



# From CTT Comércio Local App to the comfort of your home

Committed to Deliver





02

# Strategic Background



Committed to Deliver

# 02 STRATEGIC BACKGROUND

## Committed to Deliver



### 2.1 Economic, Sectoral and Regulatory Environment

#### 2.1.1 Economic framework

##### International economy

The world economy experienced a historic contraction in 2020 with the effects of the COVID-19 pandemic. The first signs of a contagious disease appeared early in the year and progressed sharply, with the World Health Organization declaring a pandemic on 11 March 2020. In order to control the contagion, most countries enacted containment measures that greatly affected economic activity. The pandemic had an asymmetric impact on economic activity, which was more negative in countries where productive structures are more based on sectors where it is not possible to maintain social distancing.

The Bank of Portugal<sup>16</sup> estimates that global GDP will have decreased by 3.5% in 2020, after the 2.7% growth in 2019. The first half of 2020 was marked by a decline of 9.4% from the end of 2019, with global economic activity recovering in the summer months. In the 3<sup>rd</sup> quarter world GDP grew by 7.3% quarter on quarter, but the resurgence in the number of COVID-19 cases in the last quarter of 2020, particularly in developed economies, points to a further contraction in economic activity.

In the euro area<sup>17</sup>, economic activity is expected to have contracted by 7.3% in 2020, a development marked by a 15.0% drop in the first half of the year and a 12.5% recovery in the 3<sup>rd</sup> quarter with the lifting of some containment restrictions. In the context of the European Union's Recovery and Resilience Facility, 2020 will be marked by the agreement in the European Council of the NextGenerationEU, a €750 billion instrument (circa 5% of the European Union's 2019 GDP) to boost economic recovery starting in 2021 and financed through the European Commission's own debt issuance.

The consumer price index is expected to have increased by just 0.2% in 2020, reflecting the impact of falling oil prices and lower VAT in Germany in the second half of the year. The European Central Bank estimates growth of 1.0% in 2021, still below its target.

The labor market was underpinned by support measures, in particular by layoff schemes, with an estimated unemployment rate of 8.0%.

The fiscal measures adopted to mitigate the effects of the crisis are expected to raise the Public Deficit to 8.0% and increase the Public Debt ratio to 98.4% of the euro area's 2020 GDP.

In order to minimize the impacts of the crisis, monetary policy in the euro area remained particularly expansionary. The highlight was the European Central Bank's Pandemic Emergency Purchase Program, with an envelope of 1,850 billion euros until 2022, which helped to reduce the risk premia on sovereign debt. The conditions for Targeted Longer-Term

Refinancing Operations (TLTRO III) were also improved, with a reduction in the subsidized interest rate and the extension of the period until June 2022, thus maintaining the incentives for financial institutions to provide credit to the economy.

The year 2021 should see a rebound, although not enough to return to the activity levels recorded in 2019. Future economic developments will depend on the impact of new containment measures and the successful implementation of a vaccination program to mitigate health risks.

##### National economy

The Portuguese economy should have a higher decline than the euro area, with the Bank of Portugal<sup>18</sup> projecting an 8.1% decline in GDP, reflecting a decrease in domestic demand and exports, with a very negative contribution from the service exports, in particular of services related to tourism, which represented 8.6% of GDP in 2019, the fourth highest share in the euro area. In the 2<sup>nd</sup> quarter estimates indicate that inbound tourism registered declines of 90.0%.

In the first half of 2020, the economic activity shrank by 17.3% in cumulative terms from the end of 2019, due to the full lockdown of March and April. In the 3<sup>rd</sup> quarter, following the gradual lifting of containment measures, the economic activity recovered quickly and sharply, with GDP growing by 13.3% quarter on quarter. This faster-than-anticipated recovery benefited from the materialization of postponed spending during the lockdown period and from the recovery of most productive activities. The recovery trend was reversed in the 4<sup>th</sup> quarter with the implementation of new containment measures in Portugal and among the main trading partners.

Private consumption, the main component of demand, should fall by 6.8% in 2020. The lockdown measures changed substantially the household spending, with a decline of 15.4% in the first half of 2020, with an increase in the consumption of essential goods and a fall in spending on durable goods and services, in particular those services that required social interaction. With the lifting of the containment measures in the 3<sup>rd</sup> quarter, private consumption increased by 12.8% in quarter-on-quarter terms, mainly due to the recovery of durable goods consumption to pre-pandemic levels. This behavior had a reflection in the household saving rate, which reached 14.3% of disposable income in the first half of the year, with a partial reversal in the second half of 2020.

Employment is projected to fall by 2.3% in 2020, which is a lower-than-expected decline when comparing with the GDP behavior. The measures supporting firms, in particular the simplified layoff scheme and the support for self-employed workers, contributed to the resilience of the unemployment rate, which increased from 6.5% in 2019 to 7.2% in 2020. Circa 750,000 employees, almost 15% of the working population,

benefited from these types of support in the height of the crisis<sup>19</sup>.

Inflation, measured by the Harmonized Index of Consumer Prices, was -0.2% in 2020. The pandemic crisis brought a combination of supply-side and demand-side shocks, with opposing effects on prices, with negative effects prevailing and the decline in oil prices contributing to the reduction of energy costs, reducing the inflation rate. Even so, inflation excluding energy is estimated at 0.3%. The slowdown in services prices and the sharper fall in nonenergy industrial goods prices should be highlighted, in contrast with the increase in food prices.

The COVID-19 pandemic negatively impacted the public finances, with an estimated deficit of 7.3% of GDP for 2020, reversing the surplus recorded in 2019. Apart from the effect of the automatic stabilizers, the supporting fiscal policies such as the strengthening of the health system, social support, support to workers and firms are estimated to have a direct cost of 3% of the GDP.

At the same time, the public debt ratio aggravated to 135% of GDP, reflecting the sudden fiscal deficit and the impact of a smaller denominator.

