Interim Report

1st Half of 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

GOVERNING AND MANAGING 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 (Executive)
Members:	André Manuel Pereira Gorjão de Andrade Costa (Executive & CFO) Dionízia Maria Ribeiro Farinha Ferreira (Executive) Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo (Executive) António Manuel de Carvalho Ferreira Vitorino Diogo José Paredes Leite de Campos (Member of the Audit Committee) Rui Miguel de Oliveira Horta e Costa [1] Nuno de Carvalho Fernandes Thomaz Parpública – Participações Públicas SGPS SA (Member of the Audit Committee)

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

Remuneration Committee

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

[1] Co-opted by deliberation of the Board of Directors held on 29 July 2014 to replace José Alfredo de Almeida Honório, who resigned from the position of Non-Executive Director on 14 July 2014.

Management Organisation

Francisco de Lacerda
Chairman of the Board of Directors & CEO

Manuel Castelo-Branco
Executive Member & Vice-Chairman of the Board of Directors

Dionízia Ferreira
Executive Member of the Board of Directors

André Gorjão Costa
Executive Member of the Board of Directors & CFO

Ana Jordão
Executive Member of the Board of Directors

Business Units and Business Support

Express & Parcels (1)
- Commercial & Marketing Portugal
- Commercial & Marketing Spain
- Operations & Systems

Mail (2)
- Operations & Delivery
- Mail Marketing
- Philately
- Advertising Mail
- Business Customers

Financial Services (3)
- Financial Services
- PayShop Network

Large Customers

Retail Network

Corporate and Shared Services

- Company Secretary & General Secretariat
- Strategy & Development
- Human Resources & Organisation
- Marketing & Institutional Communication
- Audit & Quality
- Information Technologies
- Customer & Business Support
- Investor Relations
- Regulation & Competition
- Finance & Risk Management
- Accounting & Treasury
- Planning & Management Control
- Legal Advisory (4)
- Litigation
- Human Resources Management
- Physical Resources & Security
- Procurement & Logistics

(1) Includes CTT Expresso, Tourline and CORRE.
(2) Includes Mailtec SGPS, Mailtec Comunicação, Mailtec Consultoria, Mailtec Processos, CTT Gest and PostContacto.
(3) Includes PayShop.
(4) General, labour and disciplinary.

KEY FIGURES

Economic and financial indicators (consolidated IFRS data)

€ thousands or %, unless otherwise indicated	1H14	1H13 (1)	△%
Revenues (2)	353,503	350,617	0.8
Operating costs excluding impairments, provisions, depreciation and non-recurring costs	287,250	290,442	-1.1
Recurring EBITDA (3)	66,254	60,175	10.1
Recurring EBIT (3)	55,361	45,658	21.3
Earnings before financial income and taxes	54,936	47,541	15.6
EBT	51,768	46,223	12.0
Net profit for the period	36,038	31,818	13.3
Net profit attributable to equity holders of parent company	36,063	31,643	14.0
Earnings per share of parent company (Euros) (4)	0.24	0.21	14.0
EBITDA margin	18.7%	17.2%	1.5 p.p.
EBIT margin	15.7%	13.0%	2.7 p.p.
Net margin	10.2%	9.0%	1.2 p.p.
Return on Equity (ROE)	13.7%	12.0%	1.7 p.p.
Return on Invested Capital (ROIC)	9.2%	8.5%	0.7 p.p.
Return on Capital Employed (ROCE)	9.5%	8.1%	1.4 p.p.
Capex	2,742	4,288	-36.0
Operating free cash flow (5)	65,861	29,186	125.7

	30.06.2014	31.12.2013	△%
Assets	1,274,536	1,100,134	15.9
Liabilities	1,024,601	824,200	24.3
Equity	249,935	275,934	-9.4
Share capital	75,000	75,000	-
Number of shares	150,000,000	150,000,000	-
Current ratio	129.0%	144.7%	-15.7 p.p.
Equity to Liability ratio	24.4%	33.5%	-9.1 p.p.
Adjusted Equity to Liability ratio (6)	42.3%	53.5%	-11.2 p.p.
Net debt (7)	-27,003	-19,930	35.5
Net debt / EBITDA (8)	-0.4 x	-0.2 x	-0.2 x
Tangible fixed asset coverage	246.3%	247.1%	-0.8 p.p.

(1) Includes the subsidiary EAD; the 51% stake that CTT held in its capital was divested in the first semester of 2014.

(2) Revenues excluding non-recurring items.

(3) Before non-recurring revenues and costs.

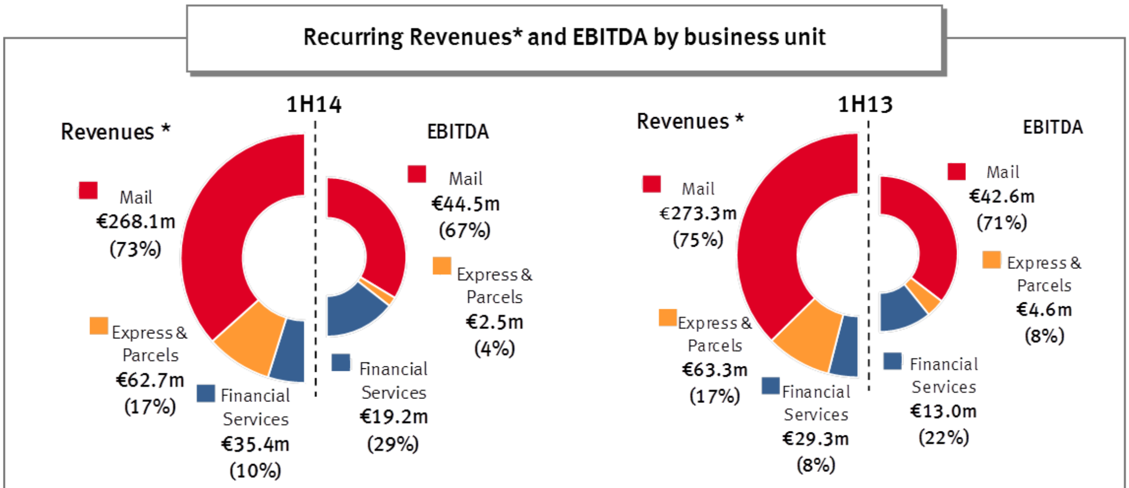
(4) Up to 30 October 2013, CTT's share capital was €87,325,000 composed of 17,500,000 shares with nominal value of €4.99. A General Meeting of CTT was held on this date during which an alteration in its share capital was deliberated, which was reduced to €75,000,000 represented by 150,000,000 shares with nominal value of €0.50. Considering the number of shares at 30.06.2013 the earnings / share stood at €1.81.

(5) Cash flow from operating activities not including the change in net Financial Services payables.

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

(7) Net debt includes liabilities related to healthcare, as a net value.

(8) If negative, this means a positive cash position.



- Includes internal services rendered and intragroup transactions which are eliminated for consolidation purposes; does not include revenues relative to CTT Central Structure and intragroup elimination amounting to -€12.7m in the 1st semester of 2014 and -€15.3m in the 1st semester of 2013.

Operating indicators

	1H14	1H13	△%
Mail			
Addressed mail volume (million items)	431.2	463.6	-7.0
Transactional mail	369.2	391.6	-5.7
Editorial mail	23.7	24.5	-3.5
Advertising mail	38.3	47.5	-19.5
Unaddressed mail volume (million items)	251.1	241.1	4.1
Express & Parcels			
Portugal (million items)	6.7	5.7	17.6
Spain (million items)	6.5	6.2	5.4
Financial Services			
Payments (number of transactions; millions)	33.0	35.8	-7.6
Savings and insurance (amounts placed; € millions)	2,916.4	1,314.5	121.9
Staff			
Employees (FTE) (a)	12,380	12,896	-4.0
Retail, Transport and Delivery Network			
Post offices (b)	624	625	-0.2
Postal agencies	1,719	1,893	-9.2
PayShop agents	3,878	3,915	-0.9
Postal delivery offices	273	310	-11.9
Postal delivery routes	4,687	4,808	-2.5
Fleet (number of vehicles) (c)	3,436	3,453	-0.5

(a) FTE = Full Time Equivalent.

(b) Includes mobile post offices (5 in 1H14 and 6 in 1H13), external postal counters (12 in 1H14 and 13 in 1H13) and partnership branches (5 in 1H14 and 1H13).

(c) Operational fleet.

Sustainability indicators

	1H14	1H13	△%
Customers			
Customer satisfaction (%) (a)	85.6	-	-
Total number of operating units certified (ISO standard and retail and delivery networks certification)	1,097	1,179	-7.0
Retail and delivery networks certification (% coverage) (b)	99.7	96.9	2.8 p.p.
Overall Quality of Service Index (points)	243.8	230.0	13.8
Staff			
Number of accidents (c)	452	450	0.4
Training (hours) (c)	150,793	105,753	42.6
Women in senior management positions (%) (c)	43.3	43.8	-0.5 p.p.
Community/Environment			
Value chain - contracts with environmental criteria (%) (c)	99	98	1 p.p.
Total CO_2 emissions, scope 1 and 2 (kton.) (d)	9.4	9.6	-1.9
Energy consumption (TJ) (d)	161.7	165.6	-2.4
Weight of Eco product range in Direct Mail line (%)	25.7	26.1	-0.4 p.p.
Investment in the community (€ thousand)	343	378	-9.3

(a) Change of series - new methodology.

(b) Within the retail network 602 postal outlets were considered in the certification process, which excludes external postal counters, mobile post offices and partnership branches.

(c) Indicators relative to CTT (CTT SA and subsidiary companies).

(d) Indicators relative to CTT SA and CTT Expresso.

HIGHLIGHTS OF THE FIRST HALF

January

- **Updating of the prices** of the universal postal services applicable to bulk mail senders, following the pricing proposal communicated to ICP-ANACOM on 13 December 2013.
- **Launch of the programme** for the identification and development of potential for young managerial staff of CTT.

February

- Signing of a **Protocol with EDP**, aimed at the joint exploration of business opportunities, including the contracting of EDP Commercial services in CTT's post offices.

March

- **Extraordinary General Meeting of Shareholders**, where CTT's new governance model was approved and the governing and statutory bodies were elected for the three-year period 2014-2016.
- **CTT Convention** 2014 under the theme "The Power of One", reinforcing the importance of each individual employee, which can make the difference.

April

- **Updating of the prices** of the letters and the parcels within the universal postal service, following the decision of ICP-ANACOM not to oppose the pricing proposal submitted by CTT on 17 February 2014. Second phase of the updating of special prices applicable to bulk mail senders.

May

- **Annual General Meeting of Shareholders** which approved the 2013 management report, the individual and consolidated accounts, the corporate governance report, the allocation of profits for the year including the payment of a dividend per share in accordance with the indicative proposal submitted in the IPO prospectus and votes of praise to the members of the Board of Directors and supervisory bodies. KPMG was elected to complete the term of office in progress 2012 / 2014.
- **Payment of a dividend** per share of €0.40.

June

- **Updating of the prices** of the **editorial mail / newspapers, periodicals and other publications, and books** services, following ICP-ANACOM's decision not to oppose the pricing proposal submitted by CTT on 15 April 2014.
- Signing of an **agreement with *BNP Paribas Personal Finance*** for the sale and distribution of consumer credit products through the CTT Retail Network.

AWARDS AND RECOGNITION

In the first half of 2014, CTT received the following distinctions / recognitions:

- 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 IPO 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 management 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 the *Reader's Digest Selections*, this year in the category of "Public Service Company". For the first time CTT was also distinguished as Environment Trusted Brand 2014.
- 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 OCI Awards 2013 - Excellence in Internal Communication, in the category of Integrated Strategy for Internal Communication, with the "Portugal With Us – Recipes at the Counter" project.
- 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".

PART I – INTERIM MANAGEMENT REPORT

1. STRATEGIC LINES

1.1. Challenges and trends

The accelerated technological development which has characterised the last decades, namely the growing use of the internet as a tool for the most diverse activities fostered by the evolution in communications, primarily mobile with the advent of smartphones, is the driving engine of all trends which affect the economy and particularly the sectors where CTT operates. Under these circumstances, the strong growth of e-commerce, which has propelled the growth of the Express & Parcels business, the inexorable tendency of electronic substitution of physical mail and the deepening of the process of full liberalisation of the postal service market constitute the three main trends of structural nature which are observed across all of Europe and constrain the strategies of postal operators. In recent years, the world's financial system has undergone a varied combination of changes and adaptations due to the financial crisis (subprime crisis) which occurred between 2007 and 2009, with banks suffering an erosion of confidence and credibility which characterised this sector.

Simultaneously with these structural trends, the recessive economic environment experienced in Portugal has worsened and exacerbated the rate of evolution of mail volumes and depressed the main markets of CTT, i.e., postal services (mail and parcels) and financial services, the latter primarily in the area of payments and transfers. However, the recovery of the country's level of economic activity, which has been observed for some quarters now, appears to be having positive impacts on various CTT businesses, reversing or mitigating the above-mentioned trends.

The privatisation of CTT, accomplished at the end of 2013 through an IPO, substantially changed the composition of the shareholder nature, with all the consequences derived thereof. Capital market requirements, in terms of rigour, transparency and performance of the company will intensify, with a view to the sustained creation of value for its shareholders, the achievement of further efficiency gains, stronger growth and financial profitability above the sector's average, which will also contribute, via higher market efficiency, to the transfer of value to consumers. With its varied shareholder structure based on national and above all international institutional investors, CTT has an additional challenge of communication with the market.

1.2. Competitive advantages

It is recognised that CTT possesses distinctive assets and competences derived from its history and unique position in the postal and financial services market and which strategically enhance its competitive advantages and distinguishing characteristics:

- Unique retail and distribution networks, with national coverage and high capillarity;
- A strong brand / reputation in Portugal, highly trusted by the population;

- Capacity of continuous management of operational efficiency;
- Iberian Express & Parcels platform;
- Strongly positioned for the expansion of Financial Services;
- Qualified management team and workers with vast experience in the postal service sector;
- Highly profitable and leading mail business in Portugal;
- Improvement of the regulatory framework towards greater stability;
- Strong generation of cash flow, liquidity position and dividends.

1.3. Strategy: delivering the promise

The strategy that was defined and communicated at the time of the privatisation and the strong interest of investors in CTT have created additional responsibility, hence it is fundamental that the company continues totally focused and dedicated to delivering the results implicit in these expectations. Based on the main objectives of achieving sustainable growth and improving the profitability of each of its business units by leveraging the company's competitive advantages, CTT has defined the following strategic lines of action:

- **Focus on value in the Mail business**

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

  - Continued improvement of operational efficiency, based on three pillars: improvement of operations, appropriate dimensioning of the Retail Network and optimisation of human resources;
  - Continuous review of the price structure based on market conditions, offsetting the increased unit costs due to the fall in volumes;
  - Continued development of an integrated and customer driven one-stop portfolio of products and services for bulk mail senders, promoting the offer of solutions which combine current physical mail platforms with new digital platforms;
  - Promotion of advertising mail as effective means of communication, complementary to mass market means;
  - Promotion of a regulatory framework which supports the sustainability of the Universal Postal Service, on essential matters such as price, quality of service and the determination and financing of the net cost of the universal postal service.

- **Build on leadership to capture the growth trend in Parcels & Express**

  Based on the objective of benefiting from the growing presence of e-commerce in the Portuguese and Spanish markets and being one of the reference operators on the Iberian Peninsula, CTT has the following main lines of strategic action for its Parcels & Express business:

  - Transform the B2B offer to B2B + B2C, boosting the opportunity of growth of e-commerce. Develop a clear and common offer for the Iberian market, with a differentiated offer for the various segments;

- Make the most of operational synergies at an Iberian level, with distinctive strategies for Portugal and Spain;
- In Portugal, promote an integrated management of the Mail and Express & Parcels distribution networks in order to best utilise CTT's competitive advantages, primarily in the B2C market, where capillarity and national coverage are fundamental;
- In Spain, restructure the franchisee and own zones networks in order to foster growth of sales and profitability, greatly focused on B2C due to e-commerce;
- Leverage the cargo and logistics services in order to retain current customers and attract new customers.

- **Expand Financial Services**

  The following three axes of strategic actions are planned for the Financial Services business unit, which should constitute one of the main sources of growth of CTT, leveraging its principal competences areas, i.e. trusted brand, vast Retail Network with national coverage and over 50 years of experience in the sale of financial products:

  - Maximise the contribution of the current service portfolio, using CTT's Retail Network and adjusting it to the customers' trends and needs;
  - Develop new partnerships aimed at providing a broader offer of financial products and services, covering a greater range of the customers' needs;
  - Improve the efficiency of processes and services, providing more and better services with current resources;
  - Explore the option of launching a Postal Bank, as the possible corollary of this expansion strategy, enabling a complete offer of traditional financial products.

Based on this strategic formulation, and incorporating the objectives and lines of action of the different business units (Mail, Express & Parcels and Financial Services), the Transformation Programme, commenced in January 2013, will be continued and deepened in 2014 and beyond. For this purpose, CTT created a PMO unit (Project Management Office) to manage and supervise the various initiatives and their degree of accomplishment. The Transformation Programme is not a one-off initiative, but rather, a continuous reality of transformation and adaptation of CTT to the challenges of the present and future. Over the next few years, new initiatives will be considered, developed and implemented under the programme to support the strategy described above, enabling management and resources focus in its pursuit.

2. BUSINESS

2.1. Economic and regulatory environment

2.1.1. Economic environment

International

The real growth of world GDP should reach around 3.6% in 2014 and increase gradually in the following years, according to the latest IMF forecasts. The disclosed data point to a slowdown of the growth of the advanced economies in the first quarter of the year, partly related to temporary factors such as the extremely low temperatures recorded in North America. The emerging markets showed a decline of growth due to weak internal demand, the reversal of the capital inflows into these economies and the lower margin of manoeuvre for new internal policies favourable to growth. The financial markets in the emerging economies stabilised but in many of these countries, the financial conditions became more restrictive since mid-2013, burdening economic activity still throughout 2014.

World trade has lost some of its dynamism since the end of 2013 as a result of strategies to ensure external balance of payments by various countries, in particular the USA, and is estimated to grow by 4.3% in 2014. As it is expected that the demand for imports by the main trading partners of the euro area will be lower than demand from the rest of the world, it is probable that external demand in the euro area will be somewhat weaker than the one worldwide.

During the first quarter of 2014, GDP in the euro area grew by 0.2% (0.9% year-on-year), recording its fourth consecutive quarterly increase. According to flash estimates published by Eurostat, the euro area GDP remained stable in the second quarter of 2014, increasing 0.7% compared with the same quarter of the previous year.

Inflation in the euro area measured by the harmonised indices of consumer prices (HICP) stood at 0.8% in June 2014. The current low inflation rate reflects a stagnation of prices of energy, food and non-energy industrial products, as well as a moderate increase in the prices of services. The supply surplus still existing in the euro area, which was the result of measures aimed at reducing internal demand and the high unemployment in various countries, does not place any pressure on prices, and for now enables expansionary measures without any fear of their inflationary effect.

Employment in the euro area stabilised in the second semester of 2013 and is forecast to record a modest increase in 2014. The unemployment rate fell in the last months, reaching 11.5% in June, the lowest value since September 2012. Labour productivity is projected to improve, reflecting the expected increase of the real growth of GDP and expected late response of job creation to the positive evolution of activity.

National

The economic activity in Portugal, in continuous decline since 2010, began a turnaround from the second quarter of 2013. This recovery has been driven by a significant growth of exports since 2012. The acceleration of domestic demand, in line with the increased confidence of the economic agents, contributed to the consolidation of GDP growth in the last quarter of 2013. However, the first quarter of 2014 was marked by a reduction of the level of economic activity, above all reflecting a less favourable evolution of exports, combined with a significant decrease of activity in the construction sector and some exceptional factors in the energy sector. According to data disclosed by Statistics Portugal (INE) in June, the GDP fell by 0.6% in the first quarter of 2014 compared to the previous quarter, while it grew 1.3% on a year-on-year basis.

Domestic demand showed a stronger positive contribution, moving from 0.5 p.p. growth in the fourth quarter of 2013 to 2.8 p.p. growth in the first quarter of 2014, mostly due to investment growth. Private consumption also contributed positively to this evolution, shifting from growth of 0.6% in the fourth quarter of 2013 to 1.5% year-on-year growth, particularly as a result of positive evolution of the automobile purchases component. The recovery of private consumption took place in a context of increased consumer confidence throughout 2013, reaching levels above the average of the last decade by early 2014.

According to the flash estimate published by INE, the GDP increased 0.6% in the second quarter of 2014 compared to the previous quarter and 0.8% on a year-on-year basis. The domestic demand had a less of a positive contribution to the year-on-year GDP growth, mainly due to the evolution of investment. On another hand, net external demand had less of a negative impact due to the reduction of imports of goods and services, even though the exports decelerated as well.

After the deflationary pressures in 2013, forecasts point to a relative stabilisation of inflation in 2014. In June, the HICP registered a year-on-year decline of -0.2%, reflecting a slight decrease of the deflation in the price of goods and a deceleration of the price of services. The average annual growth rate reached zero in June. At the same time, employment recorded year-on-year growth of 2.0% in the second quarter of 2014. The unemployment rate declined for a fifth consecutive quarter, to 13.9% in the second quarter of 2014 (compared to 16.4% in the second quarter of 2013).

The continuation of the good performance of exports, associated with the moderate growth of imports, enables a positive outlook for the funding capacity of the Portuguese economy in 2014, maintaining a profile of surplus financial resources as occurred in 2013, when the domestic funding capacity stood at 2.0% of GDP.

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, of 20 February 2008, established the final schedule for the total liberalisation of the postal market, safeguarding a common universal postal service level for all users of the Member States of the European Union (EU), and defined the common principles for the regulation of postal services in a free market environment.

In terms of the funding of the universal postal service, and since the provision of postal services reserved to a single provider as a means of funding has been abolished to enable market liberalisation, the new legal framework establishes a series of mechanisms that Member States can adopt to safeguard and fund the universal 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 the different countries having implemented measures to mitigate this cost without requiring direct compensation. The regulators, aware of the challenges faced by the postal sector and primarily the universal postal service provider, have permitted the diversification of activities and a more efficient allocation and use of the resources, always safeguarding the obligations stipulated in the European directive.

At a national level

The Postal Law (Law number 17/2012, of 26 April, as amended by Decree-Law number 160/2013, of 19 November) was approved in 2012, transposing to the Portuguese legal system Directive 2008/6/EC of the European Parliament and Council, of 20 February 2008. The postal market in Portugal was fully opened to competition, eliminating some of the areas under the universal service which were 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: i) placement of letter boxes on public routes; ii) the issue and sale of postal stamps with the mention of Portugal; and iii) the registered mail service used in legal or administrative proceedings.

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

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

In terms of funding of the universal service obligations, the providers are entitled to compensation of the net cost of the universal service when it constitutes an unfair financial burden, which should be carried out through a compensation 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 the sole provider of the universal service, as well as the concept of unfair financial burden for effects of compensation of the net cost of the universal postal service, including the underlying 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.

The postal service provision framework establishes a system of licenses and permits, where the services covered by the scope of the universal service are subject to an individual license system and all other services, which include services for courier / express mail and the sending of addressed advertising, are subject to a general authorisation system.

