

Declaration on the Analytical Accounting System of CTT - Correios de Portugal, S.A., regarding the 2010 financial period, for the purposes of paragraph 2 of article 19 of Law no. 102/99 of 26 July, as amended by Decree-Law no. 116/2003 of 12 June

Whereas:

1. CTT - Correios de Portugal, S.A. (CTT), as provider of the universal postal service, and in accordance with paragraph 1 of article 19 of Law no. 102/99 of 26 July, as amended by Decree-Law no. 116/2003 of 12 June, is bound to employ a SCA - *Sistema de Contabilidade Analítica* (Analytical Accounting System) that enables determination of the direct and indirect revenues and costs associated with each of the reserved services and each of the non-reserved services and, additionally, enables separation of the costs associated with the different basic operations of postal services (acceptance, sorting, transport and distribution of postal items);
2. CTT is bound, in accordance with point a) of paragraph 3 of article 2 of the *Convénio de Preços* (Price Convention) of the universal postal service of 10 July 2008, to maintain an SCA which enables determination of the costs associated with each service and, within this, the costs associated with the various forms of service provision, as well as the different stages of the productive process (acceptance, sorting, transportation and distribution);
3. ICP - Autoridade Nacional de Comunicações (ANACOM) decided on 19.05.2011 to contract Baker Tilly, PG & Associados, S. A. (Baker Tilly) to perform an audit of the results of the SCA used by CTT for the 2010 financial year;
4. the audit was performed by an entity independent of ICP-ANACOM and CTT; and,
5. following performance of the audit referred to in point 4, the auditors, based on the work performed, concluded that the results of SCA used by CTT with reference to the 2010 financial period are, in all materially relevant aspects, in compliance with applicable laws and regulations, while citing limitations resulting from the fact that:
 - a) insufficient information was obtained as would allow an assessment of the reasonableness of the cost allocation criterion used in the SCA and, therefore, to assess possible impact in terms of the products of the Universal Service, resulting:

- i) from the allocation of a significant portion of the costs associated with network management (around 10.1 million euros) to the various operational phases of sorting, transportation and distribution, insofar as it was not possible to assess the suitability of the rationale used in the equal allocation (50%) to the sorting and distribution stages (around 1.9 million euros) on the one hand, and in the equal allocation (50%) to the transport and sorting stages (around 8.2 million euros) on the other hand;
 - ii) from the allocation of costs associated with inventory losses, totalling 298 thousand euros (2009: about 1.5 million euros) to products, where, according to auditors, direct allocation to the products concerned would be possible, thereby resulting in an improvement in the criterion used (as a function of sales); nevertheless the present criterion is more appropriate than that used in 2009, whereby these costs were allocated as common costs (in accordance with direct and joint costs previously allocated to SCA products).
- b) while documentation was made available during the audit supporting the inclusion and distribution in the SCA of costs related to provisions constituted in respect of "work suspension agreements" (around 4 million euros) and "employment contract termination agreements" (around 4.8 million euros), this documentation did not enable verification of the calculations made regarding the costs and benefits associated with the constitution of such provisions¹;
- c) costs have been identified as incurred from the impairment of receivables from other debtors, which, according to the auditors, could have been directly allocated to products, or through specific allocation criteria, thereby resulting in an improvement to the criterion used (as a function of the revenues derived from the relevant product families); nevertheless the present criterion is more appropriate than that used in the previous year, whereby these costs were considered as common costs (in accordance with direct and joint costs previously allocated to SCA products).

¹ A reservation is made in the *Certificação Legal de Contas* (Legal Certification of Accounts), related to the recognition of these provisions, to the extent that the *Revisor Oficial de Contas* (Chartered Accountant) took the view that the constitution of these provisions did not satisfy the requirements of *Norma Contabilística de Relato Financeiro* (Accounting Standard for Financial Reporting) no. 21 on provisions, contingent liabilities and contingent assets; According to this Accounting Standard, a provision is only to be recognized when cumulatively: (i) an entity has incurred a present obligation (legal or constructive) as a result of a past occurrence; (ii) it is likely that an outflow of resources which embody economic benefits will be required to settle the obligation; and (iii) a reliable estimate of the amount of obligation can be made.

6. The auditors also identified other situations, including, in particular, the fact that:

- a) the documentation supporting the results of CTT's SCA for the 2010 financial year does not comply with all the requirements specified by ICP-ANACOM in notice ANACOM-S05363/2005 of 02.06.2005; and,
- b) various types of costs have been identified, which, although considered to be of immaterial value, considering their type and the information that might be obtained, should not have been allocated as if they were common costs, but allocated directly, or based on a relation of causality which better reflects the occurrence of such costs having regard to their typology and the products associated therewith;

In light of the above, ICP-ANACOM declares, for the purposes of paragraph 2 of article 19 of Law no. 102/99 of 26 July, as amended by Decree-Law no. 116/2003 of 12 June, that the results of the *Sistema de Contabilidade Analítica* (Analytical Accounting System) used by CTT - Correios de Portugal, S.A. with reference to the 2010 financial period, were produced in accordance with the laws and regulations, except as regards the aspects described in sections 5 and 6 above.

As a result of the audit and the recommendations made by the auditors, the Management Board of ICP-ANACOM has approved a set of determinations with a view to the improvement of the *Sistema de Contabilidade Analítica* (Analytical Accounting System) used by CTT, addressing, *inter alia*, the specific aspects described in the present Declaration of Conformity, while also reiterating the determinations and recommendations issued in previous years and requesting substantiated information about the status of their implementation.