The Board of Directors is composed of the executive and non-executive members indicated in section 17 of Part I above, with all the non-executive members in office, as of their appointment to the current term of office, being independent pursuant to the criteria defined in CMVM Recommendation II.1.7. and CMVM Regulation 4/2013 and, regarding the members of the Audit Committee, pursuant to article 414(5) of the Companies Code.

Thus, the Company adopts CMVM Recommendations II.1.6. and II.1.7. and IPCG Recommendations IV.2. and IV.3., since the number of non-executive and independent members assures an effective capacity to monitor, supervise and assess the activity of the remaining members of the managing body, in particular taking into account the adopted governance model, the Company's size and its shareholder structure and free float.

The Company also complies with CMVM Recommendation II.1.10. and IPCG Recommendation IV.1., since it has adopted the following mechanisms aimed at assuring the coordination and effectiveness in the performance of duties by the Non-Executive Directors, considering the accumulation of CEO duties by the Chairman of the Board of Directors of CTT:

- The Non-Executive and independent Vice-Chairman of the Board of Directors, António Sarmento Gomes Mota (also Chairman of the Audit Committee and of the Corporate Governance, Evaluation and Nominating Committee), performs the following duties of lead independent director: (i) monitors and consults the Executive Committee on the performance of the duties delegated thereto; and (ii) contributes to the effective performance of duties and powers by the Non-Executive Directors and internal committees of the Board of Directors, assuring the appropriate coordination of their work and the necessary mechanisms for the Non-Executive Directors to receive in due time the information they deem suitable for an independent and informed decision making;
- The Non-Executive Directors may obtain the information that they deem necessary for the performance of their respective functions and duties;
- The supporting documentation of the meetings of the Board of Directors is timely made available to all Executive and Non-Executive Directors. The agendas and minutes of the meetings of the Executive Committee are distributed to the Non-Executive Directors, including to the Non-Executive Vice-Chairman of the Board of Directors, Chairman of the Audit Committee and Chairman of the Corporate Governance, Evaluation and Nominating Committee.

19. Professional qualifications and other curricular data of each of the members of the Board of Directors

Please refer to Annex I including the curricula of the members of the Board of Directors of CTT.

20. Family, professional or commercial, frequent and significant relations of members of the Board of Directors with qualified shareholders with more than 2% of voting rights

None of the members of the Board of Directors maintained, throughout 2014, any family, professional or commercial relations with qualified shareholders with a more than 2% of voting rights in the Company. Likewise, no such relations are maintained with the shareholders mentioned in the table included in section 8 of Part I above, either as at 31 December 2014 or as at the present date.

21. Division of powers between the various corporate bodies, committees and/or departments of the Company

21.1. Board of Directors

The Board of Directors is the corporate body responsible for the Company's management and representation, under the legal terms and the Articles of Association, being entrusted to practice all acts and operations relative to the corporate purpose not falling within the powers of the remaining corporate bodies of the Company.

Under article 13 of the Articles of Association and article 5 of its Regulations, the Board of Directors is responsible, namely, for:

- ✓ Approving the management goals and policies, and establishing the strategy and risk profile of the group;
- ✓ Approving the annual and multi-annual plans, strategic investment and/or financial plans and the annual budgets of the group, as well as any changes deemed necessary;
- ✓ Ensuring the effectiveness of the systems of internal control, risk management and internal audit of the group;
- ✓ Resolving on changes of registered offices and projects to increase or reduce capital, mergers, demergers and transformations and amendments to the Articles of Association to be submitted to the Shareholders General Meeting of the Company;
- ✓ Approving annual, half-year and quarter reports and accounts;
- ✓ Resolving on the provision of bonds and personal or asset guarantees by the Company under the legal terms;
- ✓ Establishing the general aspects of the group's corporate structure and the general standards of conduct;
- ✓ Presenting notices to convene the Shareholders General Meetings of the Company;
- ✓ Proceeding with the co-optation of Directors of the Company;
- ✓ Appointing the Company Secretary and alternate.

Under article 15 of the Articles of Association and article 4 of the Board Regulations, the Chairman of the Board of Directors (in his absence or impediments, to be replaced by the Vice-Chairmen) is especially responsible for:

- ✓ To represent the Board of Directors in and out of court;
- ✓ Coordinating its activity, proceeding with the allocation of matters among Directors, when advisable for management purposes, and calling and chairing the respective meetings;
- ✓ Exercising the casting vote in the taking of resolutions by the Board of Directors;
- ✓ Ensuring the correct implementation of the resolutions of the Board of Directors;
- ✓ Promoting communication between the Company and all its stakeholders.

21.2. Executive Committee

The Executive Committee was created by resolution of the Board of Directors of 25 March 2014, being delegated with the day to day management of the Company, in line with CMVM Recommendation II.1.1. and under article 13 of the Articles of Association and articles 5 and 6 of the Regulations of the Board.

In compliance with CMVM Recommendation II.1.2., the matters referred to in section 21.1. above and the following matters are excluded from the aforesaid delegation of powers, being relevant matters for the strategy, general policies and structure of the group:

- ✓ Acquisitions of shareholdings (i) in countries where the group is not present, (ii) in new business areas for the group, or (iii) of value per operation above €20m;
- ✓ The investments by the group not included in the annual budget whose value per operation exceeds €10m and the divestments of the group of value per operation above €10m;
- ✓ Disposals or encumbrances of shareholdings (i) that determine the group's step out of a certain country or business areas, or (ii) whose value per operation exceeds €20m;
- ✓ Contracting of debt, in the form of financing or issuance of securities, of value per operation above €150m or a maturity period above 5 years;
- ✓ Any other business or operation that implies liabilities or obligations above €50m, per transaction or act, for the group.

The Chairman of the Executive Committee has the casting vote and should:

- ✓ Ensure that all information is provided to the other members of the Board of Directors relative to the activity and resolutions of the Executive Committee;
- ✓ Ensure compliance with the limits of delegation and strategy of the Company, and propose to the Board of Directors the list of management matters which should be entrusted especially to each of the members of the Executive Committee;
- ✓ Coordinate the activities of the Executive Committee, chairing its meetings, ensuring the implementation of the resolutions and distributing among its members the preparation or monitoring of the issues to be analysed or decided by the Executive Committee.

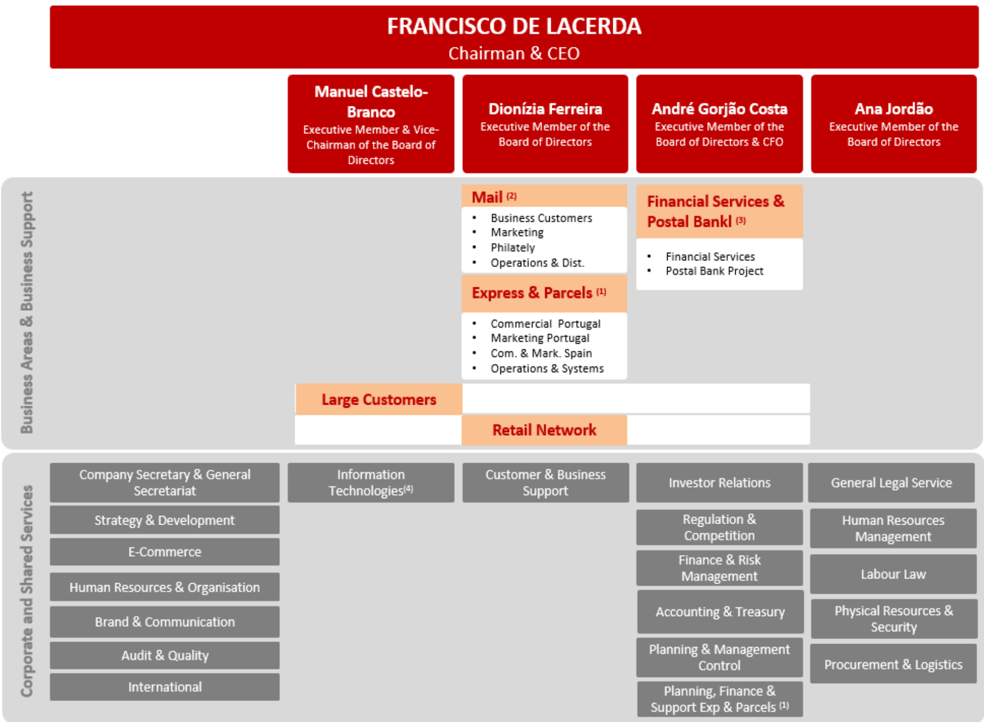
Under the Regulations of the Board of Directors and the Executive Committee, and in compliance with CMVM Recommendations II.1.8. and II.1.9. and IPCG Recommendation I.3., the Company adopts the following mechanisms:

- In order to assure that all the members of the Board of Directors and other corporate bodies are informed of the status of the Company's management, the agendas and minutes of the meetings of the Executive Committee are distributed to the Non-Executive Directors, including the Non-Executive Vice-Chairman of the Board of Directors, Chairman of the Audit Committee and Chairman of the Corporate Governance, Evaluation and Nominating Committee;

- At the meetings of the Board of Directors, the Executive Committee presents a summary of the aspects that are considered relevant of the activity developed since the last meeting;
- The Executive Committee is also obliged to timely and adequately provide the members of the Board of Directors and all other members of the corporate bodies with any additional or supplementary clarifications and information requested.

Under its delegated competences, the Executive Committee can entrust one or more of its members to deal with certain matters and sub-delegate in one or more of its members the exercise of some of its delegated powers.

As at 31 December 2014 and on the date thereof, the powers of the Executive Committee are allocated to its members as follows:



(1) Includes CTT Expresso, Tourline & CORRE; (2) Includes Mailtec Comunicação, Mailtec Processos, CTT Gest & PostContacto; (3) Includes Payshop (4) Includes Mailtec Consultoria

21.3. <u>Committees and departments supporting the Executive Committee</u>

In view of the Company's size and its many areas of action and operation, committees have been created to support the management whose objective is to ensure, according to each of their particular functional areas, the monitoring of the activity of the different departments of the Company in the implementation of the strategy defined by the Board of Directors, while at the same time assuring compliance with the various Regulations and standards that are in force at each time.

As at 31 December 2014 and on the present date, the following committees were operational:

MANAGEMENT SUPPORT COMMITTEES AND THEIR OBJECTIVES	
Risk Management Committee Composed of the Chief Financial Officer and by the heads of the Finance and Risk Management, Strategy and Development, Operations and Distribution, Retail Network, Human Resources and Organisation, Information Technologies, Accounting and Treasury, and Physical Resources and Security Departments.	Promotion of the Corporate Risk Management function, operating as an instrument to leverage the process of operationalisation of the risk management system at CTT, under the terms described in further detail in section 52 of Part I below.
Credit Committee Composed of the Chief Financial Officer, who chairs it, by the Board Members with business responsibilities, and by the Executive heads of the following departments: Finance and Risk Management, Large Clients, Retail Network, Corporate Clients, Advertising Mail, Express & Parcels. The follow-up and monitoring meetings should be attended by the persons responsible for Accounting and Treasury, Litigation, Customer and Business Support, Marketing and the Payshop Network.	Definition and submission to the Board of Directors of customer credit policies. Assessment and review of risk levels and credit limits. Decision on granting/revision/suspension of credit prior to the formalisation of contracts. Evaluation of proposals for conclusion of payment agreements. Monitoring and evaluation of the results of the implementation of customer credit policy and identification of measures to achieve the defined objectives.
Treasury Committee Composed of the Chief Financial Officer, who chairs it, and by the heads of the Accounting and Treasury, Finance and Risk Management departments and by the heads of the Finance departments of the subsidiaries.	Measurement and analysis of CTT's funds management process with a view to its continuous management and ongoing adaptation to needs.
Investment Committee Composed of the heads of the corporate departments of Strategy and Development (which it coordinates), Management Planning and Control and Finance and Risk Management.	All proposals for investment policies amounting to more than €50,000.00, prior to the assessment/final approval of the Executive Committee, should be submitted to this Committee for comment and preparation of a non-binding opinion.
Real Estate Management Committee Composed of two Executive Directors of CTT – the responsible for Physical Resources and Security and the Chief Financial Officer - and by the heads of the following departments: Physical Resources and Security (accompanied by 2 employees), Retail Network, Operations and Distribution, Management Planning and Control, and a member of the Board of Directors of CTT Expresso. Depending on the issues on the agenda, the following are also members: the Executive Director responsible for the Retail Network and other senior managers, other than those referred to above.	Strategic planning and management of real estate, real estate investment programming and promotion of optimisation and enhanced economic returns of real estate.

As at 31 December 2014 and currently, the organisational structure of CTT was as follows:

Secretary-General and Legal Services	To ensure the institutional relations of the Company between the sovereign bodies, ombudsmanship and other entities; To provide technical and administrative support to the Board of Directors, the Executive Committee and other governing bodies; To ensure formal communication between the Board of Directors, the Executive Committee, CTT's structure, its subsidiaries and external entities; To ensure legal advice to the Board of Directors, the Executive Committee, different departments of the Company and the subsidiaries, except for labour and disciplinary matters; To ensure the legal advising of the Company and workers when required, in the context of their duties, and to its subsidiaries when they require them.
Investor Relations	To act as CTT's representative with the shareholders, investors, financial analysts, rating agencies, the capital markets and the financial community in general, being responsible for providing information that allows knowledge on the economic, financial and governance reality and evolution of CTT.
Strategy and Development	To support the Executive Committee in the definition, implementation and management of the development strategy of the CTT business areas, proposing and promoting initiatives for strategic development and management of its business portfolio, in a perspective of sustained value creation.

E-Commerce	To ensure that CTT is an agent and beneficiary of the development of e-commerce in the Iberian Peninsula, especially in the last mile, and specifically (i) in studying the market's reality and evolution and (ii) boosting the evolution of the product offer as to keep it permanently in line with market preferences, (iii) promoting the development of the proximity of CTT to the principal international and domestic players and (iv) accompanying the alignment of the e-commerce solutions with international postal operators, namely the e-CIP project.
Human Resources and Organisation	To develop and implement human resources policies aligned with the strategy defined for the group, while promoting a culture of merit and continuous professional development; To provide human resources administration services to CTT and its subsidiaries; To promote health and safety at work, as well as the availability of health care and social protection.
Brand and Communication	To define and implement strategies for CTT's internal and external communication through various channels and supports; To ensure the management of sponsorships and patronage of the CTT universe, through the development of actions that contribute to the improvement of reputation and creation of value of the institutional image and CTT brand, in close collaboration with the Executive Committee; to ensure, coordinate and implement the institutional image management of CTT and its brands, values and its related strategic value, the management of the public and institutional relations, as well as events, fairs and exhibitions, sponsorships and others; to identify the interested parties' needs and expectations and define the strategy and involvement with them, ensuring the compliance with the policy and commitments regarding sustainability, environment, social responsibility and corporate citizenship of the CTT universe; To advise the Board of Directors and the Executive Committee in all required subjects and ensure media relations; To define ensure the management and coordinate the presence and actions of the CTT universe in the digital footprint, websites and social media in a transversal manner, in conjunction with other areas of the company, as well as intranet and others.
Audit and Quality	To examine and evaluate, in an independent fashion, the activities and business of CTT, in order to mitigate risks associated with processes and transactions, recommending corrective measures to the audited areas and providing necessary information; To contribute to the management and mitigation of compliance risks in the provision of financial services; To investigate unlawful and/or fraudulent practices; To define and promote quality policies and processes at CTT.
International	To propose and implement CTT's international policy in the context of international organisations and groups and cooperation for development.
Information Technology	To develop CTT's strategy for information systems and technologies so as to maximize its competitiveness and efficiency; To ensure proper planning and control of the information systems and technologies; To promote innovation and implementation of new solutions for business development.
Business and Customer Support	To develop CTT's policy on customer relations in terms of after-sales, information and customer support, contributing to customer loyalty; To ensure support to business in all-encompassing function, aimed at the optimisation of resource use, proposing measures to optimise processes and/or improvement actions.
Regulation and Competition	To advise the Executive Committee on matters regarding regulation and competition and relations with regulatory and supervisory entities of the sector; To manage regulatory risk and relations with competitors.
Management Planning and Control	To advise the Executive Committee in terms of CTT's management planning and control, ensuring coordination with all the organisational units of CTT and subsidiaries, with a view to value creation.
Finance and Risk Management	To provide and implement strategies for the suitable use of resources by optimising the cost and return of capital and appropriate risk management, in alignment with the strategic objectives defined for CTT.
Accounting and Treasury	To ensure accounting management, economic and financial management, and the management of the evaluation of business processes with an impact on revenue generation.
Physical Resources and Security	To define a coordinated strategy for the fleet and real estate resources; To ensure the provision of services by suppliers under the contractual conditions; To ensure the integrated management of documentation and archiving processes; To define, coordinate and control policies on security and surveillance of facilities, equipment and people.
Procurement and Logistics	To define CTT's strategy in terms of procurements, centralisation and planning of needs in terms of leasing and acquisition of movable assets, services and execution of contract work, the coordination, preparation and monitoring of procurement procedures, the centralisation of the administrative management of contracts, quality control and evaluation of suppliers and the effective management of warehouses and stocks.

Operations and Distribution	To manage the operations of collection, printing and finishing and transport, handling and delivery in an efficient manner, ensuring excellence in quality of service and respect for the nationwide obligations of the universal service, promoting synergies with all business areas of the Company towards increasing efficiency and value creation for the Company.
Labour Law	To assure labour-related legal and disciplinary services to the Board of Directors, Executive Committee, the different Departments of the Company and its subsidiaries; To assure and coordinate the legal advice of the Company and its subsidiaries when required, on matters concerning labour issues.
Marketing	To manage the portfolio of transactional and advertising mail products and services and value added solutions upstream and downstream of its value chain for individuals and companies, integrating the available technological capacities and new trends, in order to offer clients innovative solutions adapted to market needs.
Philately	To develop the business of philately and collecting in a comprehensive, sustained and profitable manner, maintaining the integrity and quality levels of Portuguese philately.
Corporate Clients	To assure the loyalty of corporate clients, along with capitalizing on the turnover and profitability of sales of the entire portfolio of products and services made available by the Mail Business Unit.
Financial Services	To manage an innovative offer of competitive financial products and services, creating value for the shareholder, strategically oriented towards customers, margins and efficiency, based on the Retail Network and Payshop agents.
Retail Network	To manage the Retail Network, ensuring increasing revenue resulting from acts of sale and their profitability; to maximize resource productivity and rationalisation of supply versus demand, in terms of the defined offer, price levels and obligations of the universal service; To rationalise the retail network and points of access to the postal network in a privatization context; To ensure the quality of customer service at all points of access to the postal network; To maximise the value of the network's offer by assuring more efficient and competitive management.
Large Customers	To ensure the integrated management of large customers, managing the key accounts segment in terms of maximising sales and profitability of the various business areas of CTT.
Commercial - Express & Parcels (Portugal)	To ensure customer loyalty and revitalisation of existing customers and acquisition of new customers, aiming at business profitability through a commercial response suited to the needs and opportunities within each sales department.
Marketing - Express & Parcels (Portugal)	To support the organic growth of the Company, based on creating value for customers while maintaining the relationship with customers, taking into account the achievement of maximum return; To create, communicate, capture and manage the business in the organisation through the understanding of customer needs, providing innovation to the offer; To communicate and position the brand's strategic value across multiple channels; To identify an overview of the Company's objectives in order to translate them into marketing strategies to achieve the expected return; To conceive and develop plans/projects and implement marketing campaigns, while developing interdepartmental relationships to ensure operational alignment, providing the Company with a customer-focused vision and performance, as well as satisfaction and loyalty of the customer base.
Commercial and Marketing – Express & Parcels (Spain)	To define and implement strategic actions concerning products and prices, in line with the Company's guidelines, so as to strengthen its strategic and Iberian positioning; To ensure the promotion of the Company through actions that contribute to the strengthening of the image of the Tourline network, according to the guidelines of CTT.
Operations and Systems – Express & Parcels	To materialise the portfolio of services, through the management of operations of Collection, Transport, Handling and Delivery, fulfilling the agreed service levels and maximizing operational efficiency.

21.4. Corporate Governance, Evaluation and Nominating Committee

In line with CMVM Recommendation II.1.4. and IPCG Recommendation IV.4., V.1. and V.4., on 7 May 2014, the Board of Directors created the Corporate Governance, Evaluation and Nominating Committee, which is entrusted with the following competences pursuant to the Regulations of the Board of Directors and its Internal Regulations:

- On matters of governance structure and practices as well as ethics:
  - ✓ To assist the Board in the definition and assessment of the Company's governance model,

principles and practices;
- ✓ To collaborate in the preparation of the annual corporate governance report of the Company;
- ✓ To supervise the definition and monitoring of the standards on ethics and conduct within the group;
- ✓ To formulate recommendations to the Board concerning corporate governance requirements and good practices, conflicts of interest, incompatibilities, independence and expertise;
- ✓ To prepare a report on the operation and effectiveness of the model, principles and practices of governance of the Company, as well as on the Company's degree of compliance with the applicable requirements;
- ✓ To assess the corporate image of CTT among the shareholders, investors, financial analysts, market in general and supervisory authorities, and monitor the inspection actions of the CMVM;
- ✓ To support and monitor the Board's definition of policies and strategies of social responsibility and sustainability of the Company.