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

As the concessionaire company of the universal postal service, CTT remains the universal service provider until 2020, with the Government having revised the basis of the concession pursuant to the system established in the Postal Law, through the publication of Decree-Law 160/2013, of 19 November. Under the latter, and in order to reflect these legislative modifications, an amendment to the concession contract was concluded on 31 December 2013.

According to the provisions in the Bases of the Concession of the Universal Postal Service and respective Concession Contract, at the end of January 2014, CTT sent ICP-ANACOM a proposal of indicators to be considered in the definition of the objectives of i) density with regard to postal establishments and other points of access to the postal network allocated to the concession; and ii) minimum service offers and respective quantification. This proposal was revised on 29 May and its probable decision submitted for public consultation on 26 June, in which ICP-ANACOM considers that the new proposal on the network density submitted by CTT generally responds to the issues raised by the regulator, where the regulator merely defined a few additional objectives and indicators, aimed at strengthening the guarantees for the existence of availability and accessibility of the universal service provision.

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

The special prices of the postal services comprising the universal service offer applicable to bulk mail senders (as recently drawn up by article 4 of Decree-Law number 160/2013, of 19 November) were updated on 1 January, following a proposal communicated to the Regulator on 13 December 2013, with the second phase of the updating of this price list having taken place on 7 April, at the same time as with the price update for all other services of the universal postal offer. On this date, the remaining mail and parcel prices comprising the universal service were updated, and on 1 June the update of the prices of the editorial mail / newspapers, periodic and non-periodic publications took place, following decisions taken by ICP-ANACOM not to oppose the price proposals 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 268.1 million Euros (73.2% of the consolidated total[2]) in the first semester of 2014, corresponding to a reduction of 1.9% relative to the same period of 2013. This decrease was effectively 1.2%, when adjusted for like-for-like comparison purposes, deducting 2 million Euros of revenues coming from the company EAD in 2013, a company which in 2014 is no longer being consolidated as a consequence of CTT’s sale of the stake in its equity.

This business unit includes the postal services and business solutions provided by CTT SA (parent company), PostContacto, CTT Gest and Mailtec. CTT reached an agreement for the sale of EAD in the first half, company which was also included in this business unit. EAD specialised in archive and *mailmanager* solutions. Since this is not a core activity for the development of the mail business and as there is some internal know-how on this matter, the sale enabled better resource allocation to value generating activities.

Throughout the first six months of 2014, and while still in a context of some pressure from the point of view of cost control and optimisation of business processes by most of CTT's customers an improvement in the Mail business was registered, particularly in the second quarter. Although there has not yet been a recovery in advertising mail, in transactional mail the reduction of volumes (-5.7%) was in line with expectations and was mitigated by the effect of the aforesaid price updates which took place in January and April.

[1] Includes internal services rendered and intra-group transactions which are eliminated for the purposes of consolidation.

[2] Excluding revenues relative to the CTT Central Structure and intra-group eliminations amounting to -€12.7m in the first semester of 2014.

Addressed mail

The decline of addressed mail volumes (including transactional and advertising mail) in the second quarter of 2014 year-on-year (-3.9%) was significantly less pronounced than in the first quarter of the year (-9.7%), which led to a variation of only -7.0% in total for the first semester.

The decline of transactional mail volumes shifted from -9.8% at the end of the first quarter to only -0.9% in the second quarter and ended the semester at -5.7%, thus confirming the impact of one-off factors which can affect a quarterly comparison. During a semester, the impact of factors such as the response of the business sector to price increases (including pre-buying of mail, moving forward or deferring mailing campaigns or communication actions) and the effect of the public holidays and Easter holidays is less pronounced. The visible signs of the country's economic recovery also contributed to the performance in the second quarter, namely the growth in domestic activity (impacting transactional mail). The following variations of volumes contributed to this overall scenario: ordinary mail (-5.5% in the semester; -0.9% in the second quarter), priority mail (-9.5%; +15.8%), registered mail (-7.0%; -5.7%), international mail (-3.2%; -4.4%) due to outbound mail (-8.7%; -10.1%) and green mail (-10.4%; +18.0%). Inbound international mail grew by 2.7% in the semester (+2.2% in the second quarter).

By the second quarter, editorial mail (-3.5%; -9.3%) and in particular addressed advertising mail (-19.5%; -24.7%) had not yet shown similar of recovery. In contrast, unaddressed advertising mail grew by 4.1% in the semester (11.2% in the second quarter). The advertising market already shows signs of recovery, although without any visible signs in terms of advertising through physical means (printed media and advertising mail). The competition of electronic means poses new challenges to the advertising and editorial mail sectors to recover their market share.

During the first semester of 2014, the following mail prices were updated:

- On 1 January, the special prices of the Universal Service for bulk mail senders increased by 2.7% and the price model for business mail (international bulk mail) was reformulated.
- On 7 April, the remaining prices of the Universal Service and other postal services in general. Compared to the previous pricing, this update corresponded to an average overall price increase of 2.6%.
- The new prices for the editorial offer entered into force on 1 June with an average overall price increase of 7.2% on that date, as a result of a price increase of 7.9% for national editorial mail and zero price increases for international editorial mail.

Unaddressed mail

PostContacto is the subsidiary responsible for the management of unaddressed mail at CTT, a leader of the market in which it operates with shares of 45% in terms of volume and 51% in revenue terms in 2013 (40% and 45% in 2012, respectively), according to the study conducted by IMR - Instituto de Marketing Research. It has a clear competitive edge in terms of (i) trust in the brand; (ii) capacity to deliver large volumes of advertising in the intended zones and with the desired timing; and (iii) the ownership of a reliable database which enables the sending of unaddressed mail to specific populations, enhancing the effectiveness of communication.

The economic situation of the country, combined with the commercial aggressiveness of the competition and the concentration of demand in the retail sector, have been reflected not only in the streamlining of advertising volumes per campaign and in the applied price policy forcing lower margins, but also in more demanding standards required by customers in terms of quality of service, reduction of execution times and the supply of detailed and online information about campaigns. However, special note should be made of the renewal of the contracts with the major customers with first signs of recovery of the advertising market and private consumption, visible in particular during the second quarter, when some reversal of the downward trend became evident.

Consulting sales related to direct marketing increased in the first semester, with implementation in progress of a series of growth measures aimed at customer experimentation with advertising mail, maintenance and growth of customer investment in this area.

PostContacto is the only unaddressed advertising mail operator on a national scale, using an extremely flexible operating model, and has expanded its offer with the development of value added services (delivery of mail based on address lists, delivery at a convenient time, geocontact, hand-delivery in pre-selected areas, logistics and crossborder delivery).

PostContacto delivered 251 million items of unaddressed mail during the first semester of 2014.

Business Solutions

CTT continued to develop its offer of hybrid communication solutions, combining physical and digital communication. Business areas formerly disassociated are currently combined, such as ViaCTT, document production (through Mailtec Comunicação, a market leader), digitalisation and information technologies for the postal sector (through Mailtec Consultoria), which enables assuring greater coordination and the development of solutions that add value to CTT's offer and pave the way for new opportunities in relations with companies, creating value and differentiation.

CTT standardised value added solutions which meet market needs concerning processes of treating returned mail, registered mail and accounting documents. A partnership has been created to offer the local government sector a solution which will enable the simplifying of the entire process regarding the reception, verification, approval and accounting of supplier invoices. These standard solutions aim, on one hand to reduce costs and increase customer efficiency, and, on the other hand, to expedite the sales process for CTT.

A series of new electronic postal box functionalities were also introduced, aimed at improving the use of the service, such as the use of the citizen card to access the electronic postal box, and at the same time cutting costs in the operation of the service.

Regarding business customers in the international market, the Poland Post project was further developed in the first semester of 2014 with the delivery of a maintenance contract and award of a significant volume of new development services for the electronic postal service platform, launched at the end of 2013. Efforts have also been made in the identification and realisation of business opportunities in other geographic regions, namely Angola, Mexico, Morocco and Bulgaria.

Philately

The Philately business reached 3.6 million Euros in revenues in the first half of 2014, an increase of 15% year-on-year.

The following factors contributed to this increase: (i) a 15.5% increase in the accumulated face value of stamp issues vs. the previous year; (ii) the sale of 35,000 sets of stamps "500 Years of Andreas Vesalius" to bpost, under the joint issue by Portugal and Belgium paying tribute to the great anatomist; (iii) the launch of 16 issues of commemorative stamps, the issue of definitive stamps, the booklet of self-adhesive stamps of Madeira, 11 postal stationery and 4 prestigious thematic books.

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 and definitive 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 Blessed Friar Bartolomeu dos Mártires • 800 Years of Notary Services in Portugal	***History***
• Major Characters 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	***Music, art and culture***
• Eusébio Forever • 2014 World Cup in Brazil • EUROPA – National Musical Instruments • Gardens of Portugal • Extreme Sports – Definitive Issue	***Sports and environment***
• CTT Public Company	***Privatisation***
• 500 Years of Andreas Vesalius (joint issue Portugal – Belgium) • 150 Years of Diplomatic Relations between Portugal and Mexico	***Jointly with other countries***

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

Thematic books
• Sagres – Symbol of Portugal • Creoula – Tradition and Youth • 40 Years of the 25th April • Gardens of Portugal

2.2.2. Retail Network

The Retail Network manages the counter service and direct sales to final customers (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 for 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 (as in the EDP partnership).

By the end of the first semester of 2014, the Retail Network had 5,045 contact points with its customers and the population, composed of 624 post offices (607 own post offices, 12 external postal counters and 5 mobile post offices), 1,719 postal agencies (partnership branches) and 2,702 stamp sales points. The offer of services, under free service and in some cases available 24 hours per day, is complemented by 221 automatic stamp vending machines and 18 automatic mail product vending machines.

During the first semester of 2014, the main priorities of the management of the Retail Network included the development of the initiatives included in the Transformation Plan (2014-2016) to create satellite branches, characterised by operating under another principal (centralising) post office, aimed at the optimisation of resources while assuring quality of service and proximity to customers. Higher operational efficiency was also promoted through management and supervisory teams visiting rounds.

In the context of the process of certification of customer counter service and in order to measure quality of service as perceived by the customer, a "Mystery Client" study was conducted, involving 601 post offices where different variables were assessed, namely how the customer is served, the appearance of the employees, their knowledge on products, the available information and appearance of the location. The obtained result was very positive, with 99.6% of favourable opinions, corresponding to an improvement in relation to the previous such study.

In addition to being an important channel for the sale of the products and services of all CTT business units, primarily Mail and Financial Services, the Retail Network promoted various initiatives to stimulate the growth of its remaining retail business, where we highlight the following three:

- Partnership with EDP Comercial, (signed in March), to market electricity contracts (available throughout the CTT Retail network from May, excluding the partnership branches and branches in Autonomous Regions).
- Reinforcement of the partnership with SONAE, through expansion of the sale of stationary products "Note.it" to 96 additional CTT post offices, reaching a total of 127 CTT post offices.
- The sale and marketing of personal credit products at CTT post offices as of 24 June, following the partnership with BNP Paribas Personal Finance, a European leader in consumer credit.

Citizen’s Bureau Areas

Solutions of proximity to the population for the public administration could play a very important role in the development of services of general economic interest (SGEI) within the CTT Retail Network.

In this context, special note should be made of the pilot project already operating in 24 post offices that will be expanded progressively to all CTT post offices following the protocol signed with the Government in 2013 for the creation of Citizen’s Bureau Areas in the CTT Retail Network. The Government intends to install around 1,000 Citizen’s Bureau Areas all over the country, having the CTT Retail Network as its principal partner. Driving license renewal, request of Social Security statements, land registry certificates or exemption from municipal property tax, submission of income tax returns or enrolment of students at school, are some of the tasks that could be performed at these locations to which 11 official entities are already associated.

It is foreseen that the definition of the economic model of this partnership will take place in the third quarter, benefiting from the experience of the pilot project, after which all the conditions will be met for the structuring of a longer lasting agreement between the Government and CTT.

2.2.3. Operations

The Transformation Program defines a series of actions and initiatives to be developed in Operations and Distribution during 2013-2016, with particular focus on 2013 and 2014. The development and implementation of the initiatives in 2013 greatly surpassed the objectives that had initially been established, thus enabling not only a reduction in operating costs, higher productivity levels and improved operating efficiency, but also greater integration with other CTT delivery networks.

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

During the first half of 2014, 2.3 million mail items were automatically sorted daily for the delivery routes. Close to 1.3 million (58.6%) were automatically sequenced (door-to-door) for 3,850 delivery routes of 170 postal delivery offices, representing 92.6% of the mail delivered daily by CTT.

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 14 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, namely concerning *mailmanager* and video encoding sorting that has been partially insourced and transferred to this centre, with the consequent reduction of outsourcing needs.

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.

The second phase of the postal address georeferencing project "GEO10" has also been completed, implying that by the end of the first half of 2014 over 3.6 million addresses were georeferenced and characterised relative to 340 four-digit postcodes (138 municipalities), covering 85% of the Portuguese population and 45% of the territory of the country.

Postal automation continues to show excellent recognition results, with flats achieving decision rates for seven to ten-digit postcodes of 91% and 60%, respectively. Notwithstanding the above, in May 2014 the second phase of the project to improve the recognition and decision algorithms was implemented, which enabled gains above 4% in sorting to delivery routes and sequencing for flats and medium-sized mail items.

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 233 heavy vehicles (including CTT's own fleet and a contracted fleet, as well as trailers), which travel approximately 43 thousand km/day.

Among the series of initiatives carried out, we highlight the reorganisation of the national transport network (named "primary", "secondary" and "tertiary" networks), the renegotiation of transport service contracts and the refurbishment of 209 vehicles. 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.
- 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.
- Continuation of the implementation of the measures of the plan to rationalise the energy use of the transport and distribution fleet.

Delivery

The distribution network is composed of 273 postal delivery offices (CDP), including 93 delivery support centres, one delivery supporting service in Lisbon and another in Coimbra, and it manages 4,687 external delivery routes which cover around 231 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 semester with the placement of 60 bags in 3 postal delivery offices of the Greater Lisbon area.

During the first semester of 2014, the main objective of the distribution activity was increased operational efficiency, based on four 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.
- Transfer to the base distribution network of part of the EMS 48 service (delivery service within 2 business days in any point of mainland Portugal), formerly delivered by a dedicated network, one of the services of the Express & Parcels offer.
- Rationalisation of the physical structures, through the centralisation and aggregation of 12 postal delivery offices.

Along with the higher efficiency of the operation, reliability of processes and commitment to excellent quality of service, during the first semester of 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.

2.3. Express & Parcels

The revenues[1] of this business unit reached 62.7 million Euros (17.1% of the consolidated total[2]) in the first semester of 2014, corresponding to a 1% decrease in relation to the same period of 2013, as a result of the restructuring process which is underway in Spain and a change of the product mix with a greater weight of the business coming from e-commerce (B2C) and from large customers which placed pressure on the unit sales price.

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

In the first half of the year, CTT launched an Iberian offer for the Express & Parcels market through CTT Expresso and Tourline Express, providing its customers with the same delivery solutions for Portugal and Spain, and assuring an integrated, simplified and competitive Iberian service portfolio. Customers can now view the Iberian territory as a whole, with wider reaching solutions being available with similar speed characteristics, which assure deliveries on the next business day by mid-morning (10h00), lunchtime (13h00) and end of the day (19h00), and less urgent deliveries within a period of two business days (48h00). This new portfolio is a result of an Iberian strategy of the company under the theme of standardisation of its Express and Parcels services in Spain and Portugal, positioning CTT as one of the main operators in the region.

[1] Includes internal services rendered and intra-group transactions which are eliminated for the purposes of consolidation.
[2] Excluding revenues relative to the CTT Central Structure and intra-group eliminations amounting to -€12.7m in the first semester of 2014.

Aimed at meeting the need to assure more flexible deliveries in the B2C segment, a network of PuDo (pick-up / drop-off) points of convenience for collection and delivery of goods has been created in partnership with an Iberian retailer and at Tourline delegations, based on the CTT Retail Network, which not only supports the pick-up of parcels in post offices with longer opening hours and capillarity (pick-up aspect), but also allows for a flexible parcel dispatch service (drop-off aspect).

One of the opportunities arising from the rapid growth of e-commerce is embodied in the development of solutions to support customers in the pursuit of export activity through dispatch solutions aimed at the online segment, expanding the target market of these companies (e-tailers). In this context, CTT has joined the e-Commerce Interconnect Programme (e-CIP), a project of major strategic importance managed by the International Post Corporation (IPC), with a view to creating inter-connectivity between incumbent postal operators for the creation of a global offer competitive with that of large integrators.

In **Portugal**, CTT maintained its position of market leadership with a market share of 27.7% in the first quarter of 2014 (source: ANACOM). Particular note should be made of the launch, towards the end of the first semester of 2014, of the project aimed at integrating the Mail and Express & Parcels distribution networks, with expected future impact on the costs of this business unit. When completed, this project will enable even greater competitive advantages in terms of costs, namely in the last mile, and the possibility of a better product offer for the B2C segment.

In **Spain**, CTT is positioned among the top 10 companies in the Express & Parcels market, with a market share of approximately 4%, according to the CEP Iberia study conducted by IMR – *Instituto de* Marketing Research. An important effort has been made since early 2014 with respect to increasing the capillarity of the Tourline Express network, with the objective of strengthening the franchisee network. At the end of the first half of 2014, the Tourline Express network consisted of 234 points of sale, comprised of 176 franchisees, 30 own branches and 28 distributors. Furthermore, and in order to maintain a physical presence as a proximity factor, Tourline has 45 pick-up and drop-off points, mostly in traditional trade 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. This project entered a new stage in the first half of 2014, with a more active approach to the network restructuring, review of its capillarity and also of the pricing policy for the franchisees and final customers.

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*, with national coverage, which has contributed to the rapid expansion of the business.

CORRE's quality of service continues to win the trust of its customers, which is why the company has become the exclusive supplier of the largest commercial bank of Mozambique, in logistics, sorting and distribution activities for all its agencies. The instability experienced in the region in the short-term has affected the activity and the quality of the services rendered, resulting also in a sharp escalation of costs (associated with security and policing, for example).

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

2.4. Financial Services

The recurring revenues[1] of this business unit reached 35.4 million Euros (9.7% of the consolidated total[2]) in the first semester of 2014, corresponding to an increase of 20.8% relative to the same period of 2013. This business unit includes the financial services provided by CTT SA and PayShop. In addition to the recurring revenues, Financial Services received a front-fee of 3 million Euros from BNP Paribas Personal Finance in the context of the new partnership for the sale and marketing of consumer credit products.

The execution of the strategy to expand CTT's Financial Services business continued in the first semester of 2014, including the strengthening of its position as a relevant financial operator in the Portuguese market, and the reinforcement of its position as the second largest business unit of CTT in terms of EBITDA. The initiatives involved in CTT's Transformation Programme for this business unit are based on the development of new products and services, within current product lines or the creation of new ones.

After a first quarter marked by strong growth of Financial Services revenues, of 19.9% in relation to the same period of 2013, the performance in the second quarter of 2014 was even more robust, indicating that the defined strategy enables growth for this business unit, placing it in an even more important position, both in terms of the CTT's business portfolio and in terms of the company's strategic development. The Financial Services business represents an important growth and profitability lever for CTT, a factor which differentiates the company from other European postal sector peers.

Savings products were those which most contributed to the strong growth of Financial Services activity and revenue, with the CTT Retail Network having placed 2.07 billion Euros in various marketed savings products (public debt certificates, capitalisation insurance and retirement savings

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

2 Excluding revenues relative to the CTT Central Structure and intra-group eliminations amounting to -€12.7m in the first semester of 2014.

plans), achieving growth of circa 220% in relation to the same period of 2013. In 2013, capitalisation insurance had been the driving engine of the business unit, whereas in 2014 public debt certificates are preferred by customers. The strategy of building a diversified portfolio of partners and products allows CTT to provide the market with a competitive offering at all times. On the other hand, the strong growth of the portfolio of saving products subscribed through CTT supports easier placement in the future, as a result of potential renewals.

Regarding the remaining Financial Services product lines, the evolution of payments has confirmed the expected trend with revenue 6.4% below that recorded in the first semester of the previous year, primarily influenced by declines in mobile telephone top-ups penalised by the growing adherence of prepaid consumers to quadruple play communication packages. In this business unit, it should be noted that at the end of the first semester of 2014 the PayShop network stood at 3,878 payment points, a figure practically the same as in the previous year. This fact reveals the significant resilience of the network, even in an adverse economic context for retail.

In this segment, the introduction of new services thus continues together with the development of alternative forms of payment, which enables CTT to remain as the only operator with an integrated payment solution. This offer has been on the market since the beginning of the year, and is under negotiation with various potential customers.

In transfers, the expansion of social instalments and benefits payable through postal money order, under the new agreement signed with IGFSS (Institute of Financial Management of the Social Security), could enable a recovery of this business in the second semester. Alternatives have been under analysis by CTT with various international entities aimed at "modernising" the transfer segment since the beginning of the second quarter, making the most of the technological developments in the financial industry.

A special reference should be made to the signing, at the end of the second quarter, of an agreement between CTT and BNP Paribas Personal Finance for the sale and distribution of personal credit products throughout the CTT Retail Network and on the CTT website, thus enlarging the portfolio of financial products, adding a new partner and a new product line (personal credit), and pursuing the strategy of expansion of the Financial Services business. This process began in January 2014 with the selection of the partner and negotiation of the financial and operational conditions of the partnership, at the same time administering training to the entire Retail Network. The market launch took place in June with an initial offering of personal credit. The introduction of new products or solutions is under analysis, to be carried out in a phased manner so as to enable the adequate adjustment of the training and information process in the Retail Network.

A credit card offer will be launched in the fourth quarter of the year, with work undergoing in the preparation of all the necessary requirements and formulation of the product positioning and its comparative advantages.

Finally, we highlight the continued effort of technological incorporation, integration and automation of processes between the point of sale, the back-office area and partners, in a line of action which combines important improvements both in terms of the consumer's experience and quality of service, and enabling greater safety, strong efficiency gains and increased profitability of the business unit. The possible reduction of the time of sale of products also enables the introduction of more financial products in the Retail Network without requiring a relevant reinforcement of the structure.

Security measures have also been adopted in the transport of valuables, in accordance with a prudent safety and security policy for life and property and in compliance with legal requirements, which is increasingly more important in view of CTT's growing role in the financial system. The inherent cost of these measures was fully offset by the aforesaid automation, with recurring operating costs declining by 0.4% in the first half of 2014, on a year-on-year basis.

The reduction in operating costs referred to above, combined with the strong increase of revenues, led to a 47.3% increase of the recurring EBITDA of this business unit. The fact that the higher growing savings products have a better commission structure s versus the other financial products and services also contributed to this increase. Faster future growth in the payments or transfers products might penalise the EBITDA margin, which is expected to remain around 50%.

Postal Bank

After an in-depth study in collaboration with strategic consultants on the opportunity and feasibility of creating a Postal Bank, CTT formally applied for a license from Banco de Portugal on 5 August 2013. This project, which follows similar examples shown by most European postal operators and represents an old ambition of the company, identifies and quantifies a market opportunity for CTT in the context of the development of its Financial Services business, representing a growth option which the company will revisit during 2014.

