



# Interim Report

1<sup>st</sup> Half of 2015

# 2015



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## GOVERNING AND MANAGING BODIES

### Governing bodies

#### Board of the General Meeting

**Chairman:** Júlio de Lemos de Castro Caldas

**Vice-Chairman:** Francisco Maria de Moraes Sarmiento Ramalho

#### Board of Directors

**Chairman:** Francisco José Queiroz de Barros de Lacerda (CEO)

**Vice-Chairmen:** António Sarmiento Gomes Mota (Chairman of the Audit Committee)  
Manuel Cabral de Abreu Castelo-Branco

**Members:** André Manuel Pereira Gorjão de Andrade Costa (CFO)  
Dionízia Maria Ribeiro Farinha Ferreira  
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo  
António Manuel de Carvalho Ferreira Vitorino  
Nuno de Carvalho Fernandes Thomaz (Member of the Audit Committee)  
Diogo José Paredes Leite de Campos (Member of the Audit Committee)  
Rui Miguel de Oliveira Horta e Costa  
José Manuel Baptista Fino

#### Remuneration Committee

**Chairman:** João Luís Ramalho de Carvalho Talone

**Members:** José Gonçalo Ferreira Maury  
Rui Manuel Meireles dos Anjos Alpalhão

## Executive Committee

**Chairman:** Francisco José Queiroz de Barros de Lacerda (CEO)

**Members:** Manuel Cabral de Abreu Castelo-Branco  
André Manuel Pereira Gorjão de Andrade Costa (CFO)  
Dionízia Maria Ribeiro Farinha Ferreira  
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

## Audit Committee

**Chairman:** António Sarmento Gomes Mota

**Members:** Diogo José Paredes Leite de Campos  
Nuno de Carvalho Fernandes Thomaz

## Statutory Auditor and External Auditor <sup>1</sup>

**Statutory Auditor:** KPMG & Associados, SROC, S.A., represented by Maria Cristina Santos Ferreira

**Alternate Statutory Auditor:** Vítor Manuel da Cunha Ribeirinho

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<sup>1</sup> The Statutory Auditor, KPMG & Associados, SROC, S.A. was appointed for the 2015-2017 mandate at the Annual General Meeting that took place on 5 May 2015.

## Management Organisation



(1) Includes Mailtec Comunicação and CTT Contacto; (2) Includes CTT Expresso, Tourline and CORRE; (3) Includes Payshop; (4) Includes Mailtec Consultoria  
NOTE: Banco CTT has its own management structure, autonomous from CTT's Executive Committee.

## KEY FIGURES

## Economic and financial indicators (consolidated IFRS data)

€ thousand or %, except where indicated	1H15	1H14	△% 15/14
Revenues <sup>(1)</sup>	367,054	353,503	3.8
Operating costs excluding impairments, provisions, depreciation and non recurring costs	291,546	287,250	1.5
Recurring EBITDA <sup>(2)</sup>	75,509	66,254	14.0
Recurring EBIT <sup>(2)</sup>	64,625	55,361	16.7
Earnings before financial costs and taxes	59,864	54,936	9.0
EBT	57,321	51,768	10.7
Net profit for the period	39,178	36,038	8.7
Net profit attributable to equity holders	39,165	36,063	8.6
Earnings per share (euro)	0.26	0.24	8.6
Recurring EBITDA margin	20.6%	18.7%	1.8 p.p.
Recurring EBIT margin	17.6%	15.7%	1.9 p.p.
Net profit margin	10.7%	10.2%	0.5 p.p.
Capex	10,893	2,742	297.2
Operating free cash flow <sup>(3)</sup>	21,644	65,861	-67.1
Cash and cash equivalents	674,485	675,912	-0.2
Net cash	230,760	242,290	-4.8
	30.06.2015	31.12.2014	△% 15/14
Assets	1,222,818	1,180,997	3.5
Liabilities	1,007,560	931,787	8.1
Equity	215,258	249,210	-13.6
Share Capital	75,000	75,000	-
Number of shares	150,000,000	150,000,000	-

<sup>(1)</sup> Revenues excluding non-recurring items.

<sup>(2)</sup> Before non-recurring revenues and costs.

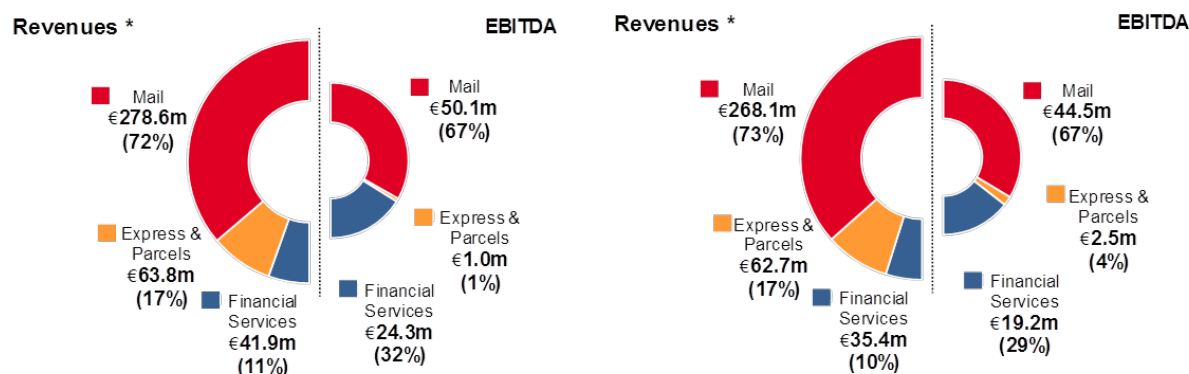
<sup>(3)</sup> Cash flow from operating and investing activities excluding change in net Financial Services payables.



## Recurring Revenues \* and EBITDA by business unit

January to June 2015

January to June 2014



\* Including internal provision of services and intragroup transactions eliminated in the consolidation process; excluding income related to CTT Central Structure and Intragroup eliminations amounting to -€17.2m in 1H15 and -€12.7m in 1H14.

## Operating indicators

	1H15	1H14	△% 15/14
<b>Mail</b>			
Addressed mail volumes (million items)	420.8	431.1	-2.4
Transactional mail	357.6	369.1	-3.1
Editorial mail	23.3	23.7	-1.7
Advertising mail	39.9	38.3	4.1
Unaddressed mail volumes (million items)	224.8	251.1	-10.5
<b>Express &amp; Parcels</b>			
Portugal (million items)	7.0	6.7	4.0
Spain (million items)	6.7	6.5	2.7
<b>Financial Services</b>			
Payments (number of transactions; millions)	31.4	33.1	-5.0
Savings and insurance (subscriptions; € millions)	2,998.8	2,312.4	29.7
<b>Staff</b>			
Staff (FTE) <sup>(1)</sup>	12,329	12,380	-0.4
<b>Retail, Transport and Delivery Networks</b>			
Post offices	621	624	-0.5
Postal agencies (partnership branches)	1,698	1,719	-1.2
PayShop agents	3,887	3,878	0.2
Postal delivery offices	257	273	-5.9
Postal delivery routes	4,740	4,687	1.1
Fleet (number of vehicles) <sup>(2)</sup>	3,487	3,436	1.5

<sup>(1)</sup> FTE = Full-time equivalent.

<sup>(2)</sup> Operational fleet.

## Sustainability indicators

	1H15	1H14	△% 15/14
<b>Customers</b>			
Customer satisfaction (%)	85.8	85.6	0.2 p.p.
Total number of operating units certified (ISO standard and retail and delivery networks certification)	1,118	1,097	1.9
Retail and delivery networks certification (% coverage)	100	99.7	0.3
Global Quality of Service Indicator (points)	215.1	243.8	-28.7
<b>Staff</b>			
Number of accidents	450	452	-0.4
Training (hours)	162,005	150,793	7.4
Women in management positions (1 <sup>st</sup> management level) (%) <sup>(1)</sup>	38.2	41.9	-3.7 p.p.
<b>Community / Environment</b>			
Value chain - contracts with environmental criteria (%)	99.9	99.0	0.9 p.p.
Total CO2 emissions, scope 1 and 2 (kton.) <sup>(2)</sup>	10.2	10.0	1.3
Energy consumption (TJ) <sup>(2)</sup>	178.1	172.9	3.0
Weight of Eco product range in Direct Mail line (%)	33.1	25.7	7.4 p.p.
Investment in the Community (€ thousand)	368	343	7.3

<sup>(1)</sup> The figure reported in 1H14 was changed to provide a like-for-like comparison with 1H15, which includes CORRE.

<sup>(2)</sup> Includes CTT SA and CTT Espresso.

## HIGHLIGHTS OF THE FIRST HALF

### January

- Registration of the **merger by incorporation of Mailtec Holding, S.G.P.S. in CTT – Correios de Portugal, S.A.**, through the global transfer of Mailtec Holding, S.G.P.S., S.A.'s assets and liabilities.
- Signing of the protocol between the Government and CTT for the opening of **Citizen's Bureau Areas** at CTT post offices.

### February

- **Incorporation of the company CTT Serviços S.A.**, with the share capital of 5,000,000.00 Euros, whose corporate scope is the provision of advisory and support services in the acquisition, development, structuring and preparation of the incorporation of the Postal Bank.
- Signing the **new Company Agreement** and **revision of the Regulation of Social Works (Healthcare Benefits Plan)**, CTT's internal healthcare and social welfare system, with eleven trade unions represented within the Company.

### March

- **Selection of the IT platform provider for the Postal Bank (Core Banking System).** The consortium Misys/Deloitte was **selected through a tendering process.**

### April

- **Share capital increase of CTT Serviços, S.A. to 20,000,000.00 Euro.**

### May

- **CTT's Annual General Meeting** where the 2014 financial reporting documents were approved, including the management report, the individual and consolidated accounts, the corporate governance report, the year's profit allocation including the payment of a gross dividend per share of €0.465 pursuant to the terms proposed by the Board of Directors and votes of recognition for the members of the management and supervisory bodies. KPMG was appointed for the 2015/2017 mandate.
- **Payment of a gross dividend** per share of €0.465.
- **Allocation of a share in profits to the Company's employees and executive directors.**

### June

- Registration of the project for the **merger by incorporation through the global transfer of the assets and liabilities of the companies PostContacto – Correio Publicitário, Lda. and Mailtec Processos, Unipessoal, Lda., to CTT Gest – Gestão de Serviços and Equipamentos Postais, S.A..**

## AWARDS AND RECOGNITIONS

In the first half of 2015, CTT received the following distinctions/recognitions:

- **THE LUSOS PRIZES DISTINGUISH “THE COUNTRY'S LARGEST THANKS NETWORK”**

The campaign "The Country's Largest Thanks Network", which successfully encouraged the Portuguese to send over 70 thousand "thanks", was distinguished with two bronze medals in the categories of "Relationship Marketing - Digital Direct Marketing" and "Relationship Marketing - Print Direct Marketing", at the awards ceremony for the 2<sup>nd</sup> four-monthly edition of the Lusos Prizes.

- **CTT IS RECOGNISED AS "COMMITTED TO EXCELLENCE"**

CTT earned the "Committed to Excellence – 1 star" award from the Portuguese Quality Association (*Associação Portuguesa para a Qualidade (APQ)*), encompassing the Company's entire operational network: post offices, postal delivery offices and production and logistics centres, under the European Foundation for Quality Management's European Excellence Model.

- **CTT INTAGLIO STAMP DISTINGUISHED IN THE *GRANDS PRIX DE L'ART PHILATÉLIQUE***

CTT was awarded third place in the *Grands Prix de l'Art Philatélique Européen* for the commemorative sheet of stamps of the "500 Year Anniversary of Andreas Vesalius (1514-1564)", joint issue with the Belgian Post, put into circulation on 19 and 21 April 2014, in Belgium and Portugal respectively. This marks the first time CTT has received an award for the intaglio technique. The 11<sup>th</sup> edition of the *Grands Prix de l'Art Philatélique Européen*, that recognise the best philatelic and artistic work made in the European Union, awarded 3<sup>rd</sup> place to the issue by Portugal and Belgium, in the "Intaglio" category.

- **HUMAN RESOURCES PORTUGAL DISTINGUISHES CTT WITH TWO AWARDS**

CTT was awarded first place by the magazine Human Resources Portugal in the Human Resources Portugal 2014 awards in the categories of "Company with the best senior employees optimisation policy" and "Company that most promotes gender equality".

- **CTT IS DISTINGUISHED BY THE “TRUSTED BRANDS” AWARDS**

CTT was once again distinguished at the "Trusted Brands" awards ceremony, following a study undertaken by the Reader's Digest Selections for 40 distinct product and service categories. CTT was awarded first place as a Trusted Brand for the 13<sup>th</sup> time.

- **ENVIRONMENTALLY TRUSTED BRAND**

CTT was also distinguished, for the second consecutive time, as an Environmentally Trusted Brand, an important recognition of the environmental policy the Company has implemented over the past years, earning it votes for first place.

- **THE IPC RENEWS THE CERTIFICATE OF EXCELLENCE OF THE LISBON OFFICE OF EXCHANGE**

The International Post Corporation (IPC) renewed the Certificate of Excellence of the Lisbon Office of Exchange, made up of the Southern Production and Logistics Centre and the Airmail Unit. This demanding distinction recognises CTT's excellent quality of service, based on the ability to ensure the best practices in international mail processing (inbound and outbound) from among the operators that are members of this reference organisation.

- **CTT'S CUSTOMER SERVICE LINES DISTINGUISHED IN THE APCC BEST AWARDS 2015**

CTT's and CTT Expresso's customer service lines were awarded the bronze and silver medals, respectively, in the APCC Best Awards 2015, in the category of "Delivery and Logistics", by the Portuguese Contact Centre Association (*Associação Portuguesa de Contact Centers* (APCC)).

- **THE WORLD MAIL AWARDS 2015 DISTINGUISHES CTT**

CTT was Highly Commended in the categories of "Corporate Social Responsibility" and "Retail Customer Access" in the 2015 edition of the World Mail Awards, the Oscars of the World Mail Industry, for its "Mobility Plan Programme" and "Largest Thanks Network" projects, respectively. The Mobility Plan Programme, presented under the subtitle "Moving smarter, moving greener", addresses the way the Company promotes soft mobility to its employees in their commutes to and from work and on business trips by explaining how it is the best option both business-wise and in terms of social and environmental responsibility.

- **45<sup>th</sup> ASIAGO PRIZE**

CTT was again distinguished in the International Prize of Philatelic Art of Asiago. This time, the recognised stamp issue was called "150 Years of the Geophysical Institute of the University of Coimbra", designed by the national studio "Design&Etc". The issue was awarded in the "Tourism" category.

- **FRANCISCO DE LACERDA RECEIVES THE BEST CEO IN INVESTOR RELATIONS 2015 AWARD**

CTT's Chairman and CEO, Francisco de Lacerda, was distinguished with the Best CEO in Investor Relations Award of the Investor Relations & Governance Awards 2015 (IRGA). This award is promoted by Deloitte and distinguishes the best company performances and best governance practices.

## **PART I – INTERIM MANAGEMENT REPORT**

### **1. STRATEGIC LINES**

#### **1.1. Sector trends**

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

1. Postal liberalisation – In the context of the legislation of 2012, CTT started to operate in competitive markets in all its segments, where it is currently increasingly necessary to ensure permanent optimisation in the different business areas and to operate in a competitive environment.
2. Technological replacement – the traditional Mail business continues to be under constant change. Growing digitalisation brings with it new forms of communication and the digital world opens up new business opportunities.
3. E-commerce – the rapid growth of E-commerce worldwide opens a broad range of opportunities for postal and parcel operators, from logistics to customer service, connecting businesses and their customers.
4. Economic context – Portugal and Spain continue to experience challenging macroeconomic climates, imposing particularly demanding conditions on the different businesses. Economic recovery is already visible in both countries, with growth in domestic consumption.
5. Privatisations in the sector – there is a tendency towards privatisation in the postal sector, which accelerates the need for differentiation among postal operators and a clear separation of public/universal service obligations and the holders of capital, calling for new sector governance.

#### **1.2. Strategic lines**

CTT's strategic plan leverages its competitive advantages and explores the potential of digitalisation and new needs of the more sophisticated and demanding consumers. It does so while still preserving the inherent value of the traditional business and the obligations stemming from the universal postal service. Indeed, CTT's competitive advantages lie in the capillarity and excellence of its networks: the delivery network of postmen and women and the retail network, combined with efficiency in physical operations. This is why the major strategic lines seek to capture the challenges of the future by offering – whether in the digital sphere or in financial services – CTT's most distinctive feature: proximity and trust.

The delivery network will be increasingly optimised through the integrated management of mail and parcel services, by making use of their capabilities, capillarity and proximity. The network of post offices is a multi-product or service retail network and is increasingly leveraged on the integrated provision of services of greater added value, as regards both financial services and services of general interest (such as, Citizen's Bureau Areas or other services offer).

Thereby, CTT reaffirmed its 4 strategic pillars:

**1. Focus on the preservation of value of the Mail business**

Despite the challenging sector dynamics, the Mail business unit continues to represent a significant part of the Company's revenues. CTT has identified several initiatives to preserve the value and increase profitability of the business, which include, among others, i) price updates, ii) continued emphasis on efficiency programmes to adjust the structure and sustain operational excellence, iii) development of specialised segments, such as direct mail and iv) a focus on innovative added value solutions through the provision of integrated physical/digital services.

**2. Capture the growth trend in Parcels**

Over the last months, CTT has made an additional effort to explore business opportunities in the Express & Parcels segment, in Portugal and Spain, both at a commercial and mainly at an operational level, in order to strengthen its offer.

In Portugal, the priority continues to be focused on carrying out the integration of the Express & Parcels network with the Mail network, thereby improving the offer of products to clients through added value solutions based on CTT's distinctive capabilities. The development of e-commerce continues to be one of the more evident trends at the global market level and, as such, CTT has sought the best position from which to capture its full potential through a unique approach to the market focused on three axes: (i) the development of domestic markets (not only in Portugal, but also in Spain), (ii) the provision of solutions through partnerships for inbound and outbound flows and (iii) the promotion of its international offer as an outbound enabler.

Under the restructuring that has been taking place in Spain to regain profitability and future sustainability of the business, the subsidiary Tourline is currently optimising and restructuring its human resources, in order to both increase operating efficiency and improve and streamline procedures.

**3. Launch the CTT Bank to expand the Financial Services business**

The Financial Services business unit continues to be one of CTT's main growth levers and is a clear goal for its future. Therefore and as disclosed to the market, CTT is swiftly and resolutely working on making the Bank a reality by the year-end. Throughout the 1<sup>st</sup> semester, the engaged teams have been working on several internal challenges, while also training and adjusting the various CTT structures. They have also been working on external challenges in order to adequately present its competitive advantages and value proposition, while capitalising on CTT's brand values – simplicity, trust, proximity and solidity. The main initiatives during this period focused on preparing the launch of the Bank at the CTT post offices, in accordance with the requirements set out by the Bank of Portugal in the granted banking license and setting-up the necessary infrastructure of physical resources (counter space in the post offices and IT systems) and human resources.

#### **4. Leverage scalability of our assets**

CTT continues to be focused on leveraging the scalability of its physical and human assets in order to diversify the use of its networks and add greater value for its stakeholders. With the closing of the acquisition of Portugal Telecom by Altice in June 2015, CTT will be able to take the first steps in the established agreement and begin a more detailed analysis/negotiation of the various individual initiatives, as referenced in the memorandum of understanding signed between both parties. Other partnerships for the use of CTT's unique resources are currently under assessment by the various businesses. CTT's Strategy and Development department is presently analysing the various strategic partnership options in order to create greater present and future value for CTT.



## 2. BUSINESS

### 2.1. Economic and regulatory environment

#### 2.1.1. Economic environment

##### International

A slowdown in worldwide economic growth occurred at the beginning of 2015, due to the international economy's moderate, albeit irregular, recovery, stemming from continued discrepancies in developments in developed and emerging market economies.

The most recent Eurostat estimates show a year-on-year GDP growth of 1.0% in the euro area and 1.5% in the EU in the 1<sup>st</sup> quarter of 2015 (0.9% and 1.4% in the previous quarter, respectively). The 1.5% growth in the Portuguese GDP in the first quarter was greater than the euro area average and better than Germany's, Italy's, France's or Greece's, although it was still a long way off from economies that have definitively recovered, such as Spain, the Netherlands or Slovakia (which all grew more than 2.5%). Compared to the European Union (EU), Portugal registers the same year-on-year growth.

At present, private consumption expenditure should continue to be the main recovery driver as opposed to exports, which were responsible for economic growth in previous quarters. The short-term outlook for the growth of real disposable income remains favourable, although its buoyancy is expected to be mitigated by the impact of the partial reversal of the fall in energy product prices. Subsequently, wage income is expected to increase, in a context of both stable growth of employment and acceleration in nominal remuneration per employee. Other personal income is also expected to grow based on general economic recovery. Low financing costs and less restrictive credit conditions should foster private consumption and the domestic economy in general.

The average annual inflation rate measured by the Harmonised Index of Consumer Prices (HICP) reached its lowest value in January 2015, both in the euro area (-0.6%) and the EU (-0.5%), and registered a slight increase in the last months. In June, the average variation of HICP over the last twelve months was 0.1% both in the euro area and the EU. The main driving factor in this increase was the easing of downward pressure on inflation of the energy product price component in the HIPC, due to a rise in oil prices denominated in U.S. dollars. Furthermore, greater inflation of the food product price component in the HIPC, which reflects rises in the prices of raw materials of food, exerted an upward pressure. The impact of these upward movements of raw material prices was reinforced by a depreciation of the Euro.

Employment continued its trend toward recovery throughout 2014 and became stronger in the first quarter of 2015. In May, the unemployment rate was at 11.1% in the euro area and 9.6% in the EU, the lowest figures since March 2012 and July 2011, respectively.

A new fall in bank deposit and lending rates took place as a result of the ECB's expanded asset purchasing programme. Equity markets rose significantly and Euro foreign exchange rates suffered a significant depreciation. Therefore, aggregate demand, more specifically fixed capital formation and exports are expected to benefit from the accommodative stance on monetary policy. The recent

unconventional monetary policy measures should also foster aggregate demand through the rebalancing of portfolios and effects on trust.

## National

The GDP had a year-on-year growth of 1.5% in real terms in the first quarter of 2015, when compared to the 0.6% rate in the previous quarter. The increase in the GDP level at the beginning of 2015 is in line with the gradual recovery of economic activity that began in 2013 and continued in 2014 with a GDP growth of 0.9%.

Net external demand had no impact on the GDP's year-on-year variation in the 1<sup>st</sup> quarter, following a -1.0 percentage point (p.p.) impact in the 4<sup>th</sup> quarter, as a result of the acceleration in the export of goods and services and a slowdown in imports of goods and services by volume. Internal demand continued to be the main driver in the 1<sup>st</sup> quarter, as was the case in the 4<sup>th</sup> quarter of 2014, with a 1.6 p.p. and 1.5 p.p. impact in the 4<sup>th</sup> and 1<sup>st</sup> quarters, respectively. The slight slowdown of the growth rate was the result of the evolution in investment that went from a year-on-year growth of 3.5% in the 4<sup>th</sup> quarter to zero variation in the 1<sup>st</sup> quarter. Private consumption accelerated with a year-on-year growth of 2.5% in the 1<sup>st</sup> quarter (2% in the previous quarter). The component of non-durable goods and services had the most significant impact on the acceleration of private consumption in the quarter under analysis, with a year-on-year variation of 1.1% in the 4<sup>th</sup> quarter to 1.5% in the 1<sup>st</sup> quarter.

The Portuguese economy's ability to finance itself, as measured by the joint current and capital accounts, was 2.0 per cent of the GDP in the 1<sup>st</sup> quarter of 2015, 0.1 p.p. more than the previous quarter. This evolution was due to the slight improvement in gross savings. Gross disposable income increased slightly more than the final consumption expenditure.

The financing needs of the Public Administration were 5.8% of GDP in the 1<sup>st</sup> quarter of 2015, a year-on-year decrease of 0.1 p.p.. Revenues increased more as compared to expenditure, namely with regards to the increase in tax revenues from production and imports (8.3%), namely VAT, and with social contributions (4.6%).

In June 2015, the average variation of the last twelve months of the IPC was zero (-0.1% in the previous month) and the Portuguese HIPC was 0.1% (having been zero in the previous month). Based on Eurostat estimates, the difference of this rate compared to that of countries in the euro area was zero in June.

Employment rates had a year-on-year growth of 0.7 p.p. in the 1<sup>st</sup> quarter of 2015, following a 0.4% increase in the previous quarter. In that same period, the unemployment rate was 13.7%, a year-on-year fall by 1.4 p.p., despite its continued high levels due to the economy's adjustment to employment coming from areas different from those that previously drove employment.

## 2.1.2. Regulatory environment

### At a European Union level

The approval of the third Postal Directive (Directive 2008/6/EC) of the European Parliament and Council, on 20.02.2008, established the final schedule for the total liberalisation of the postal market (until 31.12.2010), safeguarding a common universal postal service level for all users of the Member States of the European Union (EU) and defining the harmonised principles for the regulation of postal services in a free market environment.

In terms of the funding of the universal service, and since the provision of reserved postal services as a means of funding has been abolished, the new legal framework establishes a series of mechanisms that Member States can adopt to safeguard and fund the universal postal service. The new Directive also contains guidelines on how to calculate the net cost of the universal service. The provision of the universal service tends to operate at a loss in the EU and various countries have implemented measures to mitigate this cost without requiring direct compensation, mainly through a comprehensive use of the resources allocated to the universal service. Among them, the regulators, aware of the challenges that the postal sector and primarily the provider of the universal service faces, have permitted the diversification of activities and a more efficient allocation and use of resources, while safeguarding the obligations established in the European Directive.

Within the creation of the Digital Single Market and initiatives to improve consumer and company access to digital goods and services, namely that facilitate cross-border e-commerce, on 06.05.2015, the European Commission launched a public consultation, to which CTT responded, with the goal of hearing from all interested parties on the main issues and possible areas of improvement in cross-border delivery services for goods purchased online throughout the EU. This initiative arose from the concern that the European market has not grown to its full potential as a result of still fragmentary solutions at a European level for the offer of online goods and services.

### At a national level

In April 2012 the Postal Law entered into force (Law no. 17/2012, of 26 April, as amended by Decree-Law no. 160/2013, of 19 November), transposing to the Portuguese legal system Directive 2008/6/EC. The postal market in Portugal was thus fully opened to competition, eliminating almost all areas under the universal service that were still reserved to CTT. However, for reasons of public order and security or general public interest, some activities and services remain reserved: placement of letter boxes on public routes for the posting of mail; the issue and sale of postal stamps bearing the mention “Portugal” and the registered mail service used in legal or administrative proceedings.

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

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

In terms of funding of the universal service obligations (USO), universal service providers are entitled to compensation for the net cost of the USO when such constitutes an unreasonable financial burden therefor. This compensation is made through a fund borne by the postal service providers that render services deemed, from the point of view of the user, interchangeable with those within the universal service. The operation of the fund has yet to be defined. The regulatory entity (ANACOM) approved, in February 2014, the methodology for the calculation of the net cost of the universal service provided by CTT as a provider of the universal service, as well as the concept of unreasonable financial burden for the purpose of compensation for the net cost of the universal postal service, as well as its calculation method.

As the concessionaire of the universal postal service, CTT shall remain the universal service provider until 2020. The Government reviewed the principles of the concession pursuant to the system established in the Postal Law, through the publication of Decree-Law no. 160/2013, of 19 November, and an amendment to the concession agreement was entered into thereunder on 31.12.2013.

Pursuant to the provisions of Base XV of the Concession of the Universal Postal Service, in August 2014, ANACOM approved the final decision on the objectives of postal network density and minimum services offer with which CTT should comply until 2017. The objectives defined in terms of postal network density and minimum services offer do not significantly change the current postal network and reinforce assurances of availability and accessibility of the universal service provision entrusted to CTT.

Complying with the pricing criteria for 2015/2017 as defined by ANACOM resolution of 21.11.2014, the proposal for universal service prices submitted by CTT on 17.12.2014, and revised on 06.02.2015, was approved by ANACOM by the 12.02.2015 resolution. The prices set out in that proposal, which met the defined pricing principles and criteria, became effective on 01.03.2015, except for the prices of newspapers, periodicals and books which became effective as of 01.06.2015.

Also regarding pricing, namely the special price regime for postal services included in the universal service offer that apply to senders of bulk mail, such prices were also updated on 01.03.2015, following a proposal submitted to the Regulator on 14.01.2015.

As regards the quality of the universal postal service, the respective objectives and minimum quality of service levels are quantified in the section on quality of service of this document. The quality of service parameters and the performance targets for the universal service for 2015/2017, as defined by ANACOM resolution of 30.12.2014, maintain the high quality of service levels required for the postal services in Portugal and which CTT has managed to surpass. In this regard and following the new Postal Law, CTT is working together with the regulator to set-up a new quality measurement and control system.