- On matters of performance assessment and remunerations:
  - ✓ To propose or issue an opinion, on an annual basis, to the Remuneration Committee on the remuneration policy of the Board of Directors and the annual statement to be submitted to the General Meeting for this purpose;
  - ✓ To monitor and support the process of annual assessment of the overall performance of the Board of Directors and respective internal committees as well as the members of the Executive Committee;
  - ✓ To propose to the Remuneration Committee the result of the qualitative assessment of the Executive Directors in the context of the overall assessment model for the purpose of establishment of the variable remuneration to be defined by that Committee;
  - ✓ To propose or issue an opinion to the Board of Directors and the Remuneration Committee, as applicable, on plans of share awarding, stock options or stock options based on share price variations.

- On matters of appointments:
  - ✓ To formulate recommendations about qualifications, knowledge and experience for the performance of corporate functions and in the context of selection of the members of the managing and supervisory bodies of CTT, after hearing the Chairman and, in the case of executive directors, the CEO;
  - ✓ To monitor the processes of selection of the group's senior officers and of members of the corporate bodies of companies that CTT is entitled to appoint;
  - ✓ To monitor the preparation, in coordination with the Executive Committee, of succession plans;
  - ✓ To propose to the Board of Directors the termination of office by members of the Executive Committee, following an assessment and hearing of the CEO;
  - ✓ To issue opinions relative to the performance, by members of the Executive Committee, of executive duties in companies which are not part of the CTT group.

21.5. <u>Ethics Committee</u>

An Ethics Committee was operational throughout this term of office, with its powers and composition having been reviewed on 19 December 2014.

The main duties of the Ethics Committees are as follows:

- ✓ To promote the disclosure, application and compliance with the Code of Ethics in force in the group, to this end defining plans and channels of communication for all hierarchical levels;
- ✓ To establish training actions aimed at the disclosure and compliance with the Code of Ethics;
- ✓ To receive and treat any communications of irregularities received within the group in coordination with the Audit Committee and the Audit and Quality Department.

For details on the coordination of the Board of Directors and its committees with all the other corporate bodies, see sections 15, 38 and 66 of Part I of this report.

d) Functioning

22. Existence and location where the Regulations of the Board of Directors and Executive Committee are available

The full text of the Regulations of the Board of Directors and Executive Committee are available in CTT's website, at: http://www.ctt.pt/ctt-e-investidores/a-empresa/governo-da-sociedade/estatutos-e-regulamentos.html#panel2-1

23. Number of meetings of the Board of Directors and attendance of each member

During 2014, the Board of Directors in office for the term 2012/2014 held 12 meetings, during which all its members were always present.

The Board of Directors in office for the term 2014/2016 held 9 meetings in 2014, with the following attendance by its members:

Members (3)	Attendance	Proxy
Francisco José Queiroz de Barros de Lacerda	9	0
António Sarmento Gomes Mota	8	1
Manuel Cabral de Abreu Castelo-Branco	9	0
André Manuel Pereira Gorjão de Andrade Costa	9	0
Dionizia Maria Ribeiro Farinha Ferreira	9	0
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo	9	0
António Manuel de Carvalho Ferreira Vitorino	8	1
Nuno de Carvalho Fernandes Thomaz	9	0
Diogo José Paredes Leite de Campos	6	3
Rui Miguel de Oliveira Horta e Costa (1)	5	1
José Manuel Baptista Fino (2)	0	0

(1) Co-opted on 29 July (see section 17 above), having been held 6 meetings of the Board of Directors after such date until the end of 2014.

(2) Co-opted on 29 December (see section 17 above), not having been present in any meetings held during 2014 for such reason.

(3) In respect to the members who terminated office in 2014: (i) Parpública – Participações Públicas SGPS, S.A. neither appointed any natural person to discharge office nor participated in the meetings of the Board of Directors; and (ii) José Alfredo de Almeida Honório was present in the 3 meetings held during the period during which he discharge his functions (see section 17 above).

24. Indication of corporate bodies with powers to perform the evaluation of the Executive Directors

Pursuant to article 9 of CTT's Articles of Association, the Remuneration Committee is responsible for establishing the remunerations of the members of the corporate bodies and, consequently, the definition of the remuneration policy and principles of the Board of Directors and the overall assessment model for purposes of the variable remuneration of the Executive Directors, under the terms described in sections 66 and following of Part I below.

In turn, under the terms of its Regulations, the Corporate Governance, Evaluation and Nominating Committee is responsible for supporting the Remuneration Committee and Board of Directors in the process of assessment of the members of the managing body, as described in section 21 of Part I above and in sections 70 and 71 of Part I below.

25. Predetermined criteria for evaluating the performance of the Executive Directors

On this issue, sections 66 and following of Part I below present details on the remuneration policy and principles for the managing body, in particular on the criteria, objectives and limits of the variable remuneration of the Executive Directors.

26. Availability of each member of the Board of Directors, with indication of offices held simultaneously in other companies, within and outside the group, and other relevant activities performed by members of the Board of Directors

The offices held simultaneously in other companies, within and outside the group, by the Company's directors are detailed in Annex I.

As supplementary information, it is considered important to note:

- ✓ The Executive Directors have evidenced their total availability for the performance of their duties, which can be confirmed by their attendance to the meetings of the Board of Directors and Executive Committee and by their exercise of executive duties exclusively within CTT group;
- ✓ The Non-Executive Directors have also demonstrated their total availability, as shown by their attendance to the meetings of the Board of Directors, the Corporate Governance, Evaluation and Nominating Committee and the Audit Committee.

e) Committees within the managing body

27. Committees created within the Board of Directors and location where the Regulations are available

See sections 21 and 22 of Part I above regarding committees created within the Board of Directors. Concerning the Audit Committee, also see section 38 of Part I below. The aforesaid committees have adopted internal Regulations whose full texts are available on CTT's website, at www.ctt.pt.

28. Composition of the Executive Committee

The Executive Committee is composed of the following five members in office as at 31 December 2014 and also on the present date (for the term of office 2014/2016):

Members	Office [(1)]
Francisco José Queiroz de Barros de Lacerda	Chairman
Manuel Cabral de Abreu Castelo-Branco	Member
André Manuel Pereira Gorjão de Andrade Costa	Member
Dionizia Maria Ribeiro Farinha Ferreira	Member
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo	Member

[(1)] From 1 January to 24 March 2014 these members performed executive duties, still under the term of office 2012/2014.

29. Powers of each committee created and overview of the activities developed during the exercise of those powers

See section 21 of Part I above regarding the powers of the committees created within the Board of Directors and the Executive Committee.

29.1. Executive Committee

During 2014, the Executive Committee held 40 meetings, having resolved on various matters within its powers, in particular including the following:

March	• **Approval of the disposal of CTT's stake in EAD,** conducted within the context of optimisation of the business portfolio, enabling CTT to obtain a value of €2.75m.
April	• **Updating of prices** of the universal postal service of mail and parcels. Second phase of the update of the special prices applicable to senders of bulk mail. • Approval of the Code of Conduct of senior officers and Insiders. • Approval of the Code of Ethics.
June	• **Updating of prices** of the service of **editorial mail/newspapers, periodicals and non-periodical publications and books.** • Signing of a **protocol with BNP Paribas Personal Finance,** with a view to allowing the sale and marketing of consumer credit products of this financial institution at CTT's Retail Network.
July	• **Award of the contract for information and communication technology services,** regarding basic infrastructure services, support line and desktop management services and fixed voice and data telecommunications services.
August	• **Notice of termination of CTT's Collective Agreement of 2013 and proposal of the new CTT's Collective Agreement,** with a view to obtaining a conventional framework enabling more efficient human resources management.

September	• Start of the **negotiation process with the Trade Unions and the Workers' Committee representing the employees of CTT** with a view to the reformulation of CTT's Social Works Regulation (Healthcare Plan).
November	• **Approval by ICP-ANACOM of the criteria for the formulation of prices of postal services comprising the universal service** for 2015/2017. • **Conclusion of a Memorandum of Understanding with Altice Portugal, S.A.**, bidder for the acquisition of PT Portugal, with a view to the conclusion of a Framework Agreement enabling joint synergies between CTT and PT Portugal.
December	• Registration of the **merger by incorporation of Mailtec Holding, S.G.P.S., S.A. in CTT**, through the full transfer of the assets of Mailtec Holding, S.G.P.S., S.A. to CTT. • Resolution on the key terms under which CTT is available to negotiate with **the Trade Unions and the Workers Committee representing the employees of CTT** regarding a new CTT's Collective Agreement and a new Social Works Regulation. • Decision to record the value of impairment regarding CTT's financial participation in Tourline.

29.2. Corporate Governance, Evaluation and Nominating Committee

Under the terms of the respective regulation, the Corporate Governance, Evaluation and Nominating Committee is composed of three to five members, including inherently the Chairman of the Executive Committee (1) and Non-Executive Directors (at least, one of them being independent). This committee is composed of the following five members in office as at 31 December 2014 and on the present date (for the term of office 2014/2016):

Members	Office
António Sarmento Gomes Mota	Chairman
Francisco José Queiroz de Barros de Lacerda	Member (1)
António Manuel de Carvalho Ferreira Vitorino	Member
Rui Miguel de Oliveira Horta e Costa	Member
José Manuel Baptista Fino	Member

(1) It should be noted that the presence of the Chairman of the Executive Committee in this Committee does not hinder compliance with CMVM Recommendation II.1.4, since under the terms of the Internal Regulations of this Committee, such member is prevented from voting in resolutions where there is a conflict of interest, namely with respect to his individual assessment.

During 2014, the Corporate Governance, Evaluation and Nominating Committee held 3 meetings and carried out the following main activities:

- ✓ Submission of proposals for co-optation of 2 Members of the Board in order to fill vacancies;
- ✓ Review of the Code of Ethics, the composition of the Ethics Committee and its Regulations;
- ✓ Issuing opinion on the Regulations for Assessment and Control of Transactions with Related Parties and Prevention of Conflicts of Interests;
- ✓ Preparation of the assessment models, including the self-assessment of the Board of Directors, the qualitative assessment of the Executive Directors and the self-assessment of this committee;
- ✓ Analysis of the information provided by the Chairman of the Executive Committee on the contracting of senior officers;
- ✓ Benchmarking analysis and internal discussion on the corporate governance code to be adopted by CTT.

29.3. Ethics Committee

The Ethics Committee in office as at 31 December 2014 and on the present date (for the term of office 2014/2016) is chaired by the Non-Executive Director Nuno de Carvalho Fernandes Thomaz, and also includes the Director of Audit and Quality and the Director of Human Resources and Organisation of CTT. This committee reports to the Board of Directors through the Chairman of the Board of Directors.

During 2014, the Ethics Committee held 2 meetings and carried out the following main activities:

- ✓ Updating of CTT's Code of Ethics and the internal Regulations of the committee;
- ✓ Preparation of the communication plan of the Code of Ethics;
- ✓ In 2014 this committee did not receive any communication on irregularities.

III. Oversight

f) Composition

30. Identification of the supervisory body corresponding to the model adopted

During the current term of office the Company's activities are being supervised by the Audit Committee and the Statutory Auditor. For more details on this issue see section 15 of Part I above.

31. Composition of the Fiscal Board/Audit Committee, minimum and maximum number of members and term of office set out in the Articles of Association, number of permanent members, date of first appointment and date of termination of office of each member

In accordance with article 19 of CTT's Articles of Association, the Audit Committee consists of three board members, including its Chairman, all elected at the Shareholders General Meeting (for a term of office of 3 years renewable) together with the other Board Members. The lists of candidates for the Board of Directors must indicate which members will serve on the Audit Committee and who shall be its Chairman.

The Company's Audit Committee at 31 December 2014, and at the date hereof, consists of the following three members for the 2014/2016 term of office:

Members	Office	Date of first appointment	Independence [1]
António Sarmento Gomes Mota [2]	Chairman	24/03/2014	Yes
Diogo José Paredes Leite de Campos [3]	Member	24/03/2014	Yes
Nuno de Carvalho Fernandes Thomaz [4]	Member	19/12/2014	Yes

[1] The members' independence was evaluated in accordance with article 414(5) of the Companies Code.

[2] Between 12 November 2013 and 24 March 2014 he was Chairman of the Fiscal Board, and was elected Chairman of the Audit Committee on 24 March 2014.

[3] Between 12 November 2013 and 24 March 2014 he was Member of the Fiscal Board, and was elected Member of the Audit Committee on 24 March 2014.

[4] He was elected Non-Executive Director on 24 March 2014, and was co-opted by resolution of the Audit Committee

on 19 December 2014 to replace Parpública – Participações Públicas SGPS, S.A. (non-independent member), that communicated its resignation as Non-Executive Director of the Board and Member of the Audit Committee on 14 November 2014.

In accordance with article 423-B of the Companies Code and article 19 of the Articles of Association, the Audit Committee, on 31 December 2014 and as at the present date, consists exclusively of Non-Executive Directors, who meet the applicable independence requirements and have higher education adequate for the exercise of these functions, with at least one of the members having accounting knowledge.

In compliance with CMVM Recommendation II.2.1., the Chairman of the Audit Committee is independent, in accordance with the applicable legal criteria, and has adequate skills for discharging his functions.

As at the Annual General Meeting on 24 March 2014, the supervision of the Company's activities was the responsibility of (i) a Fiscal Board, composed of a Chairman, two effective Members and an Alternate, all elected by the Shareholders General Meeting, and (ii) a Statutory Auditor.

Thus, up to such General Meeting, the Fiscal Board was composed by the following members (also complying with (i) the requirements provided in article 414 of the Companies Code, including a majority of independent members and one member with the above mentioned expertise, and (ii) CMVM Recommendation II.2.1. mentioned above):

Members	Office	Independence (1)	Date of first appointment	Term of office
António Sarmento Gomes Mota	Chairman	Yes	12/11/2013	2012/2014
Elsa Maria Roncon Santos (2)	Member		24/08/2012	2012/2014
Diogo José Paredes Leite de Campos	Member	Yes	12/11/2013	2012/2014
Sara Alexandra Ribeiro Pereira Simões Duarte Ambrósio (3)	Alternate Member		24/08/2012	2012/2014

(1) The members' independence was evaluated in accordance with article 414(5) of the Companies Code.

(2) Resigned on11/2013. Re-elected to complete the term of office 2012/2014 on 12/11/2013.

(3) Resigned on 7/11/2013. Re-elected to complete the 2012/2014 term of office on 12/11/2013.

32. Identification of the members of the Fiscal Board/Audit Committee deemed independent, under the terms of art. 414(5) of the Companies Code

See section 31 of Part I above.

33. Professional qualifications and other relevant curricular data for each of the members of the supervisory body

For this section please refer to Annex I including the *curricula* of the members of CTT's supervisory body.

g) Functioning

34. Existence and location where Regulations applicable to the supervisory body are available

The full text of the Regulations of the Audit Committee is available for consultation on CTT website, at www.ctt.pt.

35. Number of meetings of the Fiscal Board/Audit Committee and attendance of each member

During 2014, the Audit Committee held 12 meetings, with all its members present in all the meetings (with the exception of Parpública – Participações Públicas SGPS, S.A. which did not designate a representative to discharge its functions, and did not take part in the Audit Committee meetings).

The Fiscal Board in place until 24 March 2014 held 2 meetings, with all its members present at both meetings.

During 2014, the Audit Committee carried out the following main activities:

- Supervision of the quality and integrity of the financial information in CTT's interim financial statements.
- Supervision of the internal audit, internal control and risk management systems, namely:
  - ✓ Monitoring the activities of the Audit and Quality Department with respect to internal audit and compliance (e.g. prevention of money-laundering and financing terrorism) and assessing the Auditing and Compliance Activities Plan and the resources allocated for 2015;
  - ✓ Monitoring the risk management activities of the Finance and Risk Management Department;
  - ✓ Approving the proposal of Regulation for the Assessment and Control of Transactions with Related Parties and Prevention of Conflicts of Interest.
- Supervision of the performance of the Statutory Auditor/External Auditor:
  - ✓ Approval of the proposal submitted to the Shareholders General Meeting to elect the Statutory Auditor to complete the 2012/2014 term of office;
  - ✓ Approval of the Regulation for the Provision of Services by the Statutory Auditor/External Auditor, and analysing engagement proposals and their work.
- Approval of the proposed Regulation for Reporting Irregularities (no such reports were received in 2014).
- Approval of its Internal Regulation, annual agenda of activities and self-assessment model.

36. Availability of each of the members of the Fiscal Board/Audit Committee, indicating the functions discharged simultaneously by them in other companies, inside and outside the group, and other relevant activities carried out by the respective members

The functions exercised in other companies by members of the Company's Audit Committee are described in their *curricula* included in Annex I. On this matter, please refer to section 26 of Part I above.

h) Duties and responsibilities

37. Procedures and criteria applicable to the intervention of the supervisory body on the engagement of additional services to the external auditor

Under the Regulation on the Provision of Additional Services by the Statutory Auditor / External Auditor, the Audit Committee is responsible for analysing and assessing engagements of additional services to the Statutory Auditor/External Auditor by CTT or companies within a control or group relationship, being such engagement subject to prior authorisation of said corporate body.

As defined in said regulation, available for consultation on CTT's website at www.ctt.pt, in such assessment of engagements to the Statutory Auditor/External Auditor, the Audit Committee shall consider the following aspects:

- ✓ Whether the services are prohibited or not under said regulation and whether the provision of the services will affect or not the independence of the Statutory Auditor/External Auditor;
- ✓ Whether the engagement of said services exceeds or not the recommended annual value for additional services engaged by CTT to the Statutory Auditor/External Auditor in each financial year;
- ✓ The experience and knowledge of the Statutory Auditor/External Auditor in relation to the Company.

38. Other functions of the supervisory body

The Audit Committee, as a supervisory body, has the following main competences established by law, the Company's Articles of Association and in its Regulation:

- Relating to the quality of financial information and in compliance with IPCG Recommendation VII.1.1.:
  - ✓ To assess whether the accounting policies and procedures and the valuation criteria adopted are consistent with Generally Accepted Accounting Principles and appropriate for a correct presentation and valuation of the Company's assets, liabilities and results;
  - ✓ To supervise compliance with and correct application of current accounting principles and rules;
  - ✓ To issue an opinion on the annual management report, the financial statements for the year and the proposals presented by the Company's Board of Directors;
  - ✓ To monitor the preparation and disclosure of financial information;
  - ✓ To certify whether the Company's Annual Corporate Governance Report includes all required matters.

- Relating to the supervision of the internal audit, internal control and risk management systems and in compliance with Recommendations CMVM II.2.4. and II.2.5. and IPCG VII.1.2.:
  - ✓ To monitor and supervise the internal procedures for accounting and auditing matters, as well as the effectiveness and correctness of the risk management, internal control and internal audit systems;

- ✓ To issue an opinion on the work plans and resources allocated to the Company's Internal Audit and Quality Department and compliance services and assess their independence;
- ✓ To monitor internal auditing, in coordination with the Executive Committee, analysing the reports of the Internal Audit and Quality Department and compliance services;
- ✓ To supervise the Company's risk management policy and system, in coordination with the Board of Directors and the Executive Committee, monitoring the risk control policies and the integrated risk assessment methodologies;
- ✓ To propose to the Executive Committee measures to improve the functioning of the financial information internal control systems and the risk management and internal audit system;
- ✓ To discuss the contents of the internal control report with the Executive Committee, the Statutory Auditor and the External Auditor;
- ✓ To define, implement and supervise the procedures for handling irregularities;
- ✓ To issue an opinion on transactions involving members of the Board of Directors, under the terms provided by law, and establish and implement procedures for the issue of an opinion on significant transactions involving qualified shareholders.