The Board of Directors of Banco de Portugal deliberated, on 27 November 2013, to authorise the constitution of "Banco Postal S.A." under the terms of the project submitted on 5 August 2013 and based on certain assumptions to be verified. This authorisation is thus subject to a series of conditions, including: (i) the reaffirmation, by the new shareholders of CTT that the Postal Bank project will be implemented pursuant to the terms under which it was submitted and appraised by Banco de Portugal, including with regard to the geographic coverage of the branch network; (ii) demonstration that the indirect qualifying shareholders in Banco Postal, S.A., arising from the CTT privatisation process, meet the conditions that assure healthy and prudent management of the institution, under the terms and for the purposes stipulated in article 103 of the RGICSF (General Regime of Credit Institutions and Financial Companies); and (iii) updating of the economic and financial forecasts, namely based on the conditions offered in the partnerships to be developed. The partnership for the sale and distribution of consumer credit products, referred to above, will be one of the issues that must be incorporated in this revised analysis of the Postal Bank project.

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

As noted, with this authorisation, CTT is not obligated to constitute the Postal Bank, but rather has the choice, which may be developed or not and must always be approved by the competent governing bodies of CTT, in order to comply with the conditions imposed by Banco de Portugal.

The review, updating and details of the market research were started at the end of the second quarter of 2014, at the time of CTT's submission of the proposal on this project of possible constitution of the Postal Bank. This study aims to meet and address the main assumptions of the Business Plan. In this context, an in-depth analysis of the economic, financial and strategic model of the Postal Bank will be conducted (Business Plan), incorporating the results of this market research and current market scenario, namely in the financial industry, so that a decision can be taken by the Board of Directors during the fourth quarter of 2014.

The strategy of expansion of CTT's Financial Services is being implemented with the various initiatives referred to above, and is not dependent on any future decision concerning the Postal Bank. This option will enable accelerating this process, although it implies greater investment and increased company structure in this business unit related to the creation of a financial institution (back-office, compliance, etc.).

New financial products

Independently, although related to the future decision on the Postal Bank, new financial products and / or new partnerships are under analysis to add to the current offer and assure the sustainability of the growth which this area has achieved. Health insurance and prepaid cards are some of the initiatives under study.

3. ECONOMIC AND FINANCIAL REVIEW AND CTT SHARE PERFORMANCE

3.1. Financial Review

This section summarises the consolidated results achieved by CTT and the consolidated assets, liabilities and financial position of the company as at 30 June 2014. This section should be read in conjunction with the interim condensed consolidated financial statements and the accompanying notes. It should be noted that in the first half 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.
This analysis includes the consolidation of the activities of the parent company and of its subsidiaries (as included in note 7 of the consolidated financial statements).

In the first half of 2014, CTT achieved a consolidated net profit of 36.1 million Euros, 14.0% (4.4 million Euros) above that of the same period of the previous year. This result corresponds to consolidated earnings per share of 0.24 Euros and a return on equity of 13.7%, compared to 12.0% in the first half of 2013.

The operating activity generated earnings before non-recurring items, interest, taxes, impairments, depreciation and amortisation (recurring EBITDA) of 66.3 million Euros, 10.1% (+6.1 million Euros) above that obtained in the same period of the previous year, with an EBITDA margin of 18.7% compared to 17.2% in the first half of 2013.

These results reflect a favourable reduction in operating costs (excluding impairments, provisions, depreciation / amortisation and non-recurring costs) of 3.2 million Euros (-1.1%), as well as an increase of 2.9 million Euros (+0.8%) in revenues. In the first half of 2014, the non-recurring revenues and costs affecting the CTT results were negative by 0.4 million Euros.

As a result, earnings before interest and taxes reached 54.9 million Euros, 7.4 million Euros (+15.6%) above those recorded in the first half of 2013. Financial results were negative by 3.2 million Euros, representing a decline of 140.1% (-1.8 million Euros) relative to the same period of the previous year.

Consolidated income statement

Thousand Euros	1st Half 2014	1st Half 2013	△% 14/13
Revenues	**353,503**	**350,617**	**0.8**
Sales and services rendered	344,980	344,185	0.2
Sales	10,127	9,978	1.5
Services rendered	334,853	334,207	0.2
Other operating income	8,523	6,432	32.5
Internal services rendered	185	146	26.7
Other revenues	8,338	6,286	32.6
Operating costs excluding impairments, provisions, depreciation and non-recurring costs	**287,250**	**290,442**	**-1.1**
Cost of sales	7,490	7,760	-3.5
External supplies and services	114,315	115,591	-1.1
Staff costs	161,189	161,964	-0.5
Current costs	159,150	160,968	-1.1
Employee benefits	2,039	996	104.8
Other operating costs	4,256	5,127	-17.0
Earnings before depreciation, impairments, non-recurring results, interest and taxes (recurring EBITDA)	**66,254**	**60,175**	**10.1**
Impairment of inventories and accounts receivable, net	(402)	1,917	-120.9
Provisions, net	561	186	201.7
Impairment of non-depreciable assets	-	0	-
Depreciation/amortisation and impairment of investments, net	10,734	12,414	-13.5
Earnings before non-recurring results, financial income and taxes (recurring EBIT)	**55,361**	**45,658**	**21.3**
Company restructuring (costs)	2,902	(6,250)	-146.4
Privatisation costs	75	-	-
Other non-recurring income and costs	(2,553)	4,366	-158.5
Earnings before interest and taxes	**54,936**	**47,541**	**15.6**
Financial results, net	(3,470)	(1,319)	-163.1
Gains/losses in associated companies	303	-	-
Earnings before taxes (EBT)	**51,768**	**46,223**	**12.0**
Income tax for the period	(15,731)	(14,405)	9.2
Net profit before non-controlling interests	**36,038**	**31,818**	**13.3**
Net profit attributable to non-controlling interests	(25)	174	-114.4
Net profit for the period attributable to Equity holders	**36,063**	**31,643**	**14.0**

Note: Revenues exclude non-recurring items.

3.1.1. Revenues

Revenues

Thousand Euros	1st Half 2014	1st Half 2013	△% 14/13
Sales and services rendered	**344,980**	**344,185**	**0.2**
Sales	10,127	9,978	1.5
Services rendered	334,853	334,207	0.2
Other operating income	**8,523**	**6,432**	**32.5**
Internal services rendered	185	146	26.7
Other revenues	8,338	6,286	32.6
Revenues	**353,503**	**350,617**	**0.8**

Note: Excluding non-recurring items.

It should be noted that the activity of EAD (sold in the first half of 2014 and therefore represented in the figures of the Mail business unit in 2013) amounted to 2.0 million Euros in the first half of 2013. Excluding this, CTT would have had a favourable revenue growth in the first half of 2014 of 4.9 million Euros (+1.4%) on a year-on-year basis.

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.

1st Half 2014 - Revenues by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	**Revenues**
Sales and services rendered	251,497	61,829	33,877		(2,224)	**344,980**
Sales	9,592	537			(2)	**10,127**
Services rendered	241,906	61,292	33,877		(2,222)	**334,853**
Other operating revenues	16,602	870	1,544	46,010	(56,502)	**8,523**
Allocation to CTT central structure				9,941	(9,941)	**0**
Revenues	268,099	62,699	35,421	55,951	(68,667)	**353,503**

Note: excludes non-recurring items.

1st Half 2013 - Revenues by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	**Revenues**
Sales and services rendered	255,992	62,643	27,710		(2,160)	**344,185**
Sales	9,324	670			(16)	**9,978**
Services rendered	246,668	61,974	27,710		(2,144)	**334,207**
Other operating revenues	17,301	667	1,608	42,775	(55,919)	**6,432**
Allocation to CTT central structure				10,116	(10,116)	**0**
Revenues	273,293	63,311	29,318	52,891	(68,195)	**350,617**

Note: excludes non-recurring items.

The Mail segment, which includes the core revenues of CTT and represents the greatest weight in terms of operational revenues with a total of 268.1 million Euros in the first half of 2014, decreased 1.9% in comparison to the same period of the previous year, driven by the decrease in addressed mail volumes (-7.0%), largely offset by the increase in average prices for USO services implemented in the first half of 2014 (4.4% on average).

The Express & Parcels segment recorded revenues of 62.7 million Euros, a decrease of 1.0% (-0.6 million Euros), mainly as a result of the impact of services rendered in Spain (-2.0 million Euros), largely offset by Portugal with a 1.3 million Euros increase.

Financial Services revenues of 35.4 million Euros, resulting primarily from fees paid for the services rendered, increased 20.8% (+6.1 million Euros) in the first half of 2014 relative to the same period of 2013. The growth of 129.1% in revenues from savings and insurance products is noteworthy, furthermore public debt securities sales grew by 638.9%, due to the increase of subscriptions values and associated commissions.

3.1.2. Operating costs[1]

Operating costs

Thousand Euros	1st Half 2014	1st Half 2013	△% 14/13
Cost of sales	7,490	7,760	-3.5
External supplies and services	114,315	115,591	-1.1
Staff costs, of which	161,189	161,964	-0.5
Current costs	159,150	160,968	-1.1
Employee benefits	2,039	996	104.8
Other operating costs	4,256	5,127	-17.0
Operating costs	**287,250**	**290,442**	**-1.1**

Recurrent **external supplies and services** costs decreased by 1.1% (-1.3 million Euros) in relation to the first half of 2013, of which 0.6 million Euros are explained by the ES&S value in the first half of 2013 of the subsidiary EAD, sold in 2014.

Efficiency measures – e.g. the renegotiation of equipment renting contracts, the increase of synergies within CTT with a greater use of internal resources, and insourcing of services, namely delivery and processing of business mail and some unaddressed mail – resulted in cost reductions in the first half of 2014.

In the first half of 2014 CTT had additional expenses with the repair of cargo vehicles and due to the renovation of a part of the fleet, and with the increase in the number of stores which had to transport monetary amounts, due to the legal obligation set by Law 34/2013 of 16 May.

Recurrent **staff costs** reached 161.2 million Euros, 0.8 million Euros less than in the same period of the previous year. Current staff costs (excluding employee benefits) decreased by 1.8 million Euros

[1] COGS + ESS + Staff costs + other operating costs (excludes non-recurring items)

(-1.1%).The reduction in the average number of staff was to 4.7% (612 employees), enough to offset the impacts of the legal / regulatory changes resulting from the privatisation, which caused changes in compensation schemes (such as the cessation of the salary reductions and reintroduction of seniority-based payments) because CTT no longer is a State-sector company, as well as of the State Budget Law of 2013 which modified the contributory base of retirement discounts.

Recurrent costs associated with employee benefits, which essentially include health care and other post-retirement benefits at CTT SA, increased 1.0 million Euros, in relation to the first half of 2013, due to the fact that in 2013 some retirement dates were brought forward, which decreased the liabilities associated with future salaries.

The Mail business unit 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 first half of 2014 this segment incurred 223.6 million Euros of operating costs, a decrease of 7.1 million Euros, relative to the same period of the previous year.

1st Half 2014 - Operating costs by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	**Operating costs**
External supplies and services	50,491	47,374	5,407	26,247	(15,205)	**114,315**
Staff costs	120,494	11,945	1,681	27,069		**161,189**
Other costs	42,709	838	9,086	2,635	(43,522)	**11,746**
Allocation to CTT central structure	9,866		75		(9,941)	**0**
Operating costs	223,560	60,157	16,249	55,951	(68,667)	**287,250**

Note: excludes non-recurring items.

1st Half 2013 - Operating costs by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	**Operating costs**
External supplies and services	53,697	45,878	4,980	24,328	(13,292)	**115,591**
Staff costs	122,013	11,753	1,542	26,655		**161,964**
Other costs	44,960	1,102	9,706	1,908	(44,788)	**12,888**
Allocation to CTT central structure	10,037		79		(10,116)	**0**
Operating costs	230,707	58,733	16,307	52,891	(68,195)	**290,442**

Note: excludes non-recurring items.

3.1.3. Recurring EBITDA

Recurring EBITDA[1] amounted to 66.3 million Euros, corresponding to a margin of 18.7%, an increase of 1.5 percentage points relative to the value achieved in the first half of 2013, as a result of the operating costs reduction and revenue growth.

[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).

Recurring EBITDA

Thousand Euros	1st Half 2014	1st Half 2013	△% 14/13
Revenues	353,503	350,617	0.8
Operating costs excluding impairments, provisions, depreciation and non-recurring costs	287,250	290,442	-1.1
Recurring EBITDA	**66,254**	**60,175**	**10.1**
Recurring EBITDA margin	18.7%	17.2%	1,5 p.p.

1st Half 2014 - Recurring EBITDA by segment

Thousand Euros	Mail	Express & Parcels	Financial Services
Revenues	268,099	62,699	35,421
Operating costs	223,560	60,157	16,249
Recurring EBITDA	**44,539**	**2,543**	**19,172**
Recurring EBITDA margin	16.6%	4.1%	54.1%

1st Half 2013 - Recurring EBITDA by segment

Thousand Euros	Mail	Express & Parcels	Financial Services
Revenues	273,293	63,311	29,318
Operating costs	230,707	58,733	16,307
Recurring EBITDA	**42,585**	**4,578**	**13,011**
Recurring EBITDA margin	15.6%	7.2%	44.4%

3.1.4. Non-recurring results

In the first half of 2014, CTT recorded a net non-recurring cost of 0.4 million Euros, which includes: (i) 3.0 million Euros in other operating income from the front-fee from the exclusive partnership for the sale and distribution of consumer credit products. (ii) an increase of 0.5 million Euros related with the provision to meet contractual liabilities relating to onerous contracts of vacant buildings; (iii) a net increase of the provision for labour contingencies of 0.09 million Euros; (iv) the recognition of costs of 0.3 million Euros related to liabilities arising from agreements for suspension of employment contracts; (v) 0.5 million Euros related to compensations for suspension agreements and the respective reduction in employee benefits costs by 0.9 million Euros, due to the effect of reduced liabilities; (vi) 0.5 million Euros for termination of labour contracts by mutual agreement in the scope of the transformation programme; (vii) 0.08 million Euros associated with costs from the privatisation process of the company; (viii) net impairments and provisions of 2.5 million Euros resulting from restructuring and optimising the Tourline network and (ix) 0.04 million Euros of costs associated with the acquisition of Tourline customer portfolios, within the scope of the ongoing restructuring plan in the Express & Parcels segment.

1st Half 2014 - Non-recurring results

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	Total
Other operating revenues			3,000			3,000
External supplies and services				75		75
Staff costs	343	32		15		390
Other costs		44				44
Non-recurring results that affect EBITDA	**(343)**	**(76)**	**3,000**	**(90)**	**-**	**2,491**
Impairment of inventories and accounts receivable, net		1,926				1,926
Provisions net		543		447		990
Non-recurring results that affect EBIT	**(343)**	**(2,545)**	**3,000**	**(537)**	**-**	**(425)**

In the first half of 2013 it should be noted that the non-recurring results were positive, by 1.9 million Euros, due to the gains of 8.4 million Euros resulting from the reformulation of the employee benefits related to the telephone subscription charge.

3.1.5. Financial results

In the first half of 2014, the net financial results reached -3.2 million Euros, a decrease of 1.8 million Euros when compared to the same period of the previous year. The interest income was directly influenced by the sharp decrease in interest rates, falling by 46.5% in relation to 2013.

Financial results

Thousand Euros	**1st Half 2014**	**1st Half 2013**	**Δ% 14/13**
Interest income	2,511	4,691	-46.5
Interest expenses	5,982	6,010	-0.5
Interest expenses (financial)	198	161	22.9
Interest costs with employee benefits (accounting)	5,783	5,848	-1.1
Gains/losses in associated companies	303	0	-
Financial results	**(3,167)**	**(1,319)**	**-140.1**

Interest expenses incurred in the first half of the year reached 6.0 million Euros, which includes the costs associated with employee benefits of 5.8 million Euros, and interest related to financial leasings and bank loans (0.2 million Euros).

Gains in associated companies reached 0.3 million Euros, related to the gain from the sale of the 51% participation in EAD and to profit appropriation for the first semester of 2014.

3.1.6. Net Profit and profitability

In the first half of 2014, CTT achieved a consolidated net profit attributable to equity holders of 36.1 million Euros, 14% above that of the same period of last year, corresponding to consolidated earnings per share of 0.24 Euros, a net margin of 10.2% (9.0% in the first half of 2013) and a return on equity of 13.7% (12.0% in the first half of 2013).

Thousand Euros	Reported		Recurring *		
	1st Half 2014	1st Half 2013	1st Half 2014	1st Half 2013	△% 14/13
Revenues	356,503	350,617	353,503	350,617	0.8
Operating costs	287,758	284,193	287,250	290,442	-1.1
EBITDA	**68,745**	**66,424**	**66,254**	**60,175**	**10.1**
EBITDA margin	19.3%	18.9%	18.7%	17.2%	1,5 p.p.
EBIT	**54,936**	**47,541**	**55,361**	**45,658**	**21.3**
EBIT margin	15.4%	13.6%	15.7%	13.0%	2,7 p.p.
Earnings Before taxes	**51,768**	**46,223**	**52,193**	**44,339**	**17.7**
Income tax for the period	15,731	14,405	15,860	13,818	14.8
Losses (gains) attributable to non-controlling interest	(25)	174	(25)	174	-114.4
Net profit for the period	**36,063**	**31,643**	**36,359**	**30,347**	**19.8**

** Recurring results exclude non-recurring items. The actual income tax of the reported accounts was considered.*

3.1.7. Capex

Capex reached 2.7 million Euros, 36.0% below that of the same period of the previous year (4.3 million Euros), and was specifically directed towards computer systems, renovation and maintenance of buildings and reinforcement of productive infrastructures. As at 30 June 2014 there are intangible assets in progress of 3.2 million Euros related to information systems and technologies.

3.1.8. Financial position and cash flow

Consolidated statement of financial position

Thousand Euros	30 June 2014	31 December 2013	△% 14/13
Non-current assets	376,542	391,697	-3.9
Current assets	897,995	708,437	26.8
Total assets	**1,274,536**	**1,100,134**	**15.9**
Equity	249,935	275,934	-9.4
Total liabilities	1,024,601	824,200	24.31
Non-current liabilities	328,658	334,742	-1.82
Current liabilities	695,943	489,458	42.2
Total equity and liabilities	**1,274,536**	**1,100,134**	**15.9**

The increase of 174.4 million Euros (+15.9%) in total assets resulted mainly from the growth in cash and cash equivalents (131.0 million Euros, +24.0%) and other current assets related to postal financial services (53.3 million Euros, +2,760.5%).

Equity decreased 26.0 million Euros (-9.4%) relative to 31 December 2013, as a result of the dividend distribution for the year 2013 (60.0 million Euros), occurred in May, and is not yet fully offset by the results of the period (36.1 million Euros).

During the first half of the year the sale of 51% stake in EAD also took place, which resulted in a reduction of 1.6 million Euros in the non-controlling interests and of 0.8 million Euros in the respective goodwill.

The 200.4 million Euros (+24.3%) increase in liabilities resulted mostly from the 178.9 million Euros increase in financial services payables, which were a consequence of the Financial Services activity growth.

The employee benefits liabilities came to 296.0 million Euros in the first half of 2014, 0.8% less than in December 2013. The reformulation in 2013 of the telephone subscription benefit paid to retired employees allowed for a reduction of 8.4 million Euros in the liabilities.

Liabilities with post-retirement employee benefits

Thousand Euros	30 June 2014	31 December 2013	△% 14/13
Liabilities	**296,020**	**298,543**	**-0.8**
Healthcare	263,740	263,371	0.1
Staff (suspension agreements)	17,204	19,744	-12.9
Other long term benefits	15,077	15,428	-2.3

During the first half of 2014, the free operating cash flow generated amounted to 191.4 million Euros, compared to 199.1 million Euros generated in the first half of 2013. The free cash flow generated totalled 131.0 million Euros, 25.3 million Euros (-16.2%) below that of the same period of the previous year. In the first half of 2014, 60 million Euros of dividends were paid, while in the first half of 2013 the net dividends paid reached 37.5 million Euros (50.0 million Euros gross dividends, less withholding tax of 12.5 million Euros).

Cash flow

Thousand Euros	Reported			Recurring *		
	1st Half 2014	1st Half 2013	△% 14/13	1st Half 2014	1st Half 2013	△% 14/13
Cash flow from operating activities	187,762	198,020	-5.2	62,198	28,132	121.1
Cash flow from investment activities	3,663	1,054	247.5	3,663	1,054	247.5
Capex	(3,658)	(2,184)	67.5	(3,658)	(2,184)	67.5
Other	7,321	3,238	126.1	7,321	3,238	126.1
Operating free cash flow	**191,425**	**199,074**	**-3.8**	**65,861**	**29,186**	**125.7**
Cash flow from financing activities	(59,692)	(42,729)	39.7	(59,692)	(42,729)	39.7
Dividends	(60,000)	(37,500)	60.0	(60,000)	(37,500)	60.0
Change in consolidation perimeter	(697)	-	-	(697)	-	-
Net change in cash and cash equivalents (free cash flow)	**131,036**	**156,345**	**-16.2**	**5,472**	**(13,542)**	**140.4**

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

At the end of the first half of 2014, net financial services payables increased by 125.6 million Euros, a fact reflected in the CTT cash and cash equivalents position, thus the operating free cash flow (without financial services payables, net) totalled 65.9 million Euros.

3.1.9. 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 liquidity stood at 27.0 million Euros, increasing 7.1 million Euros (35.5%), due mostly to the increase of 5.5 million Euros (+2.3%) in net cash and the reduction of 2.5 million Euros (-0.8%) in liabilities with post-employment benefits.

Net debt

Thousand Euros	30 June 2014	31 December 2013	△% 14/13
Financial debt	**7,176**	**6,999**	**2.5**
Bank loans and other loans	3,816	2,481	53.8
Financial leasings	3,360	4,518	-25.6
Net cash	**242,290**	**236,818**	**2.3**
Net financial debt	**(235,114)**	**(229,819)**	**2.3**
Liabilities with employee benefits	296,020	298,543	-0.8
Deferred tax assets related to employee benefits	(87,910)	(88,655)	-0.8
Net debt (incl. Liabilities with employee benefits)	**(27,003)**	**(19,930)**	**35.5**

The Financial Services business unit 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 postal money orders; (ii) marketing of insurance, with a special focus on capitalisation insurance products; (iii) postal savings certificates, on behalf of IGCP; and (iv) collection of tolls and other payments carried out in the Retail Network.

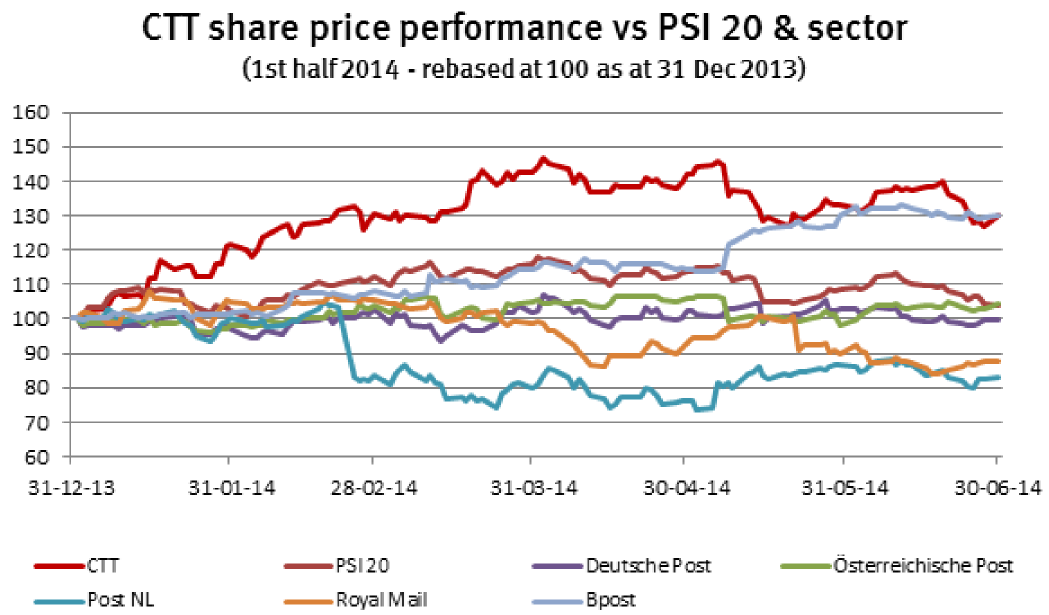
In the first half of 2014, CTT's own cash increased by 5.5 million Euros, reaching 242.3 million Euros.

Net cash

Thousand Euros	30 June 2014	31 December 2013	△% 14/13
Net cash			
(+) Cash and cash equivalents	675,912	544,876	24.0
(-) Net Financial Services payables	(433,622)	(308,058)	40.8
Net cash	**242,290**	**236,818**	**2.3**

3.2. CTT share performance

In the first semester of 2014, CTT share price appreciated 29.87%, in a period when the Portuguese PSI 20 index grew by 3.71% and the European postal sector companies' share prices fluctuated between a decrease of 16.87% (Post NL) and an increase of 29.84% (Bpost). It should be noted that CTT paid in this period a dividend of €0.40 per share, one of the highest of the Portuguese market and the postal sector.



The total shareholder return (TSR) in the first half of 2014 was 37.03% (capital gain + dividend, calculated on the basis of the share price as at 1 January 2014).

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. PSI 20 consists of shares issued by the 20 top listed companies in terms of free float market capitalisation. Eligible companies must meet the minimum criterion of share velocity (liquidity) and have a minimum free float. In addition, PSI 20 companies should in principle have a minimum free float market capitalisation of 100 million Euros.

During the first semester of the year, 94,729,181 CTT shares were traded at Euronext Lisbon stock exchange, corresponding to a daily average of 757,833 shares, which translates into an annualised ratio of 126% of the share capital.

4. COMMITMENT TO SOCIAL ISSUES

4.1. Human resources

Current activity

Human resources management continued to be driven by the priorities of i) ongoing investment in qualification and training; and ii) optimisation and adjustment of staff, in order to respond to the market evolution and challenges faced by CTT, maintaining a sound social climate.

The need to reduce staff numbers was addressed by not replacing retiring employees, reducing the number of employees with fixed-term contracts and negotiating voluntary departure conditions with interested employees. Moreover, employees with special conditions were re-assessed, to assign them to more adequate jobs and to focus on mobility between the different businesses of CTT, promoting the insourcing of operating activities whenever possible.

As a result of the necessary policy of adjustment of human resources to the market evolution, as at 30 June 2014, the number of CTT employees (permanent staff and fixed-term contracts) came to 12,722, corresponding to 434 less (-3.3%) than in the first semester of 2013. This includes 7,173 employees in the area of operations and mail delivery (which includes around 5,000 postmen / postwomen) and 2,720 allocated to the Retail Network.

Number of Employees

	30.06.2014	30.06.2013	△ 2014/2013	
Mail	10,344	10,660	-316	-3.0%
Mail and Business Solutions	7,624	7,887	-263	-3.3%
Retail Network	2,720	2,773	-53	-1.9%
Express & Parcels	1,176	1,174	2	0.2%
Financial Services	103	104	-1	-1.0%
Other	1,099	1,218	-119	-9.8%
Total, of which:	**12,722**	**13,156**	**-434**	**-3.3%**
Permanent staff	11,586	11,989	-403	-3.4%
Fixed-term contracts	1,136	1,167	-31	-2.7%
Total in Portugal	12,164	12,615	-451	-3.6%

During the first semester, only 35 employees were recruited (24 by Tourline Express in Spain, 1 by PayShop, 4 by CTT Expresso and 6 by the parent company), while 97 employees left. Of those leaving, 34 retired, 52 left following termination of their employment contracts (including 18 who signed mutual agreements), and 11 passed away. Two employment suspension contracts were signed, one of which referred to an employee requesting retirement.

Development of skills and training

The first programme of identification and development of potential for new managerial staff for CTT and its subsidiary companies was launched in January 2014. This programme is covered by the human capital development policies, in a perspective of talent and skill management, aimed, on the one hand, at obtaining better knowledge of the employees' profiles and potential and, on the other hand, carrying out actions to develop personal skills, with a view to strengthening business capacity and competence. The programme underway covers a first group of 100 participants, with the involvement of their supervisors.

An annual process of performance assessment relative to 2013 was conducted, covering all employees and seeking to appraise the individual and team contribution towards the objectives and results achieved.

The investment in the acquisition and development of human capital skills during the first semester was strategically guided predominantly to:

- Improve the management capacities of middle managers, CTT post office managers, production and logistics centre managers and postal delivery office managers. During this semester, 80 middle managers started the General Management Course at Nova School of Business & Economics with a duration of 144 hours and 189 operational unit managers took a Management Course of 108.5 hours, under the motto: "Innovate, Always!";
- Prepare the heads and employees of the Retail Network for a level of excellence in the sale of the products and services of the new partnerships with EDP, Fidelidade, *Agência para a Modernização Administrativa* (Citizen Areas Network) and BNP Paribas (Cetelem);
- Increase the quality in the logistics chain within Operations (Sorting, Transport and Delivery), by training its workers in products and processes, through attendance of the e-learning course "Quality in Operations".

The most intense training effort took place in the Retail Network. Regarding forms of organisation, special reference should be made to the growth of remote training, due to its strategic role in the creation and dissemination of courses directed at business and support activities.

During the first semester, CTT recorded 150,793 training hours (+43% year-on-year) which involved 23,106 participations (+18%).

To increase the value of its employees, through better skills and qualifications, both professional and academic, remains a strategic line of action for CTT.

Regarding recruitment and mobility, 299 job openings were advertised internally to fill vacant positions. Eighteen external internships were granted, 5 curricular, including one to a young person with special educational needs, and 13 professional. Twelve professional internships were concluded, under the protocol with IEFP (Employment and Vocational Training Institute) and one under the agreement with Aveiro University.

Human capital development policies

During the second quarter of 2014, various initiatives were launched aimed at the development and strengthening of human capital, with active policies on training, career plans and variable remuneration indexed to short and medium-term objectives. Still under design for implementation during the second semester of 2014, these measures will reward performance, strengthen motivation, transparency and equity, retain valuable resources at the company and attracting new personnel.

The development of the Financial Services and Express & Parcels business units will require strengthening CTT's human capital, greater labour flexibility and the partial indexing of remunerations to future growth and profitability objectives. In this context, there might be an increase of staff costs, although these costs will be directly related to the company's ambitions of growth defined in the strategy under implementation.

Occupational safety and social support

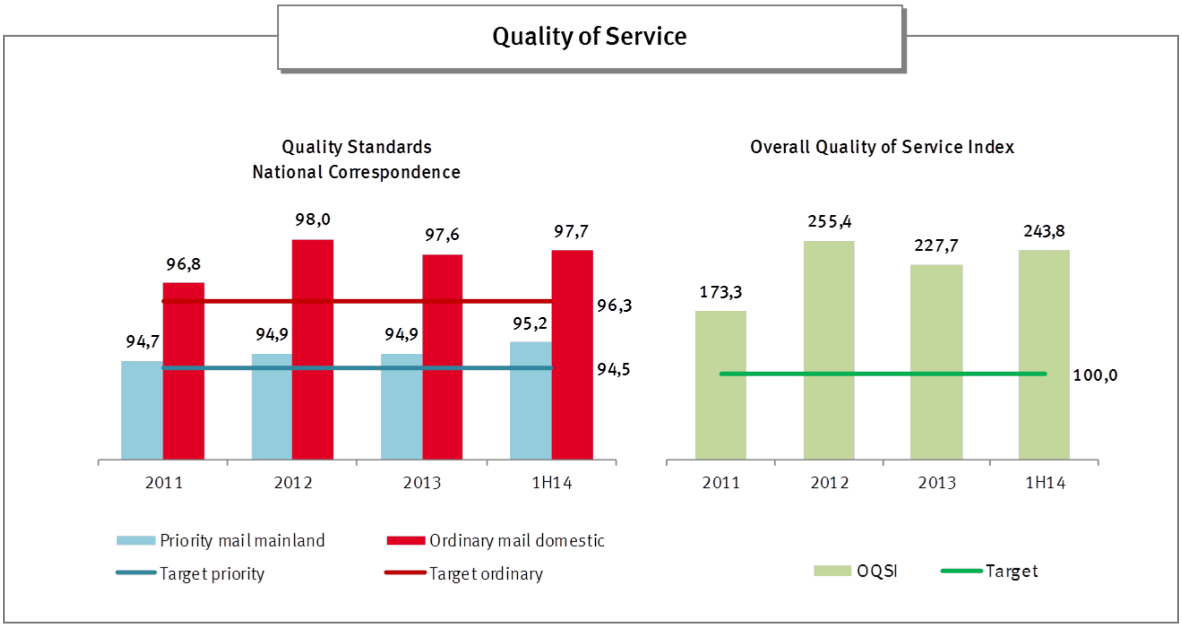
In the area of hygiene, safety and ergonomics, in terms of prevention, a total of 104 interventions for assessment of working conditions and risks at CTT establishments were conducted during the first half of 2014. A total of 452 work-related accidents were reported, 0.4% more than in the same period of 2013. In the semester, one road accident with fatal consequences occurred during the commute to work, with third party liability.

We highlight the insourcing of the occupational safety services, with all the activities being assured by the company's technical staff.

The social support provided to CTT Social Work beneficiaries entailed a survey of the socio-economic status and specific problems faced by the individuals involved and their families, with a view to finding the most suitable solutions. In this context, the social support to beneficiaries followed approximately 670 cases (drug abuse, mental health, support to the elderly and social action) which led to 24 visits to institutions and homes, 324 personal interviews and around 3,000 telephone calls.

4.2. Quality of service

During the first semester of 2014, CTT maintained high levels of operating performance, with the OQSI (Overall Quality of Service Index) standing at 243.8 points, compared to an objective of 100. This result is over 13.8 points higher than that achieved in the same period of 2013.



The quality objectives for international mail defined by the EU Directive for the postal sector were largely exceeded in the Portuguese case.

The good operating performance has been reflected in positive perceptions by the customers: 85.6% of the customers state that CTT's overall quality of service is good or very good.

In the first semester, all the agreed variables exceeded the established objective values:

Quality Levels	Minimum	Target	Score
Priority Mail			
% Delivered the following day (Mainland)	93.50	94.50	95.20
% Delivered within two days (Azores and Madeira)	84.00	87.00	94.30
% Delivered within ten days	99.75	99.85	99.93
Ordinary Mail			
% Delivered within three days	95.50	96.30	97.70
% Delivered within fifteen days	99.77	99.86	99.89
Newspapers and Periodicals			
% Delivered within three days	95.50	96.30	97.90
International Mail			
% Delivered within three days	85.00	88.00	91.70
% Delivered within five days	95.00	97.00	98.80
Parcels			
% Delivered within three days	90.50	92.00	94.40
Waiting time at post offices			
% Assisted within 10 minutes	75.00	85.00	91.60

The Quality Certification of the Control Systems associated to the calculation of the Quality of Service Indices (QSI) was obtained in March 2014. With the exception of international mail (QSI 7 and 8), all the remaining eight QSI are certified.

In the first semester of the year, the effort to maintain the various already certified management systems at CTT and its subsidiaries continued, with work underway on the certification of new types of operating units.

During this period, a new application was submitted to the "Committed to Excellence", under the EFQM (European Foundation for Quality Management) European Model of Excellence, covering CTT's entire operational network: post offices, postal delivery offices and production and logistics centres. Consequently, three improvement actions are underway which will be assessed in the first quarter of 2015.

It should be noted that CTT was the first European postal operator to achieve the recognition of "Committed to Excellence".

Contact Centre

The telephone (66%) and electronic mail (34%) were the communication channels predominantly used by customers to contact CTT, with the former losing weight to the detriment of the latter.

During the first semester of 2014, the telephone channel recorded 316,122 answered calls, representing 13% growth relative to the same period of 2013. This increase was due to the increased number of telephone calls placed through the CTT line (+18%) and telecommunications line (+16%), since use of ViaCTT (-20%) has been progressively declining.

The CTT line has various functionalities which have shown accentuated growth: letter / parcel tracking & tracing, which includes questions related to customs clearance (+24%), the toll payment service (+35%) and complaints (+49%). The downward trend of the postcode enquiry service continued
(-17%).

For electronic mail, 161 421 contacts were received, representing growth of 60% of this channel year-on-year, with particular use of the following functionalities: telecommunications (+8%), virtual shop (+10%), information (+25%), toll payment (+28%), complaints (+52%), postcodes (+60%) and international (+134% for questions related to customs clearance). The only exception was ViaCTT mailbox which decreased by 32%, due to the simplification of the password recovery process for access to the electronic mailbox.

4.3. Innovation and development

CTT's mission and values highlight innovation as a guarantee to the fulfilment of the mission - today and in the future - and as a focus on the continuous search for new ideas, processes and solutions.

Therefore, various initiatives and projects were carried out in the context of innovation during the first semester of 2014, in particular:

- Launch of the call for tender aimed at the supply of software development services for version 2.0 of App CTT, an application able to operate in all mobile platforms that allows users to access various CTT services (such as postcode and address enquiries, letter / parcel tracking & tracing, geographical location of post offices, submission of requests to the IAMS and consultation of toll invoices and toll payments outstanding) in a convenient, easy and fast manner.
- Possibility to use the CTT's website to request an ATM (*multibanco*) reference for toll payment.
- Continuation of the exchange of experiences with reference postal operators aimed at identifying best management practices concerning innovation.
- Participation in the work of the Knowledge Management Practice Community of COTEC Portugal (Business Association for Innovation), namely in the area of knowledge management assessment tools.
- Participation in the work of the PostEurop Electronic Identity working group, to which CTT belongs, with a view to monitoring and participating in the preparation of European Union legislation concerning these issues.
- 2014 edition of the PostEurop AES Forum (Advanced Electronic Solutions Forum) chaired by CTT, in Riga, Latvia and dedicated to the topic “Advanced IT as strategic tool in new postal business”.
- Production of the monthly newsletter eBIZ which informs the company on the most recent technological progress not only in strictly postal technologies but also in other information and communication technologies which might directly or indirectly influence / affect the postal business and / or represent opportunities for business or the design of new CTT services and products.

4.4. Sustainability

The work of involvement and dialogue with the different stakeholders was maintained and deepened, as it is fundamental for the continued creation of share value. The quality of service reached 243.8 points compared to the target of 100 points set with the Regulator and 86% of the customers stated they were satisfied or very satisfied with the provided service.

A total of 151 thousand training hours of were provided to employees, 43% more than the same period of the previous year, with 23 thousand participations (+18%). On matters of occupational safety, 452 work-related accidents were reported, 0.4% more than in the same period of 2013 (one of which was a fatal road accident on the commute to work, with third-party liability). The absenteeism rate decreased by 0.4 points to 5.9%.

During the period under analysis, the Occupational Safety services were insourced, with 104 risk assessment interventions having taken place at CTT establishments. A new service provider was contracted for occupational medicine services as of February 2014, with close to 1,900 medical examinations having been conducted.

In the context of relations with the community, the Agreement of Adherence to the Companies Forum for Equality, of which CTT is a founding member, was renewed and CTT subscribed to the "Birth Rate Appeal", areas of work recognised through the attribution of the "Human Resources Portugal 2013" award.

Various social and environmental initiatives were supported to the value of approximately 343 thousand Euros (CAIS, Salvador, Half Marathons of Lisbon and Portugal Wheelchair Race, Portuguese Association against Leukaemia, Women's Race and *Pirilampo Mágico*). Three programmes were held for the collection of articles (Fight Against Poverty and Social Exclusion Project, Baby Bank and *Movimento Reutilizar*.org), which generated around 19 thousand solidarity packages. Around 100 CTT volunteers were mobilised in joint actions with the Portuguese Cardiology Foundation, the Food Bank Against Hunger, the Nature and Forestry Conservation Institute and Biodiversity4All.

The focus on clean technologies continued, with the launch, during the first semester of 2014, of 182 vehicles, 18 of which with electric motors, that will contribute to saving 42 thousand litres of fuel / year and to reduce over one thousand tons of CO2 emissions. Considering the total fleet, both CTT's own and leased, 1,139 vehicles were refurbished during the period. The Energy Rationalisation Agreement 2007-2013 was concluded for CTT's largest building at Cabo Ruivo, with a reduction of consumption of 14.5% and the focus on the energy rationalisation of the company's real estate properties continued, with the energy certification of over 48 facilities. During the period, energy consumption fell by 2.3% and CO2 emissions by 1.9%.

In the area of sustainable marketing, the process of participative offsetting of CTT's carbon emissions was approved and an international environmental standard was published for Eco portfolios, with CTT having been involved in its preparation. There has been a growing public presence of CTT's environmental programme in many forums and in the media. Confirming CTT's leadership on the matter, the "Environment Trusted Brand 2014" was awarded for the first time by the readers of the Reader's Digest Selections.

CTT's stakeholders, in particular its shareholder structure substantially changed with the company's privatisation process through an IPO, and is now composed of a diversified group of shareholders, mostly foreign institutional shareholders.

4.5. Corporate governance

During the first semester of 2014, significant changes in the company's corporate governance model occurred.

Therefore, with the objective of adapting the Company's Articles of Association to the new shareholder structure after the privatisation as well as to the best practices applicable to listed companies issuers of shares admitted to trading on regulated markets, the shareholders approved, at the Extraordinary General Meeting held on 24 March 2014, the submitted proposals to amend the Articles of Association, which led to the alteration of the one-tier governance model to a two-tier Anglo-Saxon model, which is implemented as at the date of the present Interim Report as shown in the structure below.

According to this new governance model and as established in article 6 of CTT's Articles of Association, the company's statutory bodies are: the General Meeting, the Board of Directors, the Audit Committee and the Statutory Auditor.

The company also has, under the legal terms, a Company Secretary and an Alternate appointed by the Board of Directors.

The current Board of Directors is composed of five Executive Directors and six Non-Executive Directors and, from among them, a set of independent Directors.

According to this governance model, the Board of Directors, as established under number two of article 16 of the Articles of Association, delegated the company's current management to an Executive Committee, within the legally permitted limits.

Remain under the Board of Directors (i) the duties that, pursuant to the applicable law, the articles of association and its internal regulation, cannot be delegated to an Executive Committee, mainly including decisions of strategic nature, and (ii) the development of specific duties of supervision of the executive management, namely on matters of corporate governance, assessment and appointments, through Non-Executive Directors and / or the constitution of internal committees.

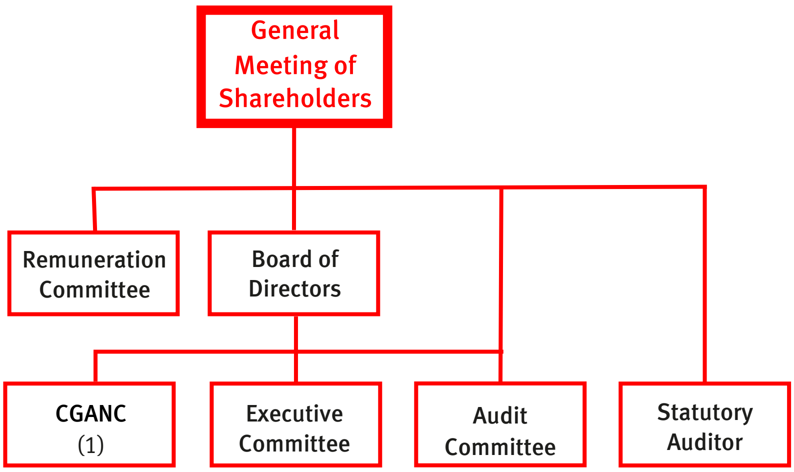
CTT's governance model now also includes a Remuneration Committee, elected at the General Meeting and responsible for establishing the remuneration of the members of the statutory bodies.

The Audit Committee is composed of three Non-Executive Directors and is entrusted with proposing, to the General Meeting, the election of the Statutory Auditor. The Statutory Auditor, jointly with the Audit Committee, supervises the company's activity as well as CTT's internal control, internal audit and risk management systems. The Audit Committee is also responsible for supervising the independence of the Statutory Auditor.

The Statutory Auditor and respective alternate currently in office were elected at the Annual General Meeting held on 5 May 2014, to complete the term of office 2012/2014 after the resignation of the previous Statutory Auditor on 8 April 2014.
Under this new structure of corporate governance, a Corporate Governance, Assessment and Nominating Committee was also created, responsible for the ongoing monitoring and supervision of matters related to the company's corporate governance, assessment and nominations, providing all the necessary support on these issues to the Board of Directors and the Remuneration Committee.

4.5.1. Structure of the corporate governance model

The current corporate governance structure is as follows:



(1) Corporate Governance, Assessment and Nominating Committee

COMPOSITION OF THE STATUTORY BODIES AND COMMITTEES

General Meeting

Members	Board of the General Meeting
Júlio de Lemos de Castro Caldas	Chairman
Francisco Maria Freitas de Moraes Sarmento Ramalho	Vice-Chairman

Board of Directors and Executive Committee, Audit Committee and Corporate Governance, Assessment and Nominating Committee

Members	Board of Directors	Executive Committee	Audit Committee	CGANC (1)	Independence (2)
Francisco José Queiroz de Barros de Lacerda	Chairman	Chairman		Member	
António Sarmento Gomes Mota	Vice-Chairman		Chairman	Chairman	Yes
Manuel Cabral de Abreu Castelo-Branco	Vice-Chairman	Member			
André Manuel Pereira Gorjão de Andrade Costa	Member	Member			
Dionízia Maria Ribeiro Farinha Ferreira	Member	Member			
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo	Member	Member			
António Manuel de Carvalho Ferreira Vitorino	Member			Member	Yes
Rui Miguel de Oliveira Horta e Costa(3)	Member			Member	Yes
Nuno Fernandes Thomaz	Member			Member	Yes
Diogo José Paredes Leite de Campos	Member		Member		Yes
Parpública-Participações Públicas (SGPS), S.A.	Member		Member		

(1) Corporate Governance, Assessment and Nominating Committee.
(2) The assessment of independence was conducted pursuant to number 5 of article 414 of the CSC and CMVM Recommendations of 2013 number II.1.7.
(3) Co-opted by deliberation of the Board of Directors held on 29 July 2014 to replace José Alfredo de Almeida Honório, who resigned from the position of Non-Executive Director on 14 July 2014.

Remuneration Committee

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

Statutory Auditor and External Auditor

The Annual General Meeting of 5 May 2014, under proposal of the Audit Committee, elected KPMG & Associados, SROC, S.A. to complete the term of office 2012/2014, represented by Maria Cristina Santos Ferreira, registered at the Chartered Accounts Association (OROC) under number 1010, as permanent Statutory Auditor and Vítor Manuel da Cunha Ribeirinho as Alternate Statutory Auditor. A KPMG & Associados, SROC, S.A. also performs the duties of External Auditor of the company.

4.5.2. Shareholder structure

4.5.2.1. Capital structure

In the first semester of 2014, CTT share capital was 75,000,000 Euros, which is fully underwritten and paid-up, represented by 150,000,000 shares with a nominal value of fifty cents each. The shares are registered and in book-entry form and there are no different categories of shares. Since 5 December 2013, as part of the privatization process of CTT, the total of shares representing the capital of the Company is admitted to trading on the regulated market of Euronext Lisbon.

On 31 December 2013, following the privatisation of CTT, 70.0% of the Company share capital was held by private shareholders and 30.0% by the State (although with the votes that were imputed to it, this amounted to 36.36% of the voting rights). As of 3 January 2014, after the completion of the share stabilisation operations where the Stabilisation Manager under the Institutional Underwriting Agreement exercised the Underwriters' put option in respect to 2,253,834 shares corresponding to 1.5% of the share capital of CTT, the State holds a 31.5% stake (with an equal proportion of the voting rights) and the private sector shareholders hold the remaining 68.5%.

4.5.2.2. Restrictions on transfer of shares

No limitations are defined in the Articles of Association of the Company regarding the transfer or ownership of Company shares.

The shares acquired by CTT employees under the offer reserved to them in the privatization process were subject to a lock-up period of 90 days as from the date of registration in their respective securities account, which ended on 5 March 2014.

The shares of the Company which are still held by Parpública – Participações Públicas (SGPS), S.A. (31.5%) and that were not included in the IPO can only be sold after the end of a period of 270 days from the date of admission to trading, if expressly authorised by the financial Institutions, the Global Coordinators of the Offer, subject to the fulfilment of a series of formal procedures to be undertaken by the Portuguese State when it deems appropriate.

At the Council of Ministers held on 26 June 2014, the Portuguese government approved a diploma that extends to different modalities the sale of the 31.5% stake that the Portuguese State still holds in CTT share capital. In addition to the conditions set forth in Decree-Law No. 129/2013, of 6 September, the privatisation of the remaining stake of PARPÚBLICA – Participações Públicas, SGPS, SA in the share capital of CTT – Correios de Portugal, S.A. may also be implemented through one or more operations of direct institutional sale as an autonomous modality of sale by private offering, which may be held through one or more processes with or without accelerated placement, aiming at the dispersion of shares by national or international qualified investors.

4.5.3. Investor Support

4.5.3.1 Investor Relations

The Investor Relations of CTT aims to build strong relationships with shareholders, investors, analysts and capital markets, as well as with the Portuguese Securities Commission (CMVM) and Euronext Lisbon, by providing timely, clear and transparent information on the evolution of CTT's current business in economic, financial and governance terms.

During the first semester of the year, CTT issued 35 press releases, received and answered around 400 emails from and to small and large investors, took part in 8 roadshows and 6 conferences in New York, London, Frankfurt, Paris, Edinburgh and Lisbon, meeting with 137 investors. The company also hosted 16 reverse roadshows (investors visiting CTT) and held 24 conference calls with investors, including 2 result webcasts.

CTT increased the time dedicated to research analysts, so as to reach wide and diversified research coverage and increase awareness of the company in the capital markets, given its recent presence in such markets. Following this work with research analysts, CTT share coverage significantly grew during the first half of 2014 when 4 analysts, besides the 4 related to the banks that were involved in the Initial Public Offering (Caixa Geral de Depósitos, Banco Espírito Santo, JP Morgan, BBVA), initiated coverage of the CTT share. These 4 new analysts represent: 2 national banks (Millennium BCP and BPI) and 2 international banks (Morgan Stanley and Jefferies)[1].

On 30 June 2014, the closing market price of the CTT share was €7.26, while the average target price of the 8 analysts who cover it was €8.11. On that date, 50% of those analysts issued positive recommendations and another 50% neutral recommendations. No negative recommendations were issued.

4.5.3.2 Financial calendar

CTT – Correios de Portugal, S.A. 2014 financial calendar includes the following company events:

Event	Date
Full Year 2013 Results	12 March 2014*
Extraordinary Shareholders' General Meeting	24 March 2014
Annual Shareholders' General Meeting	5 May 2014
1st Quarter 2014 Results	7 May 2014**
Ex-dividend	19 May 2014
Dividend Payment	22 May 2014
1st Half 2014 Results	30 July 2014*(1)
3rd Quarter 2014 Results	4 November 2014**

■ Held in the 1st semester ■ To be held in the 2nd semester

(*) Before market opening (**) After market close

(1) Published on 29 July, after market close

[1] In July Royal Bank of Canada (RBC) and Berenberg also initiated coverage of the CTT share.

5. MAIN RISKS

5.1. Risks faced by CTT

The most significant risks faced by CTT, which might potentially compromise achievement of the strategic and sustainable growth objectives, include those listed below. Their detailed description is presented in the Annual Report of 2013 (Part III – 1. Corporate Governance Report) and in the IPO Prospectus.

- Markets and competition
- Innovation and development
- The Portuguese State as a stakeholder
- Obligation to provide universal service
- Customer focus and loyalty
- Human resources management
- Partnerships
- Information management
- Information technologies
- Strategic alignment
- Culture of profitability analysis

Moreover, there may be risks that are yet unknown or others which, in spite of currently being considered irrelevant, might become important in the future. All these factors may negatively affect CTT's business, financial situation, earnings or future prospects.

5.2. Risk management and internal control system

Risk management is performed by the Board of Directors in coordination with the heads of the different departments in order to identify, appraise and manage the uncertainties and threats which might influence the pursuit and the achievement of strategic and tactical objectives.

The Internal Audit and Risk Management departments support the Board of Directors in the ongoing appraisal of the established risk management procedures, in order to ensure:

- Early detection and assessment of the risk events to which CTT and its subsidiaries are subject to under the respective business activities, identifying the respective impact and probability of occurrence.
- Permanent monitoring of the main risks, so as to detect significant changes which could imply the need of adjustments in terms of the internal control system, as well as the definition and implementation of corrective actions towards mitigation of the identified risks.

The Risk Management department is responsible for maintaining a risk management model which is in line with the objectives of CTT and its subsidiaries, as well as centralised management of the risk management process.

The Internal Audit department is responsible for the systematic assessment of the adequacy and effectiveness of the internal control system, according to the risk level associated to the processes, systems and business units, namely the appraisal of its operative efficiency on the management of identified relevant risks.

There are internal information and communication mechanisms to follow and monitor the organisation's performance at various levels, based on the internal control system, as a management tool, concerning the following aspects:

- Control environment – the organisation's operational base, influencing the employees' performance and establishing the benchmark for the other elements of internal control.
- Risk assessment, management and control – the continuous identification and analysis of relevant risks and implementation of mitigating action.
- Control activities – the definition of policies and procedures to assure compliance with guidelines issued from above and accomplishment of corporate objectives.
- Information and communication – the formal and informal information channels which enable monitoring corporate activity in due time.
- Supervision – the Audit Committee and the Statutory Auditor, under the terms of the applicable legal provisions and Articles of Association, assure the supervision of CTT's corporate activity. The Audit Committee is responsible for supervising the independence of the Statutory Auditor's activity, as well as CTT's internal control, internal audit and risk management systems.

6. SUBSEQUENT EVENTS AND OUTLOOK

Subsequent events

On 22 July 2014, the Non-Executive Director José Alfredo de Almeida Honório resigned from his position, due to his recent co-optation as an Executive Director of another entity. For his replacement, the Board of Directors decided to co-opt Rui Miguel de Oliveira Horta e Costa on 29 July 2014. This co-optation will be submitted for ratification to the next General Meeting of the company.

The agreement with IGFSS (Institute of Financial Management of the Social Security) for the payment of additional social benefits through postal money order was formalised on 3 July 2014, supporting the growth of this product line in the second semester of 2014.

On 29 July 2014, following three invitations to tender subject to previous qualification, the Board of Directors deliberated to award the IT and communication services contracts regarding Basic Infrastructure Services, Helpdesk & Desktop Management Services, and Fixed Voice and Data Telecommunications Services. Although some legal steps are still ongoing, CTT expects to be able to formalise the above-mentioned contracts at the soonest possible date.

The tender procedures were launched and the contracts awarded for a period of 3 years, including an initial phase of 3 months, at the most, to transfer the services. As a result of these contract awards, CTT expects to obtain, starting from 2015, annual savings (excluding transition costs) of around 57% (14 million Euros) in the referred services vis-à-vis the former operating costs, which in 2014 are around 25 million Euros, as the annual cost of the referred services is estimated to be of around 11 million Euros.

Outlook

Due to the more favourable macroeconomic environment, as well as the Transformation Programme initiatives implemented in 2013 and the new measures defined for 2014, CTT has strong expectations of being able to achieve the strategy set for 2014.

Nevertheless, it is important to consider that GDP growth in Portugal is expected to continue to be strongly influenced by growth of exports and not by a clear recovery of domestic consumption, the main demand driver of the products and services offered by CTT, particularly in the mail business. In this context, mail demand is expected to continue declining, not only in line with structural trends, but also owing to macroeconomic factors, albeit remaining above the natural long-term trend.

Concerning the implementation of Services of General Economic Interest (SGEI), it is foreseen that the definition of the economic model of this partnership will continue in the third quarter, benefiting from the experience of the pilot project, after which all the conditions will be met for the structuring of a longer lasting agreement between the Government and CTT.

E-commerce will continue to be the main driver of the Express & Parcels business. Growth in the B2B market, in Portugal or Spain, will not be driven as much by domestic GDP growth but rather by the expected migration of Iberian retailers to online retail platforms. For this purpose, CTT is speeding up the implementation of the Transformation Programme initiatives aimed at the Express & Parcels business in 2014, not only to improve its logistics solutions offer for this market, but essentially to restructure and optimise the distribution networks in Portugal and Spain.

Regarding Financial Services, CTT will be able to consolidate its position as a relevant player in this market in 2014, not only through the savings products already available, but also by launching new products and services, with a view to driving business growth, increasing revenue and, first and foremost, contributing to increasing CTT's profitability. Independently, although related to the future decision on the Postal Bank, new financial products and / or new partnerships are under analysis to add to the current offer and promote the sustainability of the growth which this area has achieved. Health insurance and prepaid cards are some of the initiatives under study.

The company aims to achieve stable operating revenues. This objective is based on the expectation that the businesses experiencing growth (Financial Services and Express & Parcels) will offset the decline in mail revenues.

The Balance Sheet optimisation measures will continue, such as for example the optimisation of working capital. CTT will continue to manage the employee benefits with a view to the monetisation of the associated tax asset.

Based on the performance achieved in the first semester and on the outlook for the rest of 2014, the Board of Directors expects to be able to propose to the shareholders a minimum dividend of €0.435 per share, for the financial year 2014, payable in 2015.

7. DECLARATION OF CONFORMITY

Pursuant to article 246 of the Securities Market Code, the members of the Board of Directors and Audit Committee of CTT, identified below, state that, as far as they are aware, the interim condensed consolidated accounts relative to the first half of 2014 were prepared in conformity with the applicable accounting rules, providing a true and appropriate reflection of the assets and liabilities, financial situation and net income of CTT and the companies included in its consolidation perimeter, and that the management report faithfully presents the important events which occurred in the first half of 2014 and their impact on the interim condensed consolidated accounts, as well as the main risks and uncertainties for the second half of this year.

Lisbon, 29 July 2014

The Board of Directors

Francisco José Queiroz de Barros de Lacerda	**Chairman & CEO**
António Sarmento Gomes Mota	**Vice-Chairman of the Board of Directors** **Chairman of the Audit Committee**
Manuel Cabral de Abreu Castelo-Branco	**Vice-Chairman of the Board of Directors** **Executive Director**
André Manuel Pereira Gorjão de Andrade Costa	**Executive Director**
Dionizia Maria Ribeiro Farinha Ferreira	**Executive Director**
Ana Mª. de Carvalho Jordão Ribeiro Monteiro de Macedo	**Executive Director**
António Manuel de Carvalho Ferreira Vitorino	**Non-Executive Director**
Nuno de Carvalho Fernandes Thomaz	**Non-Executive Director**
Diogo José Paredes Leite de Campos	**Non-Executive Director**

PART II – FINANCIAL STATEMENTS

Interim condensed consolidated accounts

CTT-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014 AND 31 DECEMBER 2013

Euros

	NOTES	Unaudited 30.06.2014	31.12.2013
ASSETS			
Non-current assets			
Tangible fixed assets	4	213,878,400	225,364,429
Investment properties	6	21,071,602	21,761,886
Intangible assets	5	12,525,900	13,049,308
Goodwill	8	24,297,705	25,083,869
Investments in associated companies		475,018	710,723
Other investments		1,106,812	130,829
Other non-current assets		834,115	1,951,139
Deferred tax assets	18	102,351,984	103,645,256
Total non-current assets		**376,541,536**	**391,697,439**
Current assets			
Inventories		5,931,916	5,993,971
Accounts receivable		140,224,785	135,589,645
Deferrals		4,772,327	4,875,139
Other current assets		71,153,953	17,102,436
Cash and cash equivalents		675,911,963	544,875,803
Total current assets		**897,994,944**	**708,436,994**
Total assets		**1,274,536,480**	**1,100,134,433**
EQUITY AND LIABILITIES			
Equity			
Share capital		75,000,000	75,000,000
Reserves	11	30,397,559	30,397,559
Retained earnings	11	84,381,869	83,367,465
Other changes in equity	11	24,114,295	24,548,756
Net profit attributable to equity holders of parent company		36,063,127	61,016,067
Non-controlling interests		(21,696)	1,604,372
Total equity		**249,935,154**	**275,934,219**
Liabilities			
Non-current liabilities			
Medium and long term debt		2,531,391	3,282,126
Employee benefits	14	276,156,847	278,638,868
Provisions	15	37,036,280	38,501,835
Deferrals		7,631,922	8,837,037
Deferred tax liabilities	18	5,301,925	5,481,878
Total non-current liabilities		**328,658,365**	**334,741,744**
Current liabilities			
Accounts payable	16	574,881,564	391,958,039
Employee benefits	14	19,863,101	19,904,186
Income taxes payable		13,633,618	93,968
Short term debt		4,644,838	3,716,557
Deferrals		3,708,398	4,103,751
Other current liabilities		79,211,442	69,681,969
Total current liabilities		**695,942,961**	**489,458,470**
Total liabilities		**1,024,601,326**	**824,200,214**
Total equity and liabilities		**1,274,536,480**	**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 6 MONTHS PERIODS ENDED 30 JUNE 2014 AND 30 JUNE 2013

Euros

	NOTES	Unaudited 30.06.2014	30.06.2013
Revenues		**356,503,303**	**350,616,708**
Sales and services rendered		344,979,810	344,184,823
Other operating income		11,523,493	6,431,885
Operating costs		**(301,567,678)**	**(303,075,290)**
Cost of sales		(7,489,995)	(7,760,344)
External supplies and services		(114,390,157)	(115,590,703)
Staff costs	17	(161,578,611)	(155,714,135)
Impairment of inventories and accounts receivable, net		(1,524,746)	(1,916,894)
Provisions, net		(1,550,581)	(3,520,424)
Depreciation/amortisation and impairment of investments, net		(10,734,067)	(13,445,462)
Other operating costs		(4,299,521)	(5,127,328)
Earnings before financial income and taxes		**54,935,625**	**47,541,418**
Financial results		**(3,167,300)**	**(1,318,781)**
Interest expenses		(5,981,673)	(6,009,535)
Interest income		2,511,280	4,690,754
Gains/losses in associated companies		303,093	-
Earnings before taxes		**51,768,325**	**46,222,637**
Income tax for the period	18	(15,730,684)	(14,405,036)
Net profit for the period		**36,037,641**	**31,817,601**
Net profit for the period attributable to:			
Equity holders of parent company		36,063,127	31,643,489
Non-controlling interests		(25,486)	174,112
Earnings per share of the parent company		0.24	0.21

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 6 MONTHS PERIODS ENDED 30 JUNE 2014 AND 30 JUNE 2013

Euros

	NOTES	Unaudited 30.06.2014	30.06.2013
Net profit for the period		**36,037,641**	**31,817,601**
Adjustments from application of the equity method (non re-classifiable adjustment to profit and loss)	11	(1,663)	(21,521)
Employee benefits (non re-classifiable adjustment to profit and loss)	14	(618,010)	-
Deferred tax/Employee benefits (non re-classifiable adjustment to profit and loss)	18	183,549	-
Other changes in equity	11	(1,600,582)	49,408
Other comprehensive income for the period after taxes		**(2,036,705)**	**27,887**
Comprehensive income for the period		**34,000,936**	**31,845,488**
Attributable to non-controlling interests		(1,626,068)	174,112
Attributable to shareholders of CTT		35,627,004	31,671,376

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

CTT-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 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	12	-	(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	11	-	-	(8,530,821)	-	-	-	(8,530,821)
Adjustments from the application of the equity method	11	-	-	-	(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	12	-	-	-	(60,000,000)	-	-	(60,000,000)
		-	**-**	**-**	**1,016,067**	**(61,016,067)**	**-**	**(60,000,000)**
Other movements		-	-	-	(1,663)	-	(6,482)	(8,145)
Participation sale		-	-	-	-	-	(1,594,100)	(1,594,100)
Actuarial gains/losses - Health Care	11	-	-	(434,461)	-	-	-	(434,461)
Adjustments from the application of the equity method		-	-	-	-	-	-	-
Net profit for the period		-	-	-	-	36,063,127	(25,486)	36,037,641
Comprehensive income for the period		**-**	**-**	**(434,461)**	**(1,663)**	**36,063,127**	**(1,626,068)**	**34,000,936**
Balance on 30 June 2014 (Unaudited)		**75,000,000**	**30,397,559**	**24,114,295**	**84,381,869**	**36,063,127**	**(21,696)**	**249,935,154**

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

CTT-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED CASH FLOW STATEMENT FOR THE 6 MONTHS PERIODS ENDED 30 JUNE 2014 AND 30 JUNE 2013

Euros

	NOTES	Unaudited 30.06.2014	30.06.2013
Operating activities			
Collections from customers		329,512,504	302,354,354
Payments to suppliers		(117,965,818)	(117,207,713)
Payments to employees		(144,088,546)	(148,391,066)
Cash flow generated by operations		67,458,140	36,755,575
Payments/receivables of income taxes		(1,518,202)	(2,925,055)
Other receivables/payments		121,821,696	164,189,431
Cash flow from operating activities (1)		187,761,633	198,019,951
Investment activities			
Receivables resulting from:			
Tangible fixed assets		774,000	167,389
Financial investments		4,020,100	33,160
Interest income		2,328,319	3,037,314
Dividends		198,423	-
Payments resulting from:			
Tangible fixed assets		(3,653,590)	(1,920,795)
Intangible assets		(4,238)	(262,938)
Cash flow from investment activities (2)		3,663,014	1,054,131
Financing activities			
Receivables resulting from:			
Loans obtained		2,820,000	2,691,527
Payments resulting from:			
Loans repaid		(1,501,990)	(6,944,369)
Interest expenses		(513,289)	(476,343)
Finance leases		(496,287)	(499,485)
Dividends	12	(60,000,000)	(37,500,000)
Cash flow from financing activities (3)		(59,691,566)	(42,728,670)
Net change in cash and cash equivalents (1+2+3)		131,733,082	156,345,412
Changes in the consolidation perimeter		(696,922)	-
Cash and cash equivalents at the beginning of the period		544,875,803	489,303,463
Cash and cash equivalents at the end of the period		675,911,963	645,648,874

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

CTT – CORREIOS DE PORTUGAL, S.A.

Notes to the interim condensed consolidated financial statements
(Amounts expressed in Euros)

TABLE OF CONTENTS

1. INTRODUCTION

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

CTT – Correios de Portugal, S. A. – Public Company ("CTT", "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" a government department and its present legal form is the result of successive re-organizations carried out by the Portuguese state business sector in the Communications area.

Decree-Law Nr. 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 No. 277/92 of 15 December, the Company's name was changed to the current CTT – Correios de Portugal, S.A.

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

At the General Meeting held on 30 October 2013, the registered capital of CTT was reduced from 87,325,000 Euros to 75,000,000 Euros, being from that date onwards 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 per share.

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

On 30 June, 2014 Parpública – Participações Públicas, SGPS, S.A., holds 31.503% of CTT's share capital.

The shares of CTT are listed on Euronext Lisbon.

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

These interim condensed consolidated financial statements were approved by the Board of Directors on 29 July 2014.

1.2. Activity

CTT and its subsidiaries ("CTT Group" or "Group"): CTT - Expresso – Serviços Postais e Logística, S.A., PostContacto – Correio Publicitário, Lda., Payshop (Portugal), S.A., CTT Gest - Gestão de Serviços e Equipamentos Postais, S.A., Mailtec Holding, SGPS, S.A. and their subsidiaries and Tourline Express Mensajería, SLU and its associates, establish, manage and operate the Universal Postal Service infrastructure and render financial services, which include the transfer of funds through current accounts and that might also be operated by a financial operator or a para-banking entity to be set up by the Group. 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 these are related with the normal operations of the public postal network, namely, the provision of information, 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 services under concession, CTT can provide other postal services as well as develop other activities, particularly those which enable the use of the universal service network in a profitable manner, either directly or through incorporation or interests in companies or other forms of cooperation between companies. Among these activities the provision of services of public interest or general interest subject to conditions to be agreed with the State should be highlighted.

Following the amendments introduced by Directive 2008/6/EC of 20 February 2008 of the European Parliament and of the Council to the regulatory framework that governs the provision of postal services, it was transposed into national law in 2012 through the adoption of Law Nr. 17/2012, of 26 April ("new Postal Law"), with the amendments introduced in 2013 by Decree-Law Nr. 160/2013, of 19 November, revoking Law Nr. 102/99, of 26 July.

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

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

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

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

As a result of the new Postal Law, the Portuguese Government revised the basis of the concession, through the publication of Decree-Law Nr. 160/2013 of 19 November, after which the fourth amendment to the concession Contract of the Universal Postal Service was made on 31 December 2013.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The adopted accounting policies, including financial risk management policies, are consistent with those followed in the preparation of the consolidated financial statements for the year ended 31 December 2013.

2.1. Basis of presentation

The interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IAS / IFRS") as adopted in the European Union as at 1 January 2014, and in accordance with IAS 34 - Interim Financial Reporting.

3. 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 report each business performance, as well as to allocate resources.

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

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

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

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

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

Initially, CTT, S.A. operating costs are allocated 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 the 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 first half of 2014 and 2013, are defined as follows:

	30.06.2014						
Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	Others non allocated	Total
Revenues	268,099,137	62,699,491	38,421,206	56,041,038	(68,757,570)	-	356,503,303
Sales and services rendered	251,497,423	61,829,304	33,877,384	-	(2,224,301)	-	344,979,810
Sales	9,591,921	537,433	-	-	(2,352)	-	10,127,001
Services rendered	241,905,502	61,291,871	33,877,384	-	(2,221,949)	-	334,852,809
Operating revenues external customers	8,034,151	870,187	4,503,876	11,105,377	(12,990,099)	-	11,523,493
Internal services rendered	8,567,563	-	39,946	34,904,598	(43,512,106)	-	-
Allocation central CTT structure	-	-	-	10,031,063	(10,031,063)	-	-
Operating costs	223,991,968	60,232,673	16,250,175	56,041,038	(68,757,570)	-	287,758,284
External supplies and services	50,491,356	47,374,310	5,407,088	26,322,256	(15,204,853)	-	114,390,157
Staff Costs	120,836,668	11,976,947	1,681,470	27,083,527	-	-	161,578,611
Other costs	8,633,672	881,416	190,942	2,093,033	(9,548)	-	11,789,516
Internal services rendered	34,075,124	-	8,894,761	542,222	(43,512,106)	-	(0)
Allocation to central CTT structure	9,955,148	-	75,915	-	(10,031,063)	-	-
EBITDA[1]	**44,107,169**	**2,466,818**	**22,171,031**	**-**	**-**	**-**	**68,745,019**
Depreciation/amortisation and impairment of investments, net	7,555,430	1,131,252	280,529	1,383,409	-	383,447	(10,734,067)
Impairment of inventories and accounts receivable, net							(1,524,746)
Impairment of non-depreciable assets							-
Provisions net							(1,550,581)
Interest expenses							(5,981,673)
Interest income							2,511,280
Gains/losses in associated companies							303,093
Earnings before taxes							**51,768,325**
Income tax for the year							(15,730,684)
Net profit for the year							**36,037,641**
Non-controlling interests							(25,486)
Equity holders of parent company							**36,063,127**

[1] Operating results + depreciation/amortisation + provisions and impairment losses, net

	30.06.2013						
Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	Others non allocated	Total
Revenues	273,292,650	63,310,652	29,317,988	46,073,139	(61,377,721)	-	350,616,708
Sales and services rendered	255,991,931	62,643,296	27,709,884	-	(2,160,287)	-	344,184,823
Sales	9,324,341	669,515	-	-	(16,256)	-	9,977,600
Services rendered	246,667,590	61,973,781	27,709,884	-	(2,144,031)	-	334,207,223
Operating revenues external customers	8,425,006	667,356	1,606,906	7,000,429	(11,267,812)	-	6,431,885
Internal services rendered	8,875,713	-	1,198	35,774,769	(44,651,680)	-	-
Allocation central CTT structure	-	-	-	3,297,941	(3,297,941)	-	-
Operating costs	224,369,687	58,873,699	16,253,706	46,073,139	(61,377,721)	-	284,192,510
External supplies and services	53,696,949	45,877,896	4,979,913	24,327,561	(13,291,616)	-	115,590,703
Staff Costs	122,440,244	11,893,847	1,542,395	19,837,648	-	-	155,714,135
Other costs	10,236,611	1,101,956	168,121	1,517,468	(136,484)	-	12,887,672
Internal services rendered	34,723,579	-	9,537,639	390,462	(44,651,680)	-	0
Allocation to central CTT structure	3,272,303	-	25,638	-	(3,297,941)	-	-
EBITDA(1)	**48,922,963**	**4,436,953**	**13,064,282**	**-**	**-**	**-**	**66,424,198**
Depreciation/amortisation and impairment of investments, net	8,305,023	1,690,072	354,670	2,063,771	-	1,031,925	(13,445,462)
Impairment of inventories and accounts receivable, net							(1,916,894)
Impairment of non-depreciable assets							-
Provisions net							(3,520,424)
Interest expenses							(6,009,535)
Interest income							4,690,754
Gains/losses in associated companies							-
Earnings before taxes							**46,222,637**
Income tax for the year							(14,405,036)
Net profit for the year							**31,817,600**
Non-controlling interests							174,112
Equity holders of parent company							**31,643,489**

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

The revenues are detailed as follows:

Thousand Euros	30.06.2014	30.06.2013
Mail	268,099	273,293
Transactional mail	205,345	204,808
Press mail	7,477	7,515
Parcels (USO)	3,369	3,382
Advertising mail	15,102	17,236
Retail	7,872	8,414
Philately	3,592	3,113
Business Solutions	6,154	8,266
Other	19,187	20,558
Express & Parcels	62,699	63,311
Financial Services	38,421	29,318
Central CTT Struture	56,041	46,073
Intragroup eliminations	(68,758)	(61,378)
	356,503	**350,617**

The assets by segment are detailed as follows:

Assets	30.06.2014 Mail	Express & Parcels	Financial Services	Central CTT Structure	Non allocated assets	Total
Intagible assets	2,507,273	3,188,759	192,891	3,740,666	2,896,312	12,525,900
Tangible fixed assets	182,576,963	11,438,882	834,929	16,877,810	2,149,816	213,878,400
Investment properties					21,071,602	21,071,602
Goodwill	7,299,356	16,592,248	406,101			24,297,705
Deferred tax assets					102,351,984	102,351,984
Accounts receivable					140,224,785	140,224,785
Other assets					84,274,141	84,274,141
Cash and cash equivalents					675,911,963	675,911,963
	192,383,592	**31,219,888**	**1,433,920**	**20,618,476**	**1,028,880,602**	**1,274,536,480**

Assets	31.12.2013 Mail	Express & Parcels	Financial Services	Central CTT Structure	Non allocated assets	Total
Intagible 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	30.06.2014 Mail	Express & Parcels	Financial Services	Central CTT Structure	Total
Medium and long term debt	**1,553,442**	**977,949**	**-**	**-**	**2,531,391**
Bank loans					
Leasings	1,553,442	977,949			2,531,391
Short term debt	**323,309**	**4,321,530**	**-**	**-**	**4,644,839**
Bank loans	-	3,816,354			3,816,354
Leasings	323,309	505,176			828,485
	1,876,752	**5,299,478**	**-**	**-**	**7,176,230**

Other information	31.12.2013 Mail	Express & Parcels	Financial Services	Central CTT Structure	Total
Medium and long term debt	**2,047,077**	**1,235,049**	**-**	**-**	**3,282,126**
Bank loans					
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 areas is disclosed below:

Thousand Euros	30.06.2014	30.06.2013
Revenue - Portugal	307,468	306,151
Revenue - other countries	37,511	38,034
	344,980	344,185

The financial statements are subject to seasonality, however this does not affect comparability between identical periods in a given year. There are atypical/non-recurring factors that may affect comparability between equal periods of the several years such as the number of working days of the period (mobile holidays or weekend holidays), special events (elections, promotional campaigns for clients) which may impact the revenue to increase / decrease from one period to another.

4. TANGIBLE FIXED ASSETS

During the period ended on 30 June 2014 and year ended on 31 December 2013, the movement which occurred in the carrying value of "Tangible fixed assets", as well as the respective accumulated depreciation, was as follows:

	30.06.2014 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	-	296,291	664,833	-	86,210	142,679	488,449	101,250	1,779,712
Disposals	-	(23,210)	-	-	(7,219)	(359)	-	-	(30,788)
Transfers and write-offs	-	120,090	(8,385,644)	(483,154)	(29,644,246)	(1,845,337)	(120,090)	-	(40,358,380)
Adjustments	-	2,780	684,918	(280,939)	(398,506)	(57,832)	-	-	(49,579)
Changes in the consolidation perimeter	(982,877)	(3,079,671)	(2,881,147)	(230,355)	(617,644)	-	-	-	(7,791,694)
Closing balance	37,557,678	334,757,002	138,743,939	2,612,885	51,165,517	22,601,773	542,642	855,291	588,836,729
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	-	4,527,391	2,516,588	32,729	1,232,973	563,737	-	-	8,873,419
Disposals	-	(23,210)	-	-	(7,020)	(359)	-	-	(30,588)
Transfers and write-offs	-	-	(8,383,434)	(483,154)	(29,806,442)	(1,663,876)	-	-	(40,336,906)
Adjustments	-	1,270	218,869	(210,948)	(10,014)	(1,603)	-	-	(2,426)
Changes in the consolidation perimeter	-	(611,746)	(2,041,810)	(219,443)	(595,199)	-	-	-	(3,468,198)
Closing balance	3,899,830	180,045,195	123,367,899	2,506,456	47,498,232	17,640,717	-	-	374,958,329
Net Tangible fixed assets	33,657,848	154,711,808	15,376,040	106,430	3,667,285	4,961,056	542,642	855,291	213,878,400

	31.12.2013								
	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 30 June 2014 and 31 December 2013, Land and natural resources and Buildings and other constructions include 5,095,002 Euros and 5,205,814 Euros, respectively, related to land and property in co-ownership with PT Comunicações, S.A..

In the period ended on 30 June 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.

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

During the period ended on 30 June 2014, the most significant movements in Tangible Fixed Assets were the following:

<u>Land and natural resources:</u>
The movements associated to additions and disposals relate mostly of works to the capitalization of third party buildings of CTT, CTT Expresso and Tourline.

<u>Basic equipment</u>:
The amount in the additions caption relates to the acquisitions of bikes and trailers of 320 thousand Euros, upgrade system for TOP labelling machines worth about 54 thousand Euros and acquisition of payment terminals, by Payshop, totalling 180 thousand Euros.

The amount in the adjustments caption, relates to the reclassification to basic equipment, performed in CORRE, against the remaining balances of Tangible Fixed Assets.

<u>Tangible fixed assets in progress</u>:
The amounts under this heading are related to improvement works on own property.

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

The depreciation recorded amounting to 8,873,419 Euros (10,029,528 Euros on 30 June 2013), is stated in the heading “Depreciation/amortisation and impairment of investments, net”.

Contractual commitments relative to Tangible Fixed Assets are as follows:

Basic equipment
These commitments relate to the acquisition of sorting equipment developments of 397,000 Euros, improvements in OCR System (Optical code reading system) of 210,000 Euros, transportation vans with a value of 64,900 Euros, electric vans (67,000 Euros), sequencing by CP7 (7 digits postcode) in MARS machines (44,300 Euros), internal containers for tray holders of 41,800 Euros and notebooks and docking stations of 55,100 Euros.

5. INTANGIBLE ASSETS

During the period ended on 30 June 2014 and the year ended on 31 December 2013, the movements which occurred in the main categories of Intangible assets, as well as the respective accumulated amortisation, were as follows:

30.06.2014	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	-	137,380	-	-	825,312	-	962,692
Transfers and write-offs	-	1,376,398	-	-	(302,057)	-	1,074,342
Adjustments	-	-	1,618	-	-	-	1,618
Changes in the consolidation perimeter	-	(316,797)	(60,846)	-	-	-	(377,643)
Closing balance	4,372,922	37,737,574	11,659,692	444,739	3,195,320	-	57,410,246
Accumulated amortisation							
Opening balance	4,350,799	30,479,661	7,472,614	396,856	-	-	42,699,930
Amortisation for the period	4,824	1,261,273	194,714	16,391	-	-	1,477,201
Transfers and write-offs	(19,682)	1,094,024	-	-	-	-	1,074,342
Changes in the consolidation perimeter	-	(316,797)	(50,330)	-	-	-	(367,127)
Closing balance	4,335,941	32,518,161	7,616,998	413,247	-	-	44,884,346
Net intangible assets	36,981	5,219,414	4,042,694	31,492	3,195,320	-	12,525,900

31.12.2013	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, in the amount of 1,200,000 Euros. This license has an indefinite useful life, therefore it is not amortised.

The heading of Computer Software, the amount of 1,133,699 Euros included in the Transfers and write-offs caption, respects to the reclassification occurred in CTT of the HR Access software which was previously classified under Office Equipment.

The transfers occurred on 30 June 2014 in Intangible Assets in progress refer to Computer Software, which were completed during the period.

The amounts of 168,031 Euros and 126,411 Euros, capitalized under Computer Software on intangible assets in progress as at 30 June 2014 and 30 June 2013, respectively, relate to staff costs incurred in the development of these projects.

As at 30 June 2014 intangible assets in progress relate to IT projects which are under development, of which the most relevant are:

	30.06.2014
New humam resources management application	846,120
Certification of invoices	375,676
Information management software	273,314
Sales force automation	170,936
SAP archives	115,982
Invoice management	110,604
Mail products evolution	97,258
Occasional customers data base	96,534
Operational control security	90,633
Geo 10 (georeferencing system)	84,904
Treasury management system	84,216
Automatic processing addresses software	69,006
	2,415,183

The amortisation, amounting to 1,477,201 Euros (2,384,009 Euros at 30 June 2013) was recorded in the heading Depreciation / amortisation and impairment of investments, net.

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

Contractual commitments relative to Intangible Assets are as follows:

Computer Programmes

The purchase commitments relate to developments in software for Litigation and Legal Advisory of 30,100 Euros and to the acquisition of PrintNet Licenses for Mailtec Group of 14,300 Euros.

6. INVESTMENT PROPERTIES

As at 30 June 2014 and 31 December 2013, the Group has the following assets classified as Investment properties:

	30.06.2014		
	Land and natural resources	Buildings and other constructions	Total
Investment properties			
Opening balance	7,237,214	42,551,163	49,788,377
Disposals	(13,009)	(820,374)	(833,383)
Closing balance	7,224,205	41,730,789	48,954,994
Accumulated depreciation			
Opening balance	273,950	26,146,036	26,419,986
Depreciation for the period	-	383,447	383,447
Disposals	(1,251)	(525,296)	(526,546)
Closing balance	272,700	26,004,187	26,276,887
Accumulated impairment			
Opening balance	-	1,606,505	1,606,505
Impairment losses	-	-	-
Transfers/Adjustments	-	-	-
Closing balance	-	1,606,505	1,606,505
Net Investment properties	6,951,506	14,120,097	21,071,602

	31.12.2013		
	Land and natural resources	Buildings and other constructions	Total
Investment properties			
Opening balance	1,334,499	65,653	1,400,152
Transfers/Adjustments	5,902,715	42,485,510	48,388,225
Closing balance	7,237,214	42,551,163	49,788,377
Accumulated depreciation			
Opening balance	-	31,209	31,209
Depreciation for the period	-	782,537	782,537
Transfers/Adjustments	273,950	25,332,290	25,606,240
Closing balance	273,950	26,146,036	26,419,986
Accumulated impairment			
Opening balance	-	-	-
Impairment losses	-	1,104,392	1,104,392
Transfers/Adjustments	-	502,113	502,113
Closing balance	-	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 fixed assets, which are classified as investment property, in accordance with the valuations obtained as at the end of fiscal year 2013 which were conducted by independent entities, amounts to 29,374,185 Euros.

As at 30 June 2013 the impairment loss amounted to 1,031,268 Euros.

Depreciation for the period, amounting to 383,447 Euros (657 Euros on 30 June 2013) were recorded in the caption Depreciation / amortisation and impairment of investments (losses / reversals).

7. COMPANIES INCLUDED IN THE CONSOLIDATION

Subsidiary companies

As at 30 June 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	30.06.2014 Percentage of ownership Direct	Indirect	Total	31.12.2013 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. (1) ("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. (2) ("Mailtec CON")	Estrada Casal do Canas, Edificio Mailtec, 2720-092 Amadora	10	90	100	10	90	100
Mailtec Processos, Lda. (3) ("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. (4) ("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

(1) Previous name - Mailtec -Tecnologias de Informação, S.A.

(2) Previous name - DSTS - Desenvolvimento e e Integração de Tecnologia, S.A.

(3) Previous name - Equipreste - Sociedade Técnica de Serviços, Lda.

(4) The participation held on the subsidiary EAD was sold on 30.04.2014

The associated company CORRE is included in the consolidation due to the fact that the Group exercises effective control.

During the period ended on 30 June 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 Ltd 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 in the consolidation perimeter.

Joint ventures

As at 30 June 2014 and 31 December 2013 the Group held the following interests in joint ventures, accounted for through the equity method:

Company name	Head office	30.06.2014 Percentage of ownership Direct	Indirect	Total	31.12.2013 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 30 June 2014 and 31 December 2013, CTT held the following interests in associated companies accounted for through the equity method:

Company name	Head office	30.06.2014 Percentage of ownership Direct	Indirect	Total	31.12.2013 Percentage of ownership 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.

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

Changes in the consolidation perimeter

During the period ended on 30 June 2014, the consolidation perimeter was changed due to the sale of EAD's participation.

Following this transfer a gain of 256,383 Euros was recorded under the caption Gains / losses in associates in the consolidated income statement.

8. GOODWILL

As at 30 June 2014 and 31 December 2013, the Goodwill was detailed as follows:

	Year of acquisition	30.06.2014	31.12.2013
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	16,592,248
EAD - Empresa de Arquivo de Documentação, S.A.	2006	-	786,164
		24,297,705	25,083,869

During the periods ended on 30 June 2014 and the year ended on 31 December 2013, the movements in Goodwill were as follows:

	30.06.2014	31.12.2013
Opening balance	25,083,869	25,528,608
Transfer / adjustments	-	(444,739)
Disposals	(786,164)	-
Closing balance	24,297,705	25,083,869

In the period ended 30 June 2014, following the sale of the participation in the company EAD, the Goodwill in the amount of 786,164 Euros, was eliminated.

In 2013 the amount of 444,739 Euros regarding Tourline's *Fondos de Comércio* was reclassified to Other intangible assets.

Goodwill impairment assessment

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

As at 31 December 2013, CTT performed an impairment test, therefore not having been identified at 30 June 2014 indicators of impairment, no new impairment tests were performed to this date.

As at 30 June 2014 and 31 December 2013, the impairment losses accounted were as follows:

	30.06.2014				
Company	Year of acquisition	Initial value	Impairment losses for the period	Accumulated impairment losses	Carrying value
Payshop Moçambique, S.A. (a)	2008	235,946	-	235,946	-
		235,946	-	235,946	-

	31.12.2013				
Company	Year of acquisition	Initial value	Impairment losses for the period	Accumulated impairment losses	Carrying value
Tourline Express Mensajería, SLU	2005	20,671,985	-	4,079,737	16,592,248
EAD - Empresa de Arquivo de Documentação, S.A.	2006	1,082,015	-	295,851	786,164
Payshop Moçambique, S.A. (a)	2008	235,946	-	235,946	-
		21,989,946	-	4,611,534	17,378,412

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

9. ACCUMULATED IMPAIRMENT LOSSES

During the period ended on 30 June 2014 and the year ended on 31 December 2013, the following movements occurred in the impairment losses:

	30.06.2014					
	Opening balance	Increases	Reversals	Utilization/ Transfers	Changes in the consolidation perimeter	Closing balance
Other non-current assets						
Other accounts receivable	1,296,044	188,399	-	-	-	1,484,443
INESC loan	1,397,613	-	(1,000,852)	-	-	396,761
	2,693,657	188,399	(1,000,852)	-	-	1,881,204
Customers and Other current assets						
Customers	24,361,985	2,048,646	(415,893)	1,022	(66,375)	25,929,385
Other accounts receivable	9,098,933	1,236,029	(668,742)	-	-	9,666,220
INESC loan	49,740	-	-	-	-	49,740
	33,510,658	3,284,675	(1,084,635)	1,022	(66,375)	35,645,345
Inventories						
Merchandise	1,812,893	37,736	(4,967)	-	-	1,845,662
Raw, subsidiary and consumable	685,925	104,390	-	-	-	790,315
	2,498,818	142,126	(4,967)	-	-	2,635,977
	38,703,133	3,615,200	(2,090,454)	1,022	(66,375)	40,162,526

	31.12.2013					
	Opening balance	Increases	Reversals	Utilization	Transfers	Closing balance
Other non-current assets						
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						
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						
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 4, 6 and 8.

10. EQUITY

As at 30 June 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 to 75,000,000 Euros, being from that date forward represented by 150,000,000 shares, as a result of a stock split which was accomplished through the reduction of the nominal value of 4.99 Euros to 0.50 Euros per share. The amount of 12,325,000 Euros related to the reduction of the capital was transferred to Other reserves (Note 11).

As at 30 June 2014 and 31 December 2013 the Company's shareholders with, greater than or equal to 2% shareholdings are as follows:

	30.06.2014		
Shareholder	**Nr shares**	**%**	**Nominal value**
Parpública - Participações Públicas (SGPS), SA (1)	47,253,834	31.503%	23,626,917
Pioneer Asset Management, S.A. (2)	3,128,282	2.086%	1,564,141
Standard Life Investments LTD (3)	3,071,878	2.048%	1,535,939
BlackRock, Inc. (4)	3,059,021	2.039%	1,529,511
JP Morgan Asset Management (UK) Limited (5)	3,023,319	2.016%	1,511,660
Other shareholders	90,463,666	60.309%	45,231,833
Total	**150,000,000**	**100.000%**	**75,000,000**

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

(2) Participation of several funds indirectly managed by Pioneer Asset Management, S.A., owned by UniCredit S.p.A.

(3) Shares atributable to Vidacos Nominees.

(4) Participation of several companies controlled by BlackRock, Inc.

(5) JP Morgan Asset Management (UK) Limited is a subsidiary of JP Morgan Asset Management Holdings Inc.

Shareholder	31.12.2013 Nr shares	%	Nominal value
Parpública - Participações Públicas (SGPS), SA (1)	45,000,000	30.000%	22,500,000
Parpública - Participações Públicas (SGPS), SA (2)	9,545,455	6.364%	4,772,728
Total (3)	54,545,455	36.364%	27,272,728
Goldman Sachs International (4)	7,496,479	4.998%	3,748,240
Deutsche Bank AG London (5)	3,063,798	2.043%	1,531,899
Other shareholders (6)	84,894,268	56.596%	42,447,134
Total	**150,000,000**	**100.000%**	**75,000,000**

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

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

(3) Full participation Parpública - Participações Públicas (SGPS), SA as at 31 December 2013, which in turn is owned entirely by the Portuguese State. From 3 January, 2014 Parpública - Public Participation (SGPS), SA holds 47,253,834 shares, i.e. 31.5% of the share capital of CTT.

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

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

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

11. RESERVES, OTHER CHANGES IN EQUITY AND RETAINED EARNINGS

Reserves

As at 30 June 2014 and 31 December 2013, the heading "Reserves" was detailed as follows:

	30.06.2014	31.12.2013
Legal reserves	18,072,559	18,072,559
Other reserves	12,325,000	12,325,000
	30,397,559	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 cover losses after the other reserves have been used, or incorporated in the share capital.

Other reserves
This heading records the profits transferred to reserves that are not imposed by the law or statutes, nor constituted pursuant to contracts signed by the Company.

In 2013, the amount of 10,555,949 Euros was used for the payment of an extraordinary dividend (Note 12).

The balance of "Other reserves" as at 30 June 2014 and 31 December 2013, 12,325,000 Euros refers to the amount of reduction of the share capital and was transferred to this caption (Note 10).

Retained earnings
During the period ended on 30 June 2014 and the year ended on 31 December 2013, the following movements were made in the heading Retained earnings:

	30.06.2014	31.12.2013
Opening balance	83,367,465	87,105,292
Application of net profit of the prior year	61,016,067	35,735,268
Distribution of dividends (Note 12)	(60,000,000)	(39,444,051)
Adjustments from the application of the equity method	-	(29,043)
Other movements	(1,663)	-
Closing balance	84,381,869	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 14).