## 2.2. Mail

### 2.2.1. Activity

Revenues <sup>2</sup> from the Mail business unit were 278.6 M€ (72% of the total consolidated amount <sup>3</sup>) in the 1<sup>st</sup> half of 2015, which is a 3.9% increase compared to the 1<sup>st</sup> half of 2014.

This business unit includes the postal services and business upstream and downstream mail solutions provided by CTT, S.A. (parent company), PostContacto, CTT Gest and Mailtec.

In the 1<sup>st</sup> quarter of 2015, despite the fall in volumes (explained below), there was a favourable evolution in revenues. Price and discount policies, product mix, foreign exchange appreciation of international mail (inbound) and item weight structure contributed to this.

Changes in product prices for the Universal Service and bulk mail as of 1 March 2015, as well as for books, newspapers and periodicals of the national service as of 1 June 2015, resulted in a global average year-on-year increase of 4.1% in the semester. Prices for advertising mail also increased as of 1 March 2015 (average increase of 2%). The revision of the discount policy increased the clients' demand for pre-sorting and compliance with payment dates, which fostered efficiency-oriented behaviour and led to the loss of some discounts by large clients. This measure began to positively affect revenue mainly as of May 2014 and therefore also benefits the comparison of the 1<sup>st</sup> half of 2015 with the year-on-year period, in which these measures were fewer and more restricted.

The fall in mail volumes in the 1<sup>st</sup> semester was significantly lower than estimated and forecasted in the calculation formula of the price limit, which will be adjusted in the 2016 price proposal as planned.

### Mail

The year-on-year decrease in addressed mail volumes (including letter mail and direct mail) in the 1<sup>st</sup> half of 2015 (-2.4%) was greater than in the first three months of the year (-1.5%), due to certain exceptional factors that took place at the beginning of the year.

The comparison of the evolution of 2014 as compared to 2013 (-5.7%) is nonetheless favourable and reflects the impact of positive developments in the national economy, mainly domestic consumption, on mail consumption, partially offsetting the structural trend of mail decline due to electronic substitution.

Transactional mail volumes decreased by 3.1% in the 1<sup>st</sup> half of 2015. This evolution is the result of changes in the volumes of ordinary mail (-3.8%), registered mail (-2.6%) and international outbound mail (-6.2%). These changes were mitigated by the positive evolution of the volumes of international inbound mail (+2.3%), priority mail (+4.4%) and "Green Mail" (+17.4%).

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<sup>2</sup> Including internal services and intragroup transactions which are eliminated for the purpose of consolidation.

<sup>3</sup> Excluding revenues allocated to the CTT Central Structure and Intragroup Eliminations of -€17.2m in the 1<sup>st</sup> half of 2015.

Editorial mail recovered in the 2<sup>nd</sup> quarter (+2.5%) and offset the 1<sup>st</sup> quarter decline (-5.8%), thus allowing the semester to end with a slight decrease of 1.7%.

Addressed advertising mail volumes grew by 4.1% in the semester, due to the marketing and commercial activities' special focus on this line of products, as well as the recovery of the advertising market where investment in communication has been higher as compared to 2014. In this market, economic growth will lead to greater demand for advertising, which, in due course, will also lead to a rise in prices for various media, as always led by television.

On the contrary, unaddressed mail volumes decreased by 10.5% in the 1<sup>st</sup> half of 2015. In this business, there are customers with a regular cycle of consumption throughout the year and others who make use of it only occasionally. In the 2<sup>nd</sup> quarter of 2015 as compared to the 2<sup>nd</sup> quarter of 2014, the difference in consumption between clients with occasional campaigns and those without was negative. On the other hand, some of the major clients for these products reduced the volumes involved in the campaigns as compared to the previous year.

## Business Solutions

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

There is growing market demand from a wide variety of business sectors for CTT's integrated solutions, which include features tailored to the needs and goals of each organisation, based on the portfolio and capabilities inherent to CTT's two capillary networks – post offices and delivery. In addition, the Integral Sorting Solution for Administrative Offenses and the Integrated Water Management Solution bring together in a unique offer a set of services made available by the CTT group: printing & finishing, despatch, mailmanager, collections, among others.

As regards Digital Communication, several features were implemented in the ViaCTT service support system that complement automated communication between sender and receiver by putting in operation the automated receipt of responses generated by receivers regarding documents sent by senders. This feature fosters and facilitates the electronic processing of Electronic Pledges between the tax authorities (*AT – Autoridade Tributária e Aduaneira*) and banks.

In addition, a set of new features were implemented in the electronic mailbox. On the one hand, these features seek to make the service more user-friendly by, for instance, using the national identification card to access the box and improving electronic mailbox access recovery procedures and, on the other hand, reducing operating costs of the service. Given CTT's awareness that electronic communications (e-mail) will have an ever growing importance in transaction communications, it is important to create reliable, safe and custom-made solutions to address this market's concerns. On the other hand, physical communications will increasingly be a form of effective fulfilment of electronic communications.

Concerning the offer of solutions for corporate clients in the international market, contacts and initiatives to identify and benefit from business opportunities in various geographies, such as Angola, Mexico, Morocco, Algeria, Bulgaria, Chile, Cyprus, Slovenia, among others, were intensified in the first half of 2015. Partnerships with local companies, namely postal services providers in those countries, are being established.

### Philately

The Philately business achieved €4.1m of revenue in the 1<sup>st</sup> half of 2015, corresponding to an increase of 14.9% as compared to the same period of the previous year.

The following factors contributed to this positive evolution: the launch of 12 commemorative stamp issues, of the 2<sup>nd</sup> group of the definitive issue on Extreme Sports in both gummed and self-adhesive versions, the booklet of self-adhesive stamps of Madeira, 14 postal stationery postal cards and 1 letter card, as well as 2 prestige thematic books (*Talking about Coffee* and *Portuguese 50cc Motorbikes*). The wider offer adapted to demand and the topics raising a vast interest from the customers, such as the Lynx, the Dinosaurs or the Portuguese Motorbikes enabled to maintain the upward trend observed since 2014, reversing the last years' downward trend in this business.

In the 1<sup>st</sup> half of 2015, CTT received two international awards for the quality of the design of its stamps. It was recognised for the 7<sup>th</sup> time at the International Competition of Philatelic Design, promoted by the municipality of Asiago, in the Vincenza region, Italy. The stamp issue commemorating the “150 Years of the Geophysical Institute of the University of Coimbra” was distinguished in the “Tourism” category. CTT was also awarded the 3<sup>rd</sup> world prize of intaglio printing (in Brussels) for the stamp sheet “Vesalius” issued in 2014.

The topics depicted in the commemorative issues covered various areas of human knowledge, as shown the list presented in the table below:

Commemorative Issues	
<ul style="list-style-type: none"> <li>• 25 Years of AICEP</li> <li>• 150 Years of ITU - International Telecommunication Union</li> </ul>	<i>History</i>
<ul style="list-style-type: none"> <li>• Figures of Portuguese History and Culture</li> <li>• 100 Years of the Orpheu Magazine</li> <li>• Great Musicians of the World: Elizabeth Schwarzkopf and Sibelius</li> <li>• Popular Clay Figurines</li> <li>• Azorean Handicraft</li> <li>• Roads to Santiago</li> <li>• EUROPA – Old Toys</li> <li>• Madeira Flower Festival</li> </ul>	<i>Music, Art &amp; Culture</i>
<ul style="list-style-type: none"> <li>• Sustainable Mobility</li> <li>• Reintroducing the Iberian Lynx</li> </ul>	<i>Environment</i>



As mentioned above, the following thematic books have been launched with the usual great success:

Thematic Books
<ul style="list-style-type: none"><li>• Talking about Coffee – Fátima Moura</li><li>• Portuguese 50cc Motorbikes – Pedro Pinto</li></ul>



### 2.2.2. Retail Network

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

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

- Development of the Mail business, promoting operating excellence and better quality of service, as a result of the greater proximity to and knowledge of its customers, ensuring enhanced productivity levels;
- A channel of proximity for the marketing of financial products and services (savings and investment, payment solutions and personal credit among others), affirming itself as an 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, services of general interest, by taking on the vocation of local multi-service assistance, in addition to offering postal services, and operating as a preferred location for services to citizens such as in the EDP partnership and the Citizen's Bureau Areas project.

At the end of the first half of 2015, the Retail Network was comprised of 5,143 contact points with its customers and the population, with 621 post offices, 1,698 partnership branches (postal agencies) and 2,824 stamp sales points. The offer of services, under self-service and in some cases available 24 hours a day, is complemented by 223 automatic stamp vending machines and 18 automatic postal product vending machines.

In the first half of 2015, optimisation activities were carried out under the on-going Transformation Programme, focused on the following:

- Core/satellite post offices – once the post offices in which this project was to be implemented were identified, pilot post offices were implemented as planned;
- Change/reduction of opening hours – adequacy analysis of post office opening hours in order to match supply to demand.



The implementation of core/satellite post offices, as well as the change/reduction of opening hours took into account the development of the Postal Bank project, which CTT expects to launch in the second half of 2015.

As established in the Concession Agreement, the objectives for network density were defined in 2014, considering factors such as the distance to be travelled by customers in order to access the closest CTT branch, taking into account whether the area was urban or rural, as well as citizen accessibility to the various mail services and the opening hours when available. Full compliance with the defined objectives reinforces the Company's intention to maintain a Retail Network that offers proximity and convenience to its customers and the population in general.

In addition to being an important sales channel for products and services from all CTT's business units, principally Mail and Financial Services, the Retail Network has promoted initiatives to stimulate other retail business. Besides the Citizen's Bureau Areas project within CTT post offices, detailed below, business stimulation in the Retail Network this semester involved leasing space, establishing partnerships with well-known reference brands in the national market and sales via catalogue by offering products with potential for cross-selling with credit solutions.

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

### **Citizen's Bureau Areas**

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

In this context, there is a pilot-project already in operation in 24 post offices, which will be gradually expanded to an increasing number of CTT post offices once a protocol with the Government has been signed for the installation of Citizen's Bureau Areas in the Retail Network. These are spaces where CTT can offer assisted digital services to citizens.

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

The expansion model and the business model were negotiated with the Government in the last quarter of 2014 and on 20 January 2015 a protocol was signed between the Government and CTT which lays down the following timetable for the implementation of Citizen's Bureau Areas in the CTT Retail Network:

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

At a later stage this partnership will be reassessed by the partners and may be expanded, as long as the economic rationale supports it, based not only on the services provided, but also its cross-selling potential.

Following this protocol, a training cycle began in the 1<sup>st</sup> semester, which endowed 209 employees with the skills and knowledge necessary to provide services for the protocolled entities. The opening of the 52 Citizen's Bureau Areas previously scheduled for the 2<sup>nd</sup> quarter was postponed to the 3<sup>rd</sup> quarter to allow for further work and interface trials with the partner's IT application. With the completion of the inherent IT and logistics framework and training, CTT is able to set up the 176 Citizen's Bureau Areas in its Retail Network in the 2<sup>nd</sup> semester as set out in the agreement for 2015.

This is yet another project of great importance for the post office network. It not only increases proximity to citizens, but also makes the network more encompassing, qualified and diversified in its offer of services. It works as a one-stop shop for all services that clients need.

### **2.2.3. Operations**

In addition to the continuous reorganisation of the sorting, transport and distribution networks in order to improve productivity and operational efficiency, the Transformation Programme focused on deepening the integrated management of the Express & Parcels distribution network in the first half of 2015.

The other initiatives of the 1<sup>st</sup> half of 2015 pertained to streamlining and reorganising the operational cycle, grouped into 3 major lines of action: sorting, transport and delivery.

#### **Sorting**

In the 1<sup>st</sup> half of 2015, of all the flat letter mail sent to postal delivery offices, 92% was sorted automatically and 88% was sorted by route (an average of around 2.2 million items per day). Of these, around 1.9 million (87%) were automatically sequenced (door-to-door) to 4,740 postal delivery routes.

Automation of the postal service continues to produce excellent results in terms of address recognition and flat letter mail produces correct assignment rates of 92% for 7-digit postcodes and 63% for 10-digit postcodes.

The sorting network is comprised of 3 production and logistics centres, 6 logistics support centres and 1 corporate mail centre. 43 automated mail-sorting machines (of which 24 are mail sequencing machines) and 72 video encoding posts assist in the activities of the production and logistics centres.

Processing of the mailmanager service and video encoding has been consolidated at the Taveiro (Coimbra) production and logistics centre. After the insourcing of video encoding at the production and logistics centre of Maia (Porto) in 2014, video encoding was also insourced at the production and logistics centre of Cabo Ruivo (Lisbon) in the 1<sup>st</sup> half of 2015. This resulted in a fall in outsourcing needs.

Also regarding operational optimisation, the printing & finishing operations of the subsidiary Mailtec Comunicação, previously located in separate premises (thus entailing the need to transport the mail sorted by this company), were reinstalled at the Production and Logistics Centre of Cabo Ruivo (Lisbon) in the 2<sup>nd</sup> quarter. This brought the mail production and sorting stages closer together both in terms of time and distance, thereby making for a better use of resources.

Of note is the implementation of new automated postal equipment for the processing of non-standard items, which will be up and running by the end of 2015. With the acquisition of new postal equipment, a new model for manual sorting was also implemented in the production and logistics centre of Maia (Porto), developed based on a new sorting methodology which will be applied in the remaining production and logistics centres and will improve procedural efficiency.

Worth mentioning is also the Zonal project, installed in 11 indexation devices. It is a new feature that allows the real time control of items delivered to each pricing zone, thereby addressing the need for a more effective control of acceptance of items posted and increasing the level of revenue protection for corporate clients.

## Transport

The transport network operates with 235 vehicles, which travel approximately 45 thousand km/day. In the 1<sup>st</sup> half of 2015, the national transport network covered a total of 4.4 million km.

The continuous reorganisation of the national transport network (made up of the "primary", "secondary" and "tertiary" networks) and fleet renewal with recourse to ever more efficient vehicles adapted to specific needs are among the initiatives carried out.

The following measures are also of note:

- Operational adjustments as a result of changes to air transportation to the Azores region due to the liberalisation of that air space;
- Participation in the Drivers Challenge within the IPC, which rewards the best in ecological and defensive driving, with a guest participation of a Portuguese team in Ivalo (Finland);
- Implementation of the 1<sup>st</sup> phase of the project for the new customs clearance model for mail from outside the EU in the Air Mail Unit, that began operating at the beginning of July;
- Integration in the IPC production network of the equipment installed in the Air Mail Unit, for the control of delivery and reception of postal volumes from airlines;
- Participation in certain initiatives, such as FREVUE (Freight Electric Vehicles in Urban Europe) and a CTT partnership with the Mitsubishi Canter E-cell.

## Delivery

The distribution network is composed of 257 postal delivery offices, including 80 delivery support offices, two delivery support services in Lisbon and another in Coimbra, and one logistics and

distribution centre in Torres Novas. It manages 4,740 external postal delivery routes, which cover around 230 thousand km/day.

The fleet provided for delivery is primarily comprised of light vehicles, motorcycles and bicycles (mostly electric). 74% of postal routes are run using some type of vehicle, thus facilitating network integration.

During the 1<sup>st</sup> half of 2015, the main distribution objective was to increase operational efficiency, through the following measures:

- Consolidation of new distribution models that are more efficient and geared toward meeting product service standards, through the implementation of delivery segmented by priorities at all postal delivery offices in mainland Portugal;
- Expansion of mail distribution with automatic sequencing, with no prior postal delivery office handling, enabling increased efficiency in internal operations and creating conditions for the simultaneous delivery of manual and automatically sequenced mail. During the 1<sup>st</sup> half of the year, this delivery model was implemented in 14 postal delivery offices, making up a total of 57;
- Consolidation of the mail and express & parcels distribution network integration project. During the semester, the CTT mail distribution network internalised the delivery of the EMS19 product in 50 postal delivery offices (from the 130 planned), thereby incrementing the delivery of EMS products in the mail distribution network to nearly 45% of the total;
- Streamlining physical structures by centralising and aggregating 5 postal delivery offices and delivery support centres.

Along with greater operational efficiency, sorting reliability and commitment to excellent quality of service, the focus continued to be on stimulating the network of postmen and women, as the preferred proximity channel and network for the marketing and sale of products and services.

### 2.3. Express & Parcels

The revenues <sup>4</sup> of this business unit were €63.8m (17% of the consolidated total <sup>5</sup>) in the 1<sup>st</sup> half of 2015.

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

CTT has an Iberian offer for the express & parcels market, through CTT Expresso and Tourline Express, providing customers with the same delivery solutions in Portugal and Spain and an array of integrated, streamlined and competitive services. With this portfolio, CTT intends to position itself as one of the region's main operators.

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<sup>4</sup> Including internal services and intragroup transactions which are eliminated for the purpose of consolidation.

<sup>5</sup> Excluding revenues allocated to the CTT Central Structure and Intragroup Eliminations of -€17.2m in the 1<sup>st</sup> half of 2015.

In the 1<sup>st</sup> half of 2015, CTT launched a new convenience offer to support e-commerce in Portugal. It includes the pick-up service, which allows the e-buyer that buys a product on an online shop of a CTT Expresso customer (e-retailer) to pick up that shipment directly at a point of his/her choice (CTT post office or postal agency, with the possibility of choosing a Worten store for longer opening hours), and the drop-off service, that ensures occasional clients may make shipments from one of those same points. At the end of the 1<sup>st</sup> half of 2015, the number of CTT access points within the national territory from which parcel pick-up or drop-off was possible totalled more than 1,000, thus allowing for better coverage and convenience for online retailers and purchasers.

Given e-commerce's growing importance, which is a fundamental lever for the growth of parcels, and following the creation of a new area called "E-Commerce" in the last quarter of 2014 which reports directly to the Executive Committee, CTT carried out an action plan for the development of this business, of which the following are worthy of note:

- Based on an in-depth market survey on e-commerce on an Iberian level, including e-buyers, e-retailers and e-commerce platforms a new modular e-commerce offer was developed and will be gradually launched throughout 2015 and the 1<sup>st</sup> quarter of 2016;
- Launch of the Pick-Up Point and Drop-Off Point Solution, which is already available and the launch campaign has been concluded;
- Commercial stimulation focused on e-commerce activities, through the definition of commercial goals by the Company's various sales channels at the Iberian level;
- Activities with potential partners for the development of the e-commerce business, both at the national and international levels;
- Development and implementation of the various scheduled activities within the Interconnect programme, that strives to create a network and the integrated offer of cross border e-commerce services involving over 30 postal operators at its current stage of development.

In **Portugal**, CTT maintains the lead in the domestic market (source: Postal Services Report – Statistical Information – 4<sup>th</sup> quarter 2014, ANACOM).

As previously mentioned, it is imperative to note the progress of the integration of the Mail and Express & Parcels distribution networks (outsourced) that began in 2014. Its goal is to increase use of the network of postmen and women for last-mile delivery of small/medium-sized parcels, thereby absorbing growth from the B2C segment by using the installed capacity and the high capillarity of the network.

In the 1<sup>st</sup> half of 2015, the coverage area of the basic CTT network for parcel delivery was extended. This process is being undertaken by geographic coverage areas under an integrated rationale and vision. The extension of the coverage area will continue throughout 2015 and is expected to be complete by the beginning of the last quarter of this year. This integration will allow a more efficient and capillary distribution for end clients, providing a better service under competitive conditions.

In **Spain**, CTT is in the TOP 10 of the Express & Parcels market, with a 5% share in 2013, according to the *paqueteria empresarial* study undertaken by DBK Informa.

In this market, CTT continued to implement the restructuring plan for Tourline's activity and franchisee network, in order to achieve better control and franchisee quality, in terms of business capacity,

financial soundness and management skills. This process has resulted in a more direct presence, both in stronger business areas and, temporarily, in delivery zones the Company does not intend to cover directly, but where it was necessary to compensate for the loss of franchisees. This latter aspect continued to penalise the Company's profitability this semester.

Tourline is also carrying out a human resources optimisation and restructuring process to increase its operational efficiency by reducing staff costs, as well as to improve and streamline procedures in light of the on-going restructuring plan. Negotiations for a workforce reduction have begun in accordance with the legal prescriptions, including the required consultations with Company employee representatives.

In **Mozambique**, CTT is active in the Express & Parcels business since October 2010 through 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 intends to become market leader of the domestic express market and to become one of the most important players in the international Express & Parcels to/from Mozambique. The company covers most provinces and owns an operations centre, two own branches and an Airport Mail Unit in Maputo. CORRE products and services are also available at all post offices of Correios de Moçambique, thus achieving 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, as a result of which the company has become the sole supplier to the biggest commercial bank in Mozambique, for logistics, sorting and delivery to all its branches. Close ties remain in place with the South African Post Office (SAPO), in order to use the Johannesburg transit hub, thereby enabling international routes with the various countries that are linked to this hub, as well as with CTT Portugal that handles transit operations to European destinations.

## 2.4. Financial Services

The recurring revenues <sup>6</sup> of this business unit totalled €41.9m (11% of the consolidated total <sup>7</sup>) in the 1<sup>st</sup> half of 2015, which is a year-on-year increase of 18.2%. This performance shows that the creation of the Bank is a natural development of the business unit.

This business unit includes the financial services provided by CTT, S.A. - PayShop and CTT Serviços/ Bank project.

The Financial Services business unit once again performed very positively in the 1<sup>st</sup> half of 2015, thus completing the 5<sup>th</sup> consecutive semester of successful progress despite the adverse macro-economic conditions.

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<sup>6</sup> Including internal services and intragroup transactions which are eliminated for the purpose of consolidation.

<sup>7</sup> Excluding revenues from the CTT Central Structure and Intragroup Eliminations, amounting to -€17.2m in 1<sup>st</sup> half of 2015.

An analysis by product line puts the spotlight on Savings & Insurance products, with subscriptions reaching a new record of €3.0 billion (+29.7% as compared to the 1<sup>st</sup> half of 2014). This performance was mainly due to public debt certificates (Postal Savings Certificates and *Poupança Mais* Treasury Certificates) marketed by CTT. In January alone, anticipating the update of the interest rate of these products, subscription reached the historical high of €2.2 billion, which is unparalleled in CTT's 50-year history of marketing public debt certificates.

Regarding Payments, the evolution of Payshop and postal payments was slightly below that of the 1<sup>st</sup> half of 2014, in both cases due to the trend to migrate to electronic channels, mainly for mobile phone top-ups. This trend has been fostered by telecommunication operators' shift to post-paid accounts within the 4P offer. In any case, there has been a trend towards growth, especially in the payment of utilities and internet services through Payshop, as well as toll payments through CTT channels and Payshop. In this context, contacts have been made to endow this business ever more with new pre-paid services, thereby contributing to an offer of greater value to users.

Money Orders and Transfer volumes recorded a positive evolution in terms of volume, with 3.6% year-on-year growth. This reflects the continued beneficial effects from the issue of Family Allowance money orders, as well as a return to growth in international urgent cash transfers, following partnerships with new immigration channels established in 2014 (Moldova, for example). The need to adjust price competitiveness, namely regarding alternative methods, caused a mismatch between revenue growth and postal volumes.

In the new Consumer Credit area, the 1<sup>st</sup> half of 2015 was marked by the launch of the new CTT Credit Card in April. This product line has been promoted with some caution, given that it will be one of the growth levers of the Bank in its cross-selling strategy.

## Postal Bank

On 4 November 2014, CTT's Board of Directors approved the launch of the Postal Bank, thereby pursuing the established strategy to expand the offer of financial products and services. The Bank of Portugal approved a 12-month extension (until 27/11/2015) of the Bank launch authorisation.

CTT has continued to pursue the implementation of the Postal Bank project with the specific goal of being able to begin operating as of the end of the 4<sup>th</sup> quarter of 2015, thereby fulfilling the goals set out and the conditions of the license granted by the Bank of Portugal.

The Postal Bank will be operated under a low-cost rationale leveraged on CTT's Retail Network. Its target is the mass market that looks for banks to perform its daily banking operations, along with simple but competitive products. CTT's clear advantage in offering competitive banking services that complement its current offer lies in its wide Retail Network with experience in financial services, its physical proximity to customers and the offer of integrated channels (post offices, online, mobile).

Involving more than 120 people daily, among which several specialised and internationally renowned consultants, the Postal Bank project is already staffed by 22 people, as a result of the on-going selective recruiting process.



This big team has been organised into several taskforces dedicated to implementing IT systems, designing the commercial offer, creating the brand and corporate image, defining the post office layout and the respective inauguration plan and coordinating the various partners of the future Postal Bank.

In addition to developing the core banking system and an agile architecture for the IT platform, the team has focused on ensuring the existence of efficient procedures that are adapted to a demanding internal control model, without neglecting the mail-related activities in the Retail Network.

Submitting the request for Special Registration with the Bank of Portugal on 6 July 2015, with the delivery of an extensive file including all the items required by the authorisation, is of special note.

Among the data provided are the Postal Bank's Articles of Association, the authorisation files for the governing and supervisory body members, the governance model and organisational structure, the Board of Directors', Audit Committee's and Remuneration Committee's regulations, the Internal Control Manual, the Code of Conduct and the Remuneration and Selection Policies for the management and supervisory bodies and of the employees entrusted with core roles.

The proposed model for the sharing of physical, technical and human resources between CTT and the Postal Bank, as submitted to the regulator, is in line with CTT's objectives for this project. It leverages CTT brand awareness, the extensive Retail Network and its available capacity, as well as its Financial Services track record and integrates the banking services offer in the existing retail network. The indicative updated business plan presented to the regulator assumes a faster branch roll-out in order to achieve a wider geographical presence as of the launch date to the general public. However, a two-stage roll-out is under assessment, with a soft opening followed by an opening to the general public, to ensure that all procedures and systems are functioning properly following prior "on the job" training. The next steps for the project involve monitoring and possibly reviewing the indicative plan as a result of a number of steps still underway (mainly with regard to the Postal Bank's systems, procedures, roll-out strategy and portfolio), as well as taking into account the market environment and the competitive pressure at that time.

In this regard, Luis Pereira Coutinho joined the Postal Bank project as future CEO. He has an extensive and varied background in heading banks in various countries and, until recently, was a member of the Executive Committee of the largest private Portuguese bank. He is leading this project in direct coordination with the CEO of CTT.

While it waits for the Bank of Portugal's appraisal of its request for a Special Registration, CTT will continue its close and important interaction with the regulator in order to address adequately the implementation of best practices of sound and prudent management as from the beginning of the Postal Bank's activity standing by the concepts of geographical coverage, financial inclusion and trust in the CTT brand, in line with the experience of several European postal banks which have proven to be success stories. The offer, intended to be simple, will develop as the Bank develops, allowing for wise progress much leveraged in CTT's experience in financial services and in partnerships with other operators in this market, which will lead to an important flow of commission income (without capital requirements). This was also the strategy of the most successful European postal banks, for example in France, Italy and Germany.



### **New financial products**

Regardless of but related to the decision made regarding the Postal Bank, new financial products and/or new partnerships are currently under analysis to complement the current offer and to ensure the sustainability of growth that this area has achieved. Offering Health Insurance is one such initiative and will be launched this year.

For current product lines, offer expansion alternatives have been assessed by establishing new partnerships with big companies, endowing this business with a growing value for its users.

### 3. ECONOMIC AND FINANCIAL REVIEW AND CTT SHARE PERFORMANCE

#### 3.1. Economic and financial review

This section summarises the consolidated results achieved by CTT and the consolidated assets, liabilities and financial position of the Company as at 30 June 2015. This section should be read in conjunction with the consolidated financial statements and the accompanying notes. The present analysis includes the consolidation of the activities of the parent company and its subsidiaries (as included in note 7 of the consolidated financial statements).

It should be noted that during the first half of 2015:

- The company CTT Serviços, S.A. was created (in February 2015) in the context of the constitution process of the Postal Bank, becoming incorporated in the present analysis in the Financial Services segment. The share capital at the end of June was €20m.
- An increase of Corre's equity of €0.7m occurred in January 2015.
- Following the Memorandum of Understanding signed with Altice S.A. and following the completion of the acquisition of PT Portugal, CTT recognised the value contractually agreed. This amount will be recognised over the period specified in the memorandum. In June, the amount of €0.4m was recognised as income.

In the first half of 2015, CTT achieved a consolidated net profit of €39.2m, 8.6% (€3.1m) above that of the previous year. This result corresponds to consolidated net profit per share of €0.26, compared to €0.24 in the first half of 2014. The Postal Bank project influenced this result in less €1.7m. Excluding the Postal Bank project, the net profit of CTT would have demonstrated a favourable growth of €4.8m vs. the same period of last year.

The operating activity generated earnings before non-recurring items, interest, taxes, impairments, depreciation and amortisation (recurring EBITDA) of €75.5m, 14.0% (+€9.3m) above that obtained in the same period of the previous year, with an EBITDA margin of 20.6% compared to 18.7% in the first half of 2014. These results reflect an increase of 3.8% (+€13.6m) in the recurring revenues, which exceeded the growth of 1.5% (+€4.3m) in the recurring operating costs (excluding impairments, provisions, depreciation/amortisation and non-recurring costs).