### 2.1.2 Sectoral framework

#### Impacts of the pandemic

The year 2020 was marked by an adverse pandemic context, having a different impact on different sectors of activity. The postal sector was widely impacted, however, in a heterogeneous way in the different business units. On the one hand, there was an acceleration in the decline in postal volumes due to the halt in activity in the second quarter of the year and the growing digitalization of processes seen in most companies. On the other hand, the Express & Parcels activity showed an exponential acceleration in volumes, with values significantly higher than expected, as a result of an extreme increase in e-commerce activity due to the periods of closure in physical retail and change in consumer buying habits. It should be noted, for the case of the Express & Parcels activity in most postal operators, that there was an average increase of more than one third in the number of parcels per capita and that the peak volume figures for the year 2019 were exceeded from the second quarter of 2020 onwards<sup>20</sup>.

In terms of profitability, the pandemic also implied several challenges for postal activity that imposed increased cost pressure (e.g., additional security measures, high rates of absenteeism, readjustments of operational models, among others).

According to the Oxford University lockdown requirement index, Portugal positioned itself, in the second and third quarter of 2020, in the upper half (i.e., more demanding) of the IPC member operators, the index being naturally higher in the

<sup>16</sup> Economic Bulletin December 2020 – Banco de Portugal.

<sup>17</sup> Eurosystem staff macroeconomic projections for the euro area, December 2020.

<sup>18</sup> Economic Bulletin December 2019 – Banco de Portugal.

<sup>19</sup> European Economic Forecast Autumn 2020 – European Commission

<sup>20</sup> Source: IPC "Global monitor executive report" Quarter 1,2 & 3, 2020.

second quarter compared to the third, due to the restriction measures imposed. In average terms, operators with a position similar to that of Portugal, with high lockdown requirements, observed higher levels of growth in the Express & Parcels area, but more pronounced drops in volumes in advertising mail<sup>21</sup>.

The variability of government measures implemented (e.g., state of emergency, general population lockdown, among others) and pandemic peaks of 2020, lead to the need to characterize the impact on the postal sector by quarter of activity of this year. In the quarterly comparative analysis of the evolution of Mail and Express & Parcels in terms of volumes, between CTT and the sector average, compared to the same periods of the previous year, it appears that:

- The decrease in addressed mail volumes was higher in CTT compared to the sector average, for the three quarters under analysis;
- The same happened to the addressed advertising mail, with the exception of the second quarter, where the drop was significantly lower compared to the average;
- Unaddressed advertising mail presents a different picture, the decrease in volumes was higher than the sector average only in the second quarter;
- In the case of Express & Parcels, CTT posted above-average growth in the first and second quarters and similar growth (albeit slightly higher) in the third quarter.

### Growth levels in Mail and Express & Parcels volumes, for CTT (Portugal) and for the sector average (% YoY, quarterly comparison, non-cumulative)<sup>22</sup>

	1 <sup>st</sup> quarter		2 <sup>nd</sup> quarter		3 <sup>rd</sup> quarter	
	ctt	Sector average	ctt	Sector average	ctt	Sector average
Addressed mail	-11.8%	-10.5%	-24.5%	-20.2%	-15.1%	-13.5%
Addressed advertising mail	-15.3%	-11.2%	-24.3%	-41.0%	-21.2%	-17.3%
Unaddressed advertising mail	8.6%	-14.6%	-48.4%	-40.9%	-12.0%	-21.9%
Express & Parcels	20.4%	11.5%	49.3%	42.5%	33.6%	30.6%

Greater pandemic impact

The impacts of the pandemic, systematized above, implied a substantial adaptation in the distribution landscape. Postal operators have been reacting in an agile manner, adjusting operations to deal with changes in demand and disruptions in transport, maintaining government support, employee protection and support for the vulnerable population as priority axes. The main responses are grouped under the following areas of impact:

**Operations** (e.g., transition of efforts from the postal network to the Express & Parcels activity), **Society** (e.g. support to the Government as a communication channel with society), **Regulation** (e.g., delay in increasing postal charges), **SMEs** (e.g., free collections) and **E-commerce** (e.g., pharmaceutical goods deliveries).<sup>23</sup>

### Main responses to the pandemic by the postal operators in the short and medium term<sup>23</sup>

	Short term	Medium term
	<ul style="list-style-type: none"> <li>✓ Infrastructures adjustments (post offices and sorting centres) due to staff shortages</li> <li>✓ Operational adjustments in the distribution models (e.g. adaptation of the transport frequency)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Increase in parcel sorting and delivery automation</li> <li>✓ Planning for redundancies in mail operation and expand resources on E&amp;P activity</li> <li>✓ Human resources transition from mail to E&amp;P sorting and delivery</li> <li>✓ Focus on <b>contactless</b> pick-up and delivery</li> </ul>
	<ul style="list-style-type: none"> <li>✓ Information channel and a guide for the population on behalf of the government</li> <li>✓ Development of convenience services for vulnerable citizens</li> </ul>	<ul style="list-style-type: none"> <li>✓ Check-up services for vulnerable citizens</li> </ul>
	<ul style="list-style-type: none"> <li>✓ Development of contactless deliveries for registered items</li> <li>✓ Reduced delivery days and USO quality targets</li> <li>✓ Temporary service suspension</li> </ul>	<ul style="list-style-type: none"> <li>✓ Access to financial compensations</li> </ul>
	<ul style="list-style-type: none"> <li>✓ Development of convenience services for SMEs</li> <li>✓ Support for advertising mail campaigns</li> </ul>	<ul style="list-style-type: none"> <li>✓ Support services for online retail- (e.g. online store development or hosting on postal marketplace and consultancy services)</li> </ul>
	<ul style="list-style-type: none"> <li>✓ Logistics support for pandemic response</li> <li>✓ Delivery of medical equipment (e.g. PPE and test specimens through the distribution network)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Grocery delivery partnerships</li> <li>✓ Healthcare and pharmaceutical goods delivery</li> <li>✓ Logistics and delivery of COVID-19 vaccines</li> </ul>

The constant increase in the levels of Express & Parcels, and the growing need for social distance, are factors that imply a long-term response from postal operators, forcing an **acceleration** in the transition from mail to express and automation of the operations, to the detriment of manual procedures. The network of lockers for convenient parcel delivery to the B2C segment is enhanced as a method that allows postal operators to guarantee **contactless** deliveries, with an increase in consumer acceptance. Broadly speaking, the pandemic validated and accelerated the need for technological development, reinforcing the growing trend of automation investments in the postal sector.