Thus, for the period ended on 30 June 2014 and the year ended 31 December 2013 the movements occurred in this heading were as follows:

	30.06.2014	31.12.2013
Opening balance	24,548,756	33,079,577
Actuarial gains/losses	(618,010)	(11,680,870)
Tax effect	183,549	3,150,049
Closing balance	24,114,295	24,548,756

12. DIVIDENDS

At the General Assembly held on 5 May 2014, the Board 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 the month of May 2014.

At the General Assembly held on 30 May 2013, the Board approved the distribution of a dividend of 2.20 Euros per share (which took into consideration the 17,500,000 shares existing at 31.12.2012) relative to 31 December 2012 and a total dividend of 38,554,129 Euros was paid, which was subject to a withholding tax of 25% in June 2013. It was also decided to pay an extraordinary dividend in the amount of 11,445,871 Euros (0.65 Euro per share), which was also subject to withholding tax of 25% in June 2013.

For the extraordinary dividend "Other reserves" were used in the amount of 10,555,949 Euros and "Retained earnings" in the amount of 889,922 Euros.

13. EARNINGS PER SHARE

During the periods ended on 30 June 2014 and 30 June 2013, the earnings per share were calculated as follows:

	30.06.2014	30.06.2013
Net profit for the period attributable to equity holders of the parent company	36,063,127	31,643,489
Average number of ordinary shares	150,000,000	150,000,000
Earnings per share:		
Basic	0.24	0.21
Diluted	0.24	0.21

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

In October 2013, the number of shares varied, from 17,500,000 to 150,000,000 following the capital reduction made to reserves and a stock split by reducing the nominal value. Thus, since the change in the number of shares did not comprise the inflow or outflow of Company funds, the calculation of earnings per share on 30 June 2013, took into account the number of existing shares on 31 December 2013 (150,000,000).

There are no dilutive factors of earnings per share.

14. EMPLOYEE BENEFITS

Liabilities related to employee benefits refer to (i) post-employment benefits – health care and (ii) other benefits for employees. During the period ended on 30 June 2014 and the year ended on 31 December 2013, these liabilities presented the following movement:

	30.06.2014		
	Health care	Other long term benefits	Total
Opening balance	263,371,000	35,172,054	298,543,054
Movement of the period	368,500	(2,891,606)	(2,523,106)
Closing balance	263,739,500	32,280,448	296,019,948

	31.12.2013		
	Health care	Other long term benefits	Total
Opening balance	252,803,000	50,513,360	303,316,360
Movement of the period	10,568,000	(15,341,306)	(4,773,306)
Closing balance	263,371,000	35,172,054	298,543,054

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

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

	30.06.2014	31.12.2013
Non-current liabilities	276,156,847	278,638,868
Current liabilities	19,863,101	19,904,186
	296,019,948	298,543,054

For the periods ended on 30 June 2014 and 30 June 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:

	30.06.2014	30.06.2013
Costs for the period		
Health care (1)	7,046,500	6,873,500
Other long term benefits (2)	144,035	(6,847,115)
	7,190,535	26,385
Other changes in equity		
Health care	(618,010)	-
	(618,010)	-

(1) Includes staff costs, other costs and interest expenses.
(2) Includes staff costs and interest expenses.

The impacts as at 30 June 2014 were obtained by the company supported on the actuarial study as at 31 December 2013.

Health care

CTT is responsible for financing the health care plan applicable to certain employees. In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is made by an independent entity every year, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable, having, as at 31 December 2013, elaborated an actuarial study.

The main assumptions used in the actuarial study performed on 31 December 2013 are detailed as follows:

	31.12.2013
Financial assumptions	
Discount rate	4.00%
Salaries expected growth rate	0% in 2013 and 2014 2.75% from that date
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP ‹ 2%)
Inflation rate	2.00%
Health costs growth rate	
- Infation rate	2.00%
- Growhth due to ageing	0% in 2013 and 2014 2% from that date
Demographic assumptions	
Mortality table	TV 88/90
Disability table	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 actuarial study and with a duration equivalent to that of the liabilities with health care.

The maintenance of the discount rate to 4.00% was motivated by the Group’s analysis of the evolution of the macroeconomic context taking into account a constant need to match the actuarial and financial assumptions to that reality.

The salaries expected growth rate was determined according to the salary policy defined by the Group.

The pensions expected growth rate was determined considering the estimated evolution of inflation and GDP growth rate.

The health care costs growth rate reflects the best estimate for the future evolution of these costs, considering the history of the plan’s data.

The demographic assumptions are based on the mortality and disability tables considered appropriate for the actuarial assessment of this plan.

The evolution of the present value of the liabilities related to the health care plan has been as follows:

	30.06.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010
Liabilities at the end of the period	263,739,500	263,371,000	252,803,000	272,102,000	272,123,000

For the period ended on 30 June 2014 and the year ended on 31 December 2013, the movement which occurred in the present value of the defined benefits liability regarding the health care plan was as follows:

	30.06.2014	31.12.2013
Opening balance	263,371,000	252,803,000
Service costs of the period	1,912,500	3,882,000
Interest cost of the period	5,134,000	9,865,000
Pensioners contributions	1,807,007	3,552,478
(Payment of benefits)	(8,525,517)	(17,249,738)
(Other costs)	(577,500)	(1,162,610)
Actuarial (gains)/losses	618,010	11,680,870
Closing balance	263,739,500	263,371,000

During the periods ended on 30 June 2014 and 30 June 2013, the total costs for the period are recognised as follows:

	30.06.2014	30.06.2013
Staff costs/employee benefits (Note 17)	1,335,000	1,345,500
Other costs	577,500	595,500
Interest expenses	5,134,000	4,932,500
	7,046,500	6,873,500

On 30 June 2014 the actuarial gains / (losses) amounting to 618,010 Euros (11,680,870 Euros as at 31 December 2013) were recognised in equity under the caption Other changes in equity, net of deferred taxes amounting to 183,549 Euros (3,150,049 Euros 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 the remaining variables constant, the liabilities of the health care plan would be 307,989 thousand Euros, increasing by approximately 16.9%.

(ii) If the discount rate was reduced 0.5 per cent and keeping all the remaining variables constant, the liabilities would increase by approximately 6.8%, amounting to 281,280 thousand Euros.

Other long term benefits

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, and also prepared an actuarial study to an independent entity to assess the liabilities at the reporting date.

The main assumptions used in the actuarial study performed on 31 December 2013 are detailed as follows:

	31.12.2013
Financial assumptions	
Discount rate	4.00%
Salaries growth rate	0% in 2013 and 2014 2.75% from that date
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP ‹ 2%)
Inflation rate	2.00%
Demographic assumptions	
Mortality table	TV 88/90
Disability rate	Swiss RE

For the determination of the Group's liabilities to employees in situations of "Suspension of contracts, redeployment and release of employment", salary growth rates of 0% were considered for 2013 and 2014, and 2.75% for the following years. The salary growth rate of 2.75% was applied to the remaining employee benefits, except for the "Telephone subscription fee" and "Support for cessation of professional activity" for which no value update was considered.

For the period ended on 30 June 2014 and the year ended on 31 December 2013, the movement of liabilities with other employee long-term benefits was as follows:

	30.06.2014	31.12.2013
Suspension of contracts, redeployment and release of employment		
Opening balance	19,743,891	24,084,448
Interest cost of the period	345,103	844,267
Liabilities relative to new beneficiaries	275,987	1,914,115
(Payment of benefits)	(2,607,314)	(7,459,833)
Curtailment	(908,166)	-
Actuarial (gains)/losses	354,415	360,894
Closing balance	17,203,915	19,743,891
Telephone subscription charge		
Opening balance	4,800,195	14,242,125
Interest cost of the period	89,272	451,814
Curtailment	-	(8,211,129)
(Payment of benefits)	(139,625)	(1,445,398)
Actuarial (gains)/losses	(196,964)	(237,217)
Closing balance	4,552,877	4,800,195
Pension for accidentes at work		
Opening balance	7,004,370	7,563,939
Interest cost of the period	135,824	293,948
(Payment of benefits)	(200,547)	(422,708)
Actuarial (gains)/losses	(18,105)	(430,809)
Closing balance	6,921,541	7,004,370
Monthly life annuity		
Opening balance	3,544,784	3,691,640
Interest cost of the period	69,857	145,503
(Payment of benefits)	(52,676)	(108,120)
Actuarial (gains)/losses	743	(184,239)
Closing balance	3,562,708	3,544,784
Support for cessation of professional activity		
Opening balance	78,815	931,209
Interest cost of the period	9,312	18,624
(Payment of benefits)	(35,479)	(871,064)
Actuarial (gains)/losses	(13,241)	46
Closing balance	39,408	78,815
Total closing balaces	32,280,449	35,172,055

During the periods ended on 30 June 2014 and 30 June 2013, the total costs for the period were recognised as follows:

	30.06.2014	30.06.2013
Staff costs/employee benefits (Note 17)		
Suspension of contracts, redeployment and release of employment	(277,764)	682,484
Telephone subscription charge	(196,964)	(8,445,339)
Pension for accidents at work	(18,105)	-
Monthly life annuity	743	-
Support for cessation of professional activity	(13,241)	-
subtotal	(505,332)	(7,762,855)
Interest expenses	649,368	915,740
	144,035	(6,847,115)

In the year ended 31 December 2013, the Ordinance 378-G/2013 of 31 December changed the retirement age from 65 to 66 for employees covered by the Social Security. This change had a more significant impact on liability in connection with the "Suspension of contracts, relocation and release of jobs" where the addition of the responsibility was approximately 642 thousand Euros.

In the year ended 31 December 2013, the Board of Directors of CTT, decided to substitute the payment from 1 January 2014 of the telephone subscription fee, with an equivalent measure to retired workers and surviving spouses who translated his benefit in replacing the financial support of a benefit in kind.

The sensitivity analysis done at 31 December 2013 for the Other long term benefits plans leads to the conclusion that, if the discount rate was reduced by 50bps, keeping everything else constant, this would give rise to an increase of liabilities for past services of approximately 3.1%, increasing to 36,262 thousand Euros.

15. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

For the period ended on 30 June 2014 and the year ended on 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:

	30.06.2014					
	Opening balance	Increases	Reversals	Reduction	Transfers	Closing balance
Non-current provisions						
Litigations	10,868,975	3,543,291	(2,569,269)	(1,685,452)	814,840	10,972,385
Investments in associated companies	213,840	-	-	-	-	213,840
Onerous contracts	12,643,714	538,260	-	(1,261,957)	-	11,920,017
Other provisions	14,775,306	38,299	-	(68,727)	(814,840)	13,930,038
	38,501,835	4,119,850	(2,569,269)	(3,016,136)	-	37,036,280

	31.12.2013					
	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
Investments in associated companies	220,816	-	-	(6,976)	-	213,840
Onerous contracts	13,212,379	1,844,338	-	(2,413,003)	-	12,643,714
Other provisions	13,894,565	4,387,527	(746,183)	(377,694)	(2,382,909)	14,775,306
	36,596,189	9,989,224	(4,341,242)	(4,067,038)	324,702	38,501,835

The provisions for litigations are due to the liabilities arising from lawsuits brought against the Group and are estimated based on information from its lawyers.

Investments in associated companies

The provision for investments in associated companies corresponds to the assumption by the Group of legal or constructive obligations regarding the associated company PayShop Moçambique, S.A..

Onerous Contracts

During the period ended 30 June 2014 the provision to cover the estimate of the net present value of the expenditure associated with onerous contracts was increased by 538,260 Euros (1,844,338 Euros at 31 December 2013).

As at 30 June 2014 the amount provided for onerous contracts is 11,920,017 Euros (12,643,714 Euros at 31 December 2013).

Other provisions

As at 30 June 2014 the provision to cover any contingencies relating to employment litigation actions not included in the current court proceedings, and related to remuneration differences amounts to 11,697,352 Euros (12,512,193 Euros at 31 December 2013).

During the period ended 30 June 2014, in addition to the previously mentioned situations, this heading also includes the amount of 890,000 Euros, which arises from the assessment made by the management regarding the possibility of the enforcement of tax contingencies.

The net amount between increases and reversals of provisions was recorded in the Consolidated income statement under the headings “Provisions, net” and amounted to 1,550,581 Euros and 3,520,424 Euros as at 30 June 2014 and 30 June 2013, respectively.

Guarantees provided

As at 30 June 2014 and 31 December 2013 the Group had provided bank guarantees to third parties as follows:

Description	30.06.2014	31.12.2013
Fundo de Pensões do Banco Santander Totta	3,000,469	-
Planinova - Soc. Imobiliária, S.A.	2,033,582	-
LandSearch, Compra e Venda de Imóveis	1,775,310	-
Novimoveste - Fundo de Investimento Imobiliário	1,508,269	-
Lusimoveste - Fundo de Investimento Imobiliário	1,261,863	-
Tribunais	301,303	754,399
Autoridade Tributária e Aduaneira	515,000	390,000
Lisboagás, S.A.	190,000	190,000
Autarquias	157,274	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	28,547	14,000
ACT Autoridade Condições Trabalho	54,458	45,733
PT PRO - Serv Adm Gestao Part, S.A.	50,000	50,000
DRCAL Direcção Regional Contencioso Administrativo Lisb	-	49,880
Record Rent a Car (Cataluña, Levante)	40,000	40,000
SetGás, S.A.	30,000	30,000
ANA - Aeroportos de Portugal	29,000	29,000
Santa Casa da Misericórdia de Lisboa	86,917	86,917
TIP - Transportes Intermodais do Porto, ACE	50,000	50,000
Ministério Educação	23,700	38,700
EPAL - Empresa Portuguesa de Águas Livres	21,433	21,433
Natur Import (nave Barbera)	18,096	18,096
Portugal Telecom, S.A.	16,658	16,657
SPMS - Serviços Partilhados do Ministério da Saúde	-	16,092
Poczta Polska Uslugi Cyfrowe Sp	-	257,783
Petrogal, S.A.	10,774	10,774
Alquiler Nave Tarragona	7,155	7,155
TNT Express Worldwide	6,010	6,010
SMAS Torres Vedras	4,001	4,001
Infarmed IP	3,856	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	4,752	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	18,413	2,735
	11,684,848	2,734,022

Relating the guarantees for lease contracts and according to the determinations in some of the contracts of the buildings occupied by the Company's services, having the Portuguese State ceased to hold the majority of the share capital of CTT- Correios de Portugal, S.A., bank guarantees on first demand must be provided. These guarantees have already been issued in the amount of 9,579,493 Euros with the exception of the guarantee related to the *Conde Redondo* building, whose landlord has not requested the mentioned guarantee at this stage.

Commitments

There are contractual commitments related to tangible fixed assets and intangible assets that are detailed respectively in Notes 4 and 5.

16. ACCOUNTS PAYABLE

During the period ended on 30 June 2014 and year ended on 31 December 2013, the heading "Accounts payable" showed the following composition:

	30.06.2014	31.12.2013
Advances from customers	3,011,689	2,826,481
CNP money orders	368,884,549	202,301,462
Suppliers	62,012,813	59,737,076
Invoices pending confirmation	9,990,627	8,816,225
Fixed assets suppliers	655,880	2,463,632
Invoices pending confirmation (fixed assets)	328,315	523,341
Concession rent	201,424	201,424
Values collected on behalf of third parties	5,141,334	4,180,724
Postal financial services	120,009,158	107,689,039
Other accounts payable	4,645,773	3,218,635
	574,881,564	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.

The increase in this caption is due to the payment of the holiday pay that occurs in the month of June.

Postal financial services

The increase in this heading arises, mainly, from values collected related to taxes and savings certificates.

17. STAFF COSTS

During the periods ended on 30 June 2014 and 30 June 2013, the composition of the heading "Staff Costs" was as follows:

	30.06.2014	30.06.2013
Board of Directors and Audit Committee remuneration (Note 19)	589,882	622,208
Staff remuneration	124,622,678	126,269,767
Employee benefits	829,669	(6,417,355)
Indemnities	1,390,030	1,021,697
Social security charges	27,523,172	27,606,743
Occupational accident and disease insurance	928,794	785,011
Social welfare costs	5,662,119	5,770,118
Other staff costs	32,267	55,946
	161,578,611	155,714,135

<u>Remuneration of the statutory bodies</u>

In the periods ended 30 June 2014 and 30 June 2013, the fixed and variable remunerations attributed to the members of the statutory bodies of the different companies of the Group were as follows:

	30.06.2014			
	Executive Board of Directors	Audit Committee /Statutory Accountant	General Meeting of Shareholders	Total
Fixed remuneration	471,023	118,859	-	589,882
Variable remuneration	-	-	-	-
	471,023	118,859	-	589,882

	30.06.2013			
	Board of Directors	Audit Committee /Statutory Accountant	General Meeting of Shareholders	Total
Fixed remuneration	511,176	111,032	-	622,208
Variable remuneration	-	-	-	-
	511,176	111,032	-	622,208

<u>Staff remuneration</u>

The variation in the heading "Staff remuneration" is mainly a result of the reduction in the average number of employees working for the Company.

<u>Indemnities</u>

During the period ended 30 June 2014 the caption "Indemnities" includes the amount of 525,977 Euros related to compensations paid in proceedings for termination of employment contracts by mutual agreement.

Social welfare costs

The social welfare costs are almost exclusively composed by health costs supported by the company with active employees and costs related to Health and Safety at work.

During the periods ended 30 June 2014 and 30 June 2013 the heading "Staff costs" includes the amounts of 384,636 Euros and 401,990 Euros, respectively, related to expenses with workers' representative bodies.

For the periods ended on 30 June 2014 and 30 June 2013, the average number of staff of the Group was 12,388 and 13,000 employees, respectively.

18. INCOME TAX FOR THE YEAR

Companies with head office in Portugal are subject to tax on their profit through Corporate Income Tax (“IRC”) at the normal tax rate of 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 Euros and 5% of taxable profit above 7,500,000 Euros up to for 35,000,000 Euros and 7% on amounts exceeding the 35,000,000 Euros. Tourline is subject to income taxes in Spain, through income tax (Impuesto sobre Sociedades - “IS”) at a rate of 30%, and the subsidiary CORRE is subject to corporate income tax in Mozambique (“IRPC”).

Corporate income tax (IRC) is levied on 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 income tax rate

In the periods ended on 30 June 2014 and 30 June 2013, the reconciliation between the nominal rate and the effective income tax rate was conducted as follows:

	30.06.2014	30.06.2013
Earnings before taxes	51,768,325	46,222,637
Nominal tax rate	23.0%	25.0%
	11,906,715	**11,555,659**
Tax Benefits	(136,249)	(223,737)
Accounting capital gains	(166,615)	(4,003)
Tax capital gains	53,823	2,001
Equity method	-	-
Provisions not considered in the calculation of deferred taxe	123,800	-
Impairment losses and reversals	(280,275)	198,622
Other situations, net	1,169,648	723,467
Adjustments related with - autonomous taxation	298,075	306,221
Adjustments related with - Municipal Surcharge	705,142	551,127
Adjustments related with - State Surcharge	2,060,784	1,322,045
Excess estimated income tax	(4,164)	(26,366)
Income taxes for the períod	15,730,684	14,405,036
Effective tax rate	30.39%	31.16%
Income taxes for the períod		
Current tax	14,548,876	11,278,152
Deferred tax	1,292,435	3,247,866
Excess estimated income tax	(110,627)	(120,982)
	15,730,684	14,405,036

Deferred taxes

As at 30 June 2014 and 31 December 2013, the balance of deferred tax assets and liabilities was composed as follows:

	30.06.2014	31.12.2013
Deferred tax assets		
Employee benefits - health care	78,330,632	78,221,187
Employee benefits - other long term benefits	9,578,911	10,433,440
Deferred accounting capital gains	2,873,432	3,229,688
Impairment losses and provisions	8,522,562	8,651,941
Conversion adjustments - derecognition of inventories	38,910	77,821
Conversion adjustments - value deducted from staff debts	9,346	18,692
Tax losses carried forward	2,432,702	2,432,702
Impairment losses in tangible fixed assets	441,333	452,859
Other	124,156	126,926
	102,351,984	103,645,256

	30.06.2014	31.12.2013
Deferred tax liabilities		
Revaluation of tangible fixed assets before IFRS	4,127,083	4,288,852
Suspended capital gains	1,064,271	1,082,455
Other	110,571	110,571
	5,301,925	5,481,878

As at 30 June 2014, expected deferred tax assets and liabilities to be settled within 12 months amount to 2,708,462 Euros and 359,906 Euros, respectively.

During the period ended on 30 June 2014 and the year ended on 31 December 2013, the movements which occurred under the deferred tax headings were as follows:

	30.06.2014	31.12.2013
Deferred tax assets		
Opening balances	103,645,256	102,228,537
Effect on net profit		
Employee benefits - health care	(74,104)	1,757,201
Employee benefits - other long term benefits	(854,529)	(4,354,755)
Deferred accounting gains	(356,256)	(667,578)
Impairment losses and provisions	(129,379)	(105,163)
Impairment losses in tangible fixed assets	(11,526)	307,246
Derecognition of inventories	(38,911)	(79,395)
Value deducted from debts	(9,346)	(19,069)
Tax losses carried forward	-	1,358,869
Other	(2,770)	69,314
Effect on equity		
Employee benefits - health care	183,549	3,150,049
Closing balance	102,351,984	103,645,256

	30.06.2014	31.12.2013
Deferred tax liabilities		
Opening balances	5,481,878	5,740,233
Effect on net profit		
Revaluation of tangible fixed assets before IFRS adoption	(161,769)	(240,583)
Suspended capital gains	(18,184)	(14,067)
Other	-	(3,705)
Closing balance	5,301,925	5,481,878

The tax losses carried forward are entirety related to the losses of the subsidiary Tourline in the years 2008, 2009, 2011, 2012 and 2013. These losses may be tax reported in the next 15 years, except the tax loss related to 2012 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 immaterial increase in the income tax for the period.

Other information

Pursuant to the legislation in force, income tax returns are subject to review and correction by the tax authorities for a period of four years (five for Social Security), except when there have been tax losses, tax benefits have been received, or when inspections, claims or challenges are in progress, in which cases, depending on the circumstances, these periods are extended or suspended. Therefore, the Group's income tax returns after 2010 may still be reviewed and corrected, since the income tax returns prior to this date have already been inspected.

CTT believes that any corrections arising from reviews / inspections by the tax authorities of these income tax returns will not have a significant effect on the consolidated financial statements as at 30 June 2014.

19. RELATED PARTIES

According to the Group's internal rules on financial reporting, the parties related to the Group are CTT shareholders, and other shareholders of companies in which the Group has a stake, the associated companies, joint ventures, and the members of the Board of Directors, the General Meeting, and the Audit Committee.

The terms or conditions applied between the Group's companies and the related parties are, as a rule, substantially identical to those which are normally contracted, accepted and applied between independent entities in comparable operations.

During the periods ended on 30 June 2014 and 30 June 2013, the following transactions took place and the following balances existed with related parties:

	30.06.2014				
	Accounts receivable current	Accounts payable current	Revenues	Dividends	Costs
Shareholders	-	-	-	60,000,000	-
Other Group companies					
Associated companies	3,878	21,957	8,769	-	44,214
Jointly controlled	29,160	17,533	112,329	-	90,975
Members of the					
Executive Board of Directors	-	-	-	-	471,023
General Meeting	-	-	-	-	-
Audit Board	-	-	-	-	118,859
	33,038	39,490	121,098	60,000,000	725,072

	30.06.2013				
	Accounts receivable current	Accounts payable current	Revenues	Dividends	Costs
Parpública, SGPS (a)	-	-	-	50,000,000	-
Other Group companies					
Associated companies	2,760	-	10,257	-	348
Jointly controlled	58,153	13,626	118,672	-	99,225
Members of the					
Board of Directors	-	-	-	-	511,176
General Meeting	-	-	-	-	-
Statutory Audit Board	-	-	-	-	111,032
	60,913	13,626	128,929	50,000,000	721,781

(a) CTT has availed of the exemption available in paragraph 25 of IAS 24, and therefore has not provided detailed disclosure of its transaction with the State of Portugal and related parties. A summary of the Group's transactions with the State of Portugal and it's related parties is included below:

1- CTT sells and render services to the State of Portugal and various of it's related entities.

2- CTT collets various payroll taxes and other taxes on behalf of the State of Portugal and is liable to Portuguese Corporate Tax on profits earned and to employes's Social Security Taxes on its payroll.

3- CTT accounts for VAT in Portugal.

4- CTT Group incurs in costs as result of services provided by several State of Portugal related parties, namely:
- Energy costs;
- Water Supply costs;
- Air transportation costs.

The transactions and balances between subsidiaries are eliminated in the consolidation process and are not disclosed in this Note.

20. SUBSEQUENT EVENTS

CTT has decided to award, following three invitations to tender subject to previous qualification, the IT and communication services contracts regarding Basic Infrastructure Services, Helpdesk & Desktop Management Services, and Fixed Voice and Data Telecommunications Services. Although the time limit to lodge opposition to the contract award decision has not yet expired, CTT expects to be able to formalise the above-mentioned contracts at the soonest possible date.

The tender procedures were launched and the contracts awarded for a period of 3 years, including an initial phase of 3 months, at the most, to transfer the services. As a result of these contract awards, CTT expects to obtain, starting from 2015, annual savings (excluding transition costs) of around 57% (14 million Euros) in the referred services vis-à-vis the former operating costs, which in 2014 are around 25 million Euros, as the annual cost of the referred services is estimated to be of around 11 million Euros.

PART III – OTHER CORPORATE GOVERNANCE DOCUMENTS

1. HOLDERS OF QUALIFYING HOLDINGS

Under the terms of articles 447 of the Portuguese Commercial Companies Code (CSC) and 16 of the Portuguese Securities Code (CVM)

As at 30 June 2014, based on the communications made to the Company, the qualifying holdings in CTT were as follows:

	Shares	% Share capital	% Voting rights	Date of the transaction
Parpública-Participações Públicas (SGPS), S.A. (1)	47,253,834	31.503%	31.503%	03.01.2014
Pioneer Asset Management, S.A. (2)	3,128,282	2.086%	2.086%	10.01.2014
Standard Life Investments LTD (3)	3,071,878	2.048%	2.048%	09.05.2014
BlackRock, Inc. (4)	3,059,021	2.039%	2.039%	25.02.2014
JP Morgan Asset Management (UK) Limited (5)	3,023,319	2.016%	2.016%	19.05.2014
Restantes acionistas	90,463,666	60.309%	60.309%	- -
TOTAL	150,000,000	100.000%	100.000%	- -

(1) Shares held by Parpública - Participações Públicas (SGPS), S.A., which in turn is fully owned by the Portuguese State.
(2) Participation of several funds indirectly managed by Pioneer Asset Management, S.A., owned by UniCredit S.p.A.
(3) Shares attributable to Vidacos Nominees.
(4) Participation of several companies controlled by BlackRock, Inc.
(5) JP Morgan Asset Management (UK) Limited is a subsidiary of JP Morgan Asset Management Holdings Inc.

The updated information on qualifying holdings in the Company as at the date of approval of this report can be found at www.ctt.pt and the Securities Commission (CMVM) website, www.cmvm.pt.

2. OWN SHARES

Under the terms of paragraph 5(d) of article 66 and paragraph 1 of article 325-A of the CSC

The Annual General Meeting held on 5 May 2014 granted authorisation to the Board of Directors for the acquisition and sale of own shares by the Company and subsidiaries.

During the period that this report refers to the Company did not hold or trade own shares. As at the date of approval of this report the Company does not hold own shares.

3. SHARES HELD BY THE MEMBERS OF THE GOVERNING AND SUPERVISORY BODIES

Under the terms of paragraph 5 of article 447 of the CSC and article 14 of Regulation no. 5/2008 of CMVM

As at 30 June 2014, based on the communications made to the Company, the members of the Board of Directors and the Audit Committee held the number of Company shares indicated below:

Board of Directors	No. of Shares as at 30.06.2014
Francisco José Queiroz de Barros de Lacerda (a)	3,110
António Sarmento Gomes Mota (b)	-
Manuel Cabral de Abreu Castelo-Branco (c)	1,550
André Manuel Pereira Gorjão de Andrade Costa (d)	3,110
Dionizia Maria Ribeiro Farinha Ferreira (e)	-
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo (e)	-
António Manuel de Carvalho Ferreira Vitorino (f)	-
José Alfredo de Almeida Honório (f) (h)	-
Nuno Fernandes Thomaz (f)	-
Diogo José Paredes Leite de Campos (g)	-
Parpública - Participações Públicas, SGPC, S.A. (g)	47,253,834

(a) Chairman of the Board of Directors and Chief Executive Officer (CEO)
(b) Chairman of the Audit Committee and Non-Executive Vice-Chairman of the Board of Directors
(c) Vice-Chairman of the Board of Directors and of the Executive Committee
(d) Chief Financial Officer (CFO) and Executive Director
(e) Executive Director
(f) Non-Executive Director
(g) Non-Executive Director and Member of the Audit Committee
(h) As at the date of approval of the accounts of the 1st half of 2014, José Alfredo de Almeida Honório had resigned from his position as Non-Executive Director, following which the Board of Directors decided the cooptation of Rui Miguel de Oliveira Horta e Costa to replace him

3.1 Relevant transactions of the members of the governing and supervisory bodies, as well as of other managers and their related parties

Under the terms of paragraph 5 of article 447 of the CSC

After the Extraordinary General Meeting of 24 March 2014, which elected the new corporate bodies, the Executive Committee of CTT redefined the list of senior officers of the Company which was communicated to the CMVM on 22 April 2014. The list presented below includes all senior officers in charge during the 1st half of 2014 and their respective related parties:

Board of Directors (a)	No. of shares as at 31.12.2013	TRANSACTIONS Date	No. of shares	Acquisition / Sale	Price	No. of shares as at 30.06.2014
Francisco José Queiroz de Barros de Lacerda	3,110	-	-	-	-	3,110
António Sarmento Gomes Mota	-	-	-	-	-	-
Manuel Cabral de Abreu Castelo-Branco	1,550	-	-	-	-	1,550
André Manuel Pereira Gorjão de Andrade Costa	3,110	-	-	-	-	3,110
Dionizia Maria Ribeiro Farinha Ferreira	-	-	-	-	-	-
Ana Mª Carvalho Jordão Ribeiro Monteiro de Macedo	-	-	-	-	-	-
António Manuel de Carvalho Ferreira Vitorino	-	-	-	-	-	-
José Alfredo de Almeida Honório (b)	-	-	-	-	-	-
Nuno Fernandes Thomaz	-	-	-	-	-	-
Diogo José Paredes Leite de Campos	-	-	-	-	-	-
Parpública - Participações Públicas, SGPC, S.A.	45,000,000 9,545,455	03.01.2014	2,253,834 9,545,455	(c) (d)	-	47,253,834
Audit Board (e)						
António Sarmento Gomes Mota	-	-	-	-	-	-
Diogo José Paredes Leite de Campos	-	-	-	-	-	-
Elsa Maria Roncon Santos	-	-	-	-	-	-
Statutory Auditor and External Auditor						
PriceWaterhouseCoopers & Associados, SROC, Lda. (f)	-	-	-	-	-	-
José Pereira Alves	-	-	-	-	-	-
Ana Maria Ávila de Oliveira Lopes Bertão	-	-	-	-	-	-
José Manuel Henriques Bernardo	-	-	-	-	-	-
KPMG & Associados, SROC, S.A. (g)	-	-	-	-	-	-
Maria Cristina Santos Ferreira	-	-	-	-	-	-
Vítor Manuel da Cunha Ribeirinho	-	-	-	-	-	-
Related Parties (BoD)						
Alice Monjardino de Campos de Azevedo Soares (h)	120	-	-	-	-	120
Manuel Mª Azevedo Soares de Abreu Castelo-Branco (h)	1,550	-	-	-	-	1,550
Susana Gorjão Costa (i)	3,110	-	-	-	-	3,110

(a) Includes the members of both the Executive Committee and the Audit Committee, both created by a decision of the Annual General Meeting of 05.05.2014.
(b) As at the date of approval of the accounts of the 1st half of 2014, José Alfredo de Almeida Honório had resigned from his position as Non-Executive Director, following which the Board of Directors decided the cooptation of Rui Miguel de Oliveira Horta e Costa to replace him
(c) Under the Institutional Underwriting Agreement, on 3 January 2014 the Stabilisation Manager exercised the put option held on Parpública in respect of 2,253,834 shares, corresponding to 1.5% of the share capital and the voting rights of CTT, acquired by the Stabilisation Manager in the framework of the stabilisation operations undertaken within the Institutional Underwriting Agreement, which was part of the privatisation process of CTT.
(d) Subsequent termination of the call option held by Parpública on the financial institutions which integrate the Underwriters, as defined in the Institutional Underwriting Agreement, represented for that purpose by the Stabilisation Manager. Under the call option, it was possible to acquire 9,545,455 shares representing 6.36% of the share capital and the voting rights of the Company.
(e) In the new corporate governance model approved at the Extraordinary General Meeting of 24.03.2014, the Audit Board was replaced by the Audit Committee.
(f) Statutory Auditor and External Auditor until 04.05.2014.
(g) Statutory Auditor and External Auditor as of 05.05.2014.
(h) Person related to Manuel Cabral de Abreu Castelo-Branco.
(i) Person related to André Manuel Pereira Gorjão de Andrade Costa.

Other Managers (j)	No. of Shares as at 31.12.2013	TRANSACTIONS Date	No. of Shares	Acquisition/ Sale	Price	No. of Shares as at 22.04.2014 (j)
Alberto Alves Maria Pimenta	1,000	-	-	-	-	1,000
Ana Rita Baião Matos	2,500	-	-	-	-	2,500
Antónia Ascensão Rato	2,500	-	-	-	-	2,500
António Augusto Labrincha Correia Marques	500	-	-	-	-	500
António Manuel Borges Vaz	2,500	-	-	-	-	2,500
António Pedro Ferreira Vaz da Silva	240	-	-	-	-	240
Carla Maria Teixeira Gonçalves Veiga (k)	2,500	-	-	-	-	2,500
Carla Salomé Preto Martins Marques da Cruz	1,300	20.03.2014	1,300	Sale	7.80 €	0
Fernando Manuel Costa Afonso	500	-	-	-	-	500
Filipe Jacinto Flores Ribeiro	200	-	-	-	-	200
Graça Maria Porto Temudo Pires de Oliveira	2,500	-	-	-	-	2,500
Helena Maria Gameiro Carreira Rodrigues	-	-	-	-	-	-
Hernâni Joaquim Mateus dos Santos	1,000	-	-	-	-	1,000
Isabel Maria Lemos Lourenço	1,750	16.01.2014 20.03.2014	250 1,250	Sale Sale	6.75 € 8.00 €	250
João Domingues dos Santos da Cunha Leal	620	-	-	-	-	620
João Manuel da Costa Araújo	2,500	21.03.2014	1,500	Sale	8.00 €	1,000
João Pedro Namora Gonçalves	2,800	19.03.2014	1,800	Sale	7.62 €	1,000
José Eduardo Dias de Mendonça David	500	-	-	-	-	500
Julieta Aurora Barracho Gomes Jorge Cainço	-	-	-	-	-	-
Laura Maria Falcão da Costa	300	-	-	-	-	300
Luís Miguel Soares Rodrigues	2,500	-	-	-	-	2,500
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	-	-	-	-	-	-
Miguel Alexandre Ferreira Amaral Salema Garção	3,130	13.03.2014	3,130	Sale	7.33 €	0
Paulo José Carteiro Veiga	2,500	-	-	-	-	2,500
Pedro Miguel Lourenço Salvador	-	-	-	-	-	-
Peter Iordanov Tsvetkov	4,990	-	-	-	-	4,990
Raul Manuel Matias Moreira	1,000	-	-	-	-	1,000
Rui Pedro Silva	500	-	-	-	-	500
Sílvia Maria Correia	2,500	-	-	-	-	2,500
Related Parties (Other Managers)						
Helena Augusta Monteiro Afonso Gonçalves (l)	1,000	-	-	-	-	1,000
Ana Soraia Teixeira Vaz da Silva (m)	240	-	-	-	-	240
Jaime Francisco Teixeira (m)	240	-	-	-	-	240
Maria José Cabrita da Silva (n)	310	19.03.2014	310	Sale	7.62 €	0

(j) After redefinition of the List of senior officers by the Executive Committee notified to the CMVM on 22.04.2014, the managers indicated were withdrawn from the list, hence only the transactions carried out until that date are mentioned.
(k) Resigned from her post as Board member of the subsidiary EAD on 27.02.2014.
(l) Person related to Alberto Alves Maria Pimenta. Only transactions, if any, carried out until 22.04.2014 are mentioned.
(m) Person related to António Pedro Ferreira Vaz da Silva. Only transactions, if any, carried out until 22.04.2014 are mentioned.
(n) Person related to João Pedro Namora Gonçalves. Only transactions, if any, carried out until 22.04.2014 are mentioned.

4. BUSINESS WITH THE COMPANY AND OTHER INTERESTS OF CURRENT DIRECTORS

Under the terms of paragraph 5(e) of article 66 and articles 397and 398 of the CSC

During the first semester of 2014, no authorisations were given by the Board of Directors to any of its members to carry out business with the Company.

None of the current members of the Board of Directors of CTT has held any temporary or permanent position subject to an employment or self-employment contract at any company of CTT Group during the 1st half of 2014.

The list shown below indicates the internal and external appointments of the members of the managing and supervisory bodies of the Company:

Members of the Board of Directors	Internal Appointments	External Appointments
Francisco José Queiroz de Barros de Lacerda	• Chairman & CEO of CTT – Correios de Portugal, S.A. • Chairman of CTT Expresso – Serviços Postais e Logística • Chairman of Tourline Express Mensajería, S.L.U.	• Member of the Board of IPC – International Post Corporation • Non-Executive Director of Norfin Portuguese Property Group, S.A. • Member of the Remuneration Committee of Portugal Telecom, SGPS. S.A. • Member of the Advisory Board of Nova School of Business & Economics • Member of the Advisory Board of the Master in Finance, Católica Lisbon School of Business & Economics • Member of the Supervisory Board of Cascais Yacht Club
António Sarmento Gomes Mota	• Chairman of the Audit Board of CTT – Correios de Portugal, S.A. (1) • Chairman of the Audit Committee (2) • Non-Executive Vice-Chairman of the Board of Directors (2)	• Chairman of the Board of SDC Investimentos, SGPS, S.A. • Vice-Chairman of the Board of Directors of Soares da Costa Construção, SGPS, S.A. • Member of the General and Supervisory Board, of the Audit and of the Performance Analysis and Competitiveness Committees of EDP – Energias de Portugal, S.A. • Member of the Remuneration Committee of Portugal Telecom, SGPS. S.A. • ice-Chairman of the Portuguese Institute of Corporate Governance
Manuel Cabral de Abreu Castelo-Branco	• Executive Vice-Chairman of CTT – Correios de Portugal, S.A. • Member of the Board of CTT Expresso – Serviços Postais e Logística, S.A. • Member of the Board of Tourline Express Mensajería, S.L.U. • Member of the Board of Correio Expresso de Moçambique, S.A.	
André Manuel Pereira Gorjão de Andrade Costa	• Chief Financial Officer (CFO) and Executive Director of CTT – Correios de Portugal, S.A. • Member of the Board of CTT Expresso – Serviços Postais e Logística, S.A. • Member of the Board of Tourline Express Mensajería, S.L.U. • Chairman of the Board of Payshop (Portugal), S.A.	• Member of the Board of Eurogiro

Members of the Board of Directors	Internal Appointments	External Appointments
Dionizia Maria Ribeiro Farinha Ferreira	• Executive Director of CTT – Correios de Portugal, S.A. • Member of the Board of CTT Expresso – Serviços Postais e Logística, S.A. • Member of the Board of Tourline Express Mensajería, S.L.U. • Chairman of the Board of Mailtec Holding, SGPS, S.A. • Chairman of the Board of Mailtec Comunicação, S.A. • Chairman of the Board of Mailtec Consultoria, S.A. • Chairman of the Board of CTT Gest – Gestão de Serviços e Equipamentos Postais, S.A. • Chairman of the Management Board of PostContacto – Correio Publicitário, Lda. • Manager of Mailtec Processos, Lda.	
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo	• Executive Director of CTT – Correios de Portugal, S.A. • Member of the Board of CTT Expresso – Serviços Postais e Logística, S.A. • Member of the Board of Tourline Express Mensajería, S.L.U.	
António Manuel de Carvalho Ferreira Vitorino	• Non-Executive Director of CTT – Correios de Portugal, S.A.	• Chairman of the Audit Committee of Siemens Portugal • Non-Executive Director of Áreas Portugal • President of Notre Europe – Instituto Jacques Delors, Paris • Chairman of the Board of the General Meeting of Finpro SGPS, S.A. • Chairman of the Board of the General Meeting of Novabase SGPS, S.A. • Chairman of the Board of the General Meeting of Brisa – Auto-Estradas de Portugal, S.A. • Chairman of the Board of the General Meeting of Banco Santander Totta, S.A.
Rui Miguel de Oliveira Horta e Costa (3)	• Non-Executive Director of CTT – Correios de Portugal, S.A.	• Non-Executive Director of Agrocortex • Executive Director of Cell2B • Non-Executive Director of EIP • Founder and Executive Director of Luz.on • Non-Executive Director of Vale do Lobo Resort • Non-Executive Director of Winpower • Member of the Iberian Consulting Board of ATKearney
Nuno Fernandes Thomaz	• Non-Executive Director of CTT – Correios de Portugal, S.A.	• Non-Executive Director of Espírito Santo Saúde, SGPS, S.A. • Chairman of Bem Comum - Sociedade de Capital de Risco, S.A. • Manager of I Cook - Organização de Eventos, Lda. • Executive Director of Nutrinveste, SGPS, S.A. (4) • Vice-Chairman of the Forum for Competitiveness (5) • Member of the Consulting Committee of the Portuguese Institute of Corporate Governance
Diogo José Paredes Leite de Campos	• Non-Executive Director of CTT – Correios de Portugal, S.A. • Member of the Audit Board of CTT – Correios de Portugal, S.A. (1) • Member of the Audit Committee (2)	• Chairman of the Audit Board of Banco Santander Consumer Portugal, S.A • Non-Executive Director of RES SGPS, S.A.

(1) Until the Extraordinary General Meeting of 24.03.2014

(2) After the Extraordinary General Meeting of 24.03.2014

(3) Coopted by a decision of the Board of Directors of 29 July 2014 to replace José Alfredo de Almeida Honório, who resigned from the position of Non-Executive Director on 14 July 2014

(4) Term of office ended in March 2014

(5) Elected in April 2014

PART IV –AUDIT REPORT

LIMITED REVIEW REPORT ON CONSOLIDATED INTERIM FINANCIAL INFORMATION PREPARED BY INDEPENDENT AUDITOR REGISTERED IN CMVM

(This report is a free translation to English from the Portuguese version)

Introduction

1 In accordance with the requirements of the 'Código dos Valores Mobiliários' (CVM), we hereby present our limited review report on the interim condensed consolidated accounts for the six month period ended 30 June 2014, of **CTT – Correios de Portugal, S.A.** which includes: the interim condensed consolidated statement of financial position (with total assets of Euros 1,274,536,480 and total equity of Euros 249,935,154 including negative non-controlling interests of Euros 21,696 and consolidated net profit of Euros 36,063,127) and the condensed consolidated statements of income, cash flows, changes in equity and comprehensive income for the six month period then ended and the corresponding notes to the financial statements.

2 The amounts included in the interim condensed consolidated financial statements and the additional financial information were extracted from the accounting records.

Responsibilities

3 The Executive Board of Directors is responsible for:

a) the preparation of interim condensed consolidated accounts which gives a true and fair view of the consolidated financial position of CTT and the consolidated result of its operations, cash-flows, changes in equity and comprehensive income;

b) the preparation of historical financial information in accordance with IAS 34 – Interim Financial Reporting and that is complete, true, current, clear, objective and lawful as established by 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 its activity, financial position or results.

4 Our responsibility is to verify the above mentioned interim condensed consolidated accounts, namely if it is complete, true, current, clear, objective and fair as required by the CVM, and issue an independent report based on our work.

Scope

5 The work that we have performed was conducted with the objective of obtaining a moderate level of assurance about whether the consolidated financial information mentioned above is free of material misstatements. Our work was performed based on the Technical Standards and Review/Audit Guidelines issued by the 'Ordem de Revisores Oficiais de Contas', and planned in accordance with that objective and included the following procedures:

a) mainly, inquiries and analytical procedures performed to review:

- the reliability of the assertions included in the consolidated financial information;
- the adequacy of the accounting policies adopted, considering the circumstances and the consistency of their application;
- applicability of the going concern principle;
- the presentation of the consolidated financial information;
- if the consolidated financial information is complete, true, current, clear, objective and fair; and,

b) substantive tests on non-usual significant transactions.

6 Our review also included the verification that the financial information included in the Management Report is consistent with the documents mentioned above.

7 We believe that our work provides a reasonable basis to issue the report on the interim condensed consolidated accounts.

Conclusion

8 Based on our review, which was performed with the objective of obtaining moderate assurance, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated accounts for the six month period ended 30 June 2014, is not free of material misstatements that affect its compliance with IAS 34 – Interim Financial Reporting and that is not complete, true, current, clear, objective and lawful.

Lisbon, 30 July 2014

KPMG & Associados -
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
Represented by
Maria Cristina Santos Ferreira (ROC nr. 1010)

CONTACTS

HEAD OFFICE

Avenida D. João II, n.º 13
1999-001 Lisbon
PORTUGAL
Telephone: +351 210 471 836
Fax: +351 210 471 994

Customers

E-mail: informacao@ctt.pt
CTT Line 707 26 26 26
Business days and Saturdays from 8h to 22h

Market Relations Representative

André Gorjão Costa

Investor Relations Department

Peter Tsvetkov
E-mail: investors@ctt.pt
Telephone: +351 210 471 087
Fax: +351 210 471 994

Media

Institutional Communication Department
Press Advisor
Fernando Marante
E-mail: gabinete.imprensa@ctt.pt
Telephone: +351 210 471 800