In the first half of 2015, the non-recurring results affecting the CTT results were negative of €4.8m. This value results fundamentally from costs associated with studies and advice services for strategic projects, especially those related to the Postal Bank launch, as well as the continuation of actions on organisational matters, namely the compensation for the termination of the continuous time labour, the compensations resulting from the new Social Works Regulation, the indemnities paid under mutually agreed terminations and the restructuring of the Express & Parcels segment, especially the network optimisation in line with the measures initiated last year.

As a result, reported earnings before interest and taxes reached €59.9m, €4.9m (+9.0%) above those recorded in the first half of 2014.

The financial results reported a negative value of €2.5m, representing an improvement of 19.7% (+€0.6m) relative to the same period of the previous year, due to the decrease of the financial costs

with employee benefits of €2.4m resulting from the reduction of the discount rate from 4.0% to 2.5%, and which compensated the decrease of 64.5% (-€1.6m on interest income affected by the decline in the interest rates of cash investments).

Interest income reached €0.9m and interest expenses were €3.5m, the latter value resulting mainly from financial costs with employee benefits, which represent 97.1% of total.

Earnings before taxes and non-controlling interests (EBT) reached €57.3m, 10.7% higher than in the first half of 2014.

## Consolidated income statement

Thousand Euros	1H2015	1H2014	△% 15/14
<b>Revenues</b>	<b>367,054</b>	<b>353,503</b>	<b>3.8</b>
Sales and services rendered	360,201	344,980	4.4
Sales	10,866	10,127	7.3
Services rendered	349,335	334,853	4.3
Other operating income	6,854	8,523	-19.6
<b>Operating costs excluding impairments, provisions, depreciation and non-recurring costs</b>	<b>291,546</b>	<b>287,250</b>	<b>1.5</b>
Cost of sales	7,567	7,490	1.0
External supplies and services	108,471	114,315	-5.1
Staff costs	169,030	161,189	4.9
Other operating costs	6,479	4,256	52.2
<b>Earnings before depreciation, impairments, non-recurring results, interest and taxes (recurring EBITDA)</b>	<b>75,509</b>	<b>66,254</b>	<b>14.0</b>
Impairment of inventories and accounts receivable, net	147	(402)	136.6
Provisions, net	95	561	-83.1
Impairment of non-depreciable assets	-	-	-
Depreciation/amortisation and impairment of investments, net	10,642	10,734	-0.9
<b>Earnings before non-recurring results, financial income and taxes (recurring EBIT)</b>	<b>64,625</b>	<b>55,361</b>	<b>16.7</b>
Company restructuring	2,272	2,902	-21.7
Costs associated to studies and advice services for strategic projects	2,689	75	3,485.3
Other non-recurring income and costs	(200)	(2,553)	-92.2
<b>Earnings before interest and taxes</b>	<b>59,864</b>	<b>54,936</b>	<b>9.0</b>
Financial results, net	(2,571)	(3,470)	25.9
Gains/losses in associated companies	28	303	-90.8
<b>Earnings before taxes (EBT)</b>	<b>57,321</b>	<b>51,768</b>	<b>10.7</b>
Income tax for the period	(18,143)	(15,731)	15.3
<b>Net profit before non-controlling interests</b>	<b>39,178</b>	<b>36,038</b>	<b>8.7</b>
Net profit attributable to non-controlling interests	13	(25)	152.0
<b>Net profit for the period attributable to equity holders</b>	<b>39,165</b>	<b>36,063</b>	<b>8.6</b>

Note: Revenues exclude non-recurring amounts.

### 3.1.1. Revenues

Revenues			
Thousand Euros	1H2015	1H2014	△% 15/14
<b>Sales and services rendered</b>	<b>360,201</b>	<b>344,980</b>	<b>4.4</b>
Sales	10,866	10,127	7.3
Services rendered	349,335	334,853	4.3
<b>Other operating income</b>	<b>6,854</b>	<b>8,523</b>	<b>-19.6</b>
<b>Revenues</b>	<b>367,054</b>	<b>353,503</b>	<b>3.8</b>

Note: Revenues exclude non-recurring amounts.

The business of CTT is organised in the following segments:

- Mail – CTT, S.A., excluding financial services and corporate and support areas, but including PostContacto, Mailtec Group, CTT Gest and business solutions of CTT, S.A.;
- Express & Parcels – includes CTT Expresso, Tourline and Corre;
- Financial Services – includes PayShop, CTT Serviços e CTT, S.A. financial services.

1H2015 - Revenues by segment						
Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	Revenues
Sales and services rendered	258,829	62,477	41,309	-	(2,413)	<b>360,201</b>
Sales	10,393	473	-	-	-	<b>10,866</b>
Services rendered	248,436	62,004	41,309	-	(2,413)	<b>349,335</b>
Other operating revenues	19,754	1,347	563	35,874	(50,684)	<b>6,854</b>
Allocation to CTT central structure	-	-	-	19,910	(19,910)	<b>0</b>
<b>Revenues</b>	<b>278,582</b>	<b>63,824</b>	<b>41,871</b>	<b>55,784</b>	<b>(73,007)</b>	<b>367,054</b>

Note: Excludes non-recurring items.

1H2014 - 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)	<b>344,980</b>
Sales	9,592	537	-	-	(2)	<b>10,127</b>
Services rendered	241,906	61,292	33,877	-	(2,222)	<b>334,853</b>
Other operating revenues	16,602	870	1,544	46,010	(56,502)	<b>8,523</b>
Allocation to CTT central structure	-	-	-	9,941	(9,941)	<b>0</b>
<b>Revenues</b>	<b>268,099</b>	<b>62,699</b>	<b>35,421</b>	<b>55,951</b>	<b>(68,667)</b>	<b>353,503</b>

Note: Excludes non-recurring items.

The Mail segment, which includes the core revenues of CTT and represent the greatest weight in terms of operational revenues amounting to €278.6m, in the first half of 2015 increased 3.9% (+€10.5m) in comparison to the previous year. Sales and services increased by 2.9% (+€7.3m).

This revenue increase was due to the +€7.1m (+3.3%), increase in addressed mail revenues which can be attributed to the combined effect of the increase in the average prices for USO services in the first half of 2015 when compared to those of the previous year (average increase of 4.1%) and with the

changes in the discounts policies for large customers. These two factors compensated the 2.4% decline in the addressed mail volumes.

The growth in other operating income is mainly associated with the exchange rate differences in DTS (*Droits de Tirage Spéciaux*, four currencies: Euro, Dollar, Pound and Yen) used in the pricing of transactions with other postal operators, which appreciated by 11.1% compared to the previous year, representing €1.5m of revenues. This situation impacts also the increase of other costs. It is noteworthy to mention the increase in the network integration between the Operations of CTT, S.A. and CTT Expresso, namely the EMS delivery, with a positive impact on revenues of €1.2m.

The Express & Parcels segment with €63.8m of operating revenues displayed an increase of 1.8% (+€1.1m), as a result of the increase in Portugal (+€0.8m; +2.1%), in Mozambique (+€0.2m; +26.8%) and in Spain (+€0.1m; +0.5%) revenues, essentially due to increase in volumes.

The Financial Services with revenues of €41.9m, resulting primarily from fees paid for services rendered and for subscription values, grew by 18.2% (+€6.5m) relative to the same period of 2014. This growth was due to the strong adherence to public debt certificates in January after IGCP informed the market of the interest rate reduction as of the 1 February 2015.

Therefore, savings and insurance products revenues experienced an increase of 61.1%, where the sales of public debt certificates (*Certificados de Aforro* and *Certificados do Tesouro Poupança Mais*) are noteworthy – they grew by 67.2% (+€7.7m), due to the strong growth of subscription values, especially of the *Certificados do Tesouro* (+111.8%). Sales of insurance products (*Seguros de Capitalização*) increased by 27.9% (+€0.5m).

In the Central Structure of CTT, it is worth highlighting the €2.9m of VAT recovered in the first half of 2014 and the reduction of the internal services rendered by IT systems and human resources in the first half of 2015 (-€6.7m), as result of optimisation and efficiency measures undertaken in these areas.

### 3.1.2. Operating costs <sup>8</sup>

Operating costs			
Thousand Euros	1H2015	1H2014	Δ% 15/14
Cost of sales	7,567	7,490	1.0
External supplies and services	108,471	114,315	-5.1
Staff costs	169,030	161,189	4.9
Other operating costs	6,479	4,256	52.2
<b>Operating costs</b>	<b>291,546</b>	<b>287,250</b>	<b>1.5</b>

Note: Excludes non-recurring items.

<sup>8</sup> Cost of sales + ES&S + Staff costs + other operating costs (excludes non-recurring items).

Recurring **external supplies and services** costs reduced by 5.1% (-€5.8m) compared to the first half of 2014.

Efficiency measures undertaken in CTT have allowed this reduction in costs, of which it is worth mentioning the (i) reduction of €7.4m in communication and IT outsourcing costs, due to a change in the service provider during the second half of 2014, for base infrastructure, support service line, desktop management and data and voice communications and (ii) the increase in synergies in the use of internal resources in CTT, namely the continuous insourcing of the service processes of delivery / processing and transportation of Express & Parcels, allowing an increase in internal transactions of around €1.2m and consequently a reduction in external costs.

Conversely, some unfavourable year-on-year variations resulted, namely of (i) €1.2m due to the increase in the number of post offices which had to contract secure transport for monetary amounts due to Legal Obligation (set by law 34/2013, 16 May), (ii) €0.7m increase in the maintenance of information systems and (iii) €2.3m increase in the amount spent with foreign operators.

In what regards the latter cost increase, International Priority Mail started being processed by the Prime line (as of May 2014), thereby the postal operations started to incur a specific cost premium associated with this service, causing an impact of €0.9m to CTT in the semester, and the remaining impact is justified by the valuation of DTS that impacted with charges between operators defined in this currency, by the use of Reims rates in the pricing of International mail and by changes on the traffic structure (for countries and weight).

**Recurring staff costs** reached €169.0m, increasing €7.8m (+4.9%) when compared to that of previous year. This increase is explained primarily by (i) the estimate variable remuneration (+€5.3m estimated in June 2015 referring to values to be paid in 2016); (ii) new remuneration model for the members of the Corporate Bodies (+€1.7m) (iii) salary increases of 2,0% in CTT S.A. and 1.25% in the subsidiaries (with minimal and maximal limits) of around €1.9m (iv) +€0.4m spent on CTT Serviços staff, related to the Banco Postal project.

These unfavourable variations were compensated by a favourable decline of €2.4m in health costs due to the new Social Works Regulation to the contracting of a new management provider for the Healthcare Plan, resulting in a reduction in the management fee.

**Other operational costs** presented an unfavourable deviation of €2.2m, due to the rise of the DTS exchange rate by 11.1% when compared to the first half of 2014, which led to €1.5m in unfavourable exchange rates differences in Mail and €0.6m of uncollectible debts and exchange rates differences in the Express & Parcel segment.

In terms of operating costs by segment, it is worth mentioning:

- Mail 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 2015 this segment incurred €228.4m of recurring operating costs, an increase of €4.9m (+2.2%) relative to the previous year; of which the €2.3m spent on foreign operators and €1.5m due to unfavourable exchange rates differences, are most noteworthy.

- Express & Parcel with an increase of €2.6m (+4.4%) in its recurring operating costs, mainly due to increased spending on transportation and delivery in Tourline (+€1.9m) as part of the ongoing restructuring process.
- Financial Services, which records a recurring operating cost increase of €1.3m (+7.9%), due to the increase in the number of post offices with transport of valuables (+€1.2m) and for recurring expenses associated with the Postal Bank project of €1.1m, particularly in staff costs, expenditures on information systems, rentals and various consumables. These expenses were offset by the adjustment of €0.8m in bonuses and incentives related to the sales of financial services in CTT post offices and the reduction of the commissions to Payshop agents of €0.2m.
- Central Structure demonstrated a favourable variation of €0.2m (-0.3%), due to the contribution of the reduction in communication and IT outsourcing (-€7.4m), that compensated the variable remuneration estimated, short and long term, in the amount of €6.2m.

**1H2015 - Operating costs by segment**

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	Operating costs
External supplies and services	50,291	48,419	5,958	19,974	(16,171)	<b>108,471</b>
Staff costs	121,096	12,850	2,179	32,904	-	<b>169,030</b>
Other costs	37,308	1,522	9,235	2,906	(36,926)	<b>14,046</b>
Allocation to CTT central structure	19,750	-	160	-	(19,910)	<b>0</b>
Operating costs	228,445	62,791	17,533	55,784	(73,007)	<b>291,546</b>

Note: excludes non-recurring items.

**1H2014 - 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)	<b>114,315</b>
Staff costs	120,494	11,945	1,681	27,069	-	<b>161,189</b>
Other costs	42,709	838	9,086	2,635	(43,522)	<b>11,746</b>
Allocation to CTT central structure	9,866	-	75	-	(9,941)	<b>0</b>
Operating costs	223,560	60,157	16,249	55,951	(68,667)	<b>287,250</b>

Note: excludes non-recurring items.



### 3.1.3. Recurring EBITDA

Recurring EBITDA <sup>9</sup> amounted to €75.5m corresponding to a margin of 20.6%, an increase of 1.8 percentage points relative to the value achieved in the first half of 2014, as a result of revenue growth that exceeded the increase in operating costs.

Recurring EBITDA			
Thousand Euros	1H2015	1H2014	Δ% 15/14
Revenues	367,054	353,503	3.8
Operating costs excluding impairments, provisions, depreciation and non-recurring costs	291,546	287,250	1.5
<b>Recurring EBITDA</b>	<b>75,509</b>	<b>66,254</b>	<b>14.0</b>
Recurring EBITDA margin	20.6%	18.7%	1.8 p.p.

The recurring EBITDA of the Financial Services segment reached €24.3m, with an EBITDA margin of 58.1%. This segment includes the Postal Bank project, which in the first half of 2015 presented a negative recurring EBITDA of €1.1m, due to the preparation for the launch of activity. Excluding the impact of the Postal Bank project, the Financial Services recurring EBITDA would have reached €25.4m with an EBITDA margin of 60.8%.

1H2015 - Recurring EBITDA by segment			
Thousand Euros	Mail	Express & Parcels	Financial Services
Revenues	278,582	63,824	41,871
Operating costs	228,445	62,791	17,533
<b>Recurring EBITDA</b>	<b>50,137</b>	<b>1,033</b>	<b>24,338</b>
Recurring EBITDA margin	18.0%	1.6%	58.1%

1H2014 - 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
<b>Recurring EBITDA</b>	<b>44,539</b>	<b>2,543</b>	<b>19,172</b>
Recurring EBITDA margin	16.6%	4.1%	54.1%

<sup>9</sup> 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).

### 3.1.4. Non-recurring results

In the first half of 2015, CTT recorded non-recurring costs of €4.8m, which includes:

- (i) External supplies and services:
  - €2.7m of costs associated with studies and advice services for strategic projects, especially those related with the Postal Bank launch (€2.3m).
  - €0.1m resulting from the Mailtec Comunicações facilities move, which will create future synergies within the group.
- (ii) Personnel costs:
  - €1.3m of staff costs including: €0.4m due to the termination of employment contracts by mutual agreement in the scope of the transformation programme; €1.9m due to the provision for Tourline; €1.1m due to the compensation for the termination of the continuous time labour and the compensations resulting from de new Social Works Regulation; and -€2.0m related to the adjustment made on the variable remuneration amount estimated in 2014.
- (iii) Other costs:
  - €1.0m deemed uncollectible in the scope of the restructuring of the Express & Parcels segment.
- (iv) Impairment and provisions, with a net impact of €0.3m:
  - €1.0m from the reversal of impairment recorded under the scope of the restructuring of the Express & Parcels segment.
  - €0.8m associated with net impairments resulting from the optimisation of Tourline network.
  - €0.2m net decrease of the provision for labour contingencies concerning retributive differences in the calculation basis and an increase of €0.04m of the provision for onerous contracts.

#### 1H2015 - Non-recurring results

Thousand Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	Others non allocated	Total
Other operating revenues	-	-	-	-	-	-	-
External supplies and services	128	54	2,277	359	-	-	2,817
Staff costs	1,459	2,272	58	(2,474)	-	-	1,315
Other costs	-	973	-	-	-	-	973
<b>Non-recurring results that affect EBITDA</b>	<b>(1,587)</b>	<b>(3,299)</b>	<b>(2,335)</b>	<b>2,115</b>	<b>-</b>	<b>-</b>	<b>(5,105)</b>
Depreciation/amortisation and impairment of investments, net	-	-	-	-	-	-	-
Impairment of inventories and accounts receivable, net	-	(144)	-	-	-	-	(144)
Impairment of non-depreciable assets	-	-	-	-	-	-	-
Provisions net	-	-	-	(200)	-	-	(200)
<b>Non-recurring results that affect EBIT</b>	<b>(1,587)</b>	<b>(3,155)</b>	<b>(2,335)</b>	<b>2,315</b>	<b>-</b>	<b>-</b>	<b>(4,761)</b>

**1H2014 – Non-recurring results**

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

**3.1.5. Financial results**

In the first half of 2015, the net financial results reached -€2.5m, representing an improvement of €0.6m in relation to the first half of 2014.

The interest income decreased by 64.5% when compared to the previous year, directly influenced by the sharp decrease in interest rates offered by banks on term deposits.

**Financial results**

Thousand Euros	1H2015	1H2014	Δ% 15/14
Interest income	891	2,511	-64.5
Interest expenses	3,461	5,982	-42.1
Interest expenses (financial)	100	198	-49.5
Interest costs with employee benefits (accounting)	3,362	5,783	-41.9
Gains/losses in associated companies	28	303	-90.8
<b>Financial results</b>	<b>(2,543)</b>	<b>(3,167)</b>	<b>19.7</b>

Interest expenses incurred reached €3.5m, which include costs associated with employee benefits of €3.4m and interest related to financial leasings and bank loans of €0.1m.

There was a decrease of the financial costs with employee benefits of €2.4m resulting from the impact of the reduction in the discount rate from 4.0% to 2.5%.

The gains in associated companies reached €0.03m in the first half of 2015 and are related with the associate company Multicert. In 2014 those were related with the gain from the sale of the 51% participation in EAD and with profit appropriation (€0.3m).

### 3.1.6. Net profit and profitability

In the first half of 2015, CTT achieved a consolidated net profit attributable to equity holders of €39.2m, 8.6% above that of last year, corresponding to consolidated earnings per share of €0.26 and a net margin of 10.7% (10.2% in the first half of 2014).

The reported and recurring consolidated income statement for the first halves of 2015 and 2014 is presented in summary below:

Thousand Euros	Reported		Recurring *		
	1H2015	1H2014	1H2015	1H2014	Δ % 15/14
Revenues	367,054	356,503	367,054	353,503	3.8
Operating costs	296,651	287,758	291,546	287,250	1.5
<b>EBITDA</b>	<b>70,403</b>	<b>68,745</b>	<b>75,509</b>	<b>66,254</b>	<b>14.0</b>
EBITDA margin	19.2%	19.3%	20.6%	18.7%	1.8 p.p.
<b>EBIT</b>	<b>59,864</b>	<b>54,936</b>	<b>64,625</b>	<b>55,361</b>	<b>16.7</b>
EBIT margin	16.3%	15.4%	17.6%	15.7%	1.9 p.p.
<b>Earnings Before taxes</b>	<b>57,321</b>	<b>51,768</b>	<b>62,082</b>	<b>52,193</b>	<b>18.9</b>
Income tax for the period	18,143	15,731	17,419	15,546	12.0
Losses (gains) attributable to non-controlling interest	13	(25)	13	(25)	152.0
<b>Net profit for the period</b>	<b>39,165</b>	<b>36,063</b>	<b>44,650</b>	<b>36,673</b>	<b>21.8</b>

Note: Operating costs = cost of sales + external supplies and services + staff costs + other operating costs.

\* Recurring net profit excludes non-recurring revenues and costs and considers a theoretical (nominal) tax rate (change from prior methodology which considered the effective tax rate from the reported accounts).

### 3.1.7. Capex

Capex reached €10.9m, 297.2% above that of the previous year (+€8.2m) and was mainly directed towards the assets in progress related to IT projects under development for the Postal Bank launch and for the creation of an e-commerce services network involving more than 30 postal operators.

### 3.1.8. Financial position and cash flow

#### Consolidated statement of financial position

Thousand Euros	30.06.2015	31.12.2014	△% 15/14
Non-current assets	348,946	350,481	-0.4
Current assets	873,871	830,516	5.2
<b>Total assets</b>	<b>1,222,818</b>	<b>1,180,997</b>	<b>3.5</b>
Equity	215,258	249,210	-13.6
Total liabilities	1,007,560	931,787	8.1
Non-current liabilities	315,332	314,394	0.3
Current liabilities	692,228	617,393	12.1
<b>Total equity and liabilities</b>	<b>1,222,818</b>	<b>1,180,997</b>	<b>3.5</b>

Total assets recorded an increase of €41.8m (+3.5%), reflecting the decrease in non-current assets due to the reduction in deferred tax assets (-€1.1m) and the increase in current assets (+€43.4m) resulting from the growth (i) in cash and cash equivalents (+€9.9m, +1.5%), (ii) in accounts receivable (+€15.2m; +11.5%) and (iii) in other current assets (+€12.8m; +56.1%).

Equity decreased by €34.0m (-13.6%), as a result of the dividend distribution for the year 2014 (€69.8m), which occurred in May, and is not yet fully offset by the results of the current period (€39.2m). The purchase of own shares (200,177 shares) for the amount of €1.9m, is also relevant.

The €75.8m (+8.1%) increase in liabilities resulted mostly from the €51.8m (+13.0%) increase in financial services payables, due to payment of holiday pensions to retirees by the State, and also result of the rise in other current liabilities of €16.2m (+19.6%) due to the growth in accrued expenses.

The employee benefits liabilities amounted to €276.5m at the end of the 1<sup>st</sup> half of 2015, 0.8% less than in December 2014. In the quarters actuarial studies are not performed, and the amounts calculated are based on the actuary's projections for 2015 and on the real payments made.

#### Liabilities with post-retirement employee benefits

Thousand Euros	30.06.2015	31.12.2014	△% 15/14
<b>Liabilities</b>	<b>276,547</b>	<b>278,668</b>	<b>-0.8</b>
Healthcare	240,965	241,166	-0.1
Staff (suspension agreements)	15,332	17,810	-13.9
Other benefits	18,010	18,315	-1.7
Share plan	2,240	1,376	62.8

The **net change in cash and cash equivalents** amounted to €9.9m, -€121.1m below that of the first half of 2014, resulting from the:

- Decrease of €67.5 m in the change in net financial services payables;

- Increase of €4.5m in collections from customers resulting from the growth in revenues and accounts receivable;
- Increase of €16.1m in payments to employees, impacted mainly by the variable remuneration pertaining to the 2014 financial year (€9.0m);
- Increase of €6.1m in payments of taxes.
- Increase of €14.2m in Capex payments in the first half of 2015, primarily from acquisitions made at the end of 2014 related with heavy vehicles, the repurchasing of IBM's outsourcing equipment and the investment in the creation of the Postal Bank.
- Increase of €9.8m in the amount of dividends paid in 2015 versus the amount paid in 2014.

Cash flow						
Thousand Euros	Reported			Recurring *		
	1H2015	1H2014	Δ% 15/14	1H2015	1H2014	Δ% 15/14
Cash flow from operating activities	95,848	187,762	-49.0	37,802	62,198	-39.2
Cash flow from investment activities	(16,158)	3,663	-541.1	(16,158)	3,663	-541.1
Capex	(17,852)	(3,658)	388.0	(17,852)	(3,658)	388.0
Other	1,693	7,321	-76.9	1,693	7,321	-76.9
<b>Operating free cash flow</b>	<b>79,690</b>	<b>191,425</b>	<b>-58.4</b>	<b>21,644</b>	<b>65,861</b>	<b>-67.1</b>
Cash flow from financing activities	(69,775)	(59,692)	16.9	(69,775)	(59,692)	16.9
Dividends	(69,750)	(60,000)	16.3	(69,750)	(60,000)	16.3
Change in consolidation perimeter	-	(697)	-100.0	-	(697)	-100.0
<b>Net change in cash and cash equivalents</b>	<b>9,915</b>	<b>131,036</b>	<b>-92.4</b>	<b>(48,131)</b>	<b>5,472</b>	<b>-979.6</b>

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

### 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 S.A. and CTT Espresso) 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 liquidity after financial debt and liabilities with employee benefits. Net debt stood at -€26.0m decreasing €48.8m (-65.2%) mostly due to the decrease of €48.1m of net cash (excluding net financial services payables), resulting from the impact of dividend payment that is not yet fully offset by the operating free cash flow of the semester, from the investments in the Postal Bank project and from the increase in accounts receivable.

Net debt			
Thousand Euros	1H2015	Dec2014	△% 15/14
<b>Financial debt</b>	<b>5,935</b>	<b>3,759</b>	<b>57.9</b>
Bank loans and other loans	3,538	891	297.1
Financial leasings	2,397	2,869	-16.5
<b>Net cash</b>	<b>230,760</b>	<b>278,891</b>	<b>-17.3</b>
<b>Net financial debt</b>	<b>(224,824)</b>	<b>(275,132)</b>	<b>-18.3</b>
Liabilities with employee benefits *	276,547	278,668	-0.8
Deferred tax assets related to employee benefits	(77,766)	(78,412)	-0.8
<b>Net debt (incl. Liabilities with employee benefits)</b>	<b>(26,043)</b>	<b>(74,876)</b>	<b>-65.2</b>

\* Includes Share plan recorded in equity.

Net cash			
Thousand Euros	1H2015	Dec2014	△% 15/14
<b>Net cash</b>			
(+) Cash and cash equivalents	674,485	664,570	1.5
(-) Net Financial Services payables	(443,725)	(385,679)	15.1
<b>Net cash</b>	<b>230,760</b>	<b>278,891</b>	<b>-17.3</b>

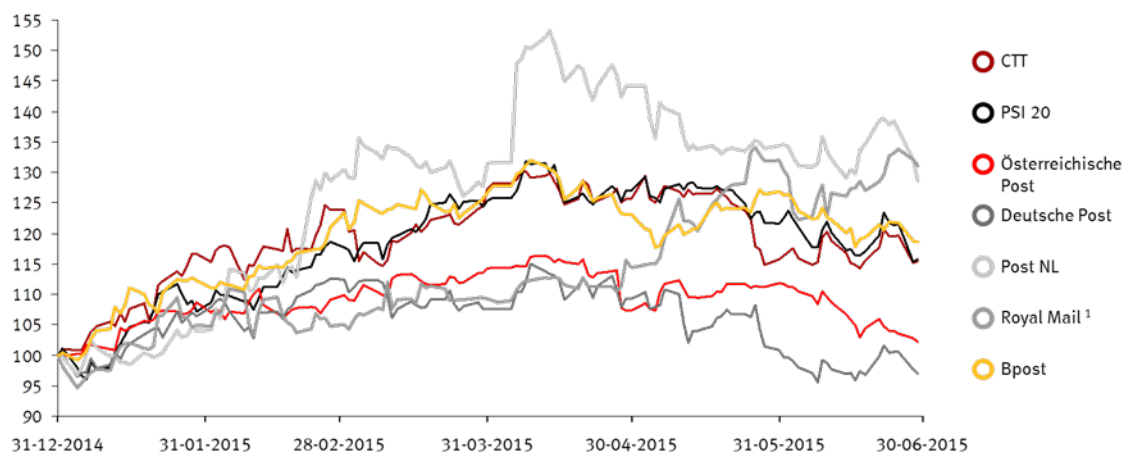
The Financial Services segment gives CTT a large cash position and significant short-term liquid assets, arising from cash from the financial partners in the various activities offered: (i) payment of social benefits through postal money orders; (ii) marketing of insurance, with a special focus on capitalisation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

### 3.2. CTT share performance

In the first half of 2015 the CTT share price appreciated by 15.43%, a performance which is very similar to that of the Portuguese PSI 20 index which appreciated by 15.69%. The performance of the shares of the European postal companies fluctuated between a decrease of 3.11% (Deutsche Post) and an increase of 31.04% (Royal Mail, on a comparable basis, in euros, incorporating the impact of the pound sterling appreciation during the period).

#### CTT share price performance vs PSI 20 & sector

(1<sup>st</sup> half 2015 – rebased at 100 as at 31 Dec. 2014)



<sup>1</sup> Royal Mail share price in euros.

During the 1<sup>st</sup> half of 2015, in the month of May, CTT paid a dividend of €0.465 per share, corresponding to a total shareholder return (capital gain + dividend, calculated on the basis of the share price as at 31 December 2014) of 21.11% for the period. In terms of total shareholder return, the CTT share performance was above that of the PSI 20 index, which presented an 18.63% total return.

During the 1<sup>st</sup> half of 2015, 70.9 million CTT shares were traded at Euronext Lisbon, corresponding to a daily average of 567,000 shares, which translates into an annualised ratio of 94% of the share capital. On 30 June 2015, the CTT share price closed at €9.254.



## 4. HUMAN RESOURCES

### Culture and Values. Talent Management Plan. Recognition and Reward

Talent Management creates value for the organisation and for each person. CTT is integrating the values, giving them life, developing systems and policies to transform the organisation, developing skills and holding leadership responsible, as well as engaging the structure. It is also recognising and rewarding the contribution and performance of the individuals, the teams and the businesses.

During the 1<sup>st</sup> half of 2015, the experience of Culture and Values continued to be deepened, with several initiatives for this purpose.

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

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

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

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

The Performance Management system is aimed at the whole CTT structure, and seeks to align the employees with the strategy and business, consolidating a culture of meritocracy, recognition and reward of differentiated performances. Hence, in the 1<sup>st</sup> half of 2015 **a participation in the profits** amounting to circa nine million euros **was distributed to employees and executive directors**. The individual allocation of this share was based on the merit and differentiated according to functional groups, performance levels and absenteeism rates.

It is possible that variable remuneration will be allocated in future financial years under this policy, depending, obviously, on the organisation, the business units and individuals' performance,

according to detailed criteria defined in the framework of the referenced Performance Management system.

### Current Activity

Human resources management continued to be driven by the following priorities: (i) definition and implementation of all-encompassing and consistent human resources development policies allowing to reward performance and promote skills and the agility of the Company, (ii) maintaining a sound social climate; (iii) continued investment in training and qualification; and (iv) optimisation and adequacy of staff to meet the evolving needs and challenges of the markets CTT operates in.

In the context of the necessary adjustment to the business and volumes evolution, as at 30 June 2015, the Company headcount (permanent staff and employees on fixed-term contracts) consisted of 12,887 employees, 165 (+1.3%) more than in the same period of 2014, mostly due to greater reliance on fixed-term contracted employees for the holiday season, now with increased needs due to the demanding quality standards of the Express & Parcels products already delivered through the base distribution network. The number of employees includes 7,146 mail operations and delivery staff (including 4,894 delivery postmen and women) and 2,751 employees in the Retail Network.

During the first six months of 2015, 78 employees were hired (33 in Spain and 45 in Portugal), 18 who had been working for TI-POST and Postal Network returned to the Company as well as 2 following a secondment in the public interest, while 97 left. Of these, 33 employees retired, 57 terminated their contracts and 7 deceased.

In addition, employees limited in their ability to perform their duties have been re-assessed in order to achieve better placement and to invest in mobility among the various CTT companies and businesses, thereby promoting, insofar as possible, the insourcing of operational activities. In this regard, the integration process of the delivery networks will reflect a better and more efficient use of resources.

### CTT Headcount

	30.06.2015	30.06.2014	Δ 2015/2014	
Mail	10,290	10,344	-54	-0.5%
Mail & Business Solutions	7,539	7,624	-85	-1.1%
Retail Network	2,751	2,720	31	1.1%
Express & Parcels	1,317	1,176	141	12.0%
Financial Services	124	103	21	20.4%
Other	1,156	1,099	57	5.2%
<b>Total, of which:</b>	<b>12,887</b>	<b>12,722</b>	<b>165</b>	<b>1.3%</b>
Permanent	11,525	11,586	-61	-0.5%
Fixed-term contracts	1,362	1,136	226	19.9%
Total in Portugal	12,280	12,164	116	1.0%

## Development and resource optimisation policies

The annual performance assessment process regarding the 2014 financial year was conducted during the 1<sup>st</sup> half of 2015. Simultaneously, a new performance management system was developed and implemented in all CTT companies, aiming at aligning the employees with the strategy and business development of the Company, as well as recognising the merit and the results achieved. It is based on the definition of targets and expected behaviours, which are a reference for the assessment at the end of the management cycle. In accordance with this new model, targets were defined and KPIs agreed for 2015 for the various functions and Company units, and all of those were communicated to the employees.

To strengthen the CTT value proposition as an employer, the **CTT Employer Brand** was designed and the **Trainee Programme** was launched with a view to attract and retain high-potential youngsters, promote their development within a structured overall programme, contribute to the rejuvenation of the staff, foster a mobility culture, tailor a pipeline of leaders in the medium-term and position CTT as an “employer of first choice”. During the 1<sup>st</sup> semester, the programme was structured and the candidates were selected in several stages for the first programme that starts in September of 2015.

In the framework of the development of the business units and the enhancement of the human capital needed for the growth of CTT, the Company’s **staff was rejuvenated** by recruiting new staff with added knowledge and skills.

In terms of **training**, among the strategically relevant programmes, those associated with the network optimisation, the Citizen’s Bureau Areas and the Postal Bank projects are to be highlighted.

On 9 February 2015 and with effect from December 2014, a **new Company Agreement (CA)**, valid for the next two years, and a revised **Regulation of the Social Works (RSW)**, the internal healthcare and social protection system of CTT, were signed with the workers’ collective representation structures – Workers’ Committee and Trade Unions.

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

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

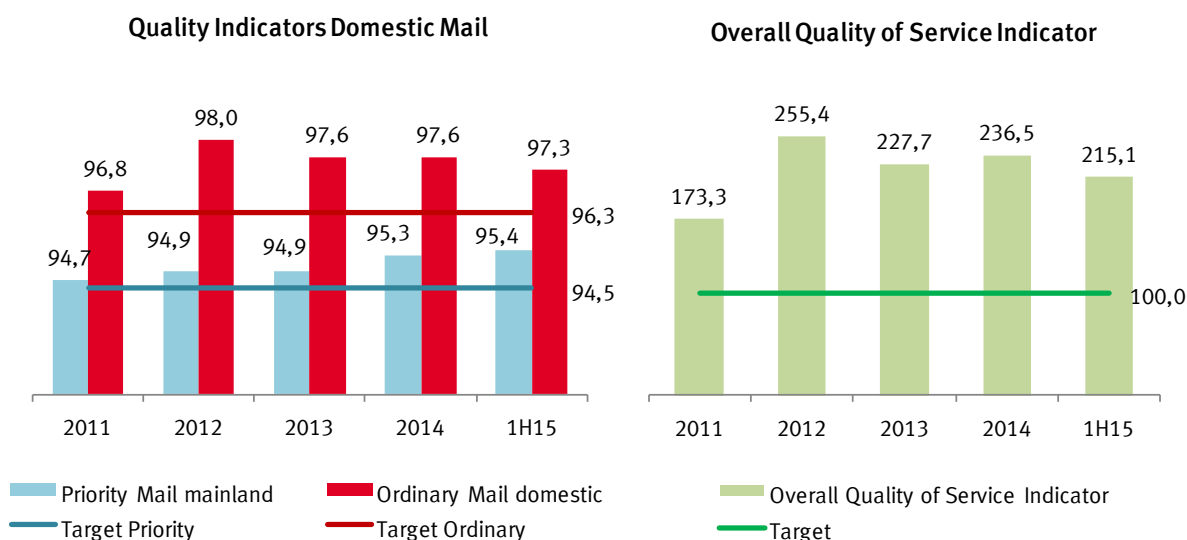
As of 1 January 2015, besides the above-mentioned revision of the Regulation of the Social Works, CTT’s Healthcare Plan, which was until then managed by PT-ACS, started to be managed by Médis following a call for tender addressed to 4 relevant players. The transition to Médis ensures continuity

of the healthcare system for employees in a similar manner as that of the previous supplier and will allow for a reduction of current costs with the Healthcare Plan management and medical services.

## 5. QUALITY, INNOVATION AND SUSTAINABILITY IN CTT

### 5.1. Quality of Service

In the 1<sup>st</sup> half of 2015, CTT continued to have high quality of service levels, with the OQSI – Overall Quality of Service Indicator – registering 215.1 points, compared to a target of 100.



In the 1<sup>st</sup> half of 2015, all agreed variables performed above the targets set out:

Quality levels	Minimum	Target	Score
<b>Priority Mail</b>			
% Delivered on the following day (Mainland)	93.50	94.50	95.40
% Delivered within two days (Azores and Madeira)	84.00	87.00	91.20
% Delivered within ten days	99.75	99.85	99.91
<b>Ordinary Mail</b>			
% Delivered within three days	95.50	96.30	97.30
% Delivered within fifteen days	99.77	99.86	99.90
<b>Newspapers and Periodicals</b>			
% Delivered within three days	95.50	96.30	98.20
<b>International Mail</b>			
% Delivered within three days	85.00	88.00	90.70
% Delivered within five days	95.00	97.00	97.60
<b>Parcels</b>			
% Delivered within three days	90.50	92.00	92.20
<b>Waiting time at post offices</b>			
% Customers assisted within 10 minutes	75.00	85.00	94.40

Customer perception regarding CTT Quality of Service reflects the good performance achieved: 86% of the customers say that CTT overall quality of service is good or very good (source: customer satisfaction surveys).

The effort to maintain all the management systems certified continued. In February 2015, an external audit was successfully carried out to maintain the Quality Certification of the Monitoring Systems to determine the following Quality of Service Indicators (QSI): QSI 1 to 5 (Ordinary and priority mail routeing time), QSI 6 (Newspapers and periodicals routeing time), QSI 9 (Domestic parcels routeing time) and QSI 10 (Waiting time in post office queues). In March 2015, an external audit on the maintenance of the CTT Espresso Integrated Management System (Quality, Environment and Safety and Health at Work) was also performed. In June, the production and logistics centres (sorting centres) were also subject to a new external follow-up audit and the intended objective was achieved – maintenance of the Certification.

During the 1<sup>st</sup> half of 2015, CTT obtained once more the Committed to Excellence recognition. Since the first application (1<sup>st</sup> project submitted in 2006), this methodology has undoubtedly contributed to acknowledged operational improvements and increasingly comprehensive operational coverage. CTT was the first European postal operator to have achieved this recognition within this scope.

The Service Certification process was maintained for all the post offices and postal delivery offices, and for 25 postal agencies, the latter within a project for which the internal preparation for expansion in 2015 is underway.

Regarding quality, CTT is developing several measures to implement the new quality measurement criteria set out in the Postal Law and by the regulator in 2016. These include new measurement criteria and a quality measurement system operated by a qualified external entity.

### Contact Centre

Telephone calls (62% of total) and emails (38%) to the Contact Centre were the communication methods most used by clients when contacting the Company.

In the first half of 2015, there were 567,897 answered telephone calls, which represents a year-on-year decrease of 10%. This decrease reflects client preference for free communication methods (email and self-service tools).

As regards email, 352,031 contacts were received, which represents a year-on-year increase of 25% in this communication channel. Growth is associated with the client's need to obtain various forms of proof or various digitalised documents, namely for customs clearance of items, toll collection and ViaCTT activation.

## 5.2. Innovation and development

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

Thus, in the context of I&D in the 1<sup>st</sup> half of 2015, the highlights are:

### Development of solutions, products and services

- Growth of the parcel business, through the design of a Pick-Up Point and Drop-Off Point Solution which is already available (at CTT post offices, postal agencies and Worten stores) and whose launch campaign is underway. Also noteworthy is the new dentistry delivery service in the entire Iberian Peninsula. Worthy of note as regards e-commerce and as a lever for this business is the conclusion of an Iberia-wide market survey, the definition of a new CTT Expresso modular offer geared toward e-commerce, the commercial stimulation activities carried out, the making of contacts in order to establish partnerships (both national and international) and the carrying out of planned activities under the e-CIP project (IPC).
- Operational optimisation of the Mail business, by launching a tender for the acquisition of automated postal equipment used in the sorting of non-standard items, the performance of various activities (studies/purchases of specific equipment) to make the sorting of volumes in all the production and logistics centres (PLC) more efficient and streamlined, and supplement the equipment of postal delivery offices through the acquisition of PDTs (Personal Data Terminals), in order to support delivery of EMS items. Also worthy of note is the design of a new innovative model of manual sorting at the North PLC, through the acquisition of new postal equipment, developed based on a new sorting methodology that will make that entire sorting process more efficient and streamlined in all production centres and is expected to be expanded to the remaining centres by the end of 2015.
- Reinforcement of the Mail business, by designing solutions and/or pursuing developments that, in particular, seek to reinforce the offer of ViaCTT services (by self-adherence and the ability to digitally upload documents for later physical delivery), of geographic solutions (web services to access various types of information, auto-completion of addresses and the Agency for Administrative Modernisation (*AMA - Agência para a Modernização Administrativa*) geoportal to assist in determining the postcode regarding the national identification card) and of advertising mail (a web solution for self-service campaigns).
- Expansion of the convenience of the CTT app (by launching a tender for the development of new features) and making a new option available on the CTT website to research postal agencies and their respective services.

## Corporate initiatives

- Definition, approval and initial implementation of a new CTT I&DMS – Innovation & Development Management System for CTT – presented internally in June (CTT Innovation Day) – in relation to which various activities have already begun to be carried out, namely:
  - Requesting tenders to identify a web platform for Idea Management of Mail employees, intended to be available by the end of 2015;
  - Creation of an Observatory that accompanies the activities of various start-up incubators in order to identify opportunities aligned with CTT's goals and strategies and that has already enabled the selection of some initiatives currently under analysis;
  - Monitoring, together with various Company departments, the respective climate of innovation, in order to explore areas in which it may be advisable to complement CTT's existing offer and/or design innovative solutions;
  - Holding CTT's Innovation Day (22 June), an event where essential I&DMS characteristics were shared, together with other postal innovation experiences. This event is intended to take place regularly in order to enrich the climate of innovation in the Company.
- Signing of a protocol with INDEG/ISCTE in order to foster collaboration with this Institute under the Executive Masters in Management with the Specialisation in Innovation Management, whose first edition will take place from September 2015 to June 2016.
- Production of eBIZ (monthly) newsletter with information on the latest technological advances in strictly postal technologies or other ICT which, by influencing the postal activity, may constitute opportunities for new solutions and business for CTT.

## 5.3. Sustainability

In the first half of 2015, CTT continued implementing its sustainability policy, based on the involvement of Interested Parties. Quality reached 215.1 points, compared to the 100 point goal defined with the Regulator and 86% of clients declared themselves to be satisfied or very satisfied with the service rendered. The weight of ecological purchases was the highest ever, 99.9% of the total.

At the beginning of the year, the new Company Agreement with a 24-month duration was signed, as was a revision of the Regulation of Social Works, governing the corporate Healthcare Plan. These maintained core benefits, despite increasing employee contributions (via fees and higher co-payments) for reasons of economic sustainability. Training provided was 7% higher than the past year, with 162 thousand hours. As regards occupational safety, there were 450 work related accidents (none mortal), 0.4% less than in 2014. The level of absenteeism remained unchanged at 5.9%.

A pioneer system for the assessment and recognition of eco-efficiency performance was put in place, encompassing 4,700 Company employees involved in activities that require driving. The system covers such issues as road safety, fuel consumption and relationships with clients.



Several social and environmental interventions were supported in the amount of 368 thousand euros (CAIS, *Associação Salvador*, Lisbon and Portugal Half Marathons, Sporting Event for the Disabled in Wheelchairs, the Portuguese Association against Leukaemia (*Associação Portuguesa contra a Leucemia*), the Women's Race, *Pirilampo Mágico*, sponsoring a cheetah at the Zoo, and Green Day).

Nearly one hundred CTT volunteers and their relatives contributed a total of 600 hours to activities with reference partners, such as the Portuguese Foundation for Cardiology (*Fundação Portuguesa de Cardiologia*), the Food Bank (*Banco Alimentar Contra a Fome*), the Nature and Forest Conservation Institute (*Instituto Conservação da Natureza e das Florestas*), *Quercus* and Biodiversity4All. Under the partnership with EPIS - Empresários pela Inclusão Social, 10 CTT mentors give regular support to ten students facing academic challenges. Furthermore, career-oriented sessions over three days were organised at CTT's premises for another 9 EPIS youths.

CTT reinforced its leadership in the fight against climate change by adhering to the Road to Paris 2015 programme, in preparation of the next COP 21 (Conference of Parties – Conference on climate change), promoted by the United Nations – CTT was the first company to do so in Portugal and in the sector on a global level. Electricity consumption was reduced by 1.3% and 45% of the light commercial fleet was renewed through the acquisition of 604 new vehicles. This was nonetheless insufficient to avoid a 1.3% increase in CO<sub>2</sub> emissions, mainly due to the insourcing of outsourced routes.

The Ecological portfolio showed its best performance ever, with year-on-year volume growth of 24% in "Green Mail" and 34% in DM Eco. Nearly 1/3 of addressed advertising mail delivered by CTT in the first half of 2015 was from the Eco line.

On World Environment Day, a new social media channel designed to bring citizens closer and to advertise Sustainability was inaugurated on social media: the "CTT Sphere" page on Facebook. The page included a challenge – the interactive selection of the carbon compensation scheme for the transport and delivery of Green Mail. The national choice was the bog conservation project and the international choice was the Mozambique reforestation project.

CTT's emphasis on Sustainability was recognised by various awards. CTT was distinguished for the 13<sup>th</sup> time as a "Trusted Brand" in the category "Public Service Company" and for the 2<sup>nd</sup> time as an "Environmentally Trusted Brand".

## 6. MAIN RISKS

### 6.1. Risks faced by CTT

Among the most material risks capable of affecting CTT's sustainable growth and harming the success of its strategic goals are, namely:

**Markets and competition:** The expansion of digital communication has resulted, and is expected to continue to result, in a decrease in postal volumes, which is the main competing market for CTT's core business. Combined with this, the complete opening of the market tends to increase competition in certain areas of business or products. Management of this risk is in the hands of the business units and the Regulation and Competition Department.

**Innovation and development:** Innovation in postal services is decisive for leveraging the development of new solutions, services and products to reinforce CTT's leadership. The effects of substitution and strong competition, as well as globalisation and liberalisation, comprise threats, which can only be fought with strong, across-the-board efforts to adopt a culture and practices committed to innovation. The Strategy and Development Department is responsible for managing this risk.

**Obligation to provide Universal Service:** As the universal service provider until 2020, CTT's obligations involve significant costs which may not be sufficiently reduced or compensated in order to cover the decrease in revenues resulting from the increase in competition and the reduction in postal volumes. Management of this risk is entrusted to the Regulation and Competition and the Strategy and Development Departments.

**Customer focus and loyalty:** Changes in consumer preferences or failures to supply high quality products and services may have a negative effect on CTT. Furthermore, a material percentage of CTT's revenues come from the mail business, specifically from a relatively concentrated customer base. Management of this risk is entrusted to the business units and the Sales Networks.

**Human Resource Management:** The ability to recruit and retain qualified employees and experienced managers is essential to CTT's success. To mitigate this risk, CTT has implemented a talent management plan, with initiatives to be carried out throughout 2014/2016, in order to endow CTT with the best market practices. The Human Resources and Organisation Department is responsible for managing this risk.

**Partnerships:** CTT's activity relies on partnerships and other similar agreements, regarding both mail, financial services or corporate solutions business segments and key suppliers and service providers in some areas of operation. Non-compliance with these commitments, termination of agreements or any interruption to the provision of services could significantly affect operations and produce an adverse effect on CTT's business. This risk is managed across-the-board by all departments of the organisation.

**Information Management:** Analysis and decision-making, based on careful, relevant, reliable, consistent and confidential information, are crucial for the efficient definition, implementation and

management of the business strategy, as well as compliance with CTT's disclosure obligations to the market. Management of this risk is entrusted to the Information Systems, Planning and Control and Investor Relations Departments.

**Information Technologies (IT):** The everyday management of CTT's operations depends heavily on its IT infrastructure and communication systems. Disruptions could compromise the Company's ability to provide products and services, resulting in a reduction in revenues and damage to its reputation and image with stakeholders. Management of this risk is entrusted to the Information Systems Department.

**Strategic Alignment:** Management of strategic risks involves monitoring the evolution of social, political and macroeconomic vectors and the alignment of the business portfolios of CTT and its subsidiaries with market trends, with a view to innovation and sustained value creation. The Strategy and Development Department is responsible for managing this risk.

**Profitability Analysis:** CTT is subject to multiple financial risks, particularly credit, interest and exchange rates and liquidity risks. Mitigation of these risks in order to maximise profitability is crucial for the Company's sustained growth. Management of these risks is entrusted to the Accounting and Treasury and the Finance and Risk Management Departments. In this context, it is also important to note the powers and activities of the Credit Committee and the Investment Committee.

In addition to these, other risks may exist, some as yet unknown and others that, although not deemed material at this time, may gain relevance in the future. A reassessment of CTT's major risks is planned for the 2<sup>nd</sup> half of 2015, along with the redefinition of department heads and managers responsible for those risks, as well as concrete short and medium-term measures.

## 6.2. Risk management and internal control system

The Board of Directors is entrusted with determining strategic goals and the Company's risk taking. Together with the department heads, the Board of Directors also creates control systems consistent with the pre-defined goals and capable of mitigating risk in a timely fashion, whether originated in or outside the Company.

The following bodies have an important role in the identification and response to risk events that may harm the referenced strategic goals:

- Risk Management, entrusted with the centralised management of the process, namely the revision and strengthening of the implemented model, in order to ensure the elimination or mitigation of potentially material risks in the short and medium-term.
- Internal Auditing by systematically ensuring an objective assessment of the internal control system and adequately and appropriately addressing material risks.

For decision-making, an internal control system is in place based on information and reporting systems that monitor the overall alignment both with the strategic vision – that encompasses the strategic mission (risk sensitivity) and the strategic goals (risk tolerance) – and the organisational culture, which is made up of 6 layers:

- Information and reporting – formal and informal reporting channels that monitor corporate activity.
- Information management – activities that allow the continuous and cyclical identification, assessment, mitigation, monitoring and reporting of risk.
- Human resources – the basis of the organization's operation that, aligned with the internal references, influences behaviour of the remaining levels.
- Organisational structure – relationship framework of missions, roles and duties.
- Knowledge management – identification of activities that may potentially create risk exposure, in order to ensure an adequate response.
- Assurance – supervisory activity performed by the Audit Committee and the Statutory Auditor, pursuant to the applicable legal norms and the Articles of Association. This component is supported by the work undertaken by the Revenue Assurance department in supporting the various businesses in identifying events/procedures or activities that cause the loss of income or inefficiencies.

## 7. SUBSEQUENT EVENTS AND FUTURE PERSPECTIVES

### Subsequent events

Following the Memorandum of Understanding signed with Altice, CTT received the contractually established amount in July 2015.

On July 6, CTT accomplished the process of the Bank's Special Registration with the Bank of Portugal by delivering an extensive file that included all items required by the license granted in 2013 and extended in November 2014.

The merger by incorporation of the companies PostContacto, Lda and Mailtec Processos, Lda in CTT Gest, SA was registered and disclosed on 30 June 2015.

### Future perspectives

The more favourable macroeconomic environment, as well as the Transformation Programme initiatives implemented in 2013 and 2014, allows CTT to face 2015 with strong expectations of implementing the defined strategy.

Expected GDP growth in Portugal will continue to be strongly influenced by increasing exports and by the acceleration of investment, along with a slight acceleration in private consumption, the main consumption driver for CTT's products and services, particularly in the Mail business. Within this context, a decline in the demand for mail will continue to be affected not only by the structural trend for decline, but also by macroeconomic factors. Notwithstanding, it will remain above the natural long-term trend, albeit at closer levels.

Growth in e-commerce will be the main driver in growth of the parcels business, while domestic economic activity does not promote B2B market growth, either in Portugal or Spain, due to the expected and growing migration of Iberian retailers to online sales platforms and a change in consumer habits. In this regard, CTT is carrying out several initiatives in order to ever more lead the offer of logistics solutions in this market, both for modular offers tailored to this segment with various levels of service and flexibility and, most of all, by restructuring and optimising the distribution networks in Portugal and Spain, thereby increasing competitiveness in the offer targeting this market. With regard to the offer, the development of new product and service features targeting the B2C market (e-commerce) and addressing concerns such as capillarity, convenience and information are among CTT's current priorities. The Express & Parcels area is also undergoing a human resources optimisation and restructuring process in Spain to increase operational efficiency by reducing expenditure with employees and improving and streamlining procedures.

Regarding Financial Services, in 2015 CTT will be able to consolidate its relevant positioning as a main player in the placement of savings products. It will also launch new products and services and is planning to begin operations at the CTT Bank in the 4<sup>th</sup> quarter, thus fostering growth of this business unit by acting as one of CTT's levers for growth in income and, first and foremost, profitability. Regardless, but related to Bank's launch, new financial products and/or new partnerships are under review, so as to complement the current offer and ensure the sustainability of the growth achieved by

this business unit. Offering Health Insurance is one such measure and will be launched this year.

A number of proceedings necessary for the incorporation and launch of the Bank are underway under the authorisation granted by the Bank of Portugal and valid until 27 November 2015. The beginning of the Bank's operation (which is estimated to occur in the last quarter of 2015) depends on a far-reaching number of tasks, as well as the Bank of Portugal's assessment of the Special Registration delivered last 6 July.

CTT will continue its close interaction with the supervisory authority in order to adequately apply the best practices of sound and prudent management from the outset of the Bank's operation, by upholding the concepts of geographical coverage, financial inclusion and trust in the CTT brand. The offer, which is intended to be simple, will evolve throughout the Bank's operation, thereby enabling a prudent development very much leveraged on CTT's experience in financial services and on partnerships with operators in this market. This will allow an important flow of commission income (free from capital requirements).

The Company aims to grow its revenues moderately and sustainably. This objective is based on the expectation that the growing businesses (Financial Services and Express & Parcels) will offset the expected decline in Mail revenues, as a result of a volume decline not fully mitigated by price increases.

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

## 8. DECLARATION OF CONFORMITY

Pursuant to article 246 of the Portuguese Securities Code, the members of the Board of Directors and the members of the Audit Committee of CTT identified below hereby state that, to the best of their knowledge, the interim condensed consolidated accounts relative to the first half of 2015 were prepared in accordance with the applicable accounting rules, providing a true and appropriate reflection of the assets and liabilities, the financial situation and the net profit of CTT and the companies included in its consolidation perimeter, and that the interim report faithfully presents the important events which occurred in the first half of 2015 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 2015

### **The Board of Directors**

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Francisco José Queiroz de Barros de Lacerda  
**Chairman of the Board of Directors**  
**CEO**

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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 Maria de Carvalho Jordão Ribeiro Monteiro de Macedo  
**Executive Director**

---

António Manuel de Carvalho Ferreira Vitorino  
**Non-Executive Director**

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Nuno de Carvalho Fernandes Thomaz  
**Non-Executive Director**  
**Member of the Audit Committee**

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Diogo José Paredes Leite de Campos  
**Non-Executive Director**  
**Member of the Audit Committee**

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Rui Miguel de Oliveira Horta e Costa  
**Non-Executive Director**

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José Manuel Baptista Fino  
**Non-Executive Director**



## PART II – FINANCIAL STATEMENTS

### Interim condensed consolidated financial statements

#### CTT-CORREIOS DE PORTUGAL, S.A.

#### CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2015 AND 31 DECEMBER 2014

Euros

	NOTES	Unaudited 30.06.2015	31.12.2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible fixed assets	4	206,522,773	212,466,058
Investment properties	6	22,805,596	23,329,763
Intangible assets	5	19,526,030	13,426,007
Goodwill	8	7,705,457	7,705,457
Investments in associated companies		255,695	227,418
Other investments		1,106,812	1,106,812
Other non-current assets		665,271	790,601
Deferred tax assets	19	90,358,781	91,428,940
<b>Total non-current assets</b>		<b>348,946,415</b>	<b>350,481,056</b>
<b>Current assets</b>			
Inventories		5,445,499	5,785,277
Accounts receivable		146,848,922	131,682,269
Deferals	9	11,517,490	5,692,895
Other current assets		35,574,335	22,785,382
Cash and cash equivalents		674,485,081	664,569,744
<b>Total current assets</b>		<b>873,871,327</b>	<b>830,515,567</b>
<b>Total assets</b>		<b>1,222,817,742</b>	<b>1,180,996,623</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	11	75,000,000	75,000,000
Own shares	12	(1,873,125)	-
Reserves	12	32,637,878	31,773,967
Retained earnings	12	91,624,435	84,374,563
Other changes in equity	12	(21,340,867)	(18,786,310)
Net profit attributable to equity holders of parent company		39,165,406	77,171,128
Non-controlling interests		43,978	(323,703)
<b>Total equity</b>		<b>215,257,705</b>	<b>249,209,645</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Medium and long term debt		1,553,505	1,913,118
Employee benefits	15	253,158,967	255,541,102
Provisions	16	44,930,670	45,671,517
Deferals	9	11,005,026	6,426,807
Deferred tax liabilities	19	4,684,000	4,841,684
<b>Total non-current liabilities</b>		<b>315,332,168</b>	<b>314,394,228</b>
<b>Current liabilities</b>			
Accounts payable	17	538,555,448	499,536,907
Employee benefits	15	21,147,952	21,750,445
Income taxes payable		15,643,761	6,173,214
Short term debt		4,381,941	1,846,070
Deferals	9	13,688,560	5,502,183
Other current liabilities		98,810,207	82,583,931
<b>Total current liabilities</b>		<b>692,227,869</b>	<b>617,392,750</b>
<b>Total liabilities</b>		<b>1,007,560,037</b>	<b>931,786,978</b>
<b>Total equity and liabilities</b>		<b>1,222,817,742</b>	<b>1,180,996,623</b>

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

CTT-CORREIOS DE PORTUGAL, S.A.CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS AND THREE MONTHS ENDED 30 JUNE 2015 AND 30 JUNE 2014

Euros	NOTES	Half year ended		Quarter ended	
		Unaudited 30.06.2015	Unaudited 30.06.2014	Unaudited 30.06.2015	Unaudited 30.06.2014
<b>Revenues</b>		<b>367,054,418</b>	<b>356,503,303</b>	<b>175,825,547</b>	<b>180,076,528</b>
Sales and services rendered	3	360,200,906	344,979,810	173,833,688	173,205,733
Other operating income		6,853,512	11,523,493	1,991,859	6,870,795
<b>Operating costs</b>		<b>(307,190,852)</b>	<b>(301,567,678)</b>	<b>(148,984,354)</b>	<b>(151,362,064)</b>
Cost of sales		(7,567,121)	(7,489,995)	(3,915,945)	(3,641,621)
External supplies and services		(111,287,661)	(114,390,157)	(55,412,591)	(58,591,583)
Staff costs	18	(170,344,528)	(161,578,611)	(82,884,801)	(79,682,581)
Impairment of inventories and accounts receivable, net	10	(2,545)	(1,524,746)	604,527	(1,422,490)
Provisions, net		105,161	(1,550,581)	500,009	(539,591)
Depreciation/amortisation and impairment of investments, net		(10,642,198)	(10,734,067)	(5,241,224)	(5,351,041)
Other operating costs		(7,451,960)	(4,299,521)	(2,634,329)	(2,133,157)
<b>Earnings before financial income and taxes</b>		<b>59,863,566</b>	<b>54,935,625</b>	<b>26,841,193</b>	<b>28,714,464</b>
<b>Financial results</b>		<b>(2,542,566)</b>	<b>(3,167,300)</b>	<b>(1,347,545)</b>	<b>(1,800,512)</b>
Interest expenses		(3,461,496)	(5,981,673)	(1,660,284)	(2,994,642)
Interest income		890,653	2,511,280	284,462	1,194,130
Gains/losses in associated companies		28,277	303,093	28,277	-
<b>Earnings before taxes</b>		<b>57,321,000</b>	<b>51,768,325</b>	<b>25,493,648</b>	<b>26,913,952</b>
Income tax for the period	19	(18,142,732)	(15,730,684)	(8,647,405)	(8,945,128)
<b>Net profit for the period</b>		<b>39,178,268</b>	<b>36,037,641</b>	<b>16,846,243</b>	<b>17,968,824</b>
<b>Net profit for the period attributable to:</b>					
Equity holders of parent company		39,165,406	36,063,127	16,868,371	17,985,722
Non-controlling interests		12,862	(25,486)	(22,128)	(16,898)
Earnings per share of the parent company	14	0.26	0.24	0.11	0.12

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

CTT-CORREIOS DE PORTUGAL, S.A.CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS AND THREE MONTHS ENDED 30 JUNE 2015 AND 30 JUNE 2014

Euros	NOTES	Half year ended		Quarter ended	
		Unaudited 30.06.2015	Unaudited 30.06.2014	Unaudited 30.06.2015	Unaudited 30.06.2014
<b>Net profit for the period</b>		<b>39,178,268</b>	<b>36,037,641</b>	<b>16,846,243</b>	<b>17,968,824</b>
Adjustments from application of the equity method (non re-classifiable adjustment to profit and loss)		335,015	(1,663)	-	(1,663)
Employee benefits (non re-classifiable adjustment to profit and loss)	15	(3,554,908)	(618,010)	(3,492,317)	(210,274)
Deferred tax/Employee benefits (non re-classifiable adjustment to profit and loss)	19	1,000,351	183,549	982,738	62,451
Other changes in equity		(151,452)	(1,600,582)	(172,072)	(6,482)
<b>Other comprehensive income for the period after taxes</b>		<b>(2,370,994)</b>	<b>(2,036,705)</b>	<b>(2,681,651)</b>	<b>(155,968)</b>
<b>Comprehensive income for the period</b>		<b>36,807,274</b>	<b>34,000,936</b>	<b>14,164,592</b>	<b>17,812,857</b>
Attributable to non-controlling interests		367,681	(1,626,068)	(23,732)	(23,380)
Attributable to shareholders of CTT		36,439,593	35,627,004	14,188,324	17,836,237

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

**CTT-CORREIOS DE PORTUGAL, S.A.**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2015 AND 31 DECEMBER 2014**

Euros

	NOTES	Share capital	Own Shares	Reserves	Other changes in equity	Retained earnings	Net profit for the year	Non-controlling interests	Total
<b>Balance on 1 January 2014</b>		<b>75,000,000</b>	-	<b>30,397,559</b>	<b>24,548,756</b>	<b>83,367,465</b>	<b>61,016,067</b>	<b>1,604,372</b>	<b>275,934,219</b>
Share capital reduction		-	-	-	-	-	-	-	-
Appropriation of net profit for the year of 2013		-	-	-	-	61,016,067	(61,016,067)	-	-
Dividends	13	-	-	-	-	(60,000,000)	-	(198,423)	(60,198,423)
Share plan		-	-	1,376,408	-	-	-	-	1,376,408
		-	-	<b>1,376,408</b>	-	-	<b>(61,016,067)</b>	<b>(198,423)</b>	<b>(58,822,015)</b>
Other movements		-	-	-	-	(8,968)	-	(6,482)	(15,450)
Participation sale		-	-	-	-	-	-	(1,395,678)	(1,395,678)
Actuarial gains/losses - Health Care	12	-	-	-	(43,335,066)	-	-	-	(43,335,066)
Adjustments from the application of the equity method	12	-	-	-	-	-	-	-	-
Net profit for the period		-	-	-	-	-	77,171,128	(327,492)	76,843,636
<b>Comprehensive income for the period</b>		-	-	-	<b>(43,335,066)</b>	<b>(8,968)</b>	<b>77,171,128</b>	<b>(1,729,652)</b>	<b>32,097,442</b>
<b>Balance on 31 December 2014</b>		<b>75,000,000</b>	-	<b>31,773,967</b>	<b>(18,786,310)</b>	<b>84,374,563</b>	<b>77,171,128</b>	<b>(323,703)</b>	<b>249,209,645</b>
<b>Balance on 1 January 2015</b>		<b>75,000,000</b>	-	<b>31,773,967</b>	<b>(18,786,310)</b>	<b>84,374,563</b>	<b>77,171,128</b>	<b>(323,703)</b>	<b>249,209,645</b>
Share capital reduction		-	-	-	-	-	-	-	-
Appropriation of net profit for the year of 2014		-	-	-	-	77,171,128	(77,171,128)	-	-
Dividends	13	-	-	-	-	(69,750,000)	-	-	(69,750,000)
Acquisition of own shares	12	-	(1,873,125)	-	-	-	-	-	(1,873,125)
Share plan	12	-	-	863,912	-	-	-	-	863,912
		-	<b>(1,873,125)</b>	<b>863,912</b>	-	-	<b>(77,171,128)</b>	-	<b>(70,759,214)</b>
Other movements		-	-	-	-	(171,256)	-	19,804	(151,452)
Participation sale		-	-	-	-	-	-	-	-
Actuarial gains/losses - Health Care	12	-	-	-	(2,554,557)	-	-	-	(2,554,557)
Adjustments from the application of the equity method		-	-	-	-	-	-	335,015	335,015
Net profit for the period		-	-	-	-	-	39,165,406	12,862	39,178,268
<b>Comprehensive income for the period</b>		-	-	-	<b>(2,554,557)</b>	<b>(171,256)</b>	<b>39,165,406</b>	<b>367,681</b>	<b>36,807,274</b>
<b>Balance on 30 June 2015 (Unaudited)</b>		<b>75,000,000</b>	<b>(1,873,125)</b>	<b>32,637,878</b>	<b>(21,340,867)</b>	<b>91,624,435</b>	<b>39,165,406</b>	<b>43,978</b>	<b>215,257,705</b>

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

CTT-CORREIOS DE PORTUGAL, S.A.CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015 AND 30 JUNE 2014

Euro

	NOTES	Unaudited 30.06.2015	Unaudited 30.06.2014
<b><u>Operating activities</u></b>			
Collections from customers		334,020,669	329,512,504
Payments to suppliers		(117,887,452)	(117,965,818)
Payments to employees		(160,107,948)	(144,088,546)
Cash flow generated by operations		56,025,270	67,458,140
Payments/receivables of income taxes		(7,635,363)	(1,518,202)
Other receivables/payments		47,458,517	121,821,696
Cash flow from operating activities (1)		95,848,424	187,761,633
<b><u>Investing activities</u></b>			
Receivables resulting from:			
Tangible fixed assets		390,000	774,000
Financial investments		24,870	4,020,100
Interest income		1,278,386	2,328,319
Dividends		-	198,423
Payments resulting from:			
Intangible assets		(6,693,789)	(4,238)
Tangible fixed assets		(11,157,718)	(3,653,590)
Cash flow from investing activities (2)		(16,158,251)	3,663,014
<b><u>Financing activities</u></b>			
Receivables resulting from:			
Loans obtained		2,690,632	2,820,000
Payments resulting from:			
Loans repaid		-	(1,501,990)
Interest expenses		(318,705)	(513,289)
Finance leases		(523,638)	(496,287)
Acquisition of own shares	12	(1,873,125)	-
Dividends	13	(69,750,000)	(60,000,000)
Cash flow from financing activities (3)		(69,774,836)	(59,691,566)
Net change in cash and cash equivalents (1+2+3)		9,915,337	131,733,082
Changes in the consolidation perimeter		-	(696,922)
Cash and equivalents at the beginning of the period		664,569,744	544,875,803
Cash and cash equivalents at the end of the period		674,485,081	675,911,963

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

**CTT – CORREIOS DE PORTUGAL, S.A.****Notes to the interim condensed consolidated financial statements**

(Amounts expressed in Euros)

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## 1. INTRODUCTION

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

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

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

On 31 January 2013 the Portuguese State through the Order 2468/12 – SETF, of 28 December determined the transfer of the investment owned by the Portuguese State in CTT to Parpública.

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

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

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

The shares of CTT are listed on Euronext Lisbon.

The interim condensed consolidated financial statements attached herewith are expressed in Euros, 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, 2015.

## 1.2- Business

CTT and its subsidiaries ("CTT Group" or "Group"): CTT - Expresso – Serviços Postais e Logística, S.A., PostContacto – Correio Publicitário, Lda., Payshop (Portugal), S.A., CTT Gest - Gestão de Serviços e Equipamentos Postais, S.A., Mailtec Comunicação, S.A., Mailtec Consultoria, S.A. e Mailtec Processos, Lda, Tourline Express Mensajería, SLU and its subsidiaries, and Corre – Correio Expresso de Moçambique, establish, manage and operate the Universal Postal Service infrastructure and render financial services, which include the transfer of funds through current accounts, which could also be operated by a financial operator or a para-banking entity. In addition, CTT provides services that are complementary, as well as the marketing of goods or provision of services on its own account or on behalf of third parties, provided that they are related with the normal operations of the public postal network, namely, the provision of information services, networks and electronic communication services, including related resources and services.

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

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

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

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

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

- A postal service for letter mail (excluding direct mail) books, catalogues, newspapers and other periodicals up to 2 kg;

- A postal service for postal parcels up to 10 kg, as well as delivery in the country of parcels received from other Member States of the European Union weighing up to 20kg;
- A delivery service for registered items and a service for declared value items.

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

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

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

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

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

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

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted, including financial risk management policies, are consistent with those followed in the preparation of the consolidated financial statements for the year ended 31 December 2014.

### **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 by the European Union as at 1 January 2015, 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 communicate each segment performance, as well as to allocate resources.

In February 2015, under the process to constitute the Postal Bank, CTT incorporated the company CTT Serviços S.A., which became part of the Financial Services segment.

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;
- Express & Parcels – includes CTT Expresso, Tourline and CORRE; and
- Financial Services – PayShop, CTT Serviços and CTT, S.A. financial services.

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

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

Besides the 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 incorporated in the Mail segment and integrates internal revenues related to the provision of services to other segments, as well as the sale in its network of third party products and services.

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

The statement of financial position of each subsidiary and business unit are determined based on the amounts booked directly in the companies that compose the segment, including the elimination of balances between companies of the same segment, and excluding the allocation in the segments of the adjustments between segments.

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

Initially, CTT, S.A. operating costs are allocated to the different segments by charging the internal transactions of services mentioned above. After this initial allocation, costs 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 in 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 2015 and 2014 are analysed as follows:

30.06.2015							
Euros	Mail	Express & Parcels	Financial Services	Central CTT Structure	Intragroup eliminations	Others non allocated	Total
Revenues	278,582,247	63,824,123	41,871,126	53,668,840	(70,891,919)	-	367,054,418
Sales and services rendered	258,828,518	62,477,196	41,308,515	-	(2,413,323)	-	360,200,906
Sales	10,392,605	473,315	-	-	-	-	10,865,920
Services rendered	248,435,912	62,003,881	41,308,515	-	(2,413,323)	-	349,334,986
Operating revenues external customers	11,061,340	1,346,927	522,701	7,691,305	(13,768,762)	-	6,853,512
Internal services rendered	8,692,389	-	39,910	28,182,589	(36,914,889)	-	-
Allocation central CTT structure	-	-	-	17,794,946	(17,794,946)	-	-
Operating costs	227,933,816	66,089,818	19,850,714	53,668,840	(70,891,919)	-	296,651,270
External supplies and services	50,418,468	48,472,773	8,235,072	20,332,693	(16,171,345)	-	111,287,661
Staff Costs	122,555,489	15,122,012	2,236,902	30,430,124	-	-	170,344,528
Other costs	9,990,016	2,495,033	200,318	2,344,453	(10,739)	-	15,019,081
Internal services rendered	27,318,272	-	9,035,048	561,569	(36,914,889)	-	-
Allocation to central CTT structure	17,651,571	-	143,374	-	(17,794,946)	-	-
<b>EBITDA<sup>(1)</sup></b>	<b>50,648,431</b>	<b>(2,265,695)</b>	<b>22,020,411</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,403,148</b>
Depreciation/amortisation and impairment of investments, net	(7,015,669)	(1,358,140)	(296,605)	(1,924,834)	-	(46,951)	(10,642,198)
Impairment of inventories and accounts receivable, net	-	-	-	-	-	-	(2,545)
Impairment of non-depreciable assets	-	-	-	-	-	-	-
Provisions net	-	-	-	-	-	-	105,161
Interest expenses	-	-	-	-	-	-	(3,461,496)
Interest income	-	-	-	-	-	-	890,653
Gains/losses in associated companies	-	-	-	-	-	-	28,277
<b>Earnings before taxes</b>							<b>57,321,000</b>
Income tax for the year	-	-	-	-	-	-	(18,142,732)
<b>Net profit for the year</b>							<b>39,178,268</b>
Non-controlling interests	-	-	-	-	-	-	12,862
<b>Equity holders of parent company</b>							<b>39,165,406</b>

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

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)	-	-
Allocation to central CTT structure	9,955,148	-	75,915	-	(10,031,063)	-	-
<b>EBITDA<sup>(1)</sup></b>	<b>44,107,169</b>	<b>2,466,818</b>	<b>22,171,031</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>68,745,019</b>
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
<b>Earnings before taxes</b>							<b>51,768,325</b>
Income tax for the year							(15,730,684)
<b>Net profit for the year</b>							<b>36,037,641</b>
Non-controlling interests							(25,486)
<b>Equity holders of parent company</b>							<b>36,063,127</b>

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

The revenues are detailed as follows:

Thousand Euros	30.06.2015	30.06.2014
Mail	278,582	268,099
Transactional mail	212,247	205,345
Press mail	7,871	7,477
Parcels (USO)	3,224	3,369
Advertising mail	15,700	15,102
Retail	7,943	7,872
Philately	4,127	3,592
Business Solutions	6,111	6,154
Other	21,359	19,187
Express & Parcels	63,824	62,699
Financial Services	41,871	38,421
Central CTT Structure	53,669	56,041
Intragroup eliminations	(70,892)	(68,758)
	<b>367,054</b>	<b>356,503</b>

The assets by segment are detailed as follows:

Assets (Euros)	30.06.2015					Total
	Mail	Express & Parcels	Financial Services	Central CTT Structure	Non allocated assets	
Intangible assets	2,568,454	2,987,468	6,913,837	5,545,910	1,510,360	19,526,030
Tangible fixed assets	176,403,673	13,200,719	721,589	15,097,089	1,099,703	206,522,773
Investment properties					22,805,596	22,805,596
Goodwill	7,299,356		406,101			7,705,457
Deferred tax assets					90,358,781	90,358,781
Accounts receivable					146,848,922	146,848,922
Other assets					54,565,102	54,565,102
Cash and cash equivalents					674,485,081	674,485,081
	<b>186,271,483</b>	<b>16,188,188</b>	<b>8,041,527</b>	<b>20,642,999</b>	<b>991,673,545</b>	<b>1,222,817,742</b>

Assets (Euros)	31.12.2014					Total
	Mail	Express & Parcels	Financial Services	Central CTT Structure	Non allocated assets	
Intangible assets	2,110,500	3,213,796	126,432	3,264,482	4,710,797	13,426,007
Tangible fixed assets	181,233,066	12,775,184	830,551	15,988,164	1,639,093	212,466,058
Investment properties					23,329,763	23,329,763
Goodwill	7,299,356	0	406,101			7,705,457
Deferred tax assets					91,428,940	91,428,940
Accounts receivable					131,682,269	131,682,269
Other assets					36,388,385	36,388,385
Cash and cash equivalents					664,569,744	664,569,744
	<b>190,642,921</b>	<b>15,988,979</b>	<b>1,363,085</b>	<b>19,252,646</b>	<b>953,748,991</b>	<b>1,180,996,623</b>

Debt by segment is detailed as follows:

Other information (Euros)	30.06.2015					Total
	Mail	Express & Parcels	Financial Services	Central CTT Structure		
<b>Medium and long term debt</b>	<b>957,792</b>	<b>595,713</b>	-	-	-	<b>1,553,505</b>
Bank loans	-	125,006	-	-	-	125,006
Leasings	957,792	470,707	-	-	-	1,428,499
<b>Short term debt</b>	<b>460,564</b>	<b>3,921,377</b>	-	-	-	<b>4,381,941</b>
Bank loans	-	3,413,282	-	-	-	3,413,282
Leasings	460,564	508,095	-	-	-	968,659
	<b>1,418,356</b>	<b>4,517,090</b>	-	-	-	<b>5,935,446</b>

Other information (Euros)	31.12.2014				Total
	Mail	Express & Parcels	Financial Services	Central CTT Struture	
<b>Medium and long term debt</b>	<b>1,187,975</b>	<b>725,143</b>	-	-	<b>1,913,118</b>
Bank loans	-	0	-	-	-
Leasings	1,187,975	725,143	-	-	1,913,118
<b>Short term debt</b>	<b>460,098</b>	<b>1,385,972</b>	-	-	<b>1,846,070</b>
Bank loans	-	890,586	-	-	890,586
Leasings	460,098	495,386	-	-	955,484
	<b>1,648,073</b>	<b>2,111,115</b>	-	-	<b>3,759,188</b>

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

Thousand Euros	30.06.2015	30.06.2014
Revenue - Portugal	320,188	307,468
Revenue - other countries	40,013	37,511
	<u>360,201</u>	<u>344,980</u>

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 six month period ended 30 June 2015 and the year ended on 31 December 2014, the movements occurred in Tangible fixed assets, as well as the respective accumulated depreciation, were as follows:

	30.06.2015								
	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
<b>Tangible fixed assets</b>									
Opening balance	36,831,709	330,651,512	143,631,822	2,620,085	53,946,268	22,491,331	1,737,799	431,404	592,341,930
Acquisitions	-	145,886	400,827	12,964	390,300	316,354	945,439	777,945	2,989,714
Disposals	(2,881)	(206,610)	(1,884,186)	-	(7,307)	(3,423)	-	-	(2,104,406)
Transfers and write-offs	-	1,511,901	(4,792,239)	977,212	(34,533)	(2,688)	(1,511,901)	(208,363)	(4,060,611)
Adjustments	-	-	5,027	-	(310)	(19,398)	-	-	(14,681)
Closing balance	36,828,828	332,102,690	137,361,251	3,610,261	54,294,418	22,782,176	1,171,336	1,000,986	589,151,946
<b>Accumulated depreciation</b>									
Opening balance	3,888,710	181,856,867	124,532,096	2,539,928	48,417,343	18,220,445	-	-	379,455,389
Depreciation for the period	-	4,457,966	2,721,304	35,758	1,118,657	569,287	-	-	8,902,972
Disposals	(388)	(116,904)	(1,879,932)	-	(7,307)	(3,423)	-	-	(2,007,956)
Transfers and write-offs	-	-	(4,892,388)	865,275	(21,623)	-	-	-	(4,048,735)
Adjustments	-	(175)	(50,220)	(1,445)	(6,137)	(4,074)	-	-	(62,052)
Closing balance	3,888,322	186,197,754	120,430,860	3,439,516	49,500,933	18,782,235	-	-	382,239,619
<b>Accumulated impairment</b>									
Opening balance	-	-	-	-	-	420,483	-	-	420,483
Other variations	-	-	-	-	-	(30,929)	-	-	(30,929)
Closing balance	-	-	-	-	-	389,554	-	-	389,554
<b>Net Tangible fixed assets</b>	<b>32,940,507</b>	<b>145,904,936</b>	<b>16,930,391</b>	<b>170,745</b>	<b>4,793,485</b>	<b>3,610,387</b>	<b>1,171,336</b>	<b>1,000,986</b>	<b>206,522,773</b>

	31.12.2014								
	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
<b>Tangible fixed assets</b>									
Opening balance	38,540,555	337,440,722	148,660,979	3,607,333	81,746,922	24,362,622	174,283	754,041	635,287,457
Acquisitions	-	274,607	6,126,576	7,200	2,630,276	728,593	3,062,319	389,863	13,219,435
Disposals	-	-	(7,720)	(166)	(39,509)	(974)	-	-	(48,369)
Transfers and write-offs	-	1,480,911	(8,951,356)	(482,988)	(29,388,060)	(2,525,697)	(1,498,803)	(712,500)	(42,078,492)
Adjustments	-	2,920	681,532	(280,939)	(386,820)	(16,693)	-	-	-
Other variations	(725,969)	(5,467,977)	2,957	-	1,103	(56,521)	-	-	(6,246,407)
Changes in the consolidation perimeter	(982,877)	(3,079,671)	(2,881,147)	(230,355)	(617,644)	-	-	-	(7,791,694)
Closing balance	36,831,709	330,651,512	143,631,822	2,620,085	53,946,268	22,491,331	1,737,799	431,404	592,341,930
<b>Accumulated depreciation</b>									
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 year	-	9,055,496	4,996,397	65,703	2,559,852	1,138,257	-	-	17,815,704
Disposals	-	-	(7,720)	(3,978)	(39,311)	(974)	-	-	(51,983)
Transfers and write-offs	-	-	(9,783,218)	(479,176)	(30,119,633)	(1,658,689)	-	-	(42,040,715)
Adjustments	-	608	292,116	(207,224)	(84,400)	(1,281)	-	-	(181)
Other variations	(11,120)	(2,738,980)	18,645	(3,225)	12,100	313	-	-	(2,722,266)
Changes in the consolidation perimeter	-	(611,746)	(2,041,810)	(219,443)	(595,199)	-	-	-	(3,468,198)
Closing balance	3,888,710	181,856,867	124,532,096	2,539,928	48,417,343	18,220,445	-	-	379,455,389
<b>Accumulated impairment</b>									
Opening balance	-	-	-	-	-	-	-	-	-
Impairments for the year	-	-	-	-	-	2,530	-	-	2,530
Other variations	-	-	-	-	-	417,953	-	-	417,953
Closing balance	-	-	-	-	-	420,483	-	-	420,483
<b>Net Tangible fixed assets</b>	<b>32,942,999</b>	<b>148,794,645</b>	<b>19,099,726</b>	<b>80,157</b>	<b>5,528,924</b>	<b>3,850,403</b>	<b>1,737,799</b>	<b>431,404</b>	<b>212,466,058</b>

As at 30 June 2015 and 31 December 2014, Land and natural resources and Buildings and other constructions include 4,869,394 Euros and 4,982,117 Euros, respectively, related to land and property in co-ownership with PT Comunicações, S.A..

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

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

According to the concession contract in force, after the latest amendments of 31 December 2013 (Note 1) at the end of the concession the assets included in the public and private domain of the State revert

automatically, at no cost, to the conceding entity. As the postal network belongs exclusively to CTT, not being a public domain asset, only the assets that belong to the State revert to it, and as such, at the end of the concession CTT will continue to own its assets. The Board of Directors, supported by its legal advisors, believes that CTT's assets do not include any public or private domain assets of the Portuguese State.

During the six month period ended 30 June 2015, the most significant movements in Tangible Fixed Assets were the following:

**Buildings and other constructions:**

The movements associated to additions and transfers relate mostly to the capitalization of construction works in leased and own properties of CTT and Tourline.

**Basic equipment:**

Additions relate to acquisitions of pallet trucks in the amount of 16.7 thousand Euros and the acquisition of scanners in the amount of 14 thousand Euros, by CTT, the upgrade of parcel sorting machines of approximately 100 thousand Euros and the purchase of pallet trucks in the amount of 21.5 thousand Euro, in CTT Expresso. Payshop acquired 400 payment terminals in the amount of 74 thousand Euros and Tourline implemented the upgrade of servers in the amount of 40 thousand Euros. In Corre the additions relate to the acquisition of cars and motorcycles of 50.6 thousand Euros.

**Office equipment:**

The amount of acquisitions relates essentially to the purchase of computers of 48 thousand Euros, and administrative equipment of 124 thousand Euros, by CTT. In Tourline the acquisitions refer to several office equipment of approximately 56.5 thousand Euros, computers and printers of 57.7 thousand Euros and acquisition/upgrade of servers in the amount of 67.6 thousand Euros.

**Other tangible fixed assets:**

Acquisitions relate essentially to the purchase of prevention and safety equipment worth approximately 221.3 thousand Euros.

**Tangible fixed assets in progress:**

The amounts under this heading are related to improvements in own property.

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

The depreciation recorded, of 8,902,972 Euros (8,873,419 Euros on 30 June 2014), was booked under the heading Depreciation/amortisation and impairment of investments, net.

The commitments related to tangible fixed assets acquisitions are detailed as follows:

	30.06.2015
Parcel sorting machines	1,311,206
PDA's	496,888
Upgrades to mail sorting machines	275,400
Improvements Tariff Control automation	60,270
Containers	41,328
Mail sorting lines	41,225
Labelling machines	32,829
Access control	30,996
Pallet trucks	17,466
Displays to Star Cosmos machines	13,434
Ultrabooks	5,196
ATM - photocopiers	2,045
Post boxes	2,042
Portable printers	2,030
Scanners	1,586
Several other equipment	2,557
	<u>2,336,497</u>

## 5. INTANGIBLE ASSETS

During the six month period ended 30 June 2015 and the year ended on 31 December 2014, the movements which occurred in the main categories of intangible assets, as well as the respective accumulated amortisation, were as follows:

	30.06.2015					
	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Advance payments to suppliers
<b>Intangible assets</b>						
Opening balance	4,372,922	38,620,250	11,659,692	444,739	4,726,397	-
Acquisitions	84,441	709,828	22,695	-	7,028,495	-
Disposals	-	-	-	-	-	-
Transfers and write-offs	-	3,953,597	-	-	(3,953,597)	-
Adjustments	-	-	(66,858)	-	-	-
Closing balance	<u>4,457,363</u>	<u>43,283,675</u>	<u>11,615,529</u>	<u>444,739</u>	<u>7,801,295</u>	<u>-</u>
<b>Accumulated amortisation</b>						
Opening balance	4,340,765	33,801,244	7,816,346	439,639	-	-
Amortisation for the period	7,237	1,506,337	173,602	5,100	-	-
Adjustments	-	-	(13,697)	-	-	-
Closing balance	<u>4,348,002</u>	<u>35,307,581</u>	<u>7,976,250</u>	<u>444,739</u>	<u>-</u>	<u>-</u>
<b>Net intangible assets</b>	<u>109,362</u>	<u>7,976,094</u>	<u>3,639,279</u>	<u>-</u>	<u>7,801,295</u>	<u>-</u>



	31.12.2014						
	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Advance payments to suppliers	Total
<b>Intangible assets</b>							
Opening balance	4,372,922	36,540,593	11,718,920	444,739	2,672,064	-	55,749,238
Acquisitions	-	586,266	-	-	2,790,181	-	3,376,447
Disposals	-	-	-	-	-	-	-
Transfers and write-offs	-	1,810,188	-	-	(735,847)	-	1,074,341
Adjustments	-	-	1,618	-	-	-	1,618
Changes in the consolidation perimeter	-	(316,797)	(60,846)	-	-	-	(377,643)
Closing balance	4,372,922	38,620,250	11,659,692	444,739	4,726,397	-	59,824,001
<b>Accumulated amortisation</b>							
Opening balance	4,350,799	30,479,661	7,472,614	396,856	-	-	42,699,930
Amortisation for the year	9,647	2,544,357	382,492	42,783	-	-	2,979,278
Transfers and write-offs	(19,681)	1,094,023	-	-	-	-	1,074,342
Adjustments	-	-	11,570	-	-	-	11,570
Changes in the consolidation perimeter	-	(316,797)	(50,330)	-	-	-	(367,127)
Closing balance	4,340,765	33,801,244	7,816,346	439,639	-	-	46,397,993
<b>Net intangible assets</b>	32,157	4,819,006	3,843,346	5,100	4,726,397	-	13,426,007

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

The transfers occurred during the six month period ended 30 June 2015 in Intangible Assets in progress refer to IT projects, which were completed during the period.

The amounts of 150,937 Euros and 168,031 Euros, capitalised in IT software under intangible assets in progress as at 30 June 2015 and 30 June 2014, respectively, relate to staff costs incurred in the development of these projects.

As at 30 June 2015 Intangible assets in progress relate to IT projects which are under development, of which the most relevant are:

	30.06.2015
CBS - Core Banking System	6,137,713
International (E-CIP)	403,141
NAVE evolution	219,154
Transport Management Information System	171,548
Mail products evolution	164,177
Payment Platform	105,132
	<u>7,200,864</u>

The amortisation, amounting to 1,692,276 Euros (1,477,201 Euros at 30 June 2014), was recorded under 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 of liabilities.

Contractual commitments relative to Intangible Assets are as follows:

(i) Computer Programmes

The purchase commitments relate to IT developments in the software solution "Identity management system and access" of 30,600 Euros, developments to "Users and permissions validation in Enterprise Space" software of 42,800 Euros and developments related to the "Credit simulator Integration in CTT site " of 18,000 Euros. There is also an amount of 10,237,000 Euros related to contractual commitments, related to the creation of the Postal Bank, associated with the development of software that will support the banking activity.

## 6. INVESTMENT PROPERTIES

As at 30 June 2015 and 31 December 2014, the Group has the following assets classified as investment properties:

	30.06.2015		
	Land and natural resources	Buildings and other constructions	Total
<b>Investment properties</b>			
Opening balance	7,716,058	45,722,963	53,439,021
Additions	14,500	43,500	58,000
Disposals	(155,713)	(695,087)	(850,800)
Closing balance	7,574,845	45,071,376	52,646,221
<b>Accumulated depreciation</b>			
Opening balance	259,501	28,399,732	28,659,233
Depreciation for the period	-	409,531	409,531
Disposals	(17,652)	(328,860)	(346,512)
Closing balance	241,849	28,480,403	28,722,252
<b>Accumulated impairment</b>			
Opening balance	-	1,450,025	1,450,025
Transfers/Adjustments	-	(331,652)	(331,652)
	-	1,118,373	1,118,373
<b>Net Investment properties</b>	<b>7,332,996</b>	<b>15,472,600</b>	<b>22,805,596</b>

	31.12.2014		
	Land and natural resources	Buildings and other constructions	Total
<b>Investment properties</b>			
Opening balance	7,237,214	42,551,163	49,788,377
Additions	-	-	-
Disposals	(247,126)	(2,290,703)	(2,537,829)
Transfers/Adjustments	725,970	5,462,503	6,188,473
Closing balance	7,716,058	45,722,963	53,439,021
<b>Accumulated depreciation</b>			
Opening balance	273,950	26,146,036	26,419,986
Depreciation for the year	-	764,567	764,567
Disposals	(25,568)	(1,227,215)	(1,252,783)
Transfers/Adjustments	11,119	2,716,343	2,727,463
Closing balance	259,501	28,399,732	28,659,233
<b>Accumulated impairment</b>			
Opening balance	-	1,606,505	1,606,505
Impairment losses for the period	-	(156,480)	(156,480)
	-	1,450,025	1,450,025
<b>Net Investment properties</b>	7,456,557	15,873,206	23,329,763

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

The market value of these assets, which are classified as Investment property, in accordance with the valuations obtained at the end of fiscal year 2014, which were conducted by independent entities, amounts to 35,978,503 Euros.

The disposals caption includes, in the six month period ended 30 June 2015, the sale of two properties, which generated a gain of 72,364 Euros.

The movements associated with disposals for 2014 relate to the sale of three properties.

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

Impairment losses for the period, amounting to 409,531 Euros (383,447 Euros on 30 June 2014) 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 2015 and 31 December 2014, the parent company, CTT - Correios de Portugal, SA and the subsidiaries which controls were included in the consolidation as follows:

Company name	Head office	30.06.2015			31.12.2014		
		Percentage of ownership			Percentage of ownership		
		Direct	Indirect	Total	Direct	Indirect	Total
<b>Parent company:</b>							
CTT - Correios de Portugal, S.A.	Av. D. João II N.º 13 1999-001 Lisboa	-	-	-	-	-	-
<b>Subsidiaries:</b>							
PostContacto - Correio Publicitário, Lda. ("PostContacto")	Rua de S. José, 20 1166-001 Lisboa	100	-	100	100	-	100
CTT Expresso - Serviços Postais e Logística, S.A. ("CTT Expresso")	Lugar do Quintanilha 2664-500 São Julião do Tojal	100	-	100	100	-	100
CTT Serviços, S.A. ("CTT Serviços")	Av. D. João II Edif. Adamastor 1999-001 Lisboa	100	-	100	-	-	-
Payshop Portugal, S.A. ("Payshop")	Av. D. João II N.º 13 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, Edifício Mailtec, 2720-092 Amadora	-	-	-	100	-	100
Mailtec Comunicação, S.A. ("Mailtec TI")	Av. D. João II N.º 13 1999-001 Lisboa	100	-	100	17.7	82.3	100
Mailtec Consultoria, S.A. ("Mailtec CON")	Av. D. João II N.º 13 1999-001 Lisboa	100	-	100	10.0	90.0	100
Mailtec Processos, Lda. ("EQUIP")	Av. D. João II N.º 13 1999-001 Lisboa	100	-	100	-	100	100
Tourline Express Mensajería, SLU. ("TourLine")	Calle Pedrosa C, 38-40 Hospitalet de Llobregat (08908)- Barcelona	-	100	100	-	100	100
Correio Expresso de Moçambique, S.A. ("CORRE")	Av. Zedequias Manganhela, 309 Maputo - Moçambique	50	-	50	50	-	50

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

During the six month period ended 30 June 2015, a share capital increase occurred in Corre – Correio Expresso de Moçambique, SA in the amount of 670,030 Euros. This operation was accomplished through the incorporation of both shareholders' credits in Corre.

On 20 January 2015, but with effects as of 1 January 2015, the merger of Mailtec Holding, SGPS was registered through the global transference of the assets of Mailtec Holding, SGPS. Following this merger, the shareholdings held by Mailtec Holding, SGPS in Mailtec Comunicações, SA, Mailtec Consultoria, SA and Mailtec Processos, Lda are now held entirely by the parent company, CTT – Correios de Portugal, S.A..

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

The sale of the 5% stake held by CTT Expresso, S.A. in PostContacto, Lda. to the parent company also took place, 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 2015 and 31 December 2014, the Group held the following interests in joint ventures, registered through the equity method:

Company name	Head office	30.06.2015			31.12.2014		
		Percentage of ownership			Percentage of ownership		
		Direct	Indirect	Total	Direct	Indirect	Total
Ti-Post Prestação de Serviços informáticos, ACE ("Ti-Post")	R. do Mar da China, Lote 1.07.2.3 Lisboa	-	-	-	49	-	49
Postal Network - Prestação de Serviços de Gestão de Infra-Estruturas de Comunicações, ACE	Av. Fontes Pereira de Melo, 40 Lisboa	-	-	-	49	-	49
NewPost	Av. Fontes Pereira de Melo, 40 Lisboa	49	-	49	-	-	-
PTP & F, ACE	Estrada Casal do Canas Amadora	-	51	51	-	51	51

### Associated companies

As at 30 June 2015 and 31 December 2014, the Group held the following interests in associated companies accounted for by the equity method:

Company name	Head office	30.06.2015			31.12.2014		
		Percentage of ownership			Percentage of ownership		
		Direct	Indirect	Total	Direct	Indirect	Total
Multicert - Serviços de Certificação Electrónica, S.A. ("Multicert")	R. do Centro Cultural, 2 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
Urpacsur, SL (b)	Málaga Espanha	-	30	30	-	30	30

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

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

### Changes in the consolidation perimeter

During the six month period ended 30 June 2015 the consolidation perimeter changed as a result of the incorporation, on 6 February 2015, of CTT Serviços, S.A. with a share capital of 5,000,000 Euros, following the launching process of the Postal Bank.

The share capital has since been increased to 20,000,000 Euros.

In the year ended 31 December 2014, the consolidation perimeter changed due to the sale of the subsidiary EAD. Resulting from this sale, a gain of 256,383 Euros was recorded under Gains / losses in associates in the consolidated income statement.

## **8. GOODWILL**

As at 30 June 2015 and 31 December 2014, the Goodwill was made up as follows:

	Year of acquisition	30.06.2015	31.12.2014
Payshop Portugal, S.A.	2004	406,101	406,101
Mailtec Comunicação, S.A. (51%)	2004	7,294,638	69,767
Mailtec Consultoria, S.A.	2004	4,718	4,718
Mailtec Holding SGPS, S.A. (51%)	2004	-	582,970
Mailtec Holding SGPS, S.A. (49%)	2005	-	6,641,901
		<u>7,705,457</u>	<u>7,705,457</u>

As a result of the merger of Mailtec Holding, SGPS in CTT - Correios de Portugal, the Goodwill related to that company, held by CTT, was entirely allocated to Mailtec Communication SA.

During the six month period ended 30 June 2015 and the year ended 31 December 2014, the movements in Goodwill were as follows:

	30.06.2015	31.12.2014
Opening balance	7,705,457	25,083,869
Disposals	-	(786,164)
Impairment	-	(16,592,248)
Closing balance	<u>7,705,457</u>	<u>7,705,457</u>

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

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

#### Goodwill impairment assessment

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

In order to determine the recoverable amount of its investments, CTT performed at 31 December 2014 impairment tests, having recorded on that date the above mentioned impairment related to Tourline's goodwill.

In the six month period ended 30 June 2015, no impairment tests were performed, as impairment indicators were not identified.

## 9. DEFERRALS

As at 30 June and 31 December 2014, the Deferrals included in current assets and current and non-current liabilities showed the following composition:

	<u>30.06.2015</u>	<u>31.12.2014</u>
Assets deferrals		
Current		
Rents payable	1,296,509	1,313,235
Meal allowances	1,721,459	1,698,085
Company Agreement - Supplementary agreement compensation	2,555,964	-
Other	<u>5,943,558</u>	<u>2,681,575</u>
	<u>11,517,490</u>	<u>5,692,895</u>
Liabilities deferrals		
Non-current		
Deferred capital gains	4,876,797	6,076,311
Deferred commissions	1,200,000	-
Altice agreement	4,583,333	-
Tangible fixed assets	<u>344,896</u>	<u>350,496</u>
	<u>11,005,026</u>	<u>6,426,807</u>
Current		
Deferred capital gains	2,399,029	2,399,029
Phone-ix top ups	225,752	258,669
Deferred commissions	400,000	1,800,000
Altice agreement	10,000,000	-
Tangible fixed assets	11,201	11,201
Other	<u>652,578</u>	<u>1,033,284</u>
	<u>13,688,560</u>	<u>5,502,183</u>
	<u>24,693,586</u>	<u>11,928,989</u>

In prior years the Company sold certain properties, which were subsequently leased by CTT. The gains on the sales were deferred and are being recognised over the period of the lease contracts.

During the six month period ended 30 June and the year ended 31 December 2014, 755,564 Euros and 1,511,128 Euros, respectively, were recognised under Other operating income in the consolidated income statement, related to the above mentioned gains.

In June 2014 CTT signed an agreement with Cetelem, according to which CTT received an amount of 3 million Euros on the signing date. An amount of 1 million Euros, related to an entry fee was recognised at the beginning of the contract and the remaining 2 million Euros, for the non-refundable fees will be recognised over the period of the contract. As at 30 June 2015 an amount of € 1.6 million Euros related to this contract was deferred.

Following the Memorandum of Understanding signed with Altice and having the acquisition of PT Portugal been completed by Altice, CTT recognised a receivable from Altice corresponding to the agreed initial payment, which is being recognised in the results over the period of the contract.

## 10. ACCUMULATED IMPAIRMENT LOSSES

During the six month period ended 30 June 2015 and the year ended 31 December 2014, the following movements occurred in the impairment losses:

30.06.2015						
	Opening balance	Increases	Reversals	Utilization	Change in consolidation perimeter	Closing balance
Other non-current assets						
Other accounts receivable	1,421,001	45,004	(131,548)	-	-	1,334,457
INESC loan	371,891	-	(24,870)	-	-	347,021
	<u>1,792,892</u>	<u>45,004</u>	<u>(156,418)</u>	<u>-</u>	<u>-</u>	<u>1,681,478</u>
Customers and Other current assets						
Customers	30,498,785	1,881,020	(1,008,051)	(226,541)	-	31,145,213
Other accounts receivable	9,461,922	200,075	(1,114,495)	-	-	8,547,502
INESC loan	49,740	-	-	-	-	49,740
	<u>40,010,447</u>	<u>2,081,095</u>	<u>(2,122,546)</u>	<u>(226,541)</u>	<u>-</u>	<u>39,742,455</u>
Inventories						
Merchandise	1,527,827	219,915	-	(38,201)	-	1,709,541
Raw, subsidiary and consumable	676,836	-	(64,505)	-	-	612,331
	<u>2,204,663</u>	<u>219,915</u>	<u>(64,505)</u>	<u>(38,201)</u>	<u>-</u>	<u>2,321,872</u>
	<u>44,008,002</u>	<u>2,346,014</u>	<u>(2,343,469)</u>	<u>(264,742)</u>	<u>-</u>	<u>43,745,805</u>

31.12.2014						
	Opening balance	Increases	Reversals	Utilization	Change in consolidation perimeter	Closing balance
Other non-current assets (Note 18)						
Other accounts receivable	1,296,044	124,957	-	-	-	1,421,001
INESC loan	1,397,613	-	(1,025,722)	-	-	371,891
	<u>2,693,657</u>	<u>124,957</u>	<u>(1,025,722)</u>	<u>-</u>	<u>-</u>	<u>1,792,892</u>
Customers and Other current assets (Notes 14 and 18)						
Customers	24,361,985	7,575,359	(875,184)	(497,000)	(66,375)	30,498,785
Other accounts receivable	9,098,933	1,414,221	(1,046,957)	(4,275)	-	9,461,922
INESC loan	49,740	-	-	-	-	49,740
	<u>33,510,658</u>	<u>8,989,580</u>	<u>(1,922,141)</u>	<u>(501,275)</u>	<u>(66,375)</u>	<u>40,010,447</u>
Inventories (Note 13)						
Merchandise	1,812,893	43,671	(323,990)	(4,747)	-	1,527,827
Raw, subsidiary and consumable	685,925	4,863	(13,952)	-	-	676,836
	<u>2,498,818</u>	<u>48,534</u>	<u>(337,942)</u>	<u>(4,747)</u>	<u>-</u>	<u>2,204,663</u>
	<u>38,703,133</u>	<u>9,163,071</u>	<u>(3,285,805)</u>	<u>(506,022)</u>	<u>(66,375)</u>	<u>44,008,002</u>

Impairment losses regarding Tangible fixed assets, investment properties and goodwill are detailed respectively in Notes 4, 6 and 8.

## 11. EQUITY

As at 30 June 2015, 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.



As at 30 June 2015 and 31 December 2014 the Company's shareholders are as follows:

Shareholder	30.06.2015		
	Nr shares	%	Nominal value
Standard Life Investments Limited <sup>(1)</sup>	9,910,580	6.607%	4,955,290
Ignis Investment Services Limited <sup>(1)</sup>	97,073	0.065%	48,537
<b>Standard Life Investments (Holdings) Limited</b> <b>Total</b>	<b>10,007,653</b>	<b>6.672%</b>	<b>5,003,827</b>
Artemis Fund Managers Limited <sup>(2)</sup>	7,433,817	4.956%	3,716,909
Artemis Investment Management LLP	276,892	0.185%	138,446
<b>Artemis Investment Management LLP</b> <b>Total</b>	<b>7,710,709</b>	<b>5.140%</b>	<b>3,855,355</b>
<b>Allianz Global Investors GmbH</b> <sup>(3)</sup> <b>Total</b>	<b>7,552,637</b>	<b>5.035%</b>	<b>3,776,319</b>
Kames Capital plc <sup>(4)</sup>	2,045,003	1.363%	1,022,502
Kames Capital Management Limited <sup>(4)</sup>	3,096,134	2.064%	1,548,067
<b>Aegon NV</b> <sup>(5)</sup> <b>Total</b>	<b>5,141,137</b>	<b>3.427%</b>	<b>2,570,569</b>
Morgan Stanley & Co. International plc <sup>(6)</sup>	4,818,361	3.212%	2,409,181
Morgan Stanley & Co. LLC <sup>(6)</sup>	89	0.000%	45
Morgan Stanley Capital Services LLC <sup>(6)</sup>	12,689	0.008%	6,345
<b>Morgan Stanley</b> <sup>(6)</sup> <b>Total</b>	<b>4,831,139</b>	<b>3.221%</b>	<b>2,415,570</b>
A.A.-FORTIS-ACTIONS PETITE CAP. EUROPE <sup>(7)</sup>	168,723	0.112%	84,362
BNP PARIBAS SMALLCAP EUROLAND <sup>(7)</sup>	832,670	0.555%	416,335
CamGestion Euro Mid Cap <sup>(7)</sup>	162,793	0.109%	81,397
Merck BNP Paribas European Small Cap <sup>(7)</sup>	65,107	0.043%	32,554
Movestic Sicav Europa Småbolag <sup>(7)</sup>	54,402	0.036%	27,201
PARVEST EQUITY EUROPE SMALL CAP <sup>(7)</sup>	2,180,295	1.454%	1,090,148
PARWORLD TRACK EUROPE SMALL CAP <sup>(7)</sup>	2,555	0.002%	1,278
<b>BNP Paribas Investment Partners, Limited Company</b> <sup>(7)</sup> <b>Total</b>	<b>3,466,545</b>	<b>2.311%</b>	<b>1,733,273</b>
<b>Norges Bank</b> <b>Total</b>	<b>3,143,496</b>	<b>2.096%</b>	<b>1,571,748</b>
Pioneer Funds - European Equity Target Income <sup>(8)</sup>	613,645	0.409%	306,823
Pioneer Funds - Global Equity Target Income <sup>(9)</sup>	170,047	0.113%	85,024
Pioneer Funds - ABS Return European Equities <sup>(9)</sup>	95,475	0.064%	47,738
Pioneer Funds - European Potential <sup>(9)</sup>	825,082	0.550%	412,541
Pioneer Funds - European Equity Value <sup>(9)</sup>	764,953	0.510%	382,477
Pioneer Funds - European Equity Market Plus <sup>(9)</sup>	15,876	0.011%	7,938
Pioneer Funds - European Research <sup>(9)</sup>	643,204	0.429%	321,602
<b>UniCredit S.p.A.</b> <b>Total</b>	<b>3,128,282</b>	<b>2.086%</b>	<b>1,564,141</b>
F&C Asset Management plc <sup>(10)</sup>	3,124,801	2.083%	1,562,401
<b>Bank of Montreal</b> <sup>(10)</sup> <b>Total</b>	<b>3,124,801</b>	<b>2.083%</b>	<b>1,562,401</b>
Henderson Global Investors Limited <sup>(11)</sup>	3,037,609	2.025%	1,518,805
<b>Henderson Group plc</b> <sup>(11)</sup> <b>Total</b>	<b>3,037,609</b>	<b>2.025%</b>	<b>1,518,805</b>
DSAM Partners LLP <sup>(12)</sup>	3,018,272	2.012%	1,509,136
<b>DSAM Cayman Ltd.</b> <sup>(12)</sup> <b>Total</b>	<b>3,018,272</b>	<b>2.012%</b>	<b>1,509,136</b>
<b>Investec Asset Management Limited</b> <b>Total</b>	<b>3,006,174</b>	<b>2.004%</b>	<b>1,503,087</b>
<b>CTT, S.A. (own shares)</b> <b>Total</b>	<b>200,177</b>	<b>0.133%</b>	<b>100,089</b>
<b>Other shareholders</b> <b>Total</b>	<b>92,631,369</b>	<b>61.754%</b>	<b>46,315,685</b>
<b>Total</b>	<b>150,000,000</b>	<b>100.000%</b>	<b>75,000,000</b>

- (1) Company held by Standard Life Investments (Holdings) Limited.
- (2) Company held by Artemis Investment Management LLP.
- (3) Previously, Allianz Global Investors Europe GmbH.
- (4) As of 1 January 2015, as a result of a group corporate restructuring the client portfolios managed by Kames Capital Management Limited (a subsidiary of Kames Capital plc) have been transferred and are currently managed by Kames Capital plc.
- (5) This qualified shareholding is attributable to the following chain of entities: (i) Kames Capital Holdings Limited, which holds 100% of Kames Capital plc; (ii) Aegon Asset Management Holding BV, which holds 100% of Kames Capital Holdings Limited; and (iii) Aegon NV, which holds 100% of Aegon Asset Management Holding BV.
- (6) The parent company is Morgan Stanley and the chain of companies between the parent company and the shareholder is: Morgan Stanley, Morgan Stanley International Holdings Inc., Morgan Stanley International Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley Investments (UK) and Morgan Stanley & Co. International plc.
- (7) The qualifying holding of BNP Paribas Investment Partners represents 2.311% of CTT share capital and 2.231% of the voting rights. Shareholding held through the following funds managed by BNP Paribas Investment Partners: A.A.-FORTIS ACTIONS PETITE CAP EUROPE; BNP PARIBAS SMALLCAP EUROLAND; CamGestion Euro Mid Cap; Merck BNP Paribas European Small Cap; Merck BNP Paribas European Small Cap; Merck PT - European Small Caps; Movestic Sicav Europa Smabolag; PARVEST EQUITY EUROPE SMALL CAP; PARWORLD TRACK EUROPE SMALL CAP.
- (8) Fund managed by Pioneer Investments Kapitalgesellschaft GmbH, appointed by Pioneer Asset Management, S.A., which is fully owned by UniCredit S.p.A.
- (9) Fund managed by Pioneer Investments Management Limited Dublin, appointed by Pioneer Asset Management, S.A., which is entirely owned by UniCredit S.p.A.
- (10) This qualified shareholding is imputable to F&C Asset Management plc, as the entity with whom each of F&C Management Limited, F&C Investment Business Limited and F&C Managers Limited are in a dominion relationship. F&C Asset Management plc is under the dominion of BMO Global Asset Management (Europe) Limited which in turn is under the dominion of the Bank of Montreal.
- (11) Henderson Group plc is the parent company of Henderson Global Investors Limited. All voting rights are attributable to Henderson Global Investors Limited.
- (12) The chain of undertakings between the parent company and the shareholder is: DSAM Cayman Ltd, DSAM Cayman LP, DSAM Capital Partners Ltd and DSAM Partners LLP. The holding is exclusively an economic long position resulting from an over the counter equity swap transaction with trade date 10 September 2014, settlement date 15 September 2014 and termination date 2 September 2015. The swap transaction referred to foresees cash settlement as the settlement option.

Shareholder	31.12.2014		
	Nr shares	%	Nominal value
Standard Life Investments Limited <sup>(1)</sup>	9,910,580	6.607%	4,955,290
Ignis Investment Services Limited <sup>(1)</sup>	97,073	0.065%	48,537
<b>Standard Life Investments (Holdings) Limited</b>	<b>Total</b>	<b>6.672%</b>	<b>5,003,827</b>
Kames Capital plc <sup>(2)</sup>	2,045,003	1.363%	1,022,502
Kames Capital Management Limited <sup>(2)</sup>	3,096,134	2.064%	1,548,067
<b>Aegon NV <sup>(3)</sup></b>	<b>Total</b>	<b>3.427%</b>	<b>2,570,569</b>
<b>Allianz Global Investors Europe GmbH (AGIE) <sup>(4)</sup></b>	<b>Total</b>	<b>3.131%</b>	<b>2,347,887</b>
UBS AG <sup>(5)</sup>	3,705,257	2.470%	1,852,629
UBS Fund Management (Switzerland) AG <sup>(5)</sup>	55,397	0.037%	27,699
UBS Fund Services (Luxembourg) AG <sup>(5)</sup>	57,770	0.039%	28,885
UBS Global Asset Management (UK) Limited <sup>(5)</sup>	8,330	0.006%	4,165
UBS Global Asset Management (Australia) Ltd <sup>(5)</sup>	3,715	0.002%	1,858
<b>UBS Group AG <sup>(6)</sup></b>	<b>Total</b>	<b>2.554%</b>	<b>1,915,235</b>
Morgan Stanley & Co. International plc <sup>(7)</sup>	3,553,396	2.369%	1,776,698
<b>Morgan Stanley <sup>(7)</sup></b>	<b>Total</b>	<b>2.369%</b>	<b>1,776,698</b>
Pioneer Funds - European Equity Target Income <sup>(8)</sup>	613,645	0.409%	306,823
Pioneer Funds - Global Equity Target Income <sup>(9)</sup>	170,047	0.113%	85,024
Pioneer Funds - ABS Return European Equities <sup>(9)</sup>	95,475	0.064%	47,738
Pioneer Funds - European Potential <sup>(9)</sup>	825,082	0.550%	412,541
Pioneer Funds - European Equity Value <sup>(9)</sup>	764,953	0.510%	382,477
Pioneer Funds - European Equity Market Plus <sup>(9)</sup>	15,876	0.011%	7,938
Pioneer Funds - European Research <sup>(9)</sup>	643,204	0.429%	321,602
<b>UniCredit S.p.A.</b>	<b>Total</b>	<b>2.086%</b>	<b>1,564,141</b>
Artemis Fund Managers Limited <sup>(10)</sup>	3,104,624	2.070%	1,552,312
<b>Artemis Investment Management LLP</b>	<b>Total</b>	<b>2.070%</b>	<b>1,552,312</b>
FMRC-FMR CO., INC. <sup>(11)</sup>	716,444	0.478%	358,222
FMR UK-FIDELITY MANAGEMENT & RESEARCH (U.K.) INC. <sup>(11)</sup>	2,379,854	1.587%	1,189,927
<b>FMR LLC</b>	<b>Total</b>	<b>2.064%</b>	<b>1,548,149</b>
DSAM Partners LLP <sup>(12)</sup>	3,096,079	2.064%	1,548,040
<b>DSAM Cayman Ltd.</b>	<b>Total</b>	<b>2.064%</b>	<b>1,548,040</b>
Goldman Sachs International <sup>(13)</sup>			
Goldman Sachs Asset Management, L.P. <sup>(13)</sup>			
Goldman Sachs Asset Management International <sup>(13)</sup>			
<b>The Goldman Sachs Group, Inc. <sup>(13)</sup></b>	<b>Total</b>	<b>2.013%</b>	<b>1,509,875</b>
<b>Restantes accionistas</b>	<b>Total</b>	<b>71.551%</b>	<b>53,663,269</b>
<b>Total</b>	<b>150,000,000</b>	<b>100.000%</b>	<b>75,000,000</b>

- (1) Company held by Standard Life Investments (Holdings) Limited.
- (2) As of 1 January 2015, as a result of a group corporate restructuring the client portfolios managed by Kames Capital Management Limited (a subsidiary of Kames Capital plc) have been transferred and are currently managed by Kames Capital plc.
- (3) This qualified shareholding is imputable to the following chain of entities: (i) Kames Capital Holdings Limited, which holds 100% of Kames Capital plc; (ii) Aegon Asset Management Holding BV, which holds 100% of Kames Capital Holdings Limited; and (iii) Aegon NV, which holds 100% of Aegon Asset Management Holding BV.
- (4) By virtue of the merger of Allianz Global Investors Luxembourg, S.A. (AGIL) into Allianz Global Investors Europe (AGIE), the qualified shareholding mentioned above became imputable to AGIE.
- (5) Subsidiary of the UBS Group AG.
- (6) As a result of the acquisition of UBS AG by UBS Group AG the shares of UBS AG were transferred to UBS Group AG. The UBS AG subsidiaries also became controlled by UBS Group AG.