#### Drivers of sector growth

The diversification trend in the postal sector continues to emerge as the main consequence of digital substitution, with

a high negative impact on the mail activity. On the other hand, the Parcels & Logistics market remains the fastest growing market in the postal sector. As a result, the weight of the mail business in the sector is steadily decreasing, representing in 2019 around 45% (a decrease of c. 7 percentage points compared to 2014); in contrast, the Parcels & Logistics segment is the business that presents the highest growth levels, representing around 43% (an increase of c. 9 percentage points compared to 2014) of the revenues in the postal sector<sup>24</sup>.

Since 2014, approximately 75% of operators have experienced a decrease in revenues from the mail activity. However, and despite the effort to diversify revenues, mail services still contribute to more than half of revenues in around 40% of the global postal operators analyzed.

<sup>21</sup> Source: IPC "Global monitor executive report" Quarter 2, 3, 2020.

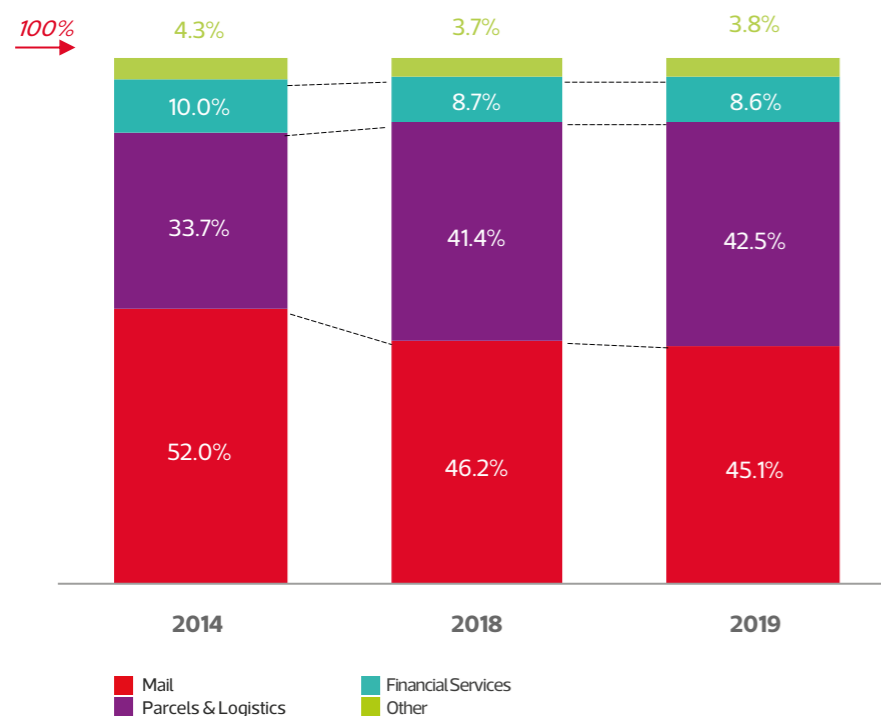
<sup>22</sup> Source: IPC "Global monitor executive report" Quarter 3, 2020.

<sup>23</sup> Source: IPC "Global Postal Industry Report 2020". Note: E&P = Express & Parcels, USO = Universal service obligation

<sup>23</sup> Source: IPC "Global Postal Industry Report 2020". Note: E&P = Express & Parcels, USO = Universal service obligation.

<sup>24</sup> Source: IPC "Global Postal Industry Report 2020", the financial services of the operators Japan Post and China Post are excluded from the analysis, due to their significant volume and disparity with other operators. The analysis presented is not comparable with that presented in the Integrated Report of 2019.

2014-2019 evolution of revenues by business area in the postal sector<sup>25</sup>



Business units

Mail

The search for easy access digital alternatives has impacted the mail volumes of postal operators, both for government, business and private customers. The increased penetration of these alternatives in society (e.g., 75.6% of households used smartphones in 2019) leads consumers to focus on digital alternatives for communication solutions (89% of internet users globally used applications to communicate), personal financial management (35% of internet users globally made use of banking applications) and commerce (66% of internet users globally made use of e-commerce applications)<sup>26</sup>.

Despite the pressure imposed by the digitalization of postal activity, most operators show a growth in revenues associated with postal activity (about 60% of operators covered by IPC), with the average revenues growth in 2019 equal to 2.3%. Regarding mail volumes, more than 90% of operators reported a decrease in transactional mail in 2019<sup>26</sup>.

If, on the one hand, it appears that digitalization has been negatively impacting the mail activity, on the other, it is also seen as an axis of development. Among the various operators, three main macro trends<sup>27</sup> of digital incorporation in traditional mail solutions are identified. Firstly, the **increase and optimization of the link between the physical and the digital environments**, through synergies between the traditional channel and the technological channel, with an added value potential for, as an example, advertising mail (e.g., incorporation of augmented reality technologies). Second, the trend of **adding information to mail products**, reinforces the core priority of operators in ensuring that mail items will have more and more information about their shipping and delivery status. Lastly, recognizing convenience as one of the main drivers of digitalization, operators have been focusing on **improved convenience in channels for sending and receiving mail**, through solutions such as hybrid mail (i.e., preparation of mail in digital format, later converted to physical mail and delivered to the addressee).

<sup>25</sup> Source: IPC "Global Postal Industry Report 2020", report of the International Post Corporation (IPC) gathering information on 50 postal operators at international level, together with additional information provided directly by IPC. Note: The figures presented exclude Japan Post and China Post's Financial Services revenues, as these two operators together represent c. 82% (c. 50% from Japan Post) of total financial services revenues in the sector. The exclusion of these operators implies a differentiation between the percentages for the years 2014 and 2018 and the previously presented versions, so this analysis is not directly comparable with findings presented in previous reports.