- Relating to the statutory audit and external audit, and in compliance with Recommendations CMVM II.2.2. and II.2.3. and IPCG VII.2.:
  - ✓ To propose to the Shareholders General Meeting the appointment and replacement of the Statutory Auditor and to the Board of Directors the engagement and the termination of the External Auditor services agreement, if different from the Statutory Auditor; to carry out an annual evaluation of the Statutory Auditor and External Auditor;
  - ✓ To analyse the expertise and independence of the Statutory Auditor and the External auditor, in particular the provision of additional services;
  - ✓ To propose the remuneration of the Statutory Auditor and External Auditor to the Remuneration Committee and the Board of Directors, as applicable;
  - ✓ To monitor the activity and contractual relationship with the Statutory Auditor and the External Auditor, in particular regarding financial information and the effectiveness of internal control mechanisms, namely (i) promoting suitable conditions for them to carry out their activities, (ii) acting as their main point of contact with the Company and (iii) receiving and analysing their reports and correspondence regarding the Company and companies within a control or group relationship;
  - ✓ To analyse the statutory audit report and audit reports with the Statutory Auditor and the External Auditor.

The Statutory Auditor is responsible for the review of the Company's accounts, under the terms established in law and in the regulation on the provision of services by the Statutory Auditor and the External Auditor mentioned above.

The statutory audit and external audit are discharged by the entities referred to in sections 39 and following of Part I of this report below, including, *inter alia*, verifying the application of the remuneration policies and systems for the corporate bodies, approved by the Remuneration Committee, the effectiveness and functioning of the internal control mechanisms and reporting of any deficiencies to the Audit Committee, as per CMVM Recommendation IV.1.

IV. Statutory Auditor

39. Identification of the Statutory Auditor and the Audit Partner by whom it is represented

PricewaterhouseCoopers & Associados, SROC, Lda. ("PwC") was re-appointed as Statutory Auditor of the Company for the term of office 2012/2014, by resolution of 20 October 2012. This Statutory Auditor was represented in its functions from 30 October 2012 by José Pereira Alves (Statutory Auditor no. 711) or by João Rui Fernandes Ramos (Statutory Auditor no. 1333), who was replaced by Ana Maria Ávila de Oliveira Lopes Bertão (Statutory Auditor no. 902) on 31 January 2014. The Alternate Statutory Auditor appointed for the 2012/2014 term of office was Manuel Henriques Bernardo (Statutory Auditor no. 903), who was re-appointed by resolution of 30 October 2012.

After the resignation of PwC on 8 April 2014 as the Company's Statutory Auditor, the Annual Shareholders General Meeting held on 5 May 2014, based on a proposal of the Audit Committee, elected KPMG & Associados, SROC, S.A. ("KPMG"), represented by Maria Cristina Santos Ferreira (Statutory Auditor no. 1010), to complete the three-year term of office 2012/2014. The Company's Alternate Statutory Auditor is Vítor Manuel da Cunha Ribeirinho (Statutory Auditor no. 1081), also elected on the same date to complete the same term of office.

40. Number of consecutive years during which the Statutory Auditor discharged its office for the Company and/or the group

KPMG discharges its office of Statutory Auditor since 5 May 2014.

41. Description of additional services rendered to the Company by the Statutory Auditor

Please refer to section 47 of Part I below on additional services rendered to the Company by the Statutory Auditor.

V. External Auditor

42. Identification of the External Auditor and the Audit Partner who represents it in the compliance of these functions, and his/her registered number in CMVM

PwC (registered in CMVM under no. 9077) discharged its office of External Auditor from 2013 until its resignation on 8 April 2014, being represented in these functions by José Pereira Alves (Statutory Auditor no. 711) or by João Rui Fernandes Ramos (Statutory Auditor no. 1333), who was replaced by Ana Maria Ávila de Oliveira Lopes Bertão (Statutory Auditor no. 902) on 31 January 2014.

Since 5 May 2014, the External Auditor has been KPMG registered with the Order of Statutory Auditors under no. 189 and with CMVM under no. 9093, represented by Maria Cristina Santos

Ferreira (Statutory Auditor no. 1010).

43. Number of consecutive years during which the External Auditor and the Audit Partner representing it discharged its office for the Company and/or the group

KPMG (no. 189), represented by Maria Cristina Santos Ferreira (Statutory Auditor no. 1010), discharges its functions consecutively for CTT since 2012. KPMG discharges its functions as CTT independent auditor from 2012 to 2013.

44. Rotation policy and frequency of the External Auditor and respective Audit Partner representing it in the compliance of these functions

The Company understands that rotating its auditor constitutes a best practice to be considered in order to safeguard the auditor's independence. The Audit Committee it responsible for assessing on a case-by-case basis the advantages of this practice in the context of its impartiality and of the reliability of the Company's financial information, against the experience and knowledge of the External Auditor and the safeguards implemented to ensure its independence, in the context of the limited number of service providers available.

CTT's External Auditor was engaged to discharge the functions of independent auditor in 2012, the first year of the 2012/2014 term of office of the corporate bodies, in compliance with Recommendations IV.3 of CMVM and VII.2.3. of IPCG. The period of three terms of office, after which the Company must ensure rotation according to Recommendation IV.3 of CMVM, has not yet expired, nor has elapsed the maximum period of seven years for the Audit Partner representing KPMG in these functions, as defined in the Statutes of the Portuguese Institute of Statutory Auditors.

In due time the Audit Committee will analyse and consider the engagement relationship, qualifications, expertise, independence, advantages and costs of the possible replacement of CTT's External Auditor.

45. Corporate body responsible for assessing the External Auditor and frequency of such assessment

Please refer to section 38 of Part I above related to the responsibilities of the Audit Committee in the annual assessment of the External Auditor. Within its responsibilities and as per Recommendations II.2.3. of CMVM and VII.2.1. of IPCG, the Audit Committee certified the independence of the External Auditor and made a positive assessment of its work during the financial year 2014, in accordance with the procedures detailed in the Regulation of the Audit Committee.

46. Non audit work carried out by the External Auditor for the Company and/or companies within a control relationship, internal procedures for the approval of such services and the reasons for its engagement

Non audit services engaged during 2014 to the External Auditor by CTT and companies within a control or group relationship are summarised in the tables included in section 47 of Part I below.

As provided by law, the Audit Committee is responsible for supervising the independence of the Statutory Auditor, with specific reference to the provision of additional services. The Company's Audit Committee approved, on 22 September 2014, the Regulation for the Provision of Services by the Statutory Auditor/External Auditor. Under such Regulation, CTT's internal procedures on the prior approval of the engagement of additional services by the Audit Committee were updated.

During 2014, the Audit Committee monitored the provision of non-audit services by the External Auditor under the terms referred to above, in order to ensure that these did not give rise to conflicts of interests or compromise the independence of the Statutory Auditor/External Auditor. The Audit Committee approved on reasoned grounds the engagement of such services, considering that the Statutory Auditor/External Auditor's knowledge of the Company and the complementarity with audit services justified such engagement.

In 2014, the non-audit services engaged to KPMG and PwC and entities within its network/group by CTT and companies within a control or group relationship accounted to only 12.3% of the total value of the services engaged to those entities (as per the tables included in section 47 below). Some of the services engaged to KPMG are still on going. Thus being, CTT has followed Recommendations IV.2. of CMVM and VII.2.4. of IPCG.

47. Annual remuneration paid by the Company and/or legal entities within a control or group relationship to the auditor and other individuals or legal persons, specifying the percentage relating to each type of services

The table below shows the values (excluding VAT) corresponding to the fees of KPMG and PwC for audit services, statutory audit, compliance and assurance services, tax consultancy and services other than statutory audit and audit services engaged and accounted for (i.e. invoiced and specified) in 2014:

KPMG	Engaged Services		Accounted Services r	
	2014		2014	
	Amount (€)	%	Amount (€)	%
CTT	182,035	100%	257,260	100%
1 Statutory audit and audit services	162,200	89%	223,875 [(1)]	87%
2 Compliance and assurance services	0	0%	0	0%
3 Tax consultancy services	19,835	11%	23,385	9%
4 Other services not referred to in 1 to 3	0	0%	10,000 [(2)]	4%
Other CTT Group companies	60,800	100%	39,300	0%
1 Statutory audit and audit services	50,800	84%	39,300	0%
2 Compliance and assurance services	0	0%	0	0%
3 Tax consultancy services	10,000	16%	0	0%
4 Other services not referred to in 1 to 3	0	0%	0	0%
TOTAL	242,835		296,560	

[(1)] This value includes fees for the statutory audit and audit services engaged in 2013 and invoiced in 2014.
[(2)] Value for services engaged in 2013 and invoiced in 2014.

PwC	Engaged Services		Accounted Services	
	2014		2014	
	Amount (€)	%	Amount (€)	%
CTT	0	0%	52,200	100%
1 Statutory audit and audit services	0	0%	52,200 [(1)]	100%
2 Compliance and assurance services	0	0%	0	0%
3 Tax consultancy services	0	0%	0	0%
4 Other services not referred to in 1 to 3	0	0%	0	0%
Other CTT Group companies	0	0%	9,060	100%
1 Statutory audit and audit services	0	0%	9,060	100%
2 Compliance and assurance services	0	0%	0	0%
3 Tax consultancy services	0	0%	0	0%
4 Other services not referred to in 1 to 3	0	0%	0	0%
TOTAL	0		61,260	

[(1)] Services engaged in 2013 and invoiced in 2014.

C. INTERNAL ORGANISATION

I. Articles of Association

48. Provisions applicable to the amendment of the Company's Articles of Association

The General Shareholders Meeting is responsible for resolving on any amendment to the Company's

Articles of Association.

CTT's Articles of Association do not contain special rules applicable the approval of its amendments. General rules provided for in the Companies Code will apply in this respect, i.e. any such resolution must be approved by the Shareholders General Meeting:

- In which, at the first call, shareholders holding shares corresponding to at least one third of the Company's share capital are present or represented; and
- By a majority of two thirds of the votes cast, in either first or second call, unless, in the second call, shareholders holding shares corresponding to at least half of the Company's share capital are present or represented, in which case this resolution may be taken by simple majority of the votes cast.

II. Reporting of Irregularities (whistleblowing)

49. Mechanisms and policy adopted by the Company for the reporting of irregularities (whistleblowing)

In order to improve the Company's management practices and monitoring of compliance with current standards, in 2014 CTT approved and implemented procedures for the reception, retention and handling of irregularities, in line with best practices in this area (such as IPCG Recommendation I.2.5.). The Company's Audit Committee and its Ethics Committee play a decisive role in this field.

CTT's Audit Committee is the competent corporate body for the reception of reports of irregularities presented by the Company's shareholders, employees and other, in order to ensure the necessary independence of these procedures.

Reports of irregularities must be addressed, in writing, to CTT's Audit Committee, through any of the following mechanisms and must include the information stated in the Regulation for Procedures for Reporting Irregularities: E-mail: irregularidades@ctt.pt; Address: Remessa Livre 8335, Loja de Cabo Ruivo, 1804-001 Lisbon.

Once any report of an irregularity has been received and registered, the Audit Committee will refer it to the Ethics Committee, which will carry out actions to confirm the existence of sufficient grounds for an investigation. On conclusion of the investigation, the Ethics Committee will propose to the Audit Committee the adoption of appropriate measures or the closing of the report.

Within these procedures and as detailed in the Regulation referred to above, the following rights and safeguards are granted to anyone presenting a complaint:

- Confidential handling of reports of irregularities;
- Confidential, secure handling and safeguarding of the records and the information;
- Right to information, access and correction of personal data; and
- Prohibition of CTT from retaliating against anyone reporting irregularities under this mechanism.

III. Internal control and risk management

50. Persons/corporate bodies responsible for internal audit and the internal control system

CTT's management and supervisory bodies have attributed increasing importance to the improving of the Company's internal control, risk management and internal audit systems, referring to the best practices applicable (such as the COSO II method) and the specific characteristics of the Company.

As the Board of Directors is responsible for ensuring the effectiveness of these systems, it encourages a control culture throughout the organisation and has instituted:

- Internal information and reporting mechanisms, allowing the organisation's performance to be monitored and observed at all levels;
- Processes for identifying and responding to risks which may compromise the achievement of the Company's strategic objectives, defined by the Board of Directors; and
- An internal control system intended to guarantee efficient and sustainable execution of business and operations, protection of resources and assets, and compliance with the applicable policies, plans, procedures and regulations.

The Audit Committee, as CTT's supervisory body, is responsible for the effective oversight of these systems, as detailed in its Internal Regulation.

In this context, internal audit is carried out by the Audit and Quality Department, which is responsible for an independent assessment of the appropriateness and effectiveness of the internal control systems of CTT and its subsidiaries, through a continuous monitoring of the major risks.

Likewise CTT complies fully with CMVM Recommendations II.1.5. and II.2.4., in that (i) the Board of Directors is responsible for setting the Company's strategic objectives and risk limits and for creating systems for their control, with a view to guaranteeing that the risks actually incurred are consistent with those objectives, and (ii) the Audit Committee shall assess the functioning of the internal control and risk management systems; the latter was effected in 2014 as described in sections 50 to 55 of Part I below. In this context, the Company's practices are in line with IPCG Recommendations IV.5. and VI.1. to VI.4.

51. Relations of hierarchical/functional dependence with respect to other corporate bodies

The Audit and Quality Department reports by hierarchy to the Executive Committee and functionally to the Audit Committee, in the context of their management and supervisory functions.

Under the Company’s Articles of Association and the respective Regulation, the Board of Directors is responsible for ensuring the effectiveness of the internal control, risk management and internal audit systems, establishing mechanisms and structures designed to achieve this objective. The Audit and Quality Department reports by hierarchy to the Board of Directors (through the Chairman of the Executive Committee), allowing it to act right across CTT and all its subsidiaries.

Also under the Company's Articles of Association and the respective Regulation, the Audit Committee has the following responsibilities in this area, in order to ensure functional reporting by the Internal Audit and Quality Department to the Company's supervisory body, thus complying, throughout 2014, with Recommendations II.2.5. of CMVM and VII.1.2. of IPCG:

- To issue an opinion on the work plans and resources allocated to the Company's Internal Audit and Quality Department and compliance services and to assess their objectiveness and independence;
- To monitor internal audit, in coordination with the Executive Committee, evaluating the reports of the Internal Audit and Quality Department and compliance services;
- To propose to the Executive Committee measures intended to improve the functioning of the financial information internal control systems and the risk management and internal audit system;
- To discuss the internal control report with the Executive Committee and with the Statutory Auditor and the External Auditor;
- To supervise the internal procedures for accounting and auditing matters, as well as the effectiveness and appropriateness of the risk management, internal control and internal audit systems.

52. Other functional areas with competence in risk control

The Finance and Risk Management Department, which reports directly to the Executive Committee (in the person of the CFO), is responsible for the centralised coordination of CTT's risk management model and for planning and implementing risk management programmes supported by the Company's Risk Management Policy and Manual.

Risk management and control are assumed throughout CTT's corporate structure, involving all levels, from top management to more operational levels.

The risk management function requires an integrated view of how the various risks may affect CTT's business strategy, and is also responsible for the communication and coordination with other corporate structures, whose responsibilities are described below:

Board of Directors	• To appoint the person responsible for the risk management function and ensure that this function possesses both the authority to perform its responsibilities and sufficient resources for a robust management system; • To approve effective and appropriate policies for managing the risks to which CTT is exposed, and ensure that they are implemented and complied with.
Audit Committee	• To supervise the risk management policy and system, in coordination with the Board of Directors and the Executive Committee, specifically monitoring the risk control policies and the integrated risk assessment methodologies, performing an annual assessment of the system and proposing measures necessary to improve it; • To supervise internal procedures for accounting and auditing matters, as well as the effectiveness and appropriateness of the risk management, internal control and internal audit systems.

Finance and Risk Management Department	• To develop and promote risk management policies and guidelines in CTT and collaborate in the creation of a risk management culture, defining a common language, promoting awareness actions and supporting other areas of the organisation involved as well as the risk owners; • To coordinate the whole of CTT's risk management process in all four phases; • To monitor and continuously improve the effectiveness of the risk management process, ensuring that best practices are applied; • To carry out periodic reviews of the risk profile and the risk management manual.
Internal Audit and Quality Department	• To carry out periodic audits of the risk management system; • To provide technical advice in the Regulations reviews, in order to improve internal control systems; • To follow up mitigation actions carried out.
Risk owner	• To carry out actions associated with the risk management process relating to assessment, response definition and mitigation actions; • To monitor and assess the results of mitigation actions; • To report to the risk management function any recommendations on control activities.
Risk Management Committee	To support the Board of Directors and the Executive Committee as necessary, to: • Strengthen organisational involvement in risk, adding to the different visions and sensitivities of the departments involved and promoting the integration of risk management into business processes, and • Promotion and cooperation with the activities of the risk management function.

53. Identification and description of the main risks (economic, financial and legal) to which the Company is exposed in the exercise of its activity

Considering CTT's strategic objectives, the following top risks have been identified which could compromise the achievement of the organisation's sustainable growth (these risks have been classified in terms of probability – possible, probable and very probable – and impact – very high, high and medium), thus establishing CTT's risk profile:

Markets and competition	The expansion of digital communications has resulted, and is expected to continue to result, in a decrease in postal traffic. Combined with this, the complete opening of the market tends to increase competition in certain areas of business or products. Management of this risk is in the hands of the Business Units and the Regulation and Competition Department.
Innovation and development	Innovation in postal services is decisive for leveraging the development of new solutions, services and products to reinforce CTT's leadership. The effects of substitution and the strong competition, as well as globalisation and liberalisation, are threats which can only be fought with strong, across-the-board efforts to adopt a culture and practices committed to innovation. The Strategy and Development Department is responsible for managing this risk.
Obligation to provide Universal Service	As the universal service provider until 2020, CTT's obligations involve significant costs which may not be sufficiently reduced or compensated in order to cover the decrease in operational earnings resulting from the increase in competition and the reduction in postal volumes. Management of this risk is the responsibility of the Regulation and Competition and the Strategy and Development Departments.
Customer focus and loyalty	Changes in consumer preferences or failures to supply high quality products and services may have a negative effect on CTT. Furthermore, a large percentage of CTT's operational earnings come from postal services, specifically from a relatively concentrated customer base. Management of this risk is the responsibility of the Business Units and the Sales Networks.

Human Resources Management	The ability to recruit and retain qualified workers and experienced managers is essential for CTT's success. To mitigate this risk CTT has implemented a talent management plan, with initiatives to be developed over the period 2014/2016, in order to introduce market best practices into the Company. The Human Resources and Organisation Department is responsible for managing this risk.
Partnerships	CTT's activity depends on partnerships and other similar agreements, either in terms of mail, financial services or business solutions business segments, or in terms of key suppliers and service providers in some areas of operations. Non-compliance with these commitments, termination of agreements or any interruption of the services provided could significantly affect operations and produce an adverse effect on CTT's business. All departments of the organisation are responsible for managing this risk.
Information Management	Analysis and decision-making, on the basis of well-selected, relevant, reliable, consistent and confidential information, are crucial for the efficient definition, implementation and management of the business strategy, as well as compliance with its disclosure obligations to the market. Management of this risk is the responsibility of the Information Technology, Management Planning and Control and Investor Relations Departments.
Information Technologies (IT)	The everyday management of CTT's operations depends heavily on its IT infrastructure and communications systems. Failures in its functioning could compromise the Company's ability to provide products and services, resulting in a reduction in operational earnings and consequences for its reputation and image with its stakeholders. Management of this risk is in the hands of the Information Technologies Department.
Strategic Alignment	Management of strategic risks involves monitoring the evolution of social, political and macroeconomic vectors, and alignment of the business portfolios of CTT and its subsidiaries with market trends, with a view to innovation and sustained value creation. The Strategy and Development Department is responsible for managing this risk.
Profitability Analysis	CTT is subject to multiple financial risks, particularly credit, interest and exchange rates and liquidity risks. Mitigation of these risks in order to maximise profitability is crucial for the Company's sustained growth. Management of these risks is a responsibility of the Accounting and Treasury and the Finance and Risk Management Departments. In this context it is also important to note the powers and activities of the Credit Committee and the Investment Committee.

54. Description of the process for risk identification, assessment, monitoring, control and management

Risk management is promoted by the Board of Directors, in coordination with the various senior officers responsible for the organisation’s areas, in order to identify, assess and manage the uncertainties and threats which could influence the execution of the business plan and strategic objectives, in line with the risk profile.

The Audit and Quality Department and the Finance and Risk Management Department support the implementation of the risk management system and the continuous evaluation of the procedures established, as follows:

- Designing the risk management model in line with strategic objectives, including information and communication channels;
- Identification and assessment of risk events; and
- Permanent monitoring of the principal risks identified, so as to ensure mitigation actions.

Thus being, CTT has implemented a risk management system designed to manage systematically the risks and opportunities which might have an impact on the Company's strategic objectives, through structures, processes, methodologies and information to carry out recurring and periodic reviews of the following risk management process:

(1) The strategic vision comprises the Company's strategic mission (risk sensitivity) and strategic objectives (risk tolerance).
(2) The corporate culture consists of 6 layers: information and communication, information management, human resources, corporate structure, knowledge management and assurance.

Therefore, this risk management process involves the following four phases:

Phase I - Identification	• The risk management system is supported by a set of standards and procedures for the capture, recording, classification and communication of the risks inherent in its daily activities (e.g. financial, operational, commercial, other), as well as environmental risks.
Phase II - Assessment	• The probability and impact of all important risks are assessed, using approved classification levels set out in the risk management manual, which is reviewed periodically.
Phase III - Mitigation	• Mitigation strategies are defined by reference to the risk assessment, in order to avoid, reduce, share and/or accept a particular level of risk.
Phase IV – Monitoring and reporting	• This phase is supported by the execution of periodic activities, assessments and reports intended to ensure that all risks are monitored and to verify possible alterations in risk level; • This monitoring is carried out on the basis of key risk indicators (KRIs) to provide continuous reporting and timely adoption of remedial measures; • KRIs address all levels of the Company (strategic, tactical and operational) and are aimed at permanent alignment with the key performance indicators, and thus with CTT's business strategy and risk profile defined by the Board of Directors.

55. Main elements of the internal control and risk management systems implemented in the Company relating to the process of disclosure of financial information

The process of disclosure of financial information is monitored by both management and supervisory bodies and by the Business Units and corporate services. The financial statements and other financial information are prepared by the Management Planning and Control and Investor Relations Departments, based on information provided by the Accounting and Treasury Department and the Business Units.

All the documents for the presentation of financial information are approved by the Board of

Directors and reviewed by the Audit Committee, the Statutory Auditor and the External Auditor.

In particular, the Audit Committee is responsible for supervising the adoption by the Company of the principles and policies for the identification and management of the main financial and operational risks associated with CTT's activity, namely by monitoring the activities of the Internal Audit and Quality Department under the terms described above.

The Audit Committee is also responsible for checking the independence of the Statutory Auditor and the External Auditor and the process for the preparation and disclosure of the Company's financial information. In this context, the Audit Committee:

- Holds meetings to monitor these processes with members of the Executive Committee, the Statutory Auditor and the External Auditor, and with the persons responsible for accounting and for management planning and control;
- Evaluates the reports of the Internal Audit and Quality Department (specifically with respect to the procedures for internal audit and internal control of the financial report), in order to make proposals to the Executive Committee if appropriate;
- Monitors internal audit, in coordination with the Executive Committee, specifically with respect to procedures for the financial report, the detection of risks, irregularities and conflicts of interest, and the safeguarding of the Company's assets.

The work carried out in this respect by the Audit Committee during 2014 aimed above all at supervising the suitability of the process for the preparation and publication of financial information, and ensuring that the internal and external auditors were able to perform their functions with independence and objectivity, as per Recommendations II.2.5. of CMVM and VII.1. of IPCG.

For the purposes of issuing the statutory audit report and audit report, the Statutory Auditor and the External Auditor evaluate the internal control mechanisms of the main business processes of the group companies affecting the financial report.

IV. Investors Office

56. Department responsible for investor support, composition, functions, information provided by this department and contacts

CTT's Investor Relations Department (IR) is responsible for ensuring a solid and long term relationship between, on one hand, shareholders, investors and analysts, CMVM, Euronext Lisbon and the capital markets and, on the other, the Company and its corporate bodies, providing timely, clear and transparent information representing the current evolution of CTT, in economic, financial and governance terms. Thus being, the Company complies with Recommendation VI.2. of CMVM and Recommendation I.1.1. of IPCG, providing an investor assistance department and a permanent contact with the market.

CTT's IR team consists of 5 people and is managed by Peter Tsvetkov, and its contacts are as follows:

Address: Avenida D. João II, nº 13, 12º piso
1999-001 Lisbon, Portugal

investors@ctt.pt
Fax: +351 210 471 996
Telephone: +351 210 471 867
Website: www.ctt.pt

In 2014, first complete calendar year of CTT as an issuer of shares admitted to trading in the regulated market, in addition to the regular publication of financial accounts – Annual Report (2013), Interim Report (1st half 2014), and press releases and presentations of quarterly results –, the Company issued the following press releases: 27 with privileged information, 32 regarding qualified holdings in CTT, and 6 concerning senior officers' transactions of CTT shares. Furthermore, IR received and processed 425 e-mails from institutional investors, 1,483 from research analysts, 670 from organisers of investor events and conferences and 253 from other investors and the general public.

During the year, CTT spent 27.5 days in external meetings with investors, 13.5 of which in conferences (organised by 12 different brokers in 6 different cities) and 14 days in 16 roadshows (organised by 8 different brokers in 9 different cities). The Chairman and CEO of the Company spent 11 days abroad on activities involving Investor Relations and the CFO spent 23.5 days on similar activities. CTT received 24 visits by investors, 4 independent and 20 organised by 10 different brokers. Over the course of the year, the Company met with 351 investors. Furthermore there were 50 scheduled conference calls with investors and 53 scheduled contacts with analysts, of which 29 conference calls and 24 meetings, besides many unscheduled calls.

CTT developed contacts with research analysts as a way of promoting awareness of the Company's equity story and strategy in the capital markets. Coverage of CTT's shares is currently provided by three Portuguese brokers (BESI, BPI, Caixa BI), two Spanish (BBVA, Fidentiis), two German (Berenberg, MainFirst) and five North American (JP Morgan, Morgan Stanley, Goldman Sachs, Jefferies and Royal Bank of Canada).

On 31 December 2014, the closing market price of CTT shares was €8.017, while the average target price of the 12 analysts who provide coverage was €8.554. As at that date, 67% of the analysts (8) held positive recommendations on the share and 17% (2) held neutral recommendations. The remaining 17% (2) held negative recommendations.

57. Market relations representative

CTT's Market Relations Representative is the Executive Member of the Board and CFO André Manuel Pereira Gorjão de Andrade Costa.

58. Information on requests for information received during the year or pending from previous years and response time

With respect to the questions asked of IR by the financial community in general (shareholders, investors and analysts), by e-mail or telephone contact, IR recorded numerous requests for information during 2014. It received and processed 425 e-mails from institutional investors, 1,483 from research analysts, 670 from organisers of investor events and conferences and 253 from other investors and the general public, as well as numerous telephone contacts. In general these requests were answered immediately or within a period appropriate to the nature and complexity of the questions, and at the end of 2014 there were no requests for information pending, in line with CMVM Recommendation VI.2.

V. Website

59. Address

The address of CTT's website is:

http://www.ctt.pt

As described below, in line with CMVM Recommendation VI.1., the Company website provides access to information on the Company's evolution and current situation in economic, financial and governance terms, in Portuguese and English.

60. Website where information may be obtained about the Company, its status as a publicly-traded company, its registered address and other identifying details

This information may be found on the CTT website, at:

https://www.ctt.pt/ctt-e-investidores/a-empresa/governo-da-sociedade/identificacao-da-sociedade.html

61. Website where the Company's Articles of Association and the Regulations of the corporate bodies and/or committees may be found

This information may be found in the CTT website, at links:

https://www.ctt.pt/ctt-e-investidores/a-empresa/governo-da-sociedade/estatutos-e-regulamentos.html

62. **Website where information is available on the identity of the members of corporate bodies, the market relations representative and the investor office, with their functions and contact details**

This information may be found in the CTT website, at links:

https://www.ctt.pt/ctt-e-investidores/a-empresa/governo-da-sociedade/index.html

https://www.ctt.pt/ctt-e-investidores/relacoes-com-investidores/contactos-ri.html?com.dotmarketing.htmlpage.language=1

63. **Website where the financial statements are available, together with the half-yearly calendar of corporate events**

This information may be found in the CTT website, at links:

https://www.ctt.pt/ctt-e-investidores/informacao-financeira/contas-consolidadas.html?com.dotmarketing.htmlpage.language=1

https://www.ctt.pt/ctt-e-investidores/informacao-financeira/calendario-financeiro.html

64. **Website where the convening notices to shareholders general meetings and all related preparatory and subsequent information are published**

This information may be found in the CTT website, at link:

https://www.ctt.pt/ctt-e-investidores/relacoes-com-investidores/assembleias-gerais.html

65. **Website where the records of all resolutions taken in the Company's general shareholders meetings, the share capital represented and the results of the voting process are available**

This information may be found in the CTT website, at link:

https://www.ctt.pt/ctt-e-investidores/relacoes-com-investidores/assembleias-gerais.html

D. REMUNERATIONS

I. Competences to set remunerations

66. **Indication of the competences to set the remuneration of the corporate bodies, the members of the Executive Committee and the Company's senior officers**

As per article 9(2)(d) of the Company's Articles of Association, the Shareholders General Meeting is competent to set the remunerations of members of the corporate bodies. It may appoint a Remuneration Committee for this purpose. The Remuneration Committee was appointed in the

Shareholders General Meeting of 24 March 2014, for the 2014/2016 term of office.

Considering that CTT's Board of Directors understands that the Company's senior officers under article 248-B of the Securities Code correspond to the members of its managing and supervisory bodies, the Remuneration Committee is responsible for setting their remuneration.

II. Remuneration Committee

67. Composition of the Remuneration Committee, including identification of the natural or legal persons engaged to assist said committee and statement of the independence of each member and consultants

The Remuneration Committee is composed by:

Members	Office	Date of 1st appointment
João Luís Ramalho de Carvalho Talone	Chairman	24/03/2014
José Gonçalo Ferreira Maury	Member	24/03/2014
Rui Manuel Meireles dos Anjos Alpalhão	Member	24/03/2014

In compliance with Recommendations II.3.1. of CMVM and V.2.1. of IPCG, all members of the Remuneration Committee are independent from the CTT Board, since none of them (i) is part of any corporate body of the Company nor of any company within a control or group relationship with CTT, (ii) holds a qualified holding or acts in the name and on behalf of a qualified holders of CTT and/or (iii) has any family relationship (i.e., through his spouse, relatives and/or akin in straight line up to the 3rd degree, inclusive) with any Board member.

In 2014, the Remuneration Committee was supported by specialised consultants (Mercer, MLGTS and Deloitte). Among these, only Mercer maintained a relationship with the Company on that date, and was providing and had provided services to CTT over the past 3 years. Although the Company did not adopt CMVM's Recommendation II.3.2., as explained in Part II below, the Company established the mechanisms necessary to ensure the independence of the consultants assisting the Remuneration Committee.

68. Knowledge and experience of the members of the Remuneration Committee on matters of remuneration policy

The curricula of the members of the Remuneration Committee are included in Annex I. As evidenced therein, and in line with CMVM Recommendation II.3.1., all members of this committee have the appropriate knowledge to analyse and decide on matters within their competence, given their academic degree and extensive professional experience, namely by means of:

- the performance of management duties in various sectors, in Portugal and abroad, and the performance of their duties in remuneration committees, in both cases in companies of a significant size and with shares admitted to trading;

- consulting activities in the area of specialised human resources, including remuneration policies and those of selection and hiring of executives in the financial, services and industrial sectors.

III. Remuneration Structure

69. Description of the remuneration policy of the managing and supervisory bodies referred to in article 2 of Law no. 28/2009, of 19 June

At the Annual General Meeting held on 5 May 2014, the Remuneration Committee, which had just been elected on 24 March, presented to CTT shareholders its annual statement on the remuneration policy for the managing and supervisory bodies, containing the broad guidelines of the policy to be developed and approved during its first year in office.

After this statement's approval by CTT shareholders and the conclusion of the Company's privatisation process, the Remuneration Committee approved and adopted the current remuneration policy, in order to promote alignment between remuneration and the business strategy set for the term of office and hence the sustainability of results and value creation for shareholders.

This policy was approved taking into account the broad guidelines of said statement, as well as a deep reflection and benchmarking studies performed with the assistance of specialised consultants, being subsequently subject to the opinion of Corporate Governance, Evaluation and Nominating Committee.

This reflection included developing and adapting the principles laid down in said statement and the best practices applicable to the specificities of the Portuguese market, of CTT's business sector, and of the Company's strategic plan, business plan and annual budgets. In this context, the Company is compared with a group of Portuguese issuers and various European peers in the sector.

The peer group used in the benchmarking analysis underlying the remuneration policy applicable to CTT Executive Directors was selected based on 3 criteria (sector, regulated/unregulated market and stability of cash-flows), and comprised 19 companies, including 7 European companies in the sector (Bpost, Deutsche Post, La Poste, Poste Italiane, Poste NL, Post Nord and Royal Mail) and 12 Portuguese companies with shares admitted to trading on the Euronext Lisbon regulated market (BES, Brisa, Cimpor, EDP, EDP Renováveis, ES Saúde, Jerónimo Martins, NOS, Portucel, Portugal Telecom, REN and Sonae).

With regard to Non-Executive Directors and members of the Board of the General Meeting, the reference benchmark corresponded to a peer group of 14 companies in PSI 20 (Banif, BES, BPI, Galp Energia, Impresa, Jerónimo Martins, Millennium BCP, Mota Engil, NOS, Portucel, Portugal Telecom, REN, Semapa and Sonae SGPS).

The remuneration policy approved by the Remuneration Committee for the 2014/2016 term of office is based on the following main principles:

- To act as an instrument of the talent management policy;
- To compensate work, stimulate performance, reward results, taking into account performance and individual merit;
- To contribute to attract, develop and retain competent professionals, trying to be competitive with practices in force in the Portuguese market for companies of identical complexity;
- To responsibly promote the alignment of interests with CTT values and culture, business strategy, Company's shareholders and, in general, with the remaining stakeholders; and
- To contribute to value-creation not only in the short, but particularly in the medium and long term, following sustained management practices.

Considering these principles, the remuneration of the Executive Directors includes a fixed component and a variable component, the latter consisting of a portion intended to compensate performance in the short term and another intended to compensate long-term performance.

The fixed remuneration component was defined taking into account the market competitiveness, the nature and complexity of the duties (reasoning for a differentiated remuneration of the CEO, CFO and the remaining Executive Directors), as well as the required skills and the sustainability of CTT's performance. Additional benefits corresponding to the annual meal allowance and a fixed monthly amount to be allocated to the open pension fund or retirement savings plan are added to the annual base remuneration which is paid 14 times a year. This component can be reviewed annually by the Remuneration Committee.

The variable remuneration of the Executive Directors consists of:

- An annual component ("Annual Variable Remuneration"), subject to the achievement of predefined quantitative and qualitative objectives each financial year and paid in cash in the month after the approval of the accounts by the Annual General Meeting following each financial year; and
- A long-term component ("Long Term Variable Remuneration"), subject to a positive Total Shareholder Return ("TSR") of the Company's shares at the end of the assessment period, corresponding to the term of office (up to 1 January 2017), and resulting in the delivery of CTT's shares on 31 January 2017, subject also to a one-year lock-up period.

Both the Annual Variable Remuneration and the Long Term Variable Remuneration are subject to limits set by the Remuneration Committee, namely by reference to the fixed remuneration as explained below.

Non-Executive Directors receive an annual fixed remuneration, paid 14 times a year, the amount being determined by the degree of time commitment and estimated number of meetings of the corporate bodies and their internal committees, according to CMVM Recommendation III.2.

Thus, a differentiated remuneration increase is attributed to (i) Non-Executive Directors who chair or are part of one or more committees, particularly in the case of the Audit Committee, taking into account the competences and duties of this supervisory body, and (ii) to the Non-Executive Vice-Chairman of the Board of Directors who performs the duties of lead independent director as described in section 21 of Part I above.

In summary, the remuneration policy approved by the Remuneration Committee is based on the following pillars aligned with the best national and international practices in this area:

Compensation mix	• Appropriate balance between fixed and variable remuneration • Appropriate balance between short and long-term remuneration • Appropriate balance between the component in cash and in shares (without dilution)
Performance measures	• Appropriate balance between individual and collective objectives • Appropriate balance between financial and non-financial objectives • Performance measures that consider risk and set appropriate KPIs and targets vis-á vis the peer group and the Company's plans
Alignment of interests	• Definition of the minimum level of performance to access the variable remuneration • Definition of the maximum level of performance as of which there is no additional payment of variable remuneration (caps) • Deferral mechanisms through the multiannual variable remuneration and the lock up of CTT shares delivered
Transparency	• Resolutions of an independent Remuneration Committee, assisted by specialised consultants and by a specialised and independent internal committee of the Board of Directors • Information disclosure • Alignment with the peer group and the Company's strategic objectives

These structural principles and elements of the remuneration policy for the members of the managing and supervisory bodies of CTT are detailed in the following sections of this report and also in the remuneration policy statement to be submitted annually by the Remuneration Committee for approval of the Shareholders General Meeting, as it occurred at the General Meeting held on 5 May 2014 and at the General Meeting to take place on 5 May 2015. Therefore, the Company adopts CMVM Recommendation II.3.3. as follows:

- On the annual statement, the information required under Law 28/2009, of 19 June, the criteria for determining the remuneration and the rules applicable to termination of office are presented by the Remuneration Committee to the General Meeting, in line with paragraphs a) and c) of CMVM Recommendation II.3.3. and the IPCG Recommendation V.2.2.;
- The Remuneration Committee does not expressly indicate in said statement the potential maximum remuneration amount under paragraph b) of said CMVM Recommendation, although the Company fully complies with the principles of predictability, disclosure and transparency of agency costs incurred by the Company and its shareholders, for the reasons explained in Part II below of this report.

70. Information on how remuneration is structured in order to enable the alignment of the interests of the members of the managing body with the Company's long term interests, and on how it is based on performance assessment and discourages excessive risk-taking

70.1. <u>Setting the annual base remuneration and discouraging excessive risk-taking</u>

As mentioned above, the defined amount of fixed remuneration seeks alignment with market practices, the discouraging of excessive risk-taking and a differentiation and compensation according to dedication (which, in the case of Executive Directors, is reinforced by the use of the annual base remuneration as the basis for calculating the variable remuneration and, in the case of

Non-Executive Directors, derives from a remuneration differentiation according to the actual exercise of supervisory duties, in particular within the Audit Committee and the Corporate Governance, Evaluation and Nominating Committee).

The remuneration increase observed in 2014 was due to the fact that CTT, until completion of the Company's privatisation, was part of the State's corporate sector, to which a set of remuneration restrictions applies. As a result of these restrictions, in the last term of office the remuneration assigned to the CEO and remaining Executive Directors of CTT was positioned below the 25th percentile of the market. On the other hand, the remuneration of CTT Non-Executive Directors was close to this percentile. With the approval of the remuneration policy for this term of office, the fixed remuneration of the members of the CTT's corporate bodies is close to the market median.

The Non-Executive Directors of CTT only receive a fixed remuneration, fulfilling CMVM Recommendation III.2.

70.2. Setting the Annual Variable Remuneration and Long Term Variable Remuneration according to the fixed remuneration

Both the Annual Variable Remuneration and the Long Term Variable Remuneration are subject to maximum limits set by the Remuneration Committee, in particular by reference to the annual base remuneration, in line with CMVM Recommendation III.3.

Thus, the Annual Variable Remuneration's target is 65% of the annual base remuneration, in the case of the CEO, and 55% of the annual base remuneration in the case of the remaining Executive Directors. Therefore, in a scenario of 100% achievement of the objectives applicable to the Annual Variable Remuneration, the CEO will be entitled to an Annual Variable Remuneration, in cash, in the amount of 65% of the annual base remuneration, and the remaining Executive Directors are entitled to an Annual Variable Remuneration, in cash, in the amount of 55% of the annual base remuneration. If the objectives achieved are above these targets, the maximum amount of Annual Variable Remuneration attributable to the CEO is 100% of the annual base remuneration and 85% of the annual base remuneration for the remaining Directors. If the minimum threshold of achievement described in section 71 of Part I below is not reached, there will be no Annual Variable Remuneration.

In turn, the Long Term Variable Remuneration is paid through the allocation of Company shares, depending on a positive TSR of the Company's shares at the end of the assessment period (until 1 January 2017). The allocation and delivery of shares is deferred to the end of the term of office (being its payment only due on 31 January 2017), subject to the above criteria and the various limits described below, determined by, inter alia, a maximum percentage of the annual base remuneration.

Thus, the Long Term Variable Remuneration has as target of 135% of the annual base remuneration for all Executive Directors. Therefore, in a scenario of 100% achievement of the objectives applicable to the Long Term Variable Remuneration, CTT's Executive Directors are each entitled to such component in CTT shares, in the amount of 135% of the annual base remuneration. If the objectives achieved are above this target, the maximum amount of Long Term Variable Remuneration attributable is 180% of the annual base remuneration. If the minimum threshold of achievement described in section 71 of Part I below is not reached, there will be no Long Term Variable Remuneration.

Additionally, the maximum number of Company shares to be allocated, as Long Term Variable Remuneration regarding the current 3-year term of office, is doubly limited by the number of shares to be allocated and their value, according to the following limits: (i) maximum cap of 148,142, 117,876 and 111,504 shares, respectively for the CEO, CFO and each of the other Executive Directors, and (ii) the value of the shares, at the average of the closing price of CTT shares in December 2016, cannot exceed a maximum of two million five hundred thousand euros and two million euros, respectively for the CEO and each of the other Executive Directors.

Once CTT shares have been allocated and delivered as Long Term Variable Remuneration in 2017, these will be partially subject to restrictions on its transfer and encumbrance, so as to ensure said alignment and incentive to the maintenance of the Company's positive performance beyond the term of office.

In view of the above, for all members of CTT's Executive Committee the fixed remuneration component will represent, on average, at least 40% of the total annual remuneration, the remaining 60% being attributed as a variable component.

Lastly and under article 23 of the Articles of Association, the Variable Remuneration of the Executive Directors may consist of a percentage of the Company’s consolidated profit, in which case the overall percentage of such profit paid up as variable remuneration may not exceed, each year, 5% of the consolidated profit for the financial year.

70.3. <u>Setting the Annual Variable Remuneration and Long Term Variable Remuneration according to performance</u>

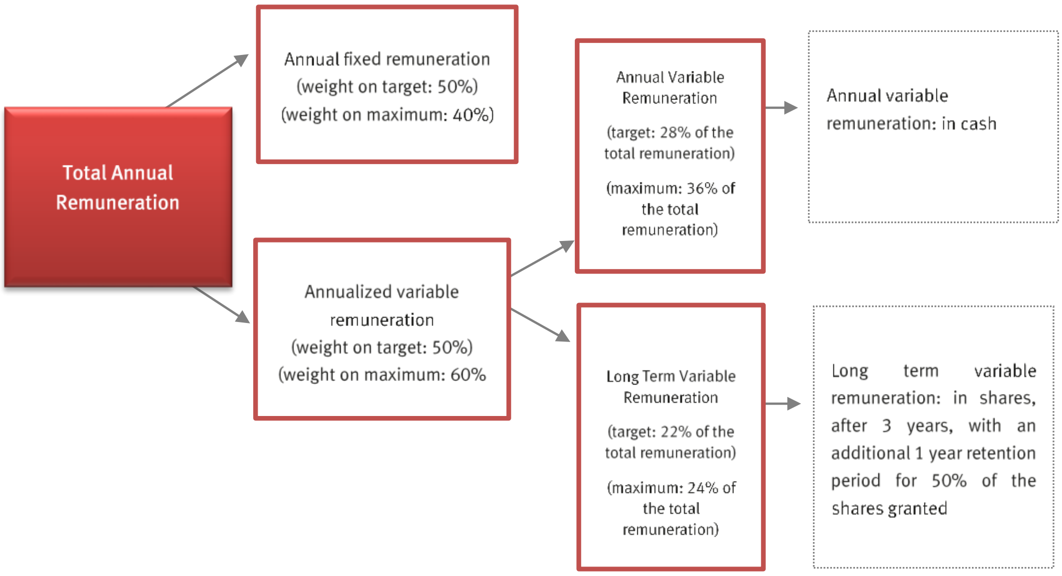
Additionally, the awarding and value of the variable component depends on the fulfilment of pre-defined goals, measured by performance indicators. This component will fluctuate according to the achievement level of (i) quantitative annual objectives (defined based on the business plan or annual budget approved by the Board of Directors) and qualitative individual objectives (defined by Corporate Governance, Evaluation and Nominating Committee, within the parameters established by the Remuneration Committee), as well as (ii) multi-annual objectives corresponding to the duration of CTT Executive Directors' term of office (3 years).

Through these objectives described in section 71 of Part I below, one intends to set a remuneration policy that promotes the alignment of the interests of the members of the Board of Directors with the Company’s interests and its long-term performance.

70.4. <u>Balance between the Annual Variable Remuneration and Long Term Variable Remuneration and the fixed remuneration and alignment of interests</u>

The following chart shows the weight of fixed and variable remuneration (annualised) compared to the total annual remuneration attributed, on average, to the members of the Executive Committee, in case of compliance with the target and maximum compliance with the objectives established for the

Annual Variable Remuneration and the Long Term Variable Remuneration. Overall, there is a balance between the annual fixed remuneration and the annualised total variable remuneration.



The effective allocation of this remuneration mix depends on the performance assessment, as follows:

- The fixed component can be reviewed annually by the Remuneration Committee;
- The Annual Variable Remuneration depends on the assessment of quantitative and qualitative criteria, predetermined and gradual, the assessment period being the financial year in question;
- The Long Term Variable Remuneration depends on the assessment of quantitative criteria, predetermined and gradual, the assessment period being the 3-year term of office in progress, on a long-term perspective;
- The Long Term Variable Remuneration gives rise to the delivery of shares at the end of the term of office, still subject to a lock-up period which is an additional incentive to the maintenance the Company's positive performance and value-creation for shareholders beyond the term of office.

In summary, the weight of the variable component in relation to the total fixed remuneration is not only in line with the best market practices of a national reference group of companies (including major Portuguese companies and companies listed on PSI 20) and European companies (entities of the postal sector), calculated as part of the benchmarking exercise conducted, but also in line with CMVM Recommendations III.1. and III.3. and IPCG Recommendation V.3.1..

71. Reference to the existence of a variable component of the remuneration and, if applicable, information on any potential impact of the performance assessment on this component

The Annual Variable Remuneration’s amount to be received by the Executive Directors results in 70% of the assessment of the following quantitative objectives set by the Remuneration Committee based on the benchmarking exercise conducted and the business plan and budget:

- The amount of the annual recurring EBITDA margin of CTT (40%);
- The growth percentage of CTT's recurring EBITDA (as defined by CTT's Audit Committee) regarding the previous calendar year (40%);
- Annual TSR of Company's shares compared to the weighted-average TSR of a peer group (20%).

The peer group consists of two subgroups: (i) TSR of PSI 20 with a 60% weighting and (ii) TSR (simple average) of a set of relevant sector peers (Austrian Post, Bpost, Post NL and Royal Mail, subject to changes defined by the Remuneration Committee based on relevant corporate restructurings) with a 40% weighting.

The awarding of the Annual Variable Remuneration in relation to these objectives depends on (i) a weighted-average of these objectives above 80%, (ii) a recurring EBITDA margin that satisfies at least 85% of the set target and (iii) a positive TSR of the Company's shares at the end of the calendar year.

Having satisfied these conditions, the recorded performance regarding the quantitative objectives is gradually remunerated, according to the level of achievement and the parameters set by the Remuneration Committee, in particular:

- If the recorded performance meets the set goal in less than 80%, there will be no allocation of Annual Variable Remuneration for that quantitative target;
- If the recorded performance is between 80% and 100% of the set goal, that amount will be between 29.25% and 65% of the CEO's annual base remuneration, and between 24.75% and 55% of the remaining Executive Directors' annual base remuneration;
- If the recorded performance is between 100% and 130% of the set goal, that amount will be between 65% and 100% of the CEO's annual base remuneration, and between 55% and 85% of the remaining Executive Directors' annual base remuneration;
- If the recorded performance fulfils the set goal in more than 130%, that amount will correspond to 100% of the CEO's annual base remuneration and to 85% of the remaining Executive Directors' annual base remuneration.

The amount of the Annual Variable Remuneration to be received results in 30% of the assessment of set qualitative individual objectives, and subject to assessment by the Corporate Governance, Evaluation and Nominating Committee, according to the parameters set by the Remuneration Committee. According to these parameters, the performance recorded on these objectives is gradually remunerated by reference to a percentage of the annual base remuneration between 65% and 100% for the CEO, and between 55% and 85% for the remaining Executive Directors, depending on the achievement level. In this context, the Corporate Governance, Evaluation and Nominating Committee defined an assessment model that considers composition, image and activity of the members of the Executive Committee, as well as their relationship with the various corporate bodies and stakeholders of the Company (including aspects such as sustainability and environment, organisational culture, Company's reputation and relationship with shareholders, employees, suppliers and customers).

In turn, the awarding of the Executive Directors' Long Term Variable Remuneration is subject to verification of a positive TSR of the Company's shares at the end of the assessment period, corresponding to the 3-year term of office. Thus being, the awarding and delivery of shares is deferred (being the awarding assessed until 1 January 2017 and the delivery made on 31 January 2017) and only occur if at the end of the term of office the Long Term Variable Remuneration's awarding criteria are fulfilled.

The calculation of the number of shares corresponding to the Long Term Variable Remuneration to be awarded is based on the comparison of the recorded performance of the TSR of the Company shares and the weighted-average TSR of a peer group formed by the subgroups identified above for the Annual Variable Remuneration and the following parameters (in addition to the limits described in section 70.2 above):

- If the TSR of the Company's shares is less than 90% of the weighted TSR of the peer group's shares, no Long Term Variable Remuneration will be awarded;
- If the TSR of the Company's shares is equal to or greater than 90% and less than or equal to 110% of the weighted TSR of the peer group's shares, each Executive Board member is assigned the number of Company's shares corresponding to the quotient of the proportional division of the percentage between 50% and 135% of the annual base remuneration of the corresponding Executive Board Member by the awarding price of the Company's shares;
- If the TSR of the Company's shares is greater than 110% of the weighted TSR of the peer group's shares, each Executive Board Member is awarded a number of Company's shares corresponding to the quotient of the division of 180% of the annual base remuneration of the corresponding Executive Board Member by the awarding price of the Company's shares.

These shares awarding plan and the corresponding regulation will be subject to approval of the Company's Annual General Meeting as detailed by the Board of Directors, in line with the remuneration policy approved by the Remuneration Committee. This plan will not lead to any dilutive effect, since it will be implemented through the acquisition and sale of own shares, duly authorised by the General Meeting, and not by means of capital increases.

72. Deferral of payment of the variable component of remuneration and deferral period

The awarding of the Long Term Variable Remuneration depends on the verification of a positive TSR of Company's shares at the end of an assessment period, corresponding to the 3-year term of office. Thus being, the awarding and delivery of shares is deferred (being the awarding assessed until 1 January 2017 and the delivery made on 31 January 2017) and only occur if at the end of the term of office the Long Term Variable Remuneration's awarding criteria are fulfilled.

Therefore, a significant component of the total variable remuneration to be received for the performance in this term of office is deferred to the end of its term and subject to the Company's positive performance, giving full effect to CMVM Recommendation III.4. and IPCG Recommendation V.3.2..

The positive performance is measured by comparing the recorded performance of the TSR of Company's shares and the weighted-average TSR of a peer group (TSR of PSI 20 with a 60% weighting and TSR of a set of relevant sector peers with a 40% weighting, as described in section 71 of Part I above). In addition to this mechanism that conditions and defers a significant part of the variable remuneration, the Long Term Variable Remuneration delivered by means of shares is also subject to a lock-up/retention period, since 50% of Company's shares delivered on 31 January 2017 may only be transferred or encumbered one year after the Long Term Variable Remuneration's delivery date, except for the purposes of payment of due taxes and contributions, and in the following cases of termination of office.

The payment of the Annual Variable Remuneration and of the Long Term Variable Remuneration relating to an assessment period during which there is termination of office will not be due, unless in case of early termination of office for reasons not attributable to the Director, including changes of the Company's control, in which case there will be a proposal for a pro-rata allocation, after a resolution adopted by the Remuneration Committee. If a Director is not elected for another term of office, the lock-up/retention regime of shares described above will cease. In case of termination of office for any cause (with exception of destitution with just cause) after a period of assessment, but prior to the payment of the Annual Variable Remuneration or LTRV, its overall payment shall be made for such corresponding period.

Since the shares to which the Executive Director has access under this Long Term Variable Remuneration scheme are only awarded and delivered after the term of office and are still subject to a lock-up period of 50% of the delivered shares, the Company considers that CMVM Recommendation III.6. has been fully complied with.

These rules also aim at an alignment of interests of the executive management team with value-creation for the shareholder, which, given the specificities of the Company and the sector, is considered to derive from the combination of assessment criteria over the 3-year TSR, as described above, and from a lock-up period for 50% of the acquired shares.

Thus, the Long Term Variable Remuneration creates a deferral mechanism and retention of a significant part of the variable remuneration, subject to the maintenance of positive performance, in two ways, in line with IPCG Recommendations V.3.1. and V.3.2.:

- The multi-annual assessment period corresponding to the 3-year term of office determines that, throughout this period, the Director shall not acquire any rights or receive the shares in question, until after the 3-year period and when the positive performance is confirmed at the end of this period. In this model, not only the vesting but also the awarding are deferred and conditioned by the positive performance (performance conditions). This multi-annual assessment model eliminates the need for "malus" or "claw-back" provisions, since there is no awarding or vesting on an annual basis of Long Term Variable Remuneration, until the end of the term of office (January 2017);
- After the term of office and depending on performance, the Director becomes entitled to the Long Term Variable Remuneration and receives the shares, but is unable to sell or encumber 50% of those shares for 1 year, i.e. until 31 January 2018 (holding period).

These two mechanisms encourage the Director, on a long-term basis, to pursue the interests of the Company, its shareholders and stakeholders, and maximise shareholder value.

73. Criteria underlying the awarding of variable remuneration in shares, and the maintenance of these shares by the Executive Directors; agreements regarding these shares, namely hedging or risk transfer agreements, their limits and its proportionate value in terms of total annual remuneration

The Long Term Variable Remuneration's awarding depends on a positive TSR of Company's shares at the end of the assessment period, in which terms the vesting of the shares is postponed to 31 January 2017 and subject to a positive performance at the end of the term of office (until 1 January 2017).

In addition to this deferral mechanism, the awarded shares will be subject to a lock-up/retention period, according to which 50% of the Company's shares awarded, as Long Term Variable Remuneration, may only be transferred or encumbered, for whichever purposes, one year after such component's payment date, subject to section 72 of Part I above.

Under the remuneration policy approved by the Remuneration Committee, the Executive Directors shall nor enter into any contracts, either with the Company or with third parties, which have the effect of mitigating the risk inherent to the variability of their remuneration, in compliance with CMVM Recommendation III.5..

74. Criteria underlying the allocation of variable remuneration in options and indication of the deferral period and exercise price

Not applicable. See section 71 of Part I above.

75. Main parameters and grounds of any annual system of bonuses and any other non-cash benefits

The Company did not adopt any annual system of bonuses and other non-cash benefits, without prejudice to the following paragraph.

The Executive Directors receive the following non-cash benefits of fixed value: car use (including fuel and tolls), life and personal accident insurances (including travel), liability insurance (D&O) and access to the health benefits system - *IOS – Instituto de Obras Sociais* (Social Works Institute) – under the same terms as the Company's employees.

76. Main characteristics of supplementary pension schemes or early retirement for the Board members and date on which they were individually approved at the General Meeting

Without prejudice to the following paragraph, the Company's remuneration policy does not include the allocation of pension supplements or any compensation in the case of early retirement of its Directors, therefore CMVM Recommendation II.3.5. is not applicable to the Company.

Each of the Executive Directors receives a fixed monthly amount, to be allocated to an open pension fund or retirement savings plan.

IV. Disclosure of remunerations

77. Indication of the annual remuneration earned, in aggregate and individually, by the members of the managing body of the Company, including fixed and variable remuneration and, regarding the latter, mentioning its different components

The table below shows the gross remunerations paid by the Company, as fixed remuneration, to the members of the Board of Directors and the Audit Committee in 2014:

Member	Office	Amount (1)
Francisco José Queiroz de Barros de Lacerda	Chairman of the Board of Directors and the Executive Committee	€449,942.44
Manuel Cabral de Abreu Castelo Branco	Vice-Chairman of the Board of Directors and Executive Director	€346,655.17
André Manuel Pereira Gorjão de Andrade Costa	Executive Director and Chief Financial Officer	€359,119.81
Dionizia Maria Ribeiro Farinha Ferreira	Executive Director	€343,119.83
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo	Executive Director	€343,119.83
Total of the Executive Committee		€1,841,957.08
António Sarmento Gomes Mota	Vice-Chairman (lead independent director), Chairman of the Audit Committee and Chairman of Corporate Governance, Evaluation and Nominating Committee	€107,428.02
Diogo José Paredes Leite de Campos	Member of the Audit Committee and Non-Executive Director	€47,570.95
Parpública – Participações Públicas SGPS, S.A. (2)	Member of the Audit Committee and Non-Executive Director	€0
Total of the Audit Committee (3)		€154,998.97
António Manuel de Carvalho Ferreira Vitorino	Non-Executive Director and member of the Corporate Governance, Evaluation and Nominating Committee	€34,474.26
Nuno de Carvalho Fernandes Thomaz (4)	Non-Executive Director	€34,474.26
Rui Miguel de Oliveira Horta e Costa (5)	Non-Executive Director and member of the Corporate Governance, Evaluation and Nominating Committee	€19,105.88
José Manuel Baptista Fino (6)	Non-Executive Director and member of the Corporate Governance, Evaluation and Nominating Committee	€0
José Alfredo de Almeida Honório (7)	Non-Executive Director	€15,428.55
Total of the Non-Executive Directors who are not members of the Audit Committee		€103,482.95
TOTAL		€2,100,439.00

(1) Fixed remuneration amount, including, in the case of Executive Directors, the annual base remuneration, amounts regarding annual meal allowance and a fixed amount paid monthly to be allocated to an open pension fund or a retirement savings plan.

(2) Parpública – Participações Públicas SGPS, S.A., legal person appointed as member of the Audit Committee at the General Meeting held on 24 March 2014, did not designate a natural person to perform those duties on his/her own name, hence no remuneration was due in 2014. As announced to the market on 14 November 2014, Parpública – Participações Públicas SGPS, S.A. resigned as Non-Executive member of the Board of Directors and member of the Audit Committee of CTT.

(3) As of 24 March 2014, the Company adopted an Anglo-Saxon governance model including a Board of Directors and an Audit Committee, as managing and supervisory bodies respectively. Thus, the members of the Fiscal Board, António Sarmento Gomes Mota and Diogo José Paredes Leite de Campos, have then started to perform duties of Non-Executive Directors and members of the Audit Committee, as better described in section 15 *et seq.* of Part I above. The remunerations of these Directors indicated in this table refer only to the functions as

Non-Executive Directors and members of the Audit Committee during the 2014, while the remuneration as members of the Fiscal Board is indicated in section 81 of Part I below.

(4) Although he has been a Non-Executive Director of CTT since the beginning of the current term of office, only on 19 December 2014 was he co-opted as member of the Audit Committee of CTT. Hence, the remuneration earned during the year 2014 refers only to the performance of Non-Executive Director duties.

(5) Co-opted as Non-Executive Director only since 29 July 2014.

(6) Co-opted as Non-Executive Director on 19 December 2014, hence no remuneration was paid to him during this financial year.

(7) As announced to the market on 22 July 2014, José Alfredo de Almeida Honório resigned as Non-Executive Director of CTT.

78. Amounts paid, for any reason whatsoever, by other companies in control or group relationship or that are subject to joint control

During the financial year of 2014, companies with a control or group relationship with CTT did not pay any remuneration or any other compensation to the Board of Directors.

79. Remuneration paid in the form of profit sharing and/or bonus payments and reasons for such bonuses and/or profit sharing to be granted

During the financial year of 2014, no remuneration was paid in the form of profit sharing or bonuses to the members of the Board of Directors.

According to the applicable accounting rules, the net profit for 2014 reflects a cost amounting to € 1,400,000.00 relating to the attribution of profit sharing to the Executive Directors of CTT (as better described in the profit allocation proposal).

80. Compensations paid or owed to former Executive Directors relating to the termination of their office during the financial year

During the financial year of 2014, no compensation was paid or became due to former Directors relating to the termination of their office during the financial year.

81. Annual remuneration earned, in aggregate and individually, by the members of the supervisory body of the Company, for the purposes of Law 28/2009, of 19 June

See section 77 of Part I above regarding the members of the Audit Committee.

The following table presents the gross remunerations paid by the Company to the members of the Fiscal Board during the financial year 2014, as fixed remuneration, considering that until 24 March 2014 the Company had adopted a one-tier governance model:

Member	Office	Amount
António Sarmento Gomes Mota	Chairman of the Fiscal Board	€8,580.00
Diogo José Paredes Leite de Campos	Member of the Fiscal Board	€8,294.00
Elsa Maria Roncon Santos	Member of the Fiscal Board	€6,435.00
TOTAL		€23,309.00

82. Remuneration of the Chairman of the Board of the General Meeting during the year

During the financial year 2014, the remuneration received by the Chairman and Vice-Chairman of the General Meeting Board amounted to five thousand euros and four thousand euros respectively (excluding VAT and withholding taxes).

V. Agreements with remuneration implications

83. Contractual limits established for compensation payable for destitution without just cause of a Board member and their connection with the variable component of remuneration

The members of CTT's corporate bodies did not enter into any contracts with the Company on remuneration or compensation/indemnity matters.

On the other hand, the remuneration policy approved by CTT's Remuneration Committee for the term of office 2014/2016 neither provides for nor establishes any compensation regime in a context of termination of office by the members of corporate bodies, thereby applying the current legal regime in this area.

The legally due compensation regarding members of the Board of Directors (including Executive Directors), in case of destitution without just cause, corresponds to a compensation for the damage suffered by them as required by law, which may not exceed the remuneration amount that the Board member would presumably receive until the end of the period for which he/she were elected.

Considering the absence of individual agreements in this area and the terms of the remuneration policy approved by the Remuneration Committee, the Company fully complies with CMVM Recommendation III.8., in which terms, in case of a destitution not resulting from a serious fault of duties or inability to regularly exercise duties, but nonetheless due to inadequate performance, the Company will be obliged to pay a compensation only under the terms legally owed.

See section 72 of Part I above concerning the impact of the termination of office on the the Annual Variable Remuneration and Long Term Variable Remuneration.

84. Agreements between the Company and members of the managing body and senior officers under article 248-B(3) of the Securities Code providing for compensation/indemnities in the case of resignation, dismissal without just cause or termination of employment following a change of control of the Company

During the financial year 2014, there were no agreements between the Company and the members of the Board of Directors or the Audit Committee which provided for compensation in the case of resignation, dismissal without just cause or termination of employment following a change in the control of the Company, without prejudice to section 72 of Part I above.

It should be noted, in this regard, that CTT's Board of Directors believes that the Company's senior officers as per article 248-B of the Securities Code correspond only to the members of CTT's managing and supervisory bodies.

VI. Plans for shares awarding or stock options

85. Identification of the plan and its recipients

The allocation of the Long Term Variable Remuneration to Executive Directors of CTT gives rise to the awarding of Company's shares under the plan for share awarding and in line with what is described in sections 69 to 73 of Part I above.

This share awarding plan and the corresponding regulation will be subject to the approval of the Company's Annual General Meeting, to be held on5 May 2015, in terms further detailed by the Board of Directors, in line with the remuneration policy approved by the Remuneration Committee.

Since this awarding plan was set by the Remuneration Committee in the context of approval of the remuneration policy for the current term of office, such approval having occurred following the last Annual General Meeting of CTT, the approval of share awarding plans will only be submitted to the shareholders in the next Annual General Meeting, in compliance with CMVM Recommendation II.3.4.. Indeed, up until then this recommendation was not applicable to CTT.

The Company does not currently have any type of share options plan, thus CMVM Recommendation III.7. is not applicable.

86. Characteristics of the plan (awarding terms, lock-up provisions, criteria on the share price and exercise price of options, period during which options may be exercised; characteristics of shares or options to be granted, existence of incentives for the acquisition of shares and/or exercise of options)

Taking into account the model of the Long Term Variable Remuneration approved by the Remuneration Committee, the Board of Directors will submit for approval at the Company's Annual General Meeting, to be held on 5 May 2015, a plan for the awarding of ordinary shares representing the share capital of CTT (with all the inherent social and economic rights) to the Company's Executive Directors, in line with the remuneration policy approved by the Remuneration Committee and with the characteristics described in sections 71 and 72 of Part I above.

87. Stock options plans where the Company's employees are the beneficiaries

Please refer to section 85 of Part I above.

88. Control mechanisms stipulated in any system of employee participation in the Company's equity to the extent that the voting rights are not exercised directly by them

No system of employee participation in equity was in force in 2014 or exists in CTT.

E. TRANSACTIONS WITH RELATED PARTIES

I. Control Mechanisms and Procedures

89. Mechanisms implemented by the Company for the purpose of monitoring transactions with related parties

During the financial year of 2014, the Company approved and implemented procedures to ensure (i) strict compliance with the legal and accounting principles and best practices existing in the context of transactions with related parties and (ii) the pursuance of CTT's interest in this context, in particular by the Regulation on Assessment and Control of Transactions with Related Parties and Prevention of Conflicts of Interests.

For this purpose, "Related Parties" are considered to be:
- Any shareholder with at least 2% of the CTT's share capital directly or indirectly, pursuant to article 20 of the Securities Code;
- Members of the managing or supervisory bodies of CTT and any senior officer who, not being a member of these corporate bodies, has regular access to inside information and participates in decisions about the Company's management and business strategy, or any third party related to them through any significant commercial or personal interest;
- Subsidiaries or associated companies or jointly controlled entities (joint venture).

According to such Regulation, "Transactions with Related Parties" (i.e., all onerous or gratuitous legal transactions between CTT and a related party) shall respect the following principles:
- Only take place on the basis of grounds clearly falling within CTT's businesses;
- Its implementation must comply with market conditions, according to the legislation in force and fulfil the best corporate governance practices in order to ensure transparency and full consideration for CTT's interests;
- They must always be formalised in writing, specifying the terms and conditions;
- Loans in favour of "Related Parties" are expressly prohibited, except in favour of subsidiaries,

associated companies or jointly controlled entities (joint venture);

- They should be clearly and accurately disclosed in the notes of the Company's financial statements, with sufficient detail to identify the "Related Party" and the main conditions regarding the transactions.

See section 91 of Part I below on the prior and subsequent control mechanisms by the Audit Committee regarding transactions with related parties.

90. Transactions subject to control in the year of reference

During the financial year 2014, there were no transactions with related parties to be subject to prior control by the Company's supervisory body, in particular under the Regulation for Assessment and Control of Transactions with Related Parties mentioned in sections 89 and 91 of Part I of this report. Regarding the transactions executed, see section 92 of Part I of this report.

91. Procedures and criteria applicable to the intervention of the supervisory body for the purposes of pre-assessment of transactions between the Company and qualified holders

According to the Regulation for Assessment and Control of Transactions with Related Parties, the "Significant Transactions with Related Parties" (i.e., of an amount exceeding €1,000,000.00 for a single transaction or a set of transactions conducted in each financial year, with the exception of transactions made between CTT and its subsidiaries whose capital is, directly or indirectly, 100% owned by CTT) are submitted by the Executive Committee to the prior opinion of the Audit Committee, giving full effect to CMVM Recommendation V.2..

In this context, the Audit Committee shall analyse, namely, the terms, purpose and opportunity of the transaction, the interest of the related party, any limitations that may be imposed on CTT as a result of the transaction, the pre-contractual procedures implemented, the mechanisms adopted to solve or prevent potential conflicts of interest and the evidence that the operation will be carried out under normal market conditions. In the case of an unfavourable opinion of the Audit Committee, the conclusion of the transaction depends on the authorisation of the CTT's Board of Directors, a corporate body that should clearly support its approval, evidencing that it conforms to CTT's interests and that the advantages outweigh the disadvantages.

The remaining "Transactions with related parties" are reported to the Audit Committee for the purpose of subsequent review, particularly in the context of half-yearly report.

II. Transactions information

92. Financial information on the transactions with related parties pursuant to IAS 24

The relevant transactions with related parties are set out in Note 42 - Related Parties to the consolidated financial statements in the 2014 Annual Report, having been carried out in normal market conditions in compliance with CMVM Recommendation V.1..

PART II - CORPORATE GOVERNANCE ASSESSMENT

1. Identification of the adopted Corporate Governance Code

The strengthening of the CTT's governance structure occurred in 2014, as described in this report, took place in a context of significant change in the current regulatory framework.

Indeed, the approval of CMVM Regulation 4/2013 and the review of CMVM Code, carried out in 2013, as well as the approval of the final version of the IPCG Code, which occurred in 2014, provided issuers - and particularly CTT in this new stage of the Company's life - an opportunity for deepening its governance practices and models.

2013-2014 was a period of broad reflection and discussion about said regulatory framework, during which CMVM Code was the instrument that endured for a longer period, whereby CTT decided to maintain some stability regarding the recommendations that serve as reference to the declaration of compliance to be included in this report for 2014, thus following the CMVM Code for this purpose.

Thus, under the terms and for the purposes of CMVM Regulation 4/2013, CTT adopts the CMVM Code, which is available for consultation at www.cmvm.pt, under the described terms.

2. Compliance analysis with the adopted Corporate Governance Code

CMVM CODE		ADOPTION	SECTIONS
I. VOTING AND CONTROL OF THE COMPANY			
I.1.	Companies should encourage their shareholders to take part and vote in General Meetings, especially by not establishing an excessively high number of shares required to be entitled to one vote and implementing the necessary means to the exercise of the voting right by mail and electronic means.	Adopted	12
I.2.	Companies should not adopt mechanisms that hinder the process of reaching decisions from their shareholders, in particular by establishing a resolution quorum higher than that provided for in the law.	Adopted	14
I.3.	Companies should not establish mechanisms that have the effect of causing a gap between the right to receive dividends or the subscription of new securities and the voting right of each ordinary share, unless they are duly justified by reference to the long-term interests of shareholders.	Adopted	12
I.4.	Companies' Articles of Association providing for the limitation of the number of votes that may be held or exercised by a sole shareholder, individually or jointly with other shareholders, shall also provide that, at least every five years, the changing or maintenance of such by-laws provision will be subject to deliberation by the General Meeting – with no quorum requirements in relation to the law – and that on such resolution any votes cast are counted with no restriction.	n.a.	5 and 13

	CMVM CODE	ADOPTION	SECTIONS
I.5.	Measures that have the effect of requiring payments or assuming charges by the Company in case of change of control or change in the composition of the managing body and which appear likely to hinder the free transfer of shares and the free assessment of the performance of the members of the managing body by the shareholders shall not be adopted.	Adopted	4
II. OVERSIGHT, MANAGEMENT AND SUPERVISION			
II.1. OVERSIGH AND MANAGEMENT			
II.1.1.	Within the limits established by law, and unless resulting from the small size of the Company, the Board of Directors must delegate the daily management of the Company, with the delegated competences being identified in the Annual Corporate Governance Report.	Adopted	21
II.1.2.	The Board of Directors must ensure that the Company operates in line with their objectives, and shall not delegate their duties, in particular with regard to: i) defining the strategy and the Company's general policies; ii) defining the corporate structure of the group; iii) decisions that should be considered as strategic due to their amount, risk or particular characteristics.	Adopted	21
II.1.3.	The Supervisory Board, in addition to the exercise of the supervisory duties for which it is responsible, shall assume full responsibility for the Company's governance, so that, through a by-laws provision or through equivalent means, this Board shall be responsible for deciding on the strategy and the main Company's political policies, the definition of the group's corporate structure and the decisions that shall be considered as strategic regarding their amount and risk included. This corporate body shall also assess compliance with the strategic plan and execution of the main Company policies.	n.a.	15
II.1.4.	Unless resulting from the small size of the Company, the Board of Directors must create the committees necessary to: a) Ensure a competent and independent performance assessment of the Executive Directors and their overall performance, as well as the various existing committees; b) Reflect on the governance system, structure and practices adopted, monitor its effectiveness and propose to the competent corporate bodies the measures to be executed, with a view to their improvement.	Adopted	21, 27 and 29
II.1.5.	The Board of Directors shall establish the objectives on risk-taking and create systems to control them, with a view to ensuring that the risks actually incurred are consistent with these objectives.	Adopted	21, 50 and 51
II.1.6.	The Board of Directors shall include a number of non-executive members who shall ensure an effective oversight, supervision and assessment of the activity of the other members of the managing body.	Adopted	17 and 18

CMVM CODE		ADOPTION	SECTIONS
II.1.7.	The Non-Executive Directors shall include an adequate proportion of independent Directors, taking into account the adopted governance model, the size of the Company, its shareholder structure and its free float. Among the members of the Board of Directors, a person who is not associated with any group with specific interests in the Company, nor is in any situation likely to affect its impartiality on the decision making, is considered an independent member, namely in relation to: a. Having been an employee of this Company or of a company that has a control or group relationship with it in the last three years; b. Having, over the last three years, provided services or established a significant commercial relationship with the Company or a company that has a control or group relationship with it, either directly or as a shareholder, director, manager or officer of a legal entity; c. Being a recipient of remuneration paid by the Company or company that has a control or group relationship with it in addition to the remuneration arising from the exercise of duties as director; d. Living as an unmarried couple or being spouse, relative or akin in a straight line up to a 3rd degree, inclusively, in the collateral line, of Directors or natural persons directly or indirectly with a qualified holding; e. Being a holder of a qualified holding or representative of a shareholder with qualified holdings.	Adopted	17 and 18
II.1.8.	When requested by other members of the corporate bodies, the Directors performing executive duties should provide, in due time and in a form appropriate to the request, any information required by them.	Adopted	21
II.1.9.	The Chairman of the Executive Committee should send to the Chairman of the Board of Directors and the Chairman of the Audit Committee the convening calls and minutes of their meetings.	Adopted	21
II.1.10.	If the Chairman of the Board of Directors performs executive duties, the Board shall appoint an independent director, among its members, capable of ensuring the coordination of the work of other non-executive members and the terms so that they can decide on an independent and informed manner or find an equivalent mechanism to ensure such coordination.	Adopted	18
II.2. SUPERVISION			
II.2.1.	The Chairman of the Audit Committee shall be independent, according to the legal applicable standard, and have the necessary skills to carry out their duties.	Adopted	31
II.2.2.	The supervisory body should be the main interlocutor of the external auditor and the first recipient of its reports, being responsible, inter alia, for proposing their remuneration and ensuring, within the Company, that the appropriate conditions for the service contract are provided.	Adopted	38
II.2.3.	The supervisory body shall assess, on an annual basis, the external auditor and suggest, to the competent corporate body, its dismissal or termination of the service contract whenever there is just cause.	Adopted	38 and 45

CMVM CODE		ADOPTION	SECTIONS
II.2.4.	The supervisory body shall assess the functioning of internal control and risk management systems and suggest the adjustments as necessary.	Adopted	38 and 50
II.2.5.	The Audit Committee shall decide on the working plan and resources allocated to the services of internal audit and services that ensure the compliance of the rules applicable to the Company (compliance services), and shall receive the reports executed by these services at least when matters related to accountability, the identification or the resolution of conflicts of interest and the detection of potential illegalities are concerned.	Adopted	38, 51 and 55
II.3. ESTABLISHMENT OF REMUNERATIONS			
II.3.1.	Any member of the Remuneration Committee or equivalent should be independent from the executive members of the managing body and include at least one member with knowledge and experience on matters of remuneration policy.	Adopted	67 and 68
II.3.2.	No natural or legal person who provides or has provided, over the last three years, services to any structure dependent on the managing body, to the managing body of the Company itself or who has a current relationship with the Company or a consultant of the Company should be engaged to assist the Remuneration Committee in the performance of its duties. This recommendation is also applicable to any natural or legal person related to the above by means of an employment or services contract.	Not adopted	67
II.3.3.	The statement on the remuneration policy of the managing and supervisory bodies referred to in article 2 of Law 28/2009, of 19 June, shall additionally include: a) Identification and explanation on the criteria for determining the remuneration to be attributed to the members of the corporate bodies; b) Information on the maximum potential amount, individually, and the maximum potential amount, in aggregate, payable to the members of the corporate bodies, and identification of the circumstances under which these maximum amounts may be due; c) Information regarding the enforceability or unenforceability of payments for the destitution or termination of office by Directors.	Partially not adopted regarding what is recommended in paragraph b)	69
II.3.4.	A proposal regarding the approval of share awarding and/or stock options plans or those based on the variations in the prices of shares to members of the corporate bodies must be submitted to the General Meeting. The proposal shall contain all the elements required for a correct assessment of the plan.	Partially adopted with regard to the share awarding plan to be submitted to the General Meeting on 5 May 2015, and n.a. in the remaining	85
II.3.5.	The proposal regarding the approval of any retirement benefits system established on behalf of the members of the corporate bodies must be submitted to the General Meeting. The proposal shall contain all the elements required for a correct assessment of the system.	n.a.	76

CMVM CODE		ADOPTION	SECTIONS
III. REMUNERATIONS			
III.1.	The remuneration of the executive members of the managing body shall be based on effective performance and discourage excessive risk-taking.	Adopted	69, 70 and 71
III. 2.	The remuneration of non-executive members of the managing body and remuneration of the members of the supervisory body shall not contain any component whose value depends on the performance of the Company or of its value.	Adopted	69 and 70
III.3.	The variable component of the remuneration should be reasonable, as a whole, in relation to the fixed component of the remuneration and maximum limits should be established for all components.	Adopted	70 and 71
III.4.	A significant portion of the variable remuneration should be deferred for a period of no less than three years, and its payment should be dependent on the continuation of the positive performance of the Company over this period.	Adopted	72
III.5.	The members of the managing body should not sign contracts, either with the Company or with third parties, which have the effect of mitigating the risk inherent to the variability of their remuneration as established by the Company.	Adopted	73
III.6.	Until the end of their term of office, executive board members must keep any Company's shares they had access to by virtue of variable remuneration plans, up to the limit of twice the value of the total annual remuneration, except for those that must be sold with a view to paying taxes arising from the benefit of those shares.	Adopted	72
III.7.	When the variable remuneration includes the awarding of options, the beginning of the exercise period shall be deferred for a period of no less than three years.	n.a.	85
III.8.	If the destitution of a board member does not result from a serious fault of his/her duties nor his/her inability to regularly exercise his/her duties, but is, nonetheless, due to inadequate performance, the Company shall be provided with the suitable and required legal instruments so as to ensure that any compensation/indemnity, in addition to that which is legally due, is not due.	Adopted	83
IV. AUDIT			
IV.1.	The external auditor shall, within its competences, check the application of remuneration policies and systems of the corporate bodies, the effectiveness and operation of the internal control mechanisms and report any failings to the supervisory body of the Company.	Adopted	38
IV.2.	The Company and the entities within a control relationship with it shall not engage the external auditor, or any entities which are in a group relationship with it or are part of the same network, services other than audit services. Where there are motives for the contracting of such services – which should be approved by the supervisory body and explained in its annual Corporate Governance Report – those cannot exceed 30% of the total value of the services provided to the Company.	Adopted	46 and 47
IV.3.	Companies should promote the rotating of the auditor at the end of two or three terms of office, depending to whether they are of four or three	Adopted	44

CMVM CODE		ADOPTION	SECTIONS
	years. Maintaining the auditor beyond this period should be based on the grounds produced in a specific opinion issued by the supervisory body which explicitly weighs up the conditions of independence of the auditor and the advantages and costs of this auditor's replacement.		
V. CONFLICTS OF INTEREST AND TRANSACTIONS WITH RELATED PARTIES			
V.1.	The Company's transactions with shareholders with a qualified holdings or with entities which are in any relationship with them, under the terms of article 20 of the Securities Code, shall be performed under regular market conditions.	Adopted	92
V.2.	The supervisory body should establish the procedures and criteria required for defining the relevant level of materiality of transactions with qualified shareholders – or with entities which are in any of the relationships mentioned in number 1 of article 20 of the Securities Code – being the execution of significant transactions subject to a prior opinion of this corporate body.	Adopted	90 and 91
VI. INFORMATION			
VI.1.	Companies shall provide, through their website, access to information, in Portuguese and English, enabling knowledge about its progress and its current situation in economic, financial and governance terms.	Adopted	59
VI.2.	Companies should ensure the existence of an investors office and permanent contact with the market, which responds in due time to requests from investors, keeping a record of the submitted requests and their subsequent follow-up.	Adopted	56 and 58

Recommendation II.3.2.

"No natural or legal person who provides or has provided, over the last three years, services to any structure dependent on the managing body, to the managing body of the Company itself or who has a current relationship with the Company or a consultant of the Company should be engaged to assist the Remuneration Committee in the performance of its duties. This recommendation is also applicable to any natural or legal person related to the above by means of an employment or services contract."

In 2014 and for the preparation of the remuneration policy for the current term of office, CTT's Remuneration Committee was assisted by consultants specialised in remuneration matters and human resources (Mercer), legal advisors and tax consultants. Among these, only Mercer maintained a relationship with the Company on that date, and was providing and had provided services to the Company over the past 3 years. In any case, in the context of the engagement process extended to several service providers, the Remuneration Committee assessed such fact and concluded that it was appropriate to engage Mercer, by comparison with the available proposals, due to its experience and expertise and the extent that independence safeguards were guaranteed through team segregation mechanisms and Chinese walls.

Thus, although the Company does not adopt the benchmarks on the independence of external consultants stipulated in CMVM Recommendation II.3.2., CTT considers adopting mechanisms to ensure the total independence of the consultants assisting the Remuneration Committee, through:

- The free selection of such consultants by this Committee made up exclusively of independent members, being duly informed of the work done in the past by such consultants and having conducted an extended initial consultation of other consultants available on the market (reaching a conclusion as to which were in better condition to assist it);
- The establishment of procedures to ensure the objectivity, neutrality and impartiality of the consultants who work with the Remuneration Committee, whether because they have not provided services to the Company over the past 3 years (in the case of MLGTS and Deloitte), or through team segregation and Chinese walls (more specifically guaranteed in 2014 in the context of the Mercer's engagement); and
- The provision of information to the Remuneration Committee on the engagement of its consultants by the Company, in order to allow such committee to adopt an informed decision (a process generally in line with IPCG Recommendation V.2.5., which does not prohibit *tout court* the engagement of the Company's service providers by the Remuneration Committee).

In summary, CTT considers that the practices followed by the Company ensure that the Remuneration Committee performs its duties with the assistance of specialised consultants who evidence independence and neutrality, thereby ensuring an alternative solution regarding CMVM Recommendation II.3.2., in line with the principles of good corporate governance and being materially equivalent to compliance with this Recommendation.

Recommendation II.3.3 (b)

"The statement on the remuneration policy of the managing and supervisory bodies referred to in article 2 of Law 28/2009, of 19 June, shall additionally include: (…) b) Information on the maximum potential amount, individually, and the maximum potential amount, in aggregate, payable to the members of the corporate bodies, and identification of the circumstances under which these maximum amounts may be due; (…).

The annual statement on the CTT remuneration policy submitted by the Remuneration Committee to the Annual General Meeting held in 2014 did not include the potential maximum amount, in aggregate or individually, of the remuneration payable to the members of the Company's corporate bodies, as recommended in CMVM Recommendation II.3.3(b).

However, this annual statement is prepared by the CTT's Remuneration Committee as required by Law 28/2009, of 19 June, and CMVM Recommendation II.3.3. (a) and (c) and IPCG Recommendation V.2.2. (especially the annual statement on the 2014/2016 term of office, which will be submitted to the Annual General Meeting to be held on 5 May 2015, once approved by the Remuneration Committee for the current term of office), specifying: (i) the criteria and limits to which the remuneration policy is subject, in particular with regard to the variable component of the Executive Directors' remuneration (which is established by reference to the fixed component and pre-defined metrics); and (ii) the compensation/indemnity policy existing in the Company, as described in this report.

In turn, in each annual governance report prepared in accordance with CMVM Regulation 4/2013, the Company discloses the amount of remuneration received, individually and in aggregate, by the members of the corporate bodies.

Thus, from the combination of these two information materials, the shareholders, the investors and the market in general obtain, with full transparency, information regarding the remuneration mix and the amounts involved, being able to decide on these at the Annual General Meeting and estimate agency costs arising from the remuneration policy approved by the CTT's Remuneration Committee.

In summary, the Company believes that its disclosure practices of the remuneration policy in force enable it to achieve 3 key objectives in this area:

- Predictability, presenting the standards appropriate for a review of agency costs, as opposed to a quantification of potential maximum remuneration amounts depending on performance objectives particularly aimed at motivating the management team;
- Information on actual due and paid remuneration, as opposed to the indication of potential amounts representing an inappropriate image of agency costs, particularly due to the fact that such potential amounts disregard unpredictable factors related to the business, sector, market and context, and are subject to a performance assessment to be held at each moment;
- Transparency, resulting from the indication of the maximum amounts of fixed remuneration of the corporate bodies, together with an indication of the limits and criteria of the variable component (established by reference to the annual base remuneration of each Executive Director) - a more appropriate way for the shareholders to became aware of and decide on the remuneration policy, whereby the Remuneration Committee and the Corporate Governance, Evaluation and Nominating Committee are responsible for the analysis of the appropriateness of the individual remuneration of each member of the management team and its assessment.

Thus, the Company ensures an alternative solution regarding CMVM Recommendation II.3.3 (b), in line with the principles of good corporate governance, being materially equivalent to compliance with this recommendation.

ANNEX I

A. CURRICULA OF THE MEMBERS OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE AND REMUNERATION COMMITTEE

B. CURRICULA OF MEMBERS WHO TERMINATED OFFICE

A. CURRICULA OF THE MEMBERS OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE AND REMUNERATION COMMITTEE

I. MEMBERS OF THE BOARD OF DIRECTORS AND AUDIT COMMITTEE

Francisco de Lacerda

Chairman & CEO

Date of Birth	September 24th, 1960, Portugal
Date of 1st appointment	August 24th, 2012
Term of Office	2014 / 2016

Education

- ✓ 1982: Degree in Business Administration and Management, Universidade Católica Portuguesa

Internal functions held

- ✓ Chairman & CEO of CTT - Correios de Portugal, S.A.
- ✓ Chairman of CTT Expresso - Serviços Postais e Logística, S.A. (Postal Services and Logistics)
- ✓ Chairman of Tourline Express Mensajería, S.L.U.
- ✓ Chairman of the Board of the General Meeting of Correio Expresso de Moçambique, S.A. (Express Mail)

Professional experience

For 25 years, until 2008, he held several functions in investment banking, enterprises and retail, including CEO of Banco Mello and Member of the Executive Board of Directors of the Portuguese Bank Millennium BCP, listed on the stock exchange and with prominent operations in Central and Eastern Europe, for which he was responsible, after which he held functions in Portuguese institutions, also listed, having been CEO of Cimpor - Cimentos de Portugal SGPS, S.A. - an international cement group operating in 12 countries and one of the 5 largest companies in the NYSE Euronext Lisbon stock market - and non-Executive Director and Member of the Audit Committee of EDP Renováveis, the 3rd global renewable energy company.

Management and supervisory functions held in other companies (last 5 years)

- ✓ May-October 2014: Non-Executive Director of Norfin – Portuguese Property Group, S.A.
- ✓ 2010 - 2012: CEO of Cimpor - Cimentos de Portugal SGPS, S.A.
- ✓ 2010 - 2012: Chairman of Cimpor Inversiones, S.A.
- ✓ 2010 - 2012: Chairman of Sociedade de Investimento Cimpor Macau, S.A. (investment company)
- ✓ 2008 - 2012: Non-executive Director of EDP Renováveis, S.A., Member of the Audit Committee in 2008-2011

- 2008 - 2012: Managing Partner of Deal Winds – Sociedade Unipessoal, Lda.
- 2008 - 2010: Director of Mague – SGPS, S.A.

Other external functions held

- 2014 - …: Member of the Board of AEM - Associação de Empresas Emitentes de Valores Cotados em Mercado (Association of Securities Issuer Companies listed in the Stock Market)
- 2009 - …: Member of the Remuneration Committee of Portugal Telecom SGPS, S.A. (he suspended his activity between August 2012 and March 2014)
- 2011 - …: Member of the Advisory Board of Nova School of Business & Economics
- 2006 - …: Member of the Advisory Board of the Master's Degree in Finance at Católica Lisbon School of Business & Economics
- 2006 - …: Member of the General Council of Clube Naval de Cascais

António Gomes Mota

Vice-Chairman, Non-Executive Director, Chairman of the Audit Board

Date of Birth	June 10th, 1958, Portugal
Date of 1st appointment *	March 24th, 2014
Term of Office	2014 / 2016

*** Chairman of the Fiscal Board between November 12th, 2013 and March 24th, 2014**

Education

- ✓ 1981: Degree in Business Management and Organization, ISCTE - Instituto Universitário de Lisboa
- ✓ 1984: MBA, Universidade Nova de Lisboa
- ✓ 2000: PhD in Business Management, ISCTE

Internal functions held

- ✓ Vice-Chairman and Non-Executive Member of the Board of Directors of CTT - Correios de Portugal, S.A.
- ✓ Chairman of the Audit Board of CTT - Correios de Portugal, S.A.
- ✓ Chairman of the Corporate Governance, Evaluation and Nominating Committee of CTT - Correios de Portugal, S.A.

Professional experience

His 20-year corporate journey has included management functions in the sectors of banking, consulting and financial services. He was Director of the ISCTE Business School (from 2003 to 2012) and Chairman of INDEG/ISCTE (from 2005 to 2012). He is a Professor at the ISCTE Business School since 2005 and a Visiting Professor at the Nova/Católica Lisbon MBA since 2013. He has a long experience as a consultant in the areas of strategy, business valuation and risk management for large Portuguese and international companies. He is the author of several reference works in the financial area. He has held leadership functions in several Boards of Directors and Supervisors in large listed companies in Portugal.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2014 - ...: Vice-Chairman the Board of Directors (non-executive) of Soares da Costa Construção SGPS, S.A.
- ✓ 2013 - ...: Chairman of the Board of Directors (non-executive) of SDC Investimentos, SGPS, S.A.
- ✓ 2009 - ...: Member of the General and Supervisory Boards and of the Audit Committee and (since 2012) of Performance and Competitiveness of EDP - Energias de Portugal, S.A.
- ✓ 2009 - 2012: Member of the Board of Directors and Chairman of the Nominating and Remuneration Committee of CIMPOR – Cimentos de Portugal SGPS, S.A.

Other external functions held

- ✓ 2013 - ...: Member of the Remuneration Committee of Portugal Telecom SGPS, S.A.
- ✓ 2010 - ...: Vice-Chairman of the Portuguese Institute of Corporate Governance

Manuel Castelo-Branco

Vice-Chairman, Executive Director

Date of Birth	September 14th, 1968, Portugal
Date of 1st appointment	August 24th, 2012
Term of Office	2014 / 2016

Education

- ✓ **1992**: Degree in Business Administration and Management, Universidade Católica Portuguesa

Internal functions held

- ✓ Vice-Chairman of CTT - Correios de Portugal, S.A.
- ✓ Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A. (Postal Services and Logistics)
- ✓ Member of the Board of Directors of Tourline Express Mensajería, S.L.U.

Professional experience

Vice-Chairman of the Board of Directors of CTT, responsible for Large Customers and Information Technology. He held sales and marketing functions in consumer goods companies, including Unilever, Sara Lee and Reckitt Benckiser. He joined the Sonae staff as Sales Manager for the Group's retail brands, such as Worten and Continente. As General Manager of Media Capital he was responsible for the launch of what would become the 3rd largest Internet service provider in Portugal. Subsequently he was Director of Reditus, an information technology company listed on the stock exchange, and was part of the top management after the merger with Tecnidata. He was also a strategic consultant at Saudi Oger – Lebanon-Saudi Holding Company - for its telecommunications business in Portugal.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2010 - 2012: Member of the Board of Directors of Reditus BS Products, S.A.
- ✓ 2009 - 2012: Member of the Board of Directors of Strong, S.A.
- ✓ 2009 - 2011: Member of the Board of Directors of Reditus Gestão, S.A.
- ✓ 2008 - 2012: Member of the Board of Directors of Partblack, S.A.
- ✓ 2008 - 2012: Member of the Board of Directors of ALL2it Infocomunicações, S.A.
- ✓ 2008 - 2011: Member of the Board of Directors of TD IF, S.A.
- ✓ 2008 - 2011: Member of the Board of Directors of Tecnisuporte, S.A.
- ✓ 2007 - 2012: Member of the Board of Directors of Tecnidata, S.A.
- ✓ 2007 - 2012: Member of the Board of Directors of Reditus SGPS, S.A.

Other external functions held

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André Gorjão Costa

CFO, Executive Director

Date of Birth	June 1st, 1973, Portugal
Date of 1st appointment	August 24th, 2012
Term of Office	2014 / 2016

Education

- ✓ 1996: Degree in Economics, Universidade Nova de Lisboa

Internal functions held

- ✓ Member of the Board of Directors and Chief Financial Officer (CFO) of CTT - Correios de Portugal, S.A.
- ✓ Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A. (Postal Services and Logistics)
- ✓ Member of the Board of Directors of Tourline Express Mensajería, S.L.U.
- ✓ Chairman of the Board of Directors of Payshop (Portugal), S.A.

Professional experience

He performs duties as Chief Financial Officer and Member of the Board of Directors of CTT, being responsible for the Financial Services Business Unit and Postal Bank Project, and the departments of Regulation and Competition and Investor Relations, outside the CFO functions. With a 16-year professional career in commercial and investment banking at Grupo Santander, he has held several functions in Portugal and abroad. He joined the Corporate Finance team of Banco Santander de Negócios in 1996 and subsequently led the cross border team in the Area of Mergers and Acquisitions where he was responsible for several acquisitions in Latin American countries. In 2000, he was appointed Director of Corporate Banking, being responsible for creating the Department of Global Customers of Santander and relations with the key Portuguese corporate customers of the bank. He provided advisory services for Sonae on the acquisition of a participation in Modelo Continente from Carrefour and the Américo Amorim Group on the acquisition of 33.34% of Galp Energia, among many other prominent transactions in Portugal, Spain and Brazil. In 2007, he was appointed Coordinating Director of Credit Markets in Portugal, at which point Santander was Bookrunner in many issuances of Eurobonds, and Mandated Lead Arranger in some of the most important financing operations of projects in the renewable and infrastructure sectors in Portugal, as well as the financing of several acquisitions.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2012 - .... : Member of the Board of Directors of Eurogiro A/S
- ✓ 2006-2012….: Partner and Manager of Pleximyng, Lda.

Other external functions held

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Dionízia Ferreira

Executive Director

Date of Birth	January 3rd, 1966, Portugal
Date of 1st appointment	August 24th, 2012
Term of Office	2014 / 2016

Education

- ✓ 1988: Degree in Business Administration and Management, Instituto Superior de Economia e Gestão

Internal functions held

- ✓ Member of the Board of Directors of CTT - Correios de Portugal, S.A.
- ✓ Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A. (Postal Services and Logistics)
- ✓ Member of the Board of Directors of Tourline Express Mensajería, S.L.U.
- ✓ Chairman of the Board of Directors of Mailtec Comunicação, S.A.
- ✓ Chairman of the Board of Directors of Mailtec Consultoria, S.A.
- ✓ Manager at Mailtec Processos, Unipessoal, Lda.
- ✓ Chairman of the Board of Directors of CTT Gest - Gestão de Serviços e Equipamentos Postais, S.A. (Postal Equipment and Services Management)
- ✓ Chairman of the Management Board of PostContacto - Correio Publicitário, Lda. (Advertising Mail)
- ✓ Member of the Board of Directors of Correio Expresso de Moçambique, S.A. (Express Mail)

Professional experience

As Member of the Board of Directors of CTT she was responsible for the Business Units of Mail and Express and Parcels and the Retail Network. Until 2003, she developed a 14-year professional career in commercial and retail banking at Barclays Bank, Banco Mello and Millennium BCP. From 2003 to 2007 she was Commercial and Marketing Director of CTT, having been responsible for the operational and strategic marketing of the retail network, for the design and launch of Correio Verde (Green Mail), for the optimization of the product and services portfolio and for preparing the launch of Banco Postal (Postal Bank). Over five years, until 2012, she has held the functions of Chief Executive Officer of Payup, Coordinating Director of New Branches at Barclays Bank PLC (Permanent Representation) and was Responsible for the Divestment of Banco Popular Portugal.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2013 – 2014: Chairman of the Board of Directors of EAD - Empresa de Arquivo de Documentação, S.A.
- ✓ 2008 – 2009: Chief Executive Officer of Payup - Desenvolvimento de Negócios, S.A

Other external functions held

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Ana Maria Jordão

Executive Director

Date of Birth	December 14th, 1955, Portugal
Date of 1st appointment	August 24th, 2012
Term of Office	2014 / 2016

Education

- ✓ 1977: Law Degree, Universidade Clássica de Lisboa

Internal functions held

- ✓ Member of the Board of Directors of CTT - Correios de Portugal, S.A.
- ✓ Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A. (Postal Services and Logistics)
- ✓ Member of the Board of Directors of Tourline Express Mensajería, S.L.U.

Professional experience

As Member of the Board of Directors of CTT, she was responsible for Legal and Litigation Services, Human Resources Management, Physical Resources and Purchasing and Logistics. Her career was built in Public Administration, since 1978, where she held functions of high responsibility, including those of Deputy Secretary of State for National Defence, Assistant to the Secretary of State for Budget, Deputy General Secretary of the General Secretariat of the Ministry of Planning and Territory Administration, Chief of staff to the Secretary of State for Fiscal Affairs, Member of the Commission for Supervision of the Securities Market Commission and Director General of Customs and Taxes on Consumption. Over the last five years, she has held the functions of Director of Administrative and Financial Services (from 2006 to 2011) and Secretary General of Parliament (2012).

Management and Supervisory functions held in other companies (last 5 years)

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Other external functions held

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António Vitorino

Non-Executive Director

Date of Birth	January 12th, 1957, Portugal
Date of 1st appointment	March 24th, 2014
Term of Office	2014 / 2016

Education

- ✓ 1981: Law Degree, Universidade Clássica de Lisboa
- ✓ 1986: Master's Degree in Legal and Political Sciences, Universidade Clássica de Lisboa

Internal functions held

- ✓ Non-Executive Member of the Board of Directors of CTT - Correios de Portugal, S.A.

Professional experience

He is a member of the Bar Association and an Assistant at the Faculty of Law of Universidade de Lisboa since 1982, and was also a visiting Professor at the Faculty of Law of Universidade Nova de Lisboa from 2008 to 2010. He has held several top functions in the governmental, legislative and policy areas in Portugal and abroad, as Member of Parliament (1980 to 2006), Secretary of State for Parliamentary Affairs (1983 to 1985), Secretary of State of the Government of Macau (1986 to 1987), Judge of the Constitutional Court (1989 to 1994), Member of the European Parliament (1994 to 1995), Minister of the Presidency and National Defence (1995 to 1997) and European Commissioner for Justice and Domestic Affairs (1999 to 2004). Also in the corporate domain he has held supervisory and non-executive management functions in several Portuguese and international companies.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2014 - ...: Chairman of the Fiscal Board of Tabaqueira, S.A.
- ✓ 2014 - ...: Chairman of the Fiscal Board of Siemens Portugal
- ✓ 2007 - ...: Non-Executive Director of Áreas Portugal

Other external functions held

- ✓ 2011 - ...: Chairman of Notre Europe - Instituto Jacques Delors, Paris
- ✓ 2010 - ...: Chairman of the Board of the General Meeting of Finpro SGPS, S.A.
- ✓ 2008 - ...: Chairman of the Board of the General Meeting of Novabase SGPS, S.A.
- ✓ 2007 - ...: Chairman of the Board of the General Meeting of Brisa - Auto-estradas de Portugal, S.A.
- ✓ 2005 - ...: Chairman of the Board of the General Meeting of Banco Santander Totta, S.A.
- ✓ 2005 - ...: Partner at Cuatrecasas, Gonçalves Pereira

Nuno Fernandes Thomaz

Non-Executive Director, Member of the Audit Committee

Date of Birth	August 5th, 1943, Portugal
Date of 1st appointment	March 24th, 2014
Term of Office	2014 / 2016

Education

- ✓ 1965: Law Degree, Universidade Clássica de Lisboa

Internal functions held

- ✓ Non-executive Member of the Board of Directors of CTT - Correios de Portugal, S.A.
- ✓ Member of the Audit Committee of CTT - Correios de Portugal, S.A.

Professional experience

With a background in law, he started his professional career exercising law in Portugal, from 1965 to 1974, having then held management functions in major international financial and industrial consortia, namely the Anglo American Group/De Beers in Portugal, Interbrás-Petrobras and Banco Pinto de Magalhães in Brazil. Since his return to Portugal, he has held, since 1981, various executive management functions in Grupo Jorge de Mello/Nutrinveste, such as Director, Vice-Chairman and Chairman of more than 25 industrial and financial companies (including Tabaqueira, Molaflex and Incofina). Throughout his career, he has held leadership and consulting functions in various foundations, forums, institutes and universities.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2014 - ...: Non-executive Director of Espírito Santo Saúde SGPS, S.A.
- ✓ 2010 - ...: Chairman of Sociedade Gestora do Fundo de capital de Risco Bem Comum
- ✓ 2005 - ...: Manager at I Cook - Organização de Eventos, Lda
- ✓ 1998 - 2014: Director of Nutrinveste SGPS, S.A.

Other external functions held

- ✓ 2014 - ...: Vice–Chairman of the Competitiveness Forum
- ✓ 2011 - ...: Member of the Advisory Commission of the Portuguese Institute of Corporate Governance
- ✓ 2009 - ...: Chairman of the Board of Nova School of Business and Economics
- ✓ 1998 - 2002: Member of the Steering Committee of CIP - Confederação da Indústria Portuguesa (Confederation of Portuguese Industry)

Diogo Leite Campos

Non-executive Director, Member of the Audit Committee

Date of Birth	December 4th, 1944, Portugal
Date of 1st appointment *	March 24th, 2014
Term of Office	2014 / 2016

*** Between November 12th, 2013 and March 24th, 2014, he was Member of the Fiscal Board**

Education

- ✓ 1967: Law Degree, Universidade de Coimbra
- ✓ 1978: PhD in law, Universidade de Coimbra
- ✓ 1979: Docteur d'État en Droit, Université de Paris II
- ✓ 1979: PhD in Economics, Université de Paris IX

Internal functions held

- ✓ Non-executive member of the Board of Directors of CTT - Correios de Portugal, S.A.
- ✓ Member of the Audit Committee of CTT - Correios de Portugal, S.A.

Professional experience

He is a Retired Professor at the Law School of Coimbra and Universidade Autónoma de Lisboa. He was Director of Banco de Portugal and Chairman of the Advisory Board of CMVM between 1994 and 2000. He is a lawyer (partner) at the law firm Leite de Campos, Soutelinho & Associados - Sociedade de Advogados, RL. (Lisbon) and at Rolim, Viotti and Leite de Campos (Brazil).

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2014-...: Non-Executive Director of Banco Millennium in Romania.
- ✓ 2009 - ...: Chairman of the Fiscal Board of Banco Santander Consumer Portugal, S.A.
- ✓ 2008 - 2014: Non-Executive Director of RES SGPS, S.A.
- ✓ 2008 - 2011: Chairman of the Fiscal Board of Hagen Engenharia, S.A.

Other external functions held

- ✓ 2013 - 2015: Member of the Monitoring Committee of the Privatisation of the Insurance Branch of Caixa Geral de Depósitos, S.A.

Rui Horta e Costa

Non-Executive Director

Date of Birth	August 27th, 1960, Portugal
Date of 1st appointment	July 29th, 2014
Term of Office	2014 / 2016

Education

- ✓ 1984: Degree in Economics, Universidade Católica - Lisboa
- ✓ 1986: MBA, University of Minnesota - EUA
- ✓ 1995: FSA Certificate - Londres, RU

Internal functions held

- ✓ Non-executive Member of the Board of Directors of CTT - Correios de Portugal, S.A.

Professional experience

He was Managing Director of UBS in Investment Banking in London, Utilities Team Leader for Europe, Middle East and Africa (EMEA) and member of the Investment Banking Management Board for the EMEA Region. At UBS he headed a significant number of large operations in Europe, during a total period of 8 years - 6 years before (from 1995 to 2000) and 2 years after (from 2006 to 2008) working at EDP. He was a member of the Board of Directors and CFO at EDP-Energias de Portugal for 6 years (from 2000 to 2006), where he very actively participated in the company's strategic shift, in the implementation of its re-focus on the Iberian Peninsula and the accelerated growth in renewable energy, as well as in the restructuring and ring fencing of EDP's business in Brazil. At the beginning of his professional career, he worked for a period of 7 years in Portugal (1986-1994), in investment banking (MDM-Morgan, Deutsche & Mello, Finantia and Citibank), and in industry (Executive Director of Nutrinveste).

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2014 - ...: Non-executive member of the Board of Directors of Agrocortex
- ✓ 2012 - ...: Member of the Board of Directors of Cell2B
- ✓ 2012 - ...: Member of the Iberian Advisory Board of AT Kearney
- ✓ 2008 - ...: Non-executive member of the Board of Directors of EIP
- ✓ 2008 - ...: Founder and member of the Board of Directors of Luz.on
- ✓ 2007 - ...: Non-executive member of the Board of Directors of Vale do Lobo Resort

Other external functions held

- ✓ 2008 - ...: Founder, as a consultant, for RHCAS

José Baptista Fino

Non-Executive Director

Date of Birth	January 10th, 1954, Portugal
Date of 1st appointment	December 19th, 2014
Term of Office	2014 / 2016

Education

- ✓ 1972 - 74: Attended the course on Business Studies (North East London Polytechnic, UK)

Internal functions held

- ✓ Non-executive member of the Board of Directors of CTT-Correios de Portugal, S.A.

Professional experience

An entrepreneur since 1977, he was a promoter and manager in several companies in Portugal, Spain and most recently Mozambique, which include activities in the area of retail for the home, such as Snucker and Area Infinitas (a company that resulted from the franchise of Habitat in Portugal), in real estate and in the agro-industrial activity. While representing relevant shareholder functions, he was a non-executive member of the Board of Directors of Cimpor-Cimentos de Portugal, SGPS, S.A. for 8 years (from 2004 to 2012), and is, since 2008, also a non-executive member of SDC – Investimentos SGPS, S.A., both of which are companies with shares listed on Euronext Lisbon. He is also a non-executive member of the Board of Directors of Specialty Minerals (Portugal), a subsidiary of the multinational group Minerals Technologies Inc., in Portugal.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2009-...: Chairman of the Board of Directors of Ramada Energias Renováveis, S.A.
- ✓ 2008-...: Member of the Board of Directors of SDC – Investimentos SGPS, S.A.
- ✓ 2007-...: Chairman of the Board of Directors of Dignatis – Investimentos Imobiliários e Turísticos, S.A.
- ✓ 2001-...: Chairman of the Board of Directors of Ramada Holdings SGPS, S.A.
- ✓ 1997-...: Managing Partner of Nova Algodoeira, Lda.
- ✓ 1996-...: Manager at Dorfino Imobiliário, Lda.
- ✓ 1994-...: Director at Specialty Minerals (Portugal) Especialidades Minerais, S.A.

Other external functions held

- ✓ 2004 – 2013: Member of the Board of Directors of Investifino – Investimentos e Participações SGPS, S.A.
- ✓ 2004 – 2013: Member of the Board of Directors of Manuel Fino SGPS, S.A.
- ✓ 2004 – 2012: Member of the Board of Directors of Cimpor – Cimentos de Portugal SGPS, S.A.
- ✓ 2001 – 2013: Chairman of the Board of Directors of Ethnica SGPS, S.A.
- ✓ 2001 – 2013: Chairman of the Board of Directors of Area Infinitas Design de Interiores, S.A.

II. Members of the Remuneration Committee

João Talone

Chairman of the Remuneration Committee

Date of Birth	October 27th, 1951, Portugal
Date of 1st appointment	March 24th, 2014
Term of Office	2014 / 2016

Education

- ✓ 1974: Degree in Civil Engineering, Universidade Técnica de Lisboa
- ✓ 1984: MBA, Universidade Nova de Lisboa
- ✓ 2002: AMP Harvard Business School

Internal functions held

- ✓ Chairman of the Remuneration Committee of CTT – Correios de Portugal, S.A.

Professional experience

For 13 years (1988 to 2001) he was Member of the Executive Board of Directors of Banco Comercial Português (BCP), having been appointed Special Commissioner for the Portuguese Government and led the process of extinction of Investimentos e Participações Empresariais (IPE), a Portuguese State Company which owned and controlled the main holdings of the State in industrial companies. Between 2003 and 2006 he was CEO of EDP-Energias de Portugal, S.A., one of the major European operators in the sector of energy, and Vice-Chairman of the Board of Directors of HidroCantábrico, after the takeover by EDP in 2005. He is a founding partner of Magnum Capital, the largest Iberian private equity fund.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2006-...: Chairman of the Board of Directors of Iberwind
- ✓ 2006-...: Member of the Board of Directors of Grupo Eptisa
- ✓ 2006-...: Chairman of the Board of Directors of Grupo Vendap
- ✓ 2006-...: Chairman of the Board of Directors of Grupo Generis
- ✓ 2014 .... Member of the Board of Directors of Grupo Nace

Other external functions held

- ✓ 2014-...: Elected member of CNEI - Conselho Nacional de Empreendedorismo e Inovação (National Council for Entrepreneurship and Innovation)
- ✓ 2013-...: Elected member of Academia de Engenharia (Engineering Academy)
- ✓ 2014-...: Representative of Portugal in the “Comissão Trilateral” (Trilateral Committee)

José Gonçalo Maury

Member of the Remuneration Committee

Date of Birth	October 27th, 1950, Portugal
Date of 1st appointment	March 24th, 2014
Term of Office	2014 / 2016

Education

- ✓ 1973: Degree in Finance, Instituto Superior de Economia, Lisboa
- ✓ 1978: MBA, INSEAD, Fontainebleau

Internal functions held

- ✓ Member of the Remuneration Committee of CTT – Correios de Portugal, S.A.

Professional experience

He began his professional career in 1971 at the formal Technical Secretariat of the Presidency of the Council, having subsequently held functions in various bodies of the Ministry of Industry, namely in IAPMEI (until 1977). After finishing his MBA, he returned to Portugal where he was Commercial Director of Tobom (1978 to 1979) and then Deputy and Chief of Staff to the Secretary of State for Transport (1980 to 1981). From 1981 to 1989 he worked at Citibank in Spain and Portugal, where he was responsible for the financial sector (banking and insurance), was part of the team that negotiated and prepared the opening of Banco de Portugal and was Director of the Department of Credit and Risk Management. Since 1990 he has been working as a consultant for Egon Zehnder, a global executive search company, where he advises Portuguese and multinational companies present in Portugal, on all sectors of activity, namely: financial, services and industry.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2015 - ...: Non-Executive Director and Member of the Nominating and Remuneration Committee of Gestmin SGPS, S.A.

Other external functions held

- ✓ 2006 -...: Chairman of the Remuneration Committee of Semapa - Sociedade de Investimento e Gestão, SGPS, S.A.
- ✓ 2006 -...: Chairman of the Remuneration Committee of Grupo Portucel Soporcel
- ✓ 2007 -...: Chairman of the Remuneration Committee of Secil – Companhia Geral de Cal e Cimento, S.A.

Rui Alpalhão

Member of the Remuneration Committee

Date of Birth	August 5th, 1963, Portugal
Date of 1st appointment	March 24th, 2014
Term of Office	2014 / 2016

Education

- ✓ 1985: Degree in Economics, Universidade Nova de Lisboa
- ✓ 1988: Master's Degree in Business Management, Universidade Nova de Lisboa
- ✓ 2007: PhD in Finance, Instituto Universitário de Lisboa

Internal functions held

- ✓ Member of the Remuneration Committee of CTT – Correios de Portugal, S.A.

Professional experience

He started his professional career in university education after completing his degree, currently being an Associate Visiting Professor of Finance at the Instituto Universitário de Lisboa. He was a director of companies owned (and controlled) by Banco Totta & Açores and Caixa Geral de Depósitos and coordinated the management buy-in of a fund manager, whose Executive Management he would later ensure. Later, he created FundBox Holdings SGPS, which holds qualified holdings in two fund management companies and began operations in the market for distressed assets through Tram 28, with the acquisition of a hotel from Parvalorem. He has had two books published in Portugal and has published scientific articles in international magazines such as "Applied Financial Economics", the "Financial History Review", the "International Journal of Financial Research" and "ISRN Economics".

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2011 -...: Chairman of FundBox – Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.
- ✓ 2008 -...: Member of the Board of Directors of Safeunit, S.A.
- ✓ 2007 -...: Member of the Board of Directors of Sintra Retail Park – Parques Comerciais, S.A.
- ✓ 2007 -...: Member of the Board of Directors of Lansdowne SGPS, S.A.
- ✓ 2007 -...: Member of the Board of Directors of Lima Retail Park, S.A.
- ✓ 2006 -...: Member of the Board of Directors of Safeshare – Consultoria, S.A.
- ✓ 2005 -...: Chairman of FundBox Holdings SGPS
- ✓ 2005 -...: Manager at Tram 28, Lda.
- ✓ 2007-2013: CEO of FundBox – Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.

Other external functions held

- ✓ Member of the Committee of the PSI20 Index at Euronext Lisbon

B. CURRICULA OF MEMBERS WHO TERMINATED OFFICE

I. Members of the Board of Directors who terminated office

José Honório [1]

Non-Executive Director

Date of Birth	November 30th, 1957, Portugal
Date of 1st appointment	March 24th, 2014
Term of Office	2014 / 2016

Education

- ✓ 1980: Degree in Economics, Universidade de Coimbra

Internal functions held

- ✓ Non-executive member of the Board of Directors of CTT-Correios de Portugal, S.A.

Professional experience

He has served as CEO of the Portucel group since 2004 and as Member of the Board of Directors and of the Executive Committee of Semapa - Sociedade de Investimento e Gestão, SGPS, S.A. since 1994, and was Member of the Board of Directors of several other companies of the Portucel, Secil and Semapa groups, having ceased functions in February 2014. He joined Queiroz Pereira in 1989, joined Semapa in 1994 and took part in the privatization of the Portuguese cement industry. He previously developed his activity in the automotive sector, in banking and in the oil industry.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2004-2014: CEO and Member of the Board of Directors of Portucel, S.A.
- ✓ 2004-2014: CEO and Member of the Board of Directors of Soporcel – Sociedade Portuguesa de Papel, S.A.
- ✓ 1994-2014: Member of the Board of Directors of Semapa – Sociedade de Investimento e Gestão SGPS, S.A.
- ✓ 1994-2014: Member of the Board of Directors of Secil – Companhia Geral de Cal e Cimento, S.A.
- ✓ 2005-2014: Member of the Board of Directors of CEPI – Confederation of European Paper Industries

[1] Curriculum updated at the time of his election as non-Executive Director on March 24th, 2014 at the General Meeting, having communicated his resignation on July 22nd, 2014

Other external functions held

- ✓ 2011-2013: Vice-Chairman of CIP - Confederação Empresarial de Portugal
- ✓ 2010-2013: Chairman of BCSD Portugal - Conselho Empresarial para o Desenvolvimento Sustentável
- ✓ 2007-2012: Director of CIP - Confederação da Indústria Portuguesa/Confederação Empresarial de Portugal
- ✓ 2008-2011: Member of the Management of RAIZ - Instituto de Investigação da Floresta e Papel
- ✓ 2006-2008: Chairman of IBET - Instituto de Biologia Experimental Tecnológica

Parpública - Participações Públicas SGPS, S.A.[1]

Non-Executive Director, Member of the Audit Committee

Share Capital	€ 2,000,000,000.00 (paid-up: € 1,027,151,031.48)
Date of 1st appointment	March 24th, 2014
Term of Office	2014 / 2016

Identification

Registered at the Commercial Registry of Lisbon under the single registration and VAT number 502769017, PARPÚBLICA, Participações Públicas SGPS, S.A., a state owned holding company, governed by Decree-Law no. 209/2000, of September 2nd, which is a vehicle of the State for acting in the following areas:

- ✓ Management of investments in companies in a process of privatisation or likely to be privatised;
- ✓ Development of privatization processes within the framework determined by the Government;
- ✓ Restructuring of companies transferred to his portfolio for such purpose;
- ✓ Monitoring of holdings in privatised companies that grant special rights to the State;
- ✓ Management of surplus public property, through subsidiary companies of specialized object;
- ✓ Assisting the exercise - by the Minister of Finance – of financial supervision over State companies and concessionary companies of services of general economic interest.

Object

- ✓ The management of public holdings that are part of its assets;
- ✓ The management, through subsidiaries of specialized object, of public property that have an effect on it;
- ✓ The provision of technical support to the exercise – by the Minister of Finance - of the State's financial supervision over public companies and private concessionary companies of services of general economic interest, as well as the management of financial assets of the State;
- ✓ The provision of services in the field of settlement of companies dissolved by the State or by other public entities;
- ✓ The provision of technical services of administration and management to the subsidiaries.

1 Curriculum updated at the time of his election as non-Executive Director and member of the Audit Committee on March 24th, 2014 at the General Meeting, having communicated his resignation on November 14th, 2014

Majority shareholdings held

- ✓ Sagestamo - Sociedade Gestora de participações Sociais Imob. SGPS, S.A.
- ✓ TAP SGPS, SA
- ✓ Imprensa Nacional Casa da Moeda, S.A.
- ✓ Companhia das Lezírias, S.A.
- ✓ SIMAB - Sociedade Instaladora de Mercados Abastecedores, S.A.
- ✓ ADP - Águas de Portugal, SGPS, S.A.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ Member of the Board of Directors of AdP – Águas de Portugal SGPS, S.A.
- ✓ Member of the Board of Directors of Cruz Vermelha Portuguesa – CVP –SGH, S.A.

II. Members of the Fiscal Board who terminated office[1]

Elsa Maria Roncon Santos

Member of the Fiscal Board

Date of Birth	March 10th, 1951, Goa
Date of 1st Appointment **Date of 2nd Appointment**	August 24th, 2012 November 12th, 2013
Term of Office	2012 / 2014 2nd appointment for the conclusion of the 2012/2014 term of office

Education

- ✓ 1975: Degree in Economics, Universidade Técnica de Lisboa
- ✓ 1976: Port-graduation at the Instituto Gulbenkian de Ciência (Gulbenkian Science Insititute)

Internal functions held

- ✓ Member of the Fiscal Board of CTT - Correios de Portugal, S.A. (since November 12th, 2013)

Professional experience

With a long career in the public business sector, she currently holds the functions of Director-General of Treasury and Finance, an office which inherently grants her those of Chairman of the Board of Directors of the Fund in Support of the Payment System of the National Health Service and Chairman of the Board of Directors of the Fund for Rehabilitation and Heritage Conservation. In addition to these, she is Chairman of the Joint Commission of the Portuguese Fund to Support Investment in Mozambique; She is a State Representative on the Standing Committee Monitoring the Framework Agreement on the Re-privatization of Banco Português de Negócios, S.A., entered into between the Portuguese State and Banco BIC Português; Chairman of the General Meeting of Parpública – Participações Públicas SGPS, S.A. (Public Holdings); and Member of the Steering Committee of the Resolution Fund, appointed by the Minister of State and Finance, and a full representative of the business sector of the State at the Economic and Social Council, appointed by Resolution no. 2/2014.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2011-…: Director-General of Treasury and Finance
- ✓ 2010-2011: Chairman of the Fiscal Board of EMEF - Empresa de Manutenção de Equipamento Ferroviário, S.A.
- ✓ 2010-2011: Chairman of the Fiscal Board of CP Carga – Logística e Transportes Ferroviários de Mercadorias, S.A.

Other external functions held

- ✓ 2009-2011: Chairman of the Ethics Commission of CP – Comboios de Portugal, EPE
- ✓ 2005-2008: Chairman of the Executive Committee of Fernave – Formação Técnica, Psicologia Aplicada e Consultoria em Transportes e Portos, S.A.
- ✓ 2005-2008: Chairman of the Board of Directors of Ecosaúde, S.A.
- ✓ 2005-2008: Chairman of the Management Board of Pactogest, Lda.

[1]The previous model of governance of CTT included the National Fiscal board, which remained in Office until the election of the Audit Committee at the General Meeting held on March 24th, 2014.

Sara Alexandra Ambrósio

Alternate Member of the Fiscal Board

Date of Birth	July 13th, 1971, Portugal
Date of 1st Appointment **Date of 2nd Appointment**	August 24th, 2012 November 12th, 2013
Term of Office	2012 / 2014 2nd Appointment for conclusion of the 2012/2014 term of office

Education

- ✓ **1994:** Law Degree, Universidade Autónoma de Lisboa
- ✓ **1996:** Post-graduation in European Studies, Instituto Superior de Economia e Gestão, Lisboa
- ✓ **2011:** Post-graduation in Administrative Litigation, Instituto de Ciências Jurídico-Políticas da Faculdade de Direito, Universidade de Lisboa

Internal functions held

- ✓ Alternate member of the Fiscal Board of CTT - Correios de Portugal, S.A. (since November 12th, 2013)

Professional experience

She has been holding the position of Legal Officer of the Directorate-General of Treasury and Finance since 1997, which includes providing legal opinions, analysis and drafting of legislative projects, as well as the follow-up of administrative and judicial proceedings, in the areas of competence of that Directorate-General. She has held several functions in supervisory bodies, as Member of the Board of the General Meeting and also as a member of Remuneration Committees in several companies in the business sector of the State, having also represented the State in several General Meetings of companies of the same scope and in various work groups.

Management and Supervisory functions held in other companies (last 5 years)

- ✓ 2013-2015: Member of the Fiscal Board of APSS – Administração dos Portos de Setúbal e Sesimbra, S.A.
- ✓ 2008-2010: Member of the Fiscal Board of APSS – Administração dos Portos de Setúbal e Sesimbra, S.A.

Other external functions held

- ✓ 2013-2015: Secretary of the Board of the General Meeting of APS – Administração do Porto de Sines, S.A.
- ✓ 2008-2010: Secretary of the Board of the General Meeting of APS – Administração do Porto de Sines, S.A.
- ✓ 2009-2011: Chairman of the Board of the General Meeting of SIEV – Sistema de Identificação Eletrónica de Veículos, S.A.
- ✓ 2008-2010: Chairman of the Remuneration Committee of Parque Expo 98, S.A.
- ✓ 2009-2011: Chairman of the Remuneration Committee of CARRIS – Companhia Carris de Ferro de Lisboa, S.A.
- ✓ 2009-2011: Member of the Remuneration Committee of LUSA – Agência de Notícias de Portugal, S.A.
- ✓ 2009-2011: Chairman of the Remuneration Committee of STCP – Sociedade de Transportes Coletivos do Porto, S.A.

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