- (7) The parent company is Morgan Stanley and the chain of companies between the parent company and the shareholder is: Morgan Stanley, Morgan Stanley International Holdings Inc., Morgan Stanley International Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley Investments (UK) and Morgan Stanley & Co. International plc.
- (8) Fund managed by Pioneer Investments Kapitalgesellschaft GmbH, appointed by Pioneer Asset Management, S.A., which is fully owned by UniCredit S.p.A.
- (9) Fund managed by Pioneer Investments Management Limited Dublin, appointed by Pioneer Asset Management, S.A., which is entirely owned by UniCredit S.p.A.
- (10) Company held by Artemis Investment Management LLP.
- (11) Company owned by FMR LLC.
- (12) The chain of undertakings between the parent company and the shareholder is: DSAM Cayman Ltd, DSAM Cayman LP, DSAM Capital Partners Ltd and DSAM Partners LLP. The holding is exclusively an economic long position resulting from an over the counter equity swap transaction with trade date 10 September 2014, settlement date 15 September 2014 and termination date 2 September 2015. The swap transaction referred to foresees cash settlement as the settlement option.
- (13) The chain of controlled undertakings through which the voting rights and/or the financial instruments are effectively held is as follows: The Goldman Sachs Group, Inc. (parent company); Goldman Sachs (UK) L.L.C. (Controlled by The Goldman Sachs Group, Inc.); Goldman Sachs Group UK Limited (Controlled by Goldman Sachs (UK) L.L.C.); Goldman Sachs International (Controlled by Goldman Sachs Group UK Limited); Goldman Sachs Asset Management International (Controlled by Goldman Sachs Group UK Limited); Goldman Sachs Asset Management, L.P. (Controlled by The Goldman Sachs Group, Inc.). The holding includes 1.42% corresponding to 2,131,364 CTT shares and 0.59% held through economic long position via CFD and corresponding to 888,386 shares. The CFD details are as follows:

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

## 12. RESERVES, OTHER CHANGES IN EQUITY AND RETAINED EARNINGS

### Own shares

The commercial legislation regarding own shares requires that a non-distributable reserve must be created for the same amount of the acquisition price of such shares. This reserve is not available for distribution while the shares stay in the Company's possession. In addition, the applicable accounting standards determine that the gains or losses obtained with the sale of such shares are recognised in reserves.

As at 30 June 2015, the Company held 200,177 own shares which represented 0.133% of the Company's share capital.

Own shares held by CTT, S.A. are within the limits established by the Articles of Association of the Company and by the Portuguese Companies Code. These shares are recorded at the acquisition cost.

During the six month period ended 30 June 2015 the movements that occurred in this caption were as follows:

	Quantity	Value	Average price
Balance at 31 December 2014	-	-	-
Acquisitions	200,177	1,873,125	9.357
Disposals	-	-	-
Balance at 30 June 2015	<u>200,177</u>	<u>1,873,125</u>	<u>-</u>

### Reserves

As at 30 June 2015 and 31 December 2014, the heading Reserves is detailed as follows:

	30.06.2015	31.12.2014
Legal reserves	18,072,559	18,072,559
Own shares reserve (CTT, S.A.)	1,873,125	-
Other reserves	<u>12,692,194</u>	<u>13,701,407</u>
	<u>32,637,878</u>	<u>31,773,967</u>

### Legal reserves

The commercial legislation establishes that at least 5% of the annual net profit must be allocated to reinforce the legal reserve, until it represents at least 20% of the share capital. This reserve is not distributable except in the event of the liquidation of the Company, but may be used to absorb losses after all the other reserves have been depleted, or incorporated in the share capital.

### Own shares reserve (CTT, S.A.)

As at 30 June 2015, this caption includes the amount of 1,873,125 Euros related to the creation of an unavailable reserve of equal value to the purchase price of the own shares held.

### Other reserves

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

As at 30 June 2015 and 31 December 2014 it also records the amount recognised in the year related to the Share Plan, that constitutes the long-term variable remuneration to be paid to the executive members of the Board of Directors under the new remuneration model of the Statutory Bodies defined by the Remuneration Committee.

### Retained earnings

During the six month period ended 30 June 2015 and the year ended 31 December 2014, the following movements occurred in "Retained earnings":

	30.06.2015	31.12.2014
Opening balance	84,374,563	83,367,465
Application of the net profit of the prior year	77,171,128	61,016,067
Distribution of dividends (Note 13)	(69,750,000)	(60,000,000)
Other movements	(171,256)	(8,969)
Closing balance	<u>91,624,435</u>	<u>84,374,563</u>

### Other changes in equity

The Actuarial gains/losses associated to post-employment benefits, as well as the corresponding deferred taxes, are recognised in this heading (Note 15).

Thus, for the six month period ended 30 June 2015 and the year ended 31 December 2014, the movements occurred in this heading were as follows:

	30.06.2015	31.12.2014
Opening balance	(18,786,310)	24,548,756
Actuarial gains/losses	-	(61,041,103)
Other changes	(3,554,908)	-
Tax effect	1,000,351	17,706,037
Closing balance	<u>(21,340,867)</u>	<u>(18,786,310)</u>

## 13. DIVIDENDS

According to the dividends distribution proposal included in the 2014 Annual Report, at the General Meeting of Shareholders, which took place on 5 May 2015, a dividend distribution of 69,750,000 Euros relative to the financial year ending on 31 December 2014 was proposed and approved. The dividend was paid on 29 May 2015.

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

## 14. EARNINGS PER SHARE

During the six month periods ended 30 June 2015 and 30 June 2014, the earnings per share were calculated as follows:

	30.06.2015	30.06.2014
Net profit for the period	39,165,406	36,063,127
Average number of ordinary shares	149,967,889	150,000,000
Earnings per share:		
Basic	0.26	0.24
Diluted	0.26	0.24

The average number of shares is detailed as follows:

	30.06.2015	30.06.2014
Shares issued at the beginning of the period	150,000,000	150,000,000
Own shares effect	32,111	-
Average number of shares during the period	149,967,889	150,000,000

The basic earnings per share are calculated dividing the net profit attributable to equity holders of the parent company by the average ordinary shares, excluding the average number of own shares held by the Group. As at 30 June 2015, the number of own shares held by the Group is 200,177, and its average number for the six month period ended 30 June 2015 is 32,111, reflecting the fact that the acquisition of own shares occurred at the end of this period.

There are no dilutive factors on earnings per share.

## 15. EMPLOYEE BENEFITS

Liabilities related to employee benefits refer to (i) post-employment benefits – health care, (ii) other benefits and (iii) other long term benefits for the Statutory Bodies.

During the six month period ended 30 June 2015 and the year ended 31 December 2014, these liabilities presented the following movement:

	30.06.2015			Equity	Total
	Health care	Other long term employee benefits	Total	Other long term benefits statutory bodies	
Opening balance	241,166,000	36,125,547	277,291,547	1,376,407	278,667,954
Movement of the period	(201,500)	(2,783,128)	(2,984,628)	863,912	(2,120,716)
Closing balance	240,964,500	33,342,419	274,306,919	2,240,319	276,547,238

	31.12.2014				
	Liabilities			Equity	Total
	Health care	Other long term employee benefits	Total	Other long term benefits statutory bodies	
Opening balance	263,371,000	35,172,054	298,543,054	-	298,543,054
Movement of the year	(22,205,000)	953,493	(21,251,507)	1,376,407	(19,875,100)
Closing balance	241,166,000	36,125,547	277,291,547	1,376,407	278,667,954

The heading “Other long term benefits” essentially refers to the staff reduction programme.

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

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

	30.06.2015	31.12.2014
Equity (Other reserves)	2,240,319	1,376,407
Non-current liabilities	253,158,967	255,541,102
Current liabilities	21,147,952	21,750,445
	<u>276,547,238</u>	<u>278,667,954</u>

For the six month periods ended 30 June 2015 and 30 June 2014, 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:

	30.06.2015	30.06.2014
Costs for the period		
Health care	4,971,000	7,046,500
Other long term employee benefits	54,879	144,035
Other long term benefits statutory bodies	863,912	-
	<u>5,889,791</u>	<u>7,190,535</u>
Other changes in equity		
Health care	(3,554,908)	(618,010)
	<u>(3,554,908)</u>	<u>(618,010)</u>

The impacts as at 30 June 2015 were obtained by the Company supported by the 2015 cost estimate included in the actuarial study as at 31 December 2014, not having been performed a new actuarial study with reference to 30 June 2015.

#### 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 2014, performed an actuarial study.

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

	30.06.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011
Liabilities at the end of the period	<u>240,964,500</u>	<u>241,166,000</u>	<u>263,371,000</u>	<u>252,803,000</u>	<u>272,102,000</u>

For the six month period ended 30 June 2015 and the year ended 31 December 2014, the movement which occurred in the present value of the defined benefits liability regarding the health-care plan was as follows:

	30.06.2015	31.12.2014
Opening balance	241,166,000	263,371,000
Service costs of the period	2,021,000	3,825,000
Interest cost of the period	2,950,000	10,268,000
Curtailment	-	(82,998,327)
Pensioners contributions	2,643,696	3,607,690
(Payment of benefits)	(11,032,104)	(16,894,342)
(Other costs)	(339,000)	(1,054,123)
Actuarial (gains)/losses	-	61,041,103
Other changes	3,554,908	-
Closing balance	<u>240,964,500</u>	<u>241,166,000</u>

In February 2015, CTT signed with effects as at 31 December 2014, with the eleven trade unions represented in the Company, the new Regulation of the Social Works (“RSW”) system, the internal healthcare and social protection system of CTT. The new RSW of CTT maintains a high but balanced protection level, while rationalising the use of benefits. Accordingly, the fees that the beneficiaries pay to the system were increased by raising the monthly contributions and co-payments, while the all-encompassing feature of the system was maintained and some social support measures were strengthened.

The new plan entailed a significant reduction in the estimate of CTT future health-care expenses and therefore a corresponding reduction in past services liability as at 31 December 2014, which has been considered an amendment to the plan and therefore recognised in profit and loss.

During the six month periods ended 30 June 2015 and 30 June 2014, the total costs for the period are recognised as follows:

	30.06.2015	30.06.2014
Staff costs/employee benefits (Note 18)	1,682,000	1,335,000
Other costs	339,000	577,500
Interest expenses	<u>2,950,000</u>	<u>5,134,000</u>
	<u>4,971,000</u>	<u>7,046,500</u>

On 30 June 2015 the amount of 3,554,908 Euros (61,041,103 Euros as at 31 December 2014) were recognised in equity under Other changes in equity, net of deferred taxes of 1,000,351 Euros (17,706,037 Euros as at 31 December 2014).

The best estimate the Group has at this date for costs related to the health care plan, which it expects to recognise in the next twelve month period of 2015 is 9,987 thousand Euros.

The sensitivity analysis performed on 31 December 2014, for the health care plan leads to the following conclusions:

- (i) If there was an increase of 1 per cent in the growth rate of medical costs, keeping all the remaining variables constant, the liabilities of the health care plan would be 300,242 thousand Euros, increasing by approximately 24.5%;
- (ii) If the discount rate was reduced 0.5 per cent and keeping all the remaining variables constant, the liabilities would increase by approximately 7.8%, amounting to 259,977 thousand Euros.

#### Other long-term employee 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.

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

For the six month period ended 30 June 2015 and the year ended 31 December 2014, the movement of liabilities with other employee long-term benefits was as follows:

	30.06.2015	31.12.2014
Suspension of contracts, redeployment and release of employment		
Opening balance	17,810,243	19,743,891
Interest cost of the period	189,680	696,465
Liabilities relative to new beneficiaries	-	393,318
(Payment of benefits)	(2,470,128)	(5,738,282)
Actuarial (gains)/losses	-	2,714,852
Other changes	(197,567)	-
Closing balance	15,332,228	17,810,243
Telephone subscription charge		
Opening balance	4,832,775	4,800,195
Interest cost of the period	57,427	178,544
(Payment of benefits)	(107,654)	(303,781)
Actuarial (gains)/losses	-	157,817
Other changes	(130,951)	-
Closing balance	4,651,597	4,832,775
Pension for accidentés at work		
Opening balance	8,161,400	7,004,370
Interest cost of the period	99,333	271,647
(Payment of benefits)	(175,156)	(437,324)
Actuarial (gains)/losses	-	1,322,707
Other changes	(39,631)	-
Closing balance	8,045,946	8,161,400
Monthly life annuity		
Opening balance	5,282,395	3,544,784
Interest cost of the period	65,349	139,714
(Payment of benefits)	(49,784)	(112,271)
Actuarial (gains)/losses	-	1,710,168
Other changes	(4,678)	-
Closing balance	5,293,282	5,282,395
Support for cessation of professional activity		
Opening balance	38,735	78,815
Interest cost of the period	-	1,576
(Payment of benefits)	(35,284)	(57,602)
Actuarial (gains)/losses	-	15,946
Other changes	15,917	-
Closing balance	19,368	38,735
Total closing balances	33,342,420	36,125,548

During the six month periods ended on 30 June 2015 and 30 June 2014, the total costs for the period were recognised as follows:

	30.06.2015	30.06.2014
Staff costs/employee benefits (Note 18)		
Suspension of contracts, redeployment and release of employment	(197,567)	(277,764)
Telephone subscription charge	(130,951)	(196,964)
Pension for accidents at work	(39,631)	(18,105)
Monthly life annuity	(4,678)	743
Support for cessation of professional activity	15,917	(13,241)
subtotal	(356,910)	(505,332)
Interest expenses	411,788	649,368
	54,879	144,035

In the year ended 31 December 2014, due to Law 11/2014, of 6 of March, which establishes convergence mechanisms of social protection system for civil servants to the general social security scheme, by modifying the retirement schemes, the retirement age has changed from 65 to 66 years of age for employees covered by “Caixa Geral de Aposentações” (“CGA”). This change had a more significant impact on the liability related to the “Suspension of contracts, relocation and release of employment” where the increase in the liability was approximately 2,137 thousand Euros.

The best estimate that the Group has at this date for costs with other long-term benefits, which it expects to recognise in the next twelve month period, is 760,267 Euros.

The sensitivity analysis done for the Other long term benefits leads to the conclusion that, if the discount rate was reduced by 50 b.p., keeping everything else constant, this would give rise to an increase in liabilities for past services of approximately 4%, increasing to 37,571 thousand Euros.

#### Other long-term benefits for the Statutory Bodies

CTT approved with effect on 31 December 2014, the Remuneration Regulations for Members of the Statutory Bodies, which defines the allocation of a long-term variable remuneration, to be paid in Company shares. The number of shares allocated to the executive members of the Board of Directors of CTT is based on performance evaluation results during the mandate period until 1 January 2017, which consists of a comparison of the recorded performance of the Total Shareholder Return (TSR) of CTT’s shares and the TSR of a weighted peer group, composed of national and international companies (vesting conditions).

The evaluation period of CTT TSR performance compared to peers is 1 January 2014 to 31 December 2016. The long-term variable remuneration is paid on 31 January 2017, by allocating shares of the Company subject to a positive TSR of the shares of the Company at the end of the evaluation period, according to a maximum number of shares defined in the Regulation and corrected by maximum limits for each member of the Executive Committee.

On 31 December 2014, the liability of this long term remuneration was calculated, based on the fair value of shares, by an independent expert and by using a Black-Scholes methodology and through the production of a Monte Carlo model simulation.

Thus, for the six month period ended 30 June 2015, CTT recorded a cost of 863,912 Euros (1,376,407 Euros at 31 December 2014 corresponding to the period from 1 January 2014 to 31 December 2014), against Other reserves.

## 16. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

### Provisions

For the six month period ended 30 June 2015 and the year ended 31 December 2014, in order to face legal proceedings and other liabilities arising from past events, the Group recognised provisions, which showed the following movements:

	30.06.2015				
	Opening balance	Increases	Reversals	Reduction	Closing balance
Non-current provisions					
Litigations	9,907,427	856,260	(958,743)	(733,408)	9,808,895
Onerous contracts	16,854,955	696,708	(654,657)	(1,278,845)	15,618,161
Other provisions	18,693,363	-	(44,729)	(503,433)	17,407,842
Investments in associated companies	215,772	-	-	-	215,772
	<u>45,671,517</u>	<u>1,552,968</u>	<u>(1,658,129)</u>	<u>(2,515,686)</u>	<u>43,050,670</u>
Restructuring	-	1,880,000	-	-	1,880,000
	<u>45,671,517</u>	<u>3,432,968</u>	<u>(1,658,129)</u>	<u>(2,515,686)</u>	<u>44,930,670</u>

	31.12.2014				
	Opening balance	Increases	Reversals	Reduction	Closing balance
Non-current provisions					
Litigations	10,868,975	4,848,272	(4,019,596)	(3,216,034)	9,907,427
Onerous contracts	12,643,714	6,728,727	-	(2,517,486)	16,854,955
Other provisions	14,775,306	6,452,173	-	(690,354)	18,693,363
Investments in associated companies	213,840	-	-	-	213,840
	<u>38,501,835</u>	<u>18,029,172</u>	<u>(4,019,596)</u>	<u>(6,423,874)</u>	<u>45,671,517</u>

### Litigations

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

### Onerous Contracts

The increases and reversals recorded in the six month period ended 30 June 2015 in the provision to cover the estimated net present value of the expenditures associated with onerous contracts result from the update of the assumptions used in 2014 including the discount rates, which have suffered a significant fluctuation in the period.

The reductions, in the amount of 1,278,845 Euros are related to the rental payments that occurred during the period.

As at 30 June 2015 and 31 December 2014 the amount provided for onerous contracts is 15,618,161 Euros and 16,854,955 Euros, respectively.

### Other provisions

For the six month period ended 30 June 2015 the provision to cover any contingencies relating to employment litigation actions not included in the current court proceedings, and related to remuneration differences required by workers, amounts to 15,636,732 Euros (16,374,091 Euros as at 31 December 2014). During the year ended on 31 December 2014 this provision had been increased by 5,287,767 Euros.

As at 30 June 2015, in addition to the previously mentioned situations, this heading also includes:

- the amount of 247,487 Euros for coverage of costs of dismantlement of tangible fixed assets and/or removal of facilities and restoration of the location;
- the amount of 890,000 Euros, which arise from the assessment made by management regarding the possibility of the enforcement of tax contingencies.

### Investments in associated companies

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

### Restructuring

In the six month period ended 30 June 2015, in the subsidiary Tourline Express Mensajería, SLU was recognised a provision for restructuring following the human resources optimisation and restructuring process, timely disclosed by the parent company. The ongoing process is aimed at increasing the operational efficiency of Tourline by reducing its staff costs, as well as to improve and simplify processes in the context of the restructuring plan currently being implemented. As at 30 June 2015, the provision amounts to 1.88 million Euros and was recorded under the item "Staff costs" in the consolidated income statement.

The net amount between increases and reversals of provisions was recorded in the Consolidated income statement under the headings "Provisions, net" and amounted to 105,161 Euros and (1,550,581) Euros as at 30 June 2015 and 30 June 2014, respectively.

### Guarantees provided

As at 30 June 2015 and 31 December 2014 the Group had provided bank guarantees to third parties as follows:

Description	30.06.2015	31.12.2014
Courts	200,087	325,684
FUNDO DE PENSÕES DO BANCO SANTANDER TOTTA	3,030,174	3,030,174
EURO BRIDGE-Sociedade Imobiliária, Lda	2,944,833	2,944,833
PLANINOVA - Soc. Imobiliária, S.A.	2,033,582	2,033,582
LandSearch, Compra e Venda de Imóveis	1,792,886	1,792,886
NOVIMOVESTE - Fundo de Investimento Imobiliário	1,523,201	1,523,201
LUSIMOVESTE - Fundo de Investimento Imobiliário	1,274,355	1,274,355
Autoridade Tributária e Aduaneira	606,867	590,000
Lisboagás, S.A.	190,000	190,000
Autarquias	154,677	154,677
Sofinsa	-	91,618
Solred	80,000	80,000
Parc Logistics Zona Franca	-	77,969
Alfândega do Porto	-	74,820
Secretaria Geral do Ministério da Administração Intern	28,547	44,547
ACT Autoridade Condições Trabalho	67,638	67,638
PT PRO - Serv Adm Gestao Part, S.A.	50,000	50,000
Record Rent a Car (Cataluña, Levante)	40,000	40,000
SetGás, S.A.	30,000	30,000
ANA - Aeroportos de Portugal	34,000	34,000
TIP - Transportes Intermodais do Porto, ACE	50,000	50,000
EPAL - Empresa Portuguesa de Águas Livres	21,433	21,433
Natur Import (nave Barbera)	-	18,096
Portugal Telecom, S.A.	16,657	16,657
SPMS - Serviços Partilhados do Ministério da Saúde	30,180	30,180
Instituto Gestão Financeira Segurança Social	12,681	-
Petrogal, S.A.	8,280	10,774
Águas do Porto, E.M	10,720	10,720
Alquiler Nave Tarragona	7,155	7,155
TNT Express Worldwide	6,010	6,010
SMAS Torres Vedras	2,808	4,001
Instituto do emprego e formação profissional	3,718	3,718
Controlplan S.L	-	3,400
Inmobiliaria Ederkin	7,800	7,800
Instituto Infra-Estruturas Rodoviárias	-	3,725
Estradas de Portugal, EP	5,000	5,000
ARM - Águas e Resíduos da Madeira , SA	-	12,681
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
Gexploma	-	3,000
Consejería Salud	6,433	6,433
Universidad Sevilla	4,237	4,237
Fonavi, Nave Hospitalet	40,477	40,477
Other entities	7,694	7,694
	<u>14,354,941</u>	<u>14,758,985</u>

### Guarantees for Contracts

According to the terms in some lease contracts of the buildings occupied by the Company's services, as the Portuguese State ceased to hold the majority of the share capital of CTT- Correios de Portugal, S.A., bank guarantees on first demand should be provided.

These guarantees have already been issued and amount to 12.6 million Euros and are included under the list of guarantees provided in the previous page.

### Commitments

As at 30 June 2015 and 31 December 2014, the Group subscribed promissory notes amounting to approximately 64.9 thousand Euros and 73.8 thousand Euros, respectively, for various rental companies intended to secure complete and timely compliance with the corresponding lease contracts.

In addition, the Group also assumed commitments relating to real estate rents under lease contracts and rents for operating and financial leases.

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

## **17. ACCOUNTS PAYABLE**

As at 30 June 2015 and 31 December 2014, the heading Accounts payable showed the following composition:

	30.06.2015	31.12.2014
Advances from customers	3,013,767	2,996,416
CNP money orders	368,444,038	200,879,441
Suppliers	63,543,792	64,572,970
Invoices pending confirmation	9,778,058	12,958,575
Fixed assets suppliers	1,372,207	8,063,263
Invoices pending confirmation (fixed assets)	443,240	1,997,480
Values collected on behalf of third parties	5,546,876	5,645,991
Postal financial services	81,394,186	197,152,263
Other accounts payable	5,019,282	5,270,507
	<u>538,555,448</u>	<u>499,536,907</u>

### CNP money orders

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

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



### Postal financial services

This heading records mainly the amounts collected related to taxes, insurance, savings certificates and other money orders. The decrease is largely explained by the significant volume of subscriptions of savings/treasury certificates that occurred in December 2014 and that did not have the same relevance in June 2015.

## 18. STAFF COSTS

During the six month periods ended 30 June 2015 and 30 June 2014, the composition of the heading Staff Costs was as follows:

	30.06.2015	30.06.2014
Statutory bodies remuneration (Note 20)	1,849,410	589,882
Staff remuneration	130,839,865	124,622,678
Employee benefits	2,284,710	829,669
Indemnities	2,671,280	1,390,030
Social Security charges	28,322,718	27,523,172
Occupational accident and health insurance	1,042,772	928,794
Social welfare costs	3,309,647	5,662,119
Other staff costs	24,126	32,267
	<u>170,344,528</u>	<u>161,578,611</u>

### Remuneration of the statutory bodies

In the six month periods ended on 30 June 2015 and 30 June 2014, the fixed and variable remunerations attributed to the members of the statutory bodies of the different companies of the Group were as follows:

	30.06.2015				
	Board of Directors	Audit Committee /Statutory Auditor	Remuneration Committee	General Meeting of Shareholders	Total
Short term remuneration					
Fixed remuneration	984,676	132,400	18,720	-	1,135,796
Annual variable remuneration	713,614	-	-	-	713,614
	<u>1,698,290</u>	<u>132,400</u>	<u>18,720</u>	<u>-</u>	<u>1,849,410</u>
Long term remuneration					
Defined contribution plan RSP	95,708	-	-	-	95,708
Long term variable remuneration - Share Plan	863,912	-	-	-	863,912
	<u>959,620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>959,620</u>
	<u>2,657,910</u>	<u>132,400</u>	<u>18,720</u>	<u>-</u>	<u>2,809,030</u>
	30.06.2014				
	Board of Directors	Audit Committee /Statutory Auditor	Remuneration Committee	General Meeting of Shareholders	Total
Fixed remuneration	471,023	118,859	-	-	589,882
Variable remuneration	-	-	-	-	-
	<u>471,023</u>	<u>118,859</u>	<u>-</u>	<u>-</u>	<u>589,882</u>

Bearing in mind the new reality of CTT as an entity of private capital and admitted to trading on a regulated market, the Remuneration Committee (elected by the General Meeting on 24 March 2014 and composed of independent members) defined the new remuneration model for the statutory bodies

which followed a benchmark study performed by a specialist firm. Thus, the increase in the caption Remuneration of statutory bodies results from the application of this remuneration policy with effect from the date of the election for the term 2014-2016.

Following the remuneration model approved by the Remuneration Committee, it was determined the allocation of a fixed monthly amount for an Open Pension Fund or Retirement Savings Plan to the executive members of CTT Board of Directors.

The long term variable remuneration awarded to the executive members of the Board of Directors shall be paid at the end of the 2014-2016 mandate in Company shares, and the amount of 863,912 Euros corresponds to the expense to be recognised in the six month period ended 30 June 2015 and was determined by an independent expert as at 31 December 2014 based on the Black-Scholes methodology and through the production of a Monte Carlo model simulation. The annual variable remuneration will be determined and paid on an annual basis and was also defined by a study performed by an independent entity.

#### Staff remuneration

The variation in the heading "Staff remuneration" is a result of the effect of the 2% increase in the fixed salaries which followed the new Company Agreement that produced effects on 1 January 2015. Combined with this effect, the impact of variable remuneration should also be added.

#### Employee benefits

The variation in the caption "Employee benefits" is mainly due to the long-term variable remuneration of the executive members of the Board of Directors of CTT which was not reflected in the six month period ended 30 June 2014.

#### Indemnities

During the six month period ended 30 June 2015 the caption Indemnities includes 393,430 Euros related to compensations paid for termination of employment contracts by mutual agreement.

It also includes the amount of 1,880,000 Euros related to the provision for restructuring recorded in Tourline following the human resources optimisation in the context of the restructuring plan currently being implemented in the Company.

#### Social welfare costs

Social welfare costs relate almost entirely to health costs incurred by the Group with the active workers, as well as expenses related to the Health and Safety at work. The decrease in this caption results from changes that took place in CTT's Health care Plan following the new Regulation of the Social Works ("RSW"), according to which the fees that the beneficiaries pay to the system were increased by raising the monthly contributions and co-payments.

During the six month periods ended 30 June 2015 and 30 June 2014, the heading "Staff costs" includes 315,791 Euros and 384,636 Euros, respectively, related to expenses with workers' representative bodies.

For the six month periods ended 30 June 2015 and 30 June 2014, the average number of staff of the Group was 12,386 and 12,388 employees, respectively.

## 19. INCOME TAX FOR THE PERIOD

Companies with head office in Portugal are subject to tax on their profit through Corporate Income Tax (“IRC”) at the normal tax rate of 21% (23% in 2014), whilst the municipal tax is established at a maximum rate of 1.5% of taxable profit, and state surcharge is 3% of taxable profit above 1,500,000 Euro, 5% of taxable profit above 7,500,000 up to 35,000,000 Euros and 7% of taxable profit above 35,000,000 Euros. Tourline is subject to income taxes in Spain, through income tax (Impuesto sobre Sociedades - “IS”) at a rate of 25%, and the subsidiary Corre is subject to corporate income tax in Mozambique (“IRPC”).

Corporate income tax (IRC) is levied on the Group and its subsidiaries Postcontacto – Correio Publicitário, Lda., CTT – Expresso, S.A., Mailtec Comunicação, S.A., Mailtec Consultoria, S.A., Mailtec Processos, Lda., Payshop Portugal, S.A. (“Payshop”), CTT GEST – Gestão de Serviços e Equipamentos Postais, S.A. (“CTT Gest”), and CTT Serviços, S.A., 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 six month period ended on 30 June 2015 and 30 June 2014, the reconciliation between the nominal rate and the effective income tax rate is as follows:

	30.06.2015	30.06.2014
Earnings before taxes	57,321,000	51,768,325
Nominal tax rate	21.0%	23.0%
	<b>12,037,410</b>	<b>11,906,715</b>
Tax Benefits	(85,855)	(136,249)
Accounting capital gains	37,576	(166,615)
Tax capital gains	(91,640)	53,823
Equity method	(5,938)	-
Provisions not considered in the calculation of deferred tax	16,546	123,800
Impairment losses and reversals	(4,440)	(280,275)
Other situations, net	943,651	1,169,648
Adjustments related with - autonomous taxation	305,509	298,075
Adjustments related with - Municipal Surcharge	828,463	705,142
Adjustments related with - State Surcharge	2,713,207	2,060,784
Tax losses without deferred tax	1,448,243	-
Excess estimated income tax	-	(4,164)
Income taxes for the period	<b>18,142,732</b>	<b>15,730,684</b>
Effective tax rate	<b>31.65%</b>	<b>30.39%</b>
Income taxes for the period		
Current tax	16,231,482	14,548,876
Deferred tax	1,911,250	1,292,435
Excess estimated income tax	-	(110,627)
	<b>18,142,732</b>	<b>15,730,684</b>

In the year ended 31 December 2014, the heading Excess estimated income tax includes 487,839 Euros relating to the tax credit allocated under the SIFIDE program of 2006 and 2008 of the subsidiary CTT Espresso.

#### Deferred taxes

As at 30 June 2015 and 31 December 2014, the balance of deferred tax assets and liabilities was composed as follows:

	30.06.2015	31.12.2014
Deferred tax assets		
Employee benefits - health care	67,807,410	67,864,112
Employee benefits - other long term benefits	9,377,822	10,160,424
Deferred accounting capital gains	2,047,418	2,384,961
Impairment losses and provisions	9,568,648	10,134,884
Tax losses carried forward	496,372	-
Impairment losses in tangible fixed assets	480,130	497,238
Share Plan	580,981	387,321
	<u>90,358,781</u>	<u>91,428,940</u>
Deferred tax liabilities		
Revaluation of tangible fixed assets before IFRS	3,651,454	3,793,815
Suspended capital gains	979,630	994,953
Other	52,916	52,916
	<u>4,684,000</u>	<u>4,841,684</u>

As at 30 June 2015, expected deferred tax assets and liabilities to be settled within 12 months amount to 3,607,228 Euros and 315,368 Euros, respectively.

During the six month period ended 30 June 2015 and the year ended 31 December 2014, the movements which occurred under the deferred tax headings were as follows:

	30.06.2015	31.12.2014
Deferred tax assets		
Opening balances	91,428,940	103,645,256
Effect on net profit		
Employee benefits - health care	(1,057,053)	(28,063,112)
Employee benefits - other long term benefits	(782,602)	(273,016)
Deferred accounting gains	(337,543)	(844,727)
Impairment losses and provisions	(566,237)	1,482,942
Impairment losses in tangible fixed assets	(17,107)	44,378
Derecognition of inventories	-	(77,821)
Value deducted from debts	-	(18,692)
Tax losses carried forward	496,372	(2,432,701)
Share plan	193,660	387,321
Other	-	(124,155)
Effect on net profit		
Employee benefits - health care	1,000,351	17,706,037
Change in consolidation perimeter		
Other	-	(2,770)
Closing balance	<u>90,358,781</u>	<u>91,428,940</u>
	30.06.2015	31.12.2014
Deferred tax liabilities		
Opening balances	4,841,684	5,481,878
Effect on net profit		
Revaluation of tangible fixed assets before IFRS adoption	(142,361)	(495,037)
Suspended capital gains	(15,323)	(87,502)
Other	-	(57,655)
Closing balance	<u>4,684,000</u>	<u>4,841,684</u>

The tax losses carried forward recorded in the six month period ended 30 June 2015 are related to the losses of the subsidiary CTT Serviços, S.A..

#### SIFIDE

The Group policy for recognition of fiscal credits regarding SIFIDE is to recognise the credit at the moment of the effective receipt of the commission certification statement, certifying the eligibility of expenses presented in the applications for tax benefits.

Relating to the expenses incurred with R&D during 2013, of 33,987 Euros, the Group will have the possibility of benefiting from a tax deduction in IRC estimated at 9,519 Euros. According to the notification of the Certification Commission dated 16 January 2014 a tax credit of 8,337 Euros was attributed to CTT.

Regarding the expenses incurred with R&D during 2014, of 736,033 Euros, the Group will have the possibility of benefiting from a tax deduction in IRC estimated at 514,753 Euros.

### Other information

Pursuant to the legislation in force, income tax returns are subject to review and correction by the tax authorities for a period of four years (five years for Social Security), except when there have been tax losses, tax benefits have been received, or when inspections, claims or challenges are in progress, in which cases, depending on the circumstances, these years are extended or suspended. Therefore, the Group's income tax returns after 2011 may still be reviewed and corrected, since the income tax returns prior to this date have already been inspected.

The Board of Directors of the Company believes that any corrections arising from reviews/inspections by the tax authorities of these income tax returns will not have a significant effect on the consolidated financial statements as at 30 June 2015.

## 20. RELATED PARTIES

The Regulation on Assessment and Control of Transactions with CTT's Related Parties defines a related party as a qualified shareholder, officer, or even a third party related by any commercial or relevant personal interest and subsidiaries or associates or jointly controlled entities (joint ventures).

According to the Regulation the significant transactions with related parties must be previously approved by the Audit Committee of CTT.

During the six month periods ended on 30 June 2015 and 30 June 2014, the following transactions took place and the following balances existed with related parties:

	30.06.2015				
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Shareholders	-	-	-	69,750,000	-
Other shareholders Group companies	-	-	-	-	-
Associated companies	4,139	-	8,975	-	34,135
Jointly controlled	107,439	29,675	262,392	-	108,854
Members of the	-	-	-	-	-
Board of Directors	-	-	-	-	1,698,290
General Meeting	-	-	-	-	-
Audit Committee	-	-	-	-	91,500
Remuneration Committee	-	-	-	-	18,720
	<u>111,578</u>	<u>29,675</u>	<u>271,367</u>	<u>69,750,000</u>	<u>1,951,499</u>

	30.06.2014				
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Shareholders	-	-	-	60,000,000	-
Other shareholders 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	-	-	-	-	-
Board of Directors	-	-	-	-	471,023
General Meeting	-	-	-	-	-
Audit Committee	-	-	-	-	118,859
Remuneration Committee	-	-	-	-	-
	<u>33,038</u>	<u>39,490</u>	<u>121,098</u>	<u>60,000,000</u>	<u>725,072</u>

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

## 21. SUBSEQUENT EVENTS

### Memorandum of understanding with Altice Portugal, SA

Following the MoU signed with Altice, CTT received in July 2015, the amount established in the contract.

### PostContacto, Lda and Mailtec Processos, Lda merger into CTT Gest, SA

The merger project by incorporation of PostContacto, Lda and Mailtec Processos, Lda into CTT Gest, SA, was registered and published on 30 June 2015.

## **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 2015, based on the communications made to the Company, the qualifying holdings in CTT were as follows:



**Holders of Qualifying Shareholdings in CTT as at 30 June 2015**  
**based on the communications made to the Company**

Shareholders	No. of shares	% Share capital	% Voting rights <sup>(14)</sup>
Standard Life Investments Limited <sup>(1)</sup>	9,910,580	6.607%	6.607%
Ignis Investment Services Limited <sup>(1)</sup>	97,073	0.065%	0.065%
<b>Standard Life Investments (Holdings) Limited</b>	<b>Total</b>	<b>10,007,653</b>	<b>6.672%</b>
Artemis Fund Managers Limited <sup>(2)</sup>	7,433,817	4.956%	4.956%
Artemis Investment Management LLP	276,892	0.185%	0.185%
<b>Artemis Investment Management LLP</b>	<b>Total</b>	<b>7,710,709</b>	<b>5.140%</b>
<b>Allianz Global Investors GmbH</b> <sup>(3)</sup>	<b>Total</b>	<b>7,552,637</b>	<b>5.035%</b>
Kames Capital plc <sup>(4)</sup>	2,045,003	1.363%	1.363%
Kames Capital Management Limited <sup>(4)</sup>	3,096,134	2.064%	2.064%
<b>Aegon NV</b> <sup>(5)</sup>	<b>Total</b>	<b>5,141,137</b>	<b>3.427%</b>
Morgan Stanley & Co. International plc <sup>(6)</sup>	4,818,361	3.212%	3.212%
Morgan Stanley & Co. LLC <sup>(6)</sup>	89	0.000%	0.000%
Morgan Stanley Capital Services LLC <sup>(6)</sup>	12,689	0.008%	0.008%
<b>Morgan Stanley</b> <sup>(6)</sup>	<b>Total</b>	<b>4,831,139</b>	<b>3.221%</b>
A.A.-FORTIS-ACTIONS PETITE CAP. EUROPE <sup>(7)</sup>	168,723	0.112%	0.112%
BNP PARIBAS SMALLCAP EUROLAND <sup>(7)</sup>	832,670	0.555%	0.555%
CamGestion Euro Mid Cap <sup>(7)</sup>	162,793	0.109%	0.109%
Merck BNP Paribas European Small Cap <sup>(7)</sup>	65,107	0.043%	0.043%
Movestic Sicav Europa Småbolag <sup>(7)</sup>	54,402	0.036%	0.036%
PARVEST EQUITY EUROPE SMALL CAP <sup>(7)</sup>	2,180,295	1.454%	1.454%
PARWORLD TRACK EUROPE SMALL CAP <sup>(7)</sup>	2,555	0.002%	0.002%
<b>BNP Paribas Investment Partners, Limited Company</b> <sup>(7)</sup>	<b>Total</b>	<b>3,466,545</b>	<b>2.311%</b>
<b>Norges Bank</b>	<b>Total</b>	<b>3,143,496</b>	<b>2.096%</b>
Pioneer Funds - European Equity Target Income <sup>(8)</sup>	613,645	0.409%	0.409%
Pioneer Funds - Global Equity Target Income <sup>(9)</sup>	170,047	0.113%	0.113%
Pioneer Funds - ABS Return European Equities <sup>(9)</sup>	95,475	0.064%	0.064%
Pioneer Funds - European Potential <sup>(9)</sup>	825,082	0.550%	0.550%
Pioneer Funds - European Equity Value <sup>(9)</sup>	764,953	0.510%	0.510%
Pioneer Funds - European Equity Market Plus <sup>(9)</sup>	15,876	0.011%	0.011%
Pioneer Funds - European Research <sup>(9)</sup>	643,204	0.429%	0.429%
<b>UniCredit S.p.A.</b>	<b>Total</b>	<b>3,128,282</b>	<b>2.086%</b>
F&C Asset Management plc <sup>(10)</sup>	3,124,801	2.083%	2.083%
<b>Bank of Montreal</b> <sup>(10)</sup>	<b>Total</b>	<b>3,124,801</b>	<b>2.083%</b>
Henderson Global Investors Limited <sup>(11)</sup>	3,037,609	2.025%	2.025%
<b>Henderson Group plc</b> <sup>(11)</sup>	<b>Total</b>	<b>3,037,609</b>	<b>2.025%</b>
DSAM Partners LLP <sup>(12)</sup>	3,018,272	2.012%	2.012%
<b>DSAM Cayman Ltd</b> <sup>(12)</sup>	<b>Total</b>	<b>3,018,272</b>	<b>2.012%</b>
<b>Investec Asset Management Limited</b>	<b>Total</b>	<b>3,006,174</b>	<b>2.004%</b>
<b>Other shareholders</b> <sup>(13)</sup>	<b>Total</b>	<b>92,831,546</b>	<b>61.888%</b>
<b>TOTAL</b>	<b>150,000,000</b>	<b>100.000%</b>	<b>100.000%</b>

<sup>(1)</sup> Company held by Standard Life Investments (Holdings) Limited.

<sup>(2)</sup> Company held by Artemis Investment Management LLP.

<sup>(3)</sup> Previously, Allianz Global Investors Europe GmbH.

<sup>(4)</sup> As of 1 January 2015, as a result of a group corporate restructuring the client portfolios managed by Kames Capital Management Limited (a subsidiary of Kames Capital plc) have been transferred and are currently managed by Kames Capital plc.

<sup>(5)</sup> This qualified shareholding is attributable to the following chain of entities: (i) Kames Capital Holdings Limited, which holds 100% of Kames Capital plc; (ii) Aegon Asset Management Holding BV, which holds 100% of Kames Capital Holdings Limited; and (iii) Aegon NV, which holds 100% of Aegon Asset Management Holding BV.

<sup>(6)</sup> The parent company is Morgan Stanley and the chain of companies between the parent company and the shareholder is: Morgan Stanley, Morgan Stanley International Holdings Inc., Morgan Stanley International Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley Investments (UK) and Morgan Stanley & Co. International plc. On 1 July 2015, Morgan Stanley notified that its direct holdings in CTT had fallen to 1.998% while indirect holdings stood at 1.204%; on 2 July, Morgan Stanley notified that its direct holdings in CTT had risen to 2.051% and its indirect holdings continued at 1.204%; on 9 July 2015, Morgan Stanley notified that its direct holdings in CTT had fallen once more to 1.998%, while indirect holdings stood at 1.21%; on 14 July, Morgan Stanley informed that its aggregate holdings (direct and indirect) represented on that date 1.20% of the shares and voting rights in CTT, and on 15 July it announced that such holdings had risen to 2.72%. On 23 July, Morgan Stanley informed that its aggregate holdings (direct and indirect) represented on that date 1.21% of the shares and voting rights in CTT and on 27 July it announced that such holdings had risen to 2.78% of the shares and voting rights in CTT.

<sup>(7)</sup> The qualifying holding of BNP Paribas Investment Partners represents 2.311% of CTT share capital and 2.231% of the voting rights. Shareholding held through the following funds managed by BNP Paribas Investment Partners: A.A.-FORTIS ACTIONS PETITE CAP EUROPE; BNP PARIBAS SMALLCAP EUROLAND; CamGestion Euro Mid Cap; Merck BNP Paribas European Small Cap; Merck BNP Paribas European Small Cap; Merck PT - European Small Caps; Movestic Sicav Europa Småbolag; PARVEST EQUITY EUROPE SMALL CAP; PARWORLD TRACK EUROPE SMALL CAP.

<sup>(8)</sup> Fund managed by Pioneer Investments Kapitalgesellschaft GmbH, appointed by Pioneer Asset Management, S.A., which is fully owned by UniCredit S.p.A.

<sup>(9)</sup> Fund managed by Pioneer Investments Management Limited Dublin, appointed by Pioneer Asset Management, S.A., which is entirely owned by UniCredit S.p.A. On 30 July 2015, Pioneer Asset Management, S.A., in its capacity as management company of the Funds, communicated that it was attributed a holding corresponding to 2,723,472.00 shares of CTT representing only 1.816% of the shares and voting rights in CTT, i.e. below the 2% threshold.

<sup>(10)</sup> This qualified shareholding is imputable to F&C Asset Management plc, as the entity with whom each of F&C Management Limited, F&C Investment Business Limited and F&C Managers Limited are in a dominion relationship. F&C Asset Management plc is under the dominion of BMO Global Asset Management (Europe) Limited which in turn is under the dominion of the Bank of Montreal.

<sup>(11)</sup> Henderson Group plc is the parent company of Henderson Global Investors Limited. All voting rights are attributable to Henderson Global Investors Limited.

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

<sup>(13)</sup> According to a communication of 8 July 2015, UBS Group AG held a qualifying holding of 3,178,245 shares representing 2.12% of CTT share capital, which were directly held by its subsidiaries UBS AG, UBS Fund Management (Switzerland) AG, UBS Fund Services (Luxembourg) SA, UBS Global Asset Management (UK) Limited, UBS Global Asset Management (Australia) Limited and UBS Switzerland AG. On a communication of 24 July 2015, UBS Group AG informed that its holding in CTT had decreased to 2,900,977 shares representing 1.93% of CTT share capital, directly held by said subsidiaries and no longer representing a qualifying holding. In two communications of 13 July 2015, Assenagon Asset Management S.A., acting as the investment manager for Source Markets PLC, announced that the latter held 2.03% voting rights (direct) in CTT, and on the same date it informed that such holding had decreased to 0.47%, i.e. below the 2% threshold. Again, in two communications of 22 and 23 July 2015, respectively, Assenagon Asset Management S.A., acting as the investment manager for Source Markets PLC, announced that the latter held 2.23% voting rights (direct) in CTT, and the next day it informed that such holding had decreased to 0.48%, i.e. below the 2% threshold. On a communication of 12 August 2015, Gestmin, SGPS, S.A. announced that Mr. Manuel Carlos de Mello Champalimaud held a qualifying holding of 3,094,658 representing 2.06% of the voting rights and share capital of CTT.

<sup>(14)</sup> The above mentioned percentage of voting rights does not consider the holding of own shares by the Company, as the voting right inherent to those shares are suspended pursuant to article 324 of the Portuguese Companies Code.

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](http://www.ctt.pt) and the Securities Commission (CMVM) website, [www.cmvm.pt](http://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 2015 granted authorisation to the Board of Directors for the acquisition and sale of own shares by the Company and subsidiaries.

Within the scope of such authorisation, from 1 to 3 June 2015, the Company undertook, on the Euronext Lisbon Stock Exchange, the acquisition of the following number of own shares, as detailed below:

Date of the transaction	Number	% of share capital	Average acquisition price	Disbursements made by the Company	% of Stock Exchange total volume
01-06-2015	60,437	0.040%	€9.280	€560,842	11.16%
02-06-2015	113,000	0.075%	€9.402	€1,062,400	15.85%
03-06-2015	26,740	0.018%	€9.345	€249,883	6.89%
<b>Total</b>	<b>200,177</b>	<b>0.133%</b>	<b>€9.357</b>	<b>€1,873,125</b>	<b>n.a.</b>

**Note:** For further details on the transactions above, see the corresponding press release, available at CTT Investor Relations website:

[http://www.ctt.pt/contentAsset/raw-data/64a9aeb4-1c34-4f92-94cc-8f09ac98b8e7/ficheiroPdf/Acquisition%20own%20shares%20June2015\\_EN.pdf?bylnode=true](http://www.ctt.pt/contentAsset/raw-data/64a9aeb4-1c34-4f92-94cc-8f09ac98b8e7/ficheiroPdf/Acquisition%20own%20shares%20June2015_EN.pdf?bylnode=true)

Following the transactions mentioned above, as at 30 June 2015, CTT is the holder of 200,177 own shares, representing 0.133% of its share capital and a total nominal value of 100,088.50 Euro, the voting rights inherent to those shares being suspended pursuant to article 324, paragraph 1.a) of the Portuguese Companies Code.

These transactions were performed in compliance with the obligations resulting from the share awarding plan for the Company's Executive Directors, as approved at the Annual General Meeting, in the framework of the corresponding long-term variable remuneration policy defined by the Remuneration Committee, as previously communicated.

## 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 CMVM Regulation no. 5/2008

During the 1<sup>st</sup> half of 2015, based on the communications made to the Company, the number of Company shares held by the members of the Board of Directors and their related parties, the supervisory body of the Company, including all their acquisitions, encumbrances or disposals of ownership, are indicated hereafter:

Board of Directors <sup>(a)</sup>	No. of Shares as at 31.12.2014	Date	Acquisition	Encum- brance	Disposal	Price	No. of Shares as at 30.06.2015
Francisco José Queiroz de Barros de Lacerda	3,110						3,110
António Sarmiento Gomes Mota	0						0
Manuel Cabral de Abreu Castelo-Branco	1,550						1,550
André Manuel Pereira Gorjão de Andrade Costa	3,110	14.05.2015	780 <sup>(b)</sup>			€10.05	3,890
Dionizia Maria Ribeiro Farinha Ferreira	0						0
Ana M <sup>a</sup> Carvalho Jordão Ribeiro Monteiro de Macedo	0						0
António Manuel de Carvalho Ferreira Vitorino	0						0
José Alfredo de Almeida Honório	0						0
Rui Miguel de Oliveira Horta e Costa	0						0
Nuno Fernandes Thomaz	0						0
Diogo José Paredes Leite de Campos	0						0
José Manuel Baptista Fino	0						0

<sup>(a)</sup> Includes the members of the Executive Committee and the Audit Committee.

<sup>(b)</sup> Transaction executed in the regulated market.

Related Parties	No. of Shares as at 31.12.2014	Date	Acquisition	Encum- brance	Disposal	Price	No. of Shares as at 30.06.2015
Alice Monjardino de Campos de Azevedo Soares <sup>(c)</sup>	120						120
Manuel M <sup>a</sup> Azevedo Soares de Abreu Castelo-Branco <sup>(c)</sup>	1,550						1,550
Susana Gorjão Costa <sup>(d)</sup>	3,110						3,110

<sup>(c)</sup> Person related to Manuel Cabral de Abreu Castelo-Branco.

<sup>(d)</sup> Person related to André Manuel Pereira Gorjão de Andrade Costa.

Statutory Auditor and External Auditor	No. of Shares as at 31.12.2014	Date	Acquisition	Encum- brance	Disposal	Price	No. of Shares as at 30.06.2015
KPMG & Associados, SROC, S.A.	0						0
Maria Cristina Santos Ferreira	0						0
Vítor Manuel da Cunha Ribeirinho	0						0

As at 30 June 2015, the members of the managing and supervisory bodies of CTT did not hold any other securities issued by the Company or by companies in a group or control relationship with CTT, nor have they performed during the first half of 2015 other transactions regarding such securities than those indicated above.

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

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

During the 1<sup>st</sup> half of 2015, no authorisations were given by the Board of Directors to any of its members to carry out business with the Company or with companies in a group or control relationship with CTT.

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 CTT or at any Company in a group or control relationship with CTT during the 1<sup>st</sup> half of 2015.

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	<ul style="list-style-type: none"> <li>Chairman &amp; CEO of CTT – Correios de Portugal, S.A.</li> <li>Chairman of CTT Serviços, S.A.</li> <li>Chairman of CTT Expresso – Serviços Postais e Logística, S.A.</li> <li>Chairman of Tourline Express Mensajería, S.L.U.</li> <li>Chairman of the Board of the General Meeting of Correio Expresso de Moçambique, S.A.</li> <li>Member of the Corporate Governance, Evaluation and Nominating Committee</li> </ul>	<ul style="list-style-type: none"> <li>Non-Executive Member of the Board of Endesa Energia, S.A.</li> <li>Chairman of the Board of COTEC Portugal – Associação Empresarial para a Inovação</li> <li>Member of the Board of IPC – International Post Corporation</li> <li>Member of the Board of AEM – Associação de Empresas Emitentes de Valores Cotados em Mercado</li> <li>Member of the Remuneration Committee of PHAROL, SGPS, S.A.</li> <li>Member of the Advisory Board of Nova School of Business &amp; Economics</li> <li>Member of the Advisory Board of the Master in Finance, Católica Lisbon School of Business &amp; Economics</li> <li>Member of the Supervisory Board of Cascais Yacht Club</li> </ul>
António Sarmento Gomes Mota	<ul style="list-style-type: none"> <li>Non-Executive Vice-Chairman of the Board of Directors of CTT – Correios de Portugal, S.A.</li> <li>Chairman of the Audit Committee</li> <li>Chairman of the Corporate Governance, Evaluation and Nominating Committee</li> </ul>	<ul style="list-style-type: none"> <li>Chairman (Non-Executive) of the Board of SDC Investimentos, SGPS, S.A.</li> <li>Vice-Chairman (Non-Executive) of the Board of Soares da Costa Construção, SGPS, S.A.</li> <li>Member of the General and Supervisory Board and Chairman of the Audit Committee of EDP – Energias de Portugal, S.A.</li> <li>Member of the Remuneration Committee of PHAROL, SGPS, S.A.</li> <li>Vice-Chairman of the Portuguese Institute of Corporate Governance</li> </ul>
Manuel Cabral de Abreu Castelo-Branco	<ul style="list-style-type: none"> <li>Executive Vice-Chairman of CTT – Correios de Portugal, S.A.</li> <li>Member of the Board of CTT Expresso – Serviços Postais e Logística, S.A.</li> <li>Member of the Board of Tourline Express Mensajería, S.L.U.</li> </ul>	
André Manuel Pereira Gorjão de Andrade Costa	<ul style="list-style-type: none"> <li>Executive Director &amp; Chief Financial Officer (CFO) of CTT – Correios de Portugal, S.A.</li> <li>Member of the Board of CTT Serviços, S.A.</li> <li>Member of the Board of CTT Expresso – Serviços Postais e Logística, S.A.</li> <li>Member of the Board of Tourline Express Mensajería, S.L.U.</li> <li>Chairman of the Board of Payshop (Portugal), S.A.</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Board of Eurogiro A/S</li> </ul>

Members of the Board of Directors	Internal Appointments	External Appointments
Dionizία Maria Ribeiro Farinha Ferreira	<ul style="list-style-type: none"> <li>Executive Director of CTT – Correios de Portugal, S.A.</li> <li>Member of the Board of CTT Expresso – Serviços Postais e Logística, S.A.</li> <li>Member of the Board of Tourline Express Mensajería, S.L.U.</li> <li>Member of the Board of Correio Expresso de Moçambique, S.A.</li> <li>Chairman of the Board of Mailtec Comunicação, S.A.</li> <li>Chairman of the Board of Mailtec Consultoria, S.A.</li> <li>Chairman of the Board of CTT Gest – Gestão de Serviços e Equipamentos Postais, S.A.</li> <li>Chairman of the Management Board of PostContacto – Correio Publicitário, Lda.</li> <li>Manager of Mailtec Processos, Unipessoal, Lda.</li> </ul>	
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo	<ul style="list-style-type: none"> <li>Executive Director of CTT – Correios de Portugal, S.A.</li> <li>Member of the Board of CTT Expresso – Serviços Postais e Logística, S.A.</li> <li>Member of the Board of Tourline Express Mensajería, S.L.U.</li> </ul>	
António Manuel de Carvalho Ferreira Vitorino	<ul style="list-style-type: none"> <li>Non-Executive Director of CTT – Correios de Portugal, S.A.</li> <li>Member of the Corporate Governance, Evaluation and Nominating Committee</li> </ul>	<ul style="list-style-type: none"> <li>Chairman of the Audit Board of Tabaqueira, S.A.</li> <li>Chairman of the Audit Board of Siemens Portugal</li> <li>Non-Executive Director of Áreas Portugal</li> <li>President of Notre Europe – Instituto Jacques Delors, Paris</li> <li>Chairman of the Board of the General Meeting of Finpro SGPS, S.A.</li> <li>Chairman of the Board of the General Meeting of Novabase SGPS, S.A.</li> <li>Chairman of the Board of the General Meeting of Brisa – Auto-Estradas de Portugal, S.A.</li> <li>Chairman of the Board of the General Meeting of Banco Santander Totta, S.A.</li> <li>Partner of Cuatrecasas, Gonçalves Pereira</li> </ul>
Rui Miguel de Oliveira Horta e Costa	<ul style="list-style-type: none"> <li>Non-Executive Director of CTT – Correios de Portugal, S.A.</li> <li>Member of the Corporate Governance, Evaluation and Nominating Committee</li> </ul>	<ul style="list-style-type: none"> <li>Non-Executive Director of Agro cortex</li> <li>Member of the Board of Cell2B</li> <li>Non-Executive Director of EIP</li> <li>Founder and Member of the Board of Luz.on</li> <li>Non-Executive Director of Vale do Lobo Resort</li> <li>Member of the Iberian Consulting Board of ATKearney</li> </ul>
Nuno Fernandes Thomaz	<ul style="list-style-type: none"> <li>Non-Executive Director of CTT – Correios de Portugal, S.A.</li> <li>Member of the Audit Committee</li> </ul>	<ul style="list-style-type: none"> <li>Chairman of Bem Comum – Sociedade de Capital de Risco, S.A.</li> <li>Non-Executive Director of Espírito Santo Saúde, SGPS, S.A.</li> <li>Manager of I Cook – Organização de Eventos, Lda.</li> <li>Member of the Consulting Committee of the Portuguese Institute of Corporate Governance</li> <li>Chairman of Nova School of Business &amp; Economics</li> <li>Member of the International and European Boards of UNIAPAC – Union des Entrepreneurs Chrétiens</li> <li>Vice-Chairman of the ACEGE – Associação Cristã de Empresários e Gestores</li> <li>Vice-Chairman of the Forum for Competitiveness</li> </ul>
Diogo José Paredes Leite de Campos	<ul style="list-style-type: none"> <li>Non-Executive Director of CTT – Correios de Portugal, S.A.</li> <li>Member of the Audit Committee</li> </ul>	<ul style="list-style-type: none"> <li>Non-Executive Director of Banco Millennium of Romania</li> <li>Chairman of the Audit Board of Banco Santander Consumer Portugal, S.A.</li> </ul>

Members of the Board of Directors	Internal Appointments	External Appointments
José Manuel Baptista Fino	<ul style="list-style-type: none"><li>• Non-Executive Director of CTT – Correios de Portugal, S.A.</li><li>• Member of the Corporate Governance, Evaluation and Nominating Committee</li></ul>	<ul style="list-style-type: none"><li>• Member of the Board of SDC Investimentos, SGPS, S.A.</li><li>• Chairman of the Board of Ramada Energias Renováveis, S.A.</li><li>• Chairman of the Board of Dignatis – Investimentos Imobiliários e Turísticos, S.A.</li><li>• Chairman of the Board of Ramada Holdings SGPS, S.A.</li><li>• Managing Partner of Nova Algodoeira, Lda.</li><li>• Manager of Dorfino Imobiliário, Lda.</li><li>• Director of Specialty Minerals (Portugal) Especialidades Minerais, S.A.</li></ul>

## **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 2015, of **CTT – Correios de Portugal, S.A.** which includes: the interim condensed consolidated statement of financial position (with a total assets of Euros 1,222,817,742 and total equity of Euros 215,257,705 including non-controlling interests of Euro 43,978 and consolidated net profit of Euros 39,165,406) 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 condensed consolidated financial statements and the additional financial information were extracted from the accounting records.

**Responsibilities**

- 3 The 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.



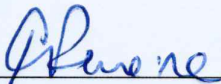
## Scope

- 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 interim 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 interim consolidated financial information;
    - if the interim 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 2015, 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, 29 July 2015



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**KPMG & Associados -**  
**Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)**  
Represented by  
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