<sup>26</sup> Source: "Global Postal Industry Report 2020", International Post Corporation.

<sup>27</sup> Source: Internal study, focusing on a limited set of European postal operators.

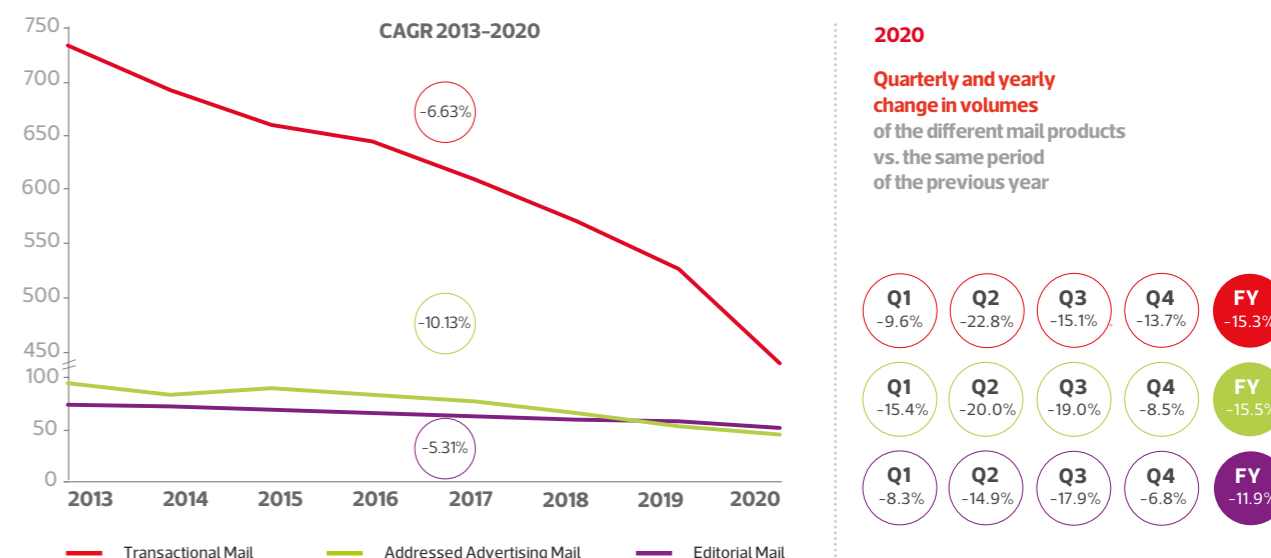
Considering the Portuguese postal market, total volumes of postal services amounted to 686.1 million items in 2019, which represents a decrease of 6.7% when compared to the previous year. In the first nine months of 2020 there was an even more significant acceleration in the decline of postal volumes, -13.3%, due to the impacts of the pandemic, mainly in the second quarter. The decrease in total postal volumes is associated with the decrease in letter mail volumes (i.e., transactional mail), editorial mail and addressed advertising mail, this decline being partially offset by the 14.1% increase in parcel volumes, compared to the previous year.<sup>28</sup>

It is apparent that postal volumes were greatly affected from the second quarter onwards, which corresponds to the lockdown period, and that these effects continued throughout the third quarter, suggesting that the pandemic had a perpetual impact in terms of decreasing postal volumes.

In a historical analysis of volumes in the Portuguese mail market, there is a downward trend in the mail activity, whatever the mail product analyzed (transactional, addressed advertising and editorial mail)<sup>28</sup>.

Evolution of Mail market volumes in Portugal (2013-2020)<sup>28</sup>

(million items)



In line with the decrease in postal volumes and to avoid cases of unsustainability in the postal service, member states have been creating flexibility and compensation mechanisms of the postal service. Flexibility mechanisms cover **speed of delivery** (e.g., in 6 countries in Europe, next-day delivery (D+1) is not part of the Universal Service), **frequency of delivery** (e.g., elimination of Saturday deliveries in Norway), the **scope of the Universal Service** (e.g., exclusion of domestic parcels in Finland) and **price** (commercial freedom and price flexibility in the United Kingdom). On the compensation side, it is noteworthy that half of the EU governments subsidise incumbent operators for the financial burden, however presenting different compensation models. These include **direct Universal Service funding** (e.g., Italy, Spain and Norway), **subsidies for other activities such as Services of General Economic Interest** (e.g., Belgium and the United King-

dom) and **subsidies through tax benefits** (e.g., France).

Across the majority of postal operators, the percentage of revenues attributed to the Universal Service has been gradually decreasing. To mitigate the effects of the decline in volumes, operators have sought to reduce service costs, as well as to stabilize revenues.

In parallel with the reduction in operating costs, several operators highlight the increase in tariffs for postal services as an essential factor for maintaining (or growing) revenues from the postal activity. In the majority of European postal operators, significant price increases have been observed in recent years in the main postal products, particularly in priority mail. In the Portuguese case, the last price increase for mail communicated by CTT was of 1.42%<sup>29</sup> (cap according to the limits established by

<sup>28</sup> Source: ANACOM – Postal services – 3<sup>rd</sup> quarter 2020 – Evolution of postal services components.

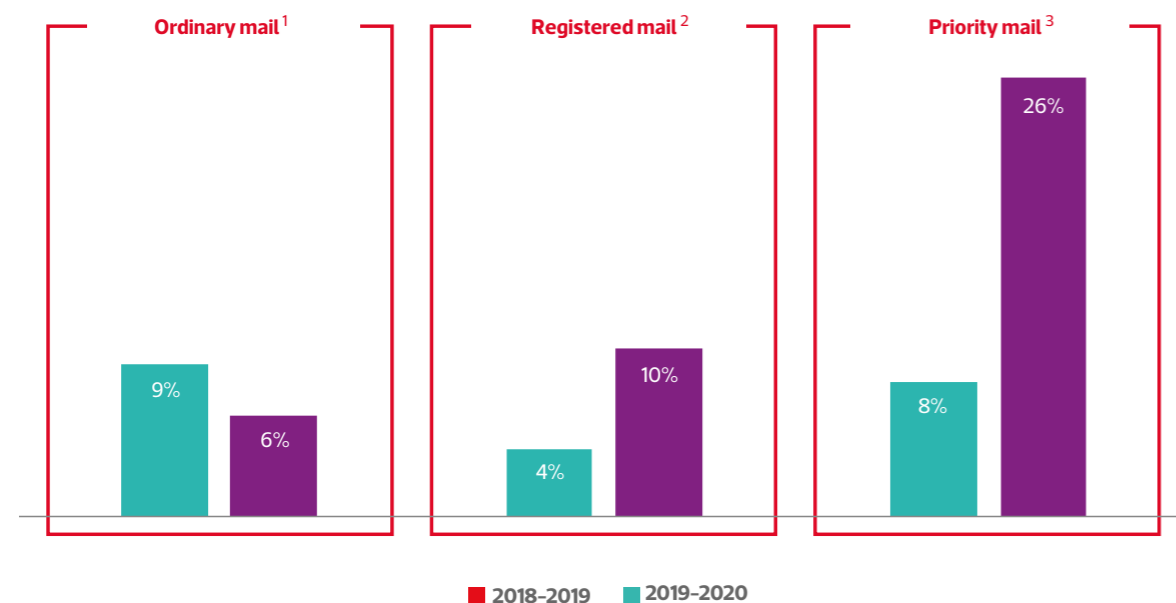
<sup>29</sup> Note: The average annual variation in the overall price of the Universal Service (including letter mail, editorial mail and parcels services within the Universal Service Obligation, excluding international inbound mail) was 1.76% compared to the previous year; however, considering the effect of applying the consumer compensation mechanism, the average year-on-year price variation was 1.42%.

the regulator), significantly below average increases observed in other European countries. Additionally, several operators have already indicated the tariff increases planned for 2021 (e.g., Bpost, La Poste, Deutsche Post DHL, Posten Norge and PostNL,

PostNord Sweden, Royal Mail). The observed strategies are different, however there are price increases of up to 11% in the case of ordinary mail, 10% in the case of registered mail and 12% in priority mail.

### Average increase in postal tariffs of the European postal operators<sup>30</sup>

(% year-on-year price increase)



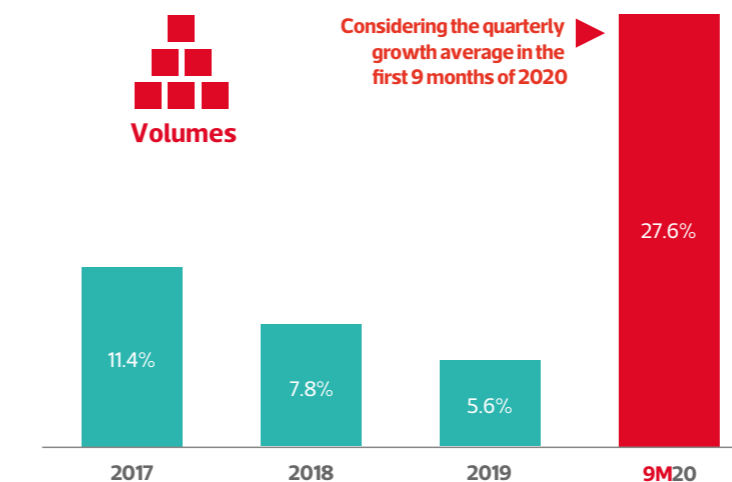
### Express & Parcels

The express and parcels market continues to show significant growth where, in 2019, volumes grew by around 6% in postal operators internationally. In turn, and as previously mentioned, the increase in volumes was substantially higher for the year

2020, achieving a 27.6% average quarterly growth compared to the same period in the previous year. It is noteworthy that this figure does not allow direct comparability with annual growth, aiming only to highlight the marked growth in 2020<sup>31</sup>.

### Express & Parcels average volume and revenue growth in postal operators<sup>32</sup>

(% change vs. previous year)

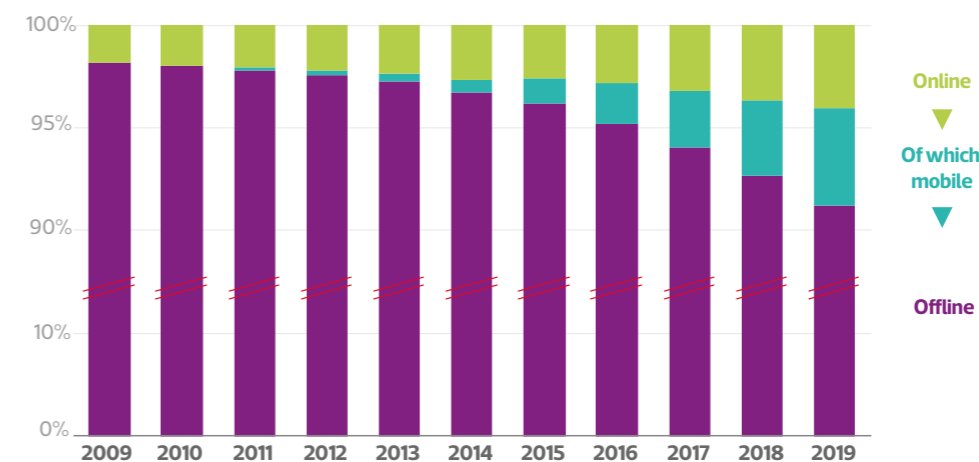


This growth is mainly due to the increase in B2C parcels, boosted by the continuous growth of e-commerce, which in 2019 represented around 8% of the total purchases made worldwide, with more than half of this activity carried out through the mobile channel. It is estimated that there will be a considerable increase

in 2020, as a result of the increase in e-commerce boosted by the pandemic. In the last decade, online commerce has grown an average of 20% per year, according to Euromonitor, presenting a much higher growth rate when compared to the growth of traditional retail<sup>33</sup>.

### Evolution of the online sales market share<sup>33</sup>

(% of total global sales)



In parallel with the growth of e-commerce, there is a trend of increasing levels of cross-border trade. Since 2014, the volume of online sales from foreign online stores has quadrupled, and in

2024 this volume is expected to exceed 400 billion euros and represent 12% of all e-commerce, according to Euromonitor<sup>33</sup>.

<sup>30</sup> Sources: IPC, postal operators' websites, Internal analysis. Note: The growth averages illustrated exclude the increases recorded in CTT. The number of operators analyzed for each of the products differs depending on the availability of the information or the feasibility of comparing those values. See notes 1, 2 and 3 for details on the operators included. Note 1: The following operators were considered in the analysis: An Post, Bpost, Correos, Croatian Post, Cyprus Post, Czech Post, Deutsche Post DHL, Eesti Post, Hellenic Post-ELTA, Iceland Post, Latvian Post, Le Groupe La Poste, Lithuania Post, Magyar Posta, Österreichische Post, Poczta Polska, POST Luxembourg, Posta Romana, Poste Italiane, Posten Norge, Posti Group, PostNL, PostNord Denmark, PostNord Sweden, Royal Mail, Slovenska Posta, Swiss Post. Note 2: The following operators were considered in the analysis: Deutsche Post, Austrian Post, Bpost, Correos, Eesti Post, Posti, La poste, Hellenic Post, PostNL, An Post, Poste Italiane, Latvian Post, Post Luxembourg, Posten Norge, Czech Post, Swiss Post, Royal Mail. Note 3: The following operators were considered in the analysis: Croatian Post, Cyprus Post, Czech Post, Deutsche Post DHL, Eesti Post, Hellenic Post-ELTA, Latvian Post, Le Groupe La Poste, Lithuania Post, Magyar Posta, Österreichische Post, Poczta Polska, Posta Romana, PostNL, Royal Mail, Slovenska Posta, Swiss Post.

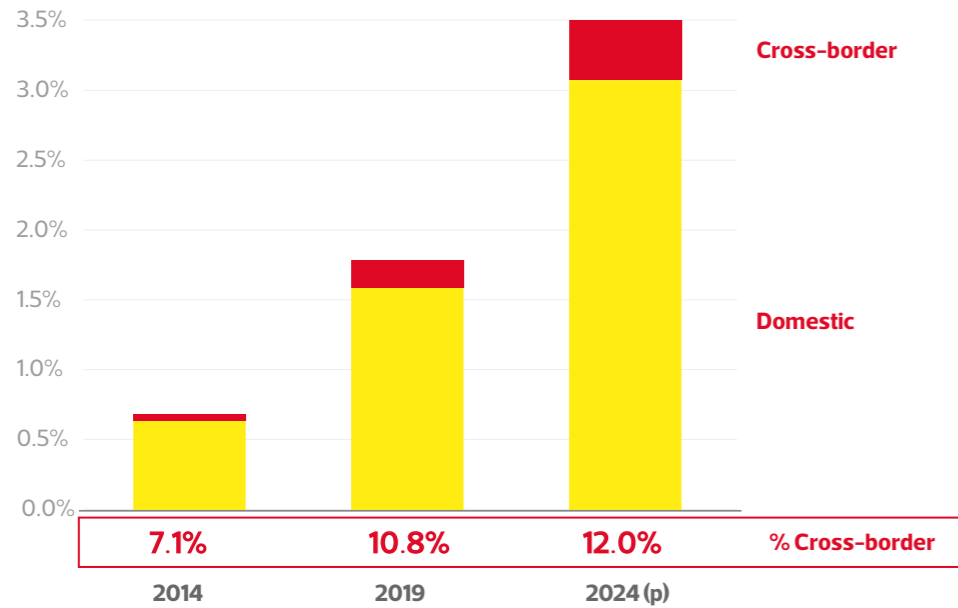
<sup>31</sup> Source: "Global Postal Industry Report 2020" International Post Corporation.

<sup>32</sup> Source: "Global Postal Industry Report 2020" International Post Corporation, jointly with IPC "Global monitor executive report" Quarters 1, 2 & 3, 2020.

<sup>33</sup> Source: "Global Postal Industry Report 2020" International Post Corporation.

**Global e-commerce sales (€ tn)<sup>34</sup>**

Global flows



In 2019, despite the growth in the volume of revenues associated with the growing parcel volumes observed (6.4% increase in revenues compared to 2018), operating margins decreased compared to 2018. The decrease in profitability of the operation is the result of an increase in pressure on costs due to several factors, such as the increased negotiating power of large ship-

pers, expectations of free deliveries by the final consumer and increased competition in the sector. Additionally, the increase in labor expenses, the necessary investments in the operational network and the post-acquisition integration costs contribute to a decrease in the profitability of the Express & Parcels operation.

**Drivers for the reduction of operating margins in the Express & Parcels business<sup>34</sup>**



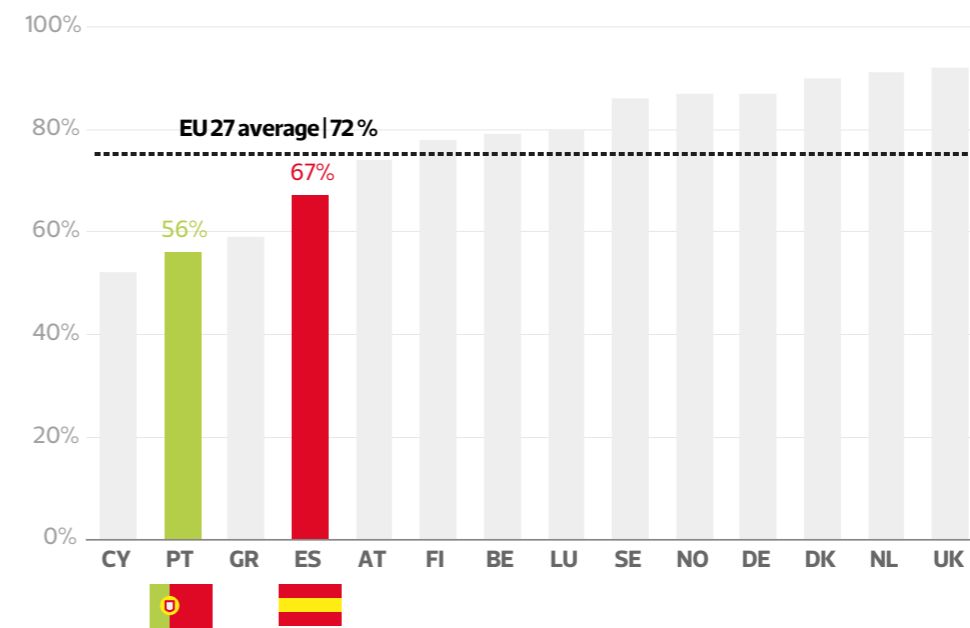
In the Iberian market, there is also an overall growth trend in the express and parcels market. In Portugal, the volume of B2C e-commerce reached 5.9 billion euros, representing a 20% growth compared to the previous year<sup>35</sup>. In Spain, the increase reached c.25% compared to 2018, when the volume of e-commerce exceeded €48.8 billion<sup>36</sup>.

Regarding the origin of the goods purchased, in Portugal, there is an increase in the volume of online domestic purchases. However, in 2019, 80% of Portuguese buyers purchased through foreign online stores, with China being the country of

origin with the dominant position in the volume of goods purchased (68%), followed by Spain (37%) and the United Kingdom (28%)<sup>35</sup>. In Spain, in the last quarter of 2019, about 51% of the volume of e-commerce came from foreign online stores<sup>36</sup>.

As regards the penetration of e-commerce in Iberia, in Portugal only 56% of the population made online purchases in 2020, which represents a lower penetration compared to the European average of 72%. On the other hand, in Spain, although the levels are higher than in Portugal, they are also slightly below average, with 67% of the population with an electronic buyer profile<sup>37</sup>.

**Percentage of e-buyers, by European country, in 2020 (shortlist)<sup>37</sup>**



As a result of an analysis on the evolution of the profile of the Portuguese e-buyer in the year 2020, it is possible to verify, in addition to a 10 to 15% increase in the e-commerce activity among the active population, a significant increase in a set of associated indicators that reveal that the Portuguese population had a greater presence in e-commerce.

<sup>34</sup>Source: "Global Postal Industry Report 2020" International Post Corporation.

<sup>35</sup>Source: CTT e-commerce Report 2020.

<sup>36</sup>Source: Sala de Prensa - Comisión Nacional de los Mercados y la Competencia.

<sup>37</sup>Source: CTT e-commerce Report 2020.

### Evolution of the Portuguese e-buyer profile in 2020<sup>38</sup>

	2019	2020	Annual evolution 19-20
Average number of purchases Per year	15.8	19.5	+23.4%
Average number of products Per purchase	3.8	4.3	+13.2%
E-commerce expenses Per year	€ 807.2	€ 1,103.7	+36.7%
Average Ticket	€ 51.1	€ 56.6	+10.8%

### Financial markets

The year 2020 was marked by high volatility. The pandemic situation led to a marked leakage of risky assets at the end of February and during the month of March, followed by a recovery in the risk assets during the rest of the year. Investors' confidence was reinforced by the quickness of the largest intervention ever by Central Banks, ensuring liquidity and access to credit. The liquidity injected by the Federal Reserve, the European Central Bank, the Bank of England and the Bank of Japan is estimated to have been 5 times greater than the one injected during the 2008-09 financial crisis.

The stock market, observing the FTSE Global All Cap Total Return Index, which includes developed and emerging markets, had the sharpest depreciation ever, contracting 34% in just 33 days. The recovery was also fast paced. After the minimum on 23 March, it took just five months for the stock markets to record historical highs. The FTSE Global All Cap Total Return Index, despite the challenging environment, recorded an appreciation of 16.8% in 2020.

The German 10-year interest rate continued its downward trend. Volatility was also observed. After starting the year at a negative value of -0.19%, it reached an all-time minimum of -0.85% on 9 March, having registered a sharp rise of 66 basis points in just 8 days. It ended the year 2020 at -0.58%. In the United States the 10-year interest rate dropped significantly, from 1.92% at the beginning of the year to 0.91% at the end of 2020. It should be noted the robust manner in which the FED reduced the FED Funds rates, cutting the rate from 1.75% to 1.25% on 3 March, in the first unscheduled decision since 2008, and cutting it again by 1% to 0.25% on 16 March.

The credit spread of the European sovereign debt substantially increased at the beginning of March. The announcement of the Pandemic Emergency Purchase Program of the ECB on 18 of March sharply decreased the risk levels. The 10-year Portuguese spread to Germany started the year at 0.62%, having reached 1.7% on 17 March and finishing the year at 0.59%. The Italian spread reached 2.78%, finishing the year at 1.11%, below the 1.6% of the beginning of 2020.

The corporate credit spread registered similar dynamics to sovereign debt. The CDS index Markit iTraxx Europe Senior of 5-year maturity reached 139 basis points in March, ending the year at 48 basis points, slightly above the 44 basis points of the end of 2019. The iTraxx Crossover 5Y index reached 712 basis points, having closed the year at 241 basis points, still higher than the 206 points at the end of 2019.

The oil market also had an unusual behavior during 2020. On 20 April the oil futures contract to be delivered in May traded at -37\$ per barrel. Even though this event was more of a technical nature, due to struggles in physical settlement as a result of the lack of storage capacity, primarily the shortage in demand resulted in an annual average price of 39\$, comparing to 57\$ in 2019.

The volatility experienced during 2020 might be summarized in the behavior of the VIX index, which represents the implicit volatility on the SP500 based options market, many times considered a barometer of investors' fears. In 2019 its average value was 15 points. In 2020 it was almost the double, with an average of 29 points. It should be noted that it reached a historical peak of 83 points on 16 March, surpassing the amount registered at the peak of the 2008 financial crisis.

The euro appreciated by 5.4% when compared to the 19 currencies of the main trading partners of the euro area<sup>39</sup>. When comparing to the US dollar it appreciated by 8.9% and to the British pound by 5.78%.

### Portuguese banking system

An analysis of the data<sup>40</sup> for the first 9 months of 2020 when compared to the first 9 months of 2019 displays a decrease in net interest margin of 4.6%, resulting from a reduction in interest income higher than the reduction in interest expenses, which is explained by the price effect of the yield differential. Interest income decreased more significantly in loans granted to households and NFCs and in sovereign debt securities. The volume effect (changes in interest-bearing assets or liabilities) was positive, albeit low. Net fees decreased by 5.6%, reflecting the lower volume of transactions and the reduction in financial intermediation in some segments. The total operating income decreased by 6.9%. Staff costs declined by 5% and the cost-to-income ratio decreased to 58.4%.

In the same period, total assets of the Portuguese banking system increased by 5.4%. The loan-to-deposit ratio decreased to 85.2% from 87.1% in 2019, due to an increase in deposits higher than in net loans (3.8% vs 1.5%). It should be noted, however, that from March to September 2020, new loans to firms increased by 15% year on year, and about 38% of the new loans granted were secured by a State guarantee<sup>41</sup>.

The stock of loans for house purchase gradually increased over the first half of the year as a result of growth in new lending operations, compared to the same half-year period of the previous year, and the reduction in repayments, reflecting the effects of the moratorium. Annual growth rates decreased in the consumer credit segment, reflecting the sharp decline in new lending operations.

The funding obtained by the Portuguese banking system from central banks increased by 3.4% in the first 9 months of the year, representing 7.8% of the assets and reflecting the targeted longer-term refinancing operations carried out by the European Central Bank, substantially used by banks in June 2020.

The ratio of non-productive loans net of impairment decreased from 6.2% at the end of 2019 to 5.3% in September 2020. At the end of the quarter, the NPL ratio of NFCs stood at 10.6%. In the case of households, it was 3.5%. The coverage of NPL ratio for impairment increased by 4.4% to 55.9%. The loan loss charge increased to 1% in the first 9 months of 2020, doubling when compared to 2019, but below the figures achieved during the sovereign debt crisis (1.5% to 2%).

In September 2020, total capital ratio and CET 1 ratio increased by 0.6%, standing at 17.6% and 14.9%, respectively. The change

translated the decrease of the assets average risk weight from 53.3% in 2019 to 49% in September, corresponding to improved capital ratios. The increase in exposures to sovereign debt securities, cash balances at central banks, State-guaranteed loans and the impact of measures at the CRR level (quick fix) also contributed positively to this result.

Leverage increased versus the end of 2019, with the ratio going from 7.9% to 7.6% in September 2020, above the benchmark minimum level defined by the Basel Committee on Banking Supervision (3%), which will become a mandatory requirement as from the date of entry into force of the new CRR (28 June 2021).

Data known by the 3<sup>rd</sup> quarter point to a decrease in equity profitability to 0.15%, which compares to 0.45% in 2019. Equity profitability decreased from 4.9% to 1.7% in the first 9 months of the year. This decrease mainly reflects the significant increase in credit impairment, given the challenging macroeconomic environment.

## 2.1.3 Regulatory Framework

### Postal sector

The universal postal service concession contract, which also covers the provision of postal money order services on an exclusive basis and was due to expire on 31.12.2020, was extended until 31.12.2021 by Decree-Law No. 106-A/2020 of 30 December. In early 2021, CTT proposed to the Government the creation of a negotiation committee, thus triggering a formal and inclusive procedure aimed at resolving the issues related to the sustainability of the current Concession Agreement, in particular requiring compensation for its unilateral extension.

Under the Universal Postal Service Concession Agreement, on 13.03.2020, CTT invoked *force majeure* before the grantor, following the public health emergency of international scope declared by the World Health Organization. Since then, CTT continued to comply with the competent authorities' public health standards and to adopt the necessary and appropriate measures to protect workers and customers while continuing to ensure the functioning and continuity of postal services. CTT also continued to periodically submit updates on the situation to the Government, as a counterparty in the contract, and to ANACOM, the regulatory authority responsible for overseeing the Universal Postal Service provision.

The universal service pricing proposal submitted by CTT on 18.02.2020, and reformulated on 27.03.2020 and 11.05.2020, was approved by ANACOM by resolution of 23.05.2020<sup>42</sup>. The prices underlying this proposal, which complied with the applicable principles and criteria of price formation, entered into force on 01.06.2020. This update corresponded to an average annual

<sup>38</sup> Source: CTT e-commerce Report 2020.

<sup>39</sup> ECB Daily Nominal EER-19 Euro Effective Exchange Rate.

<sup>40</sup> BPSStat - Data domain: Banking system information - Banco de Portugal.

<sup>41</sup> Financial Stability Report December 2020 - Banco de Portugal.

<sup>42</sup> Pursuant to the criteria setting the formation of the prices defined by a decision of ANACOM of 12.07.2018, complemented by a decision of 05.11.2018, under article 14(3) of Law No. 17/2012, of 26 April (Postal Act), amended by Decree-Law No. 160/2013, of 19 November, and by Law No. 16/2014, of 4 April.



variation in the price of the basket of letter mail, editorial mail and parcels services of 1.41%, not including the offer of the universal service to bulk mail senders, to whom special prices apply.

The special prices of the postal services included in the universal service offer applicable to bulk mail senders were also updated<sup>43</sup> on 01.06.2020 following a proposal presented to the Regulator on 22.05.2020.

On 22.10.2020, ANACOM approved the proposal submitted by CTT on 15.09.2020 to revise the prices applicable to international mail services and a category of domestic registered mail, which came into force on 01.11.2020. This price revision included, inter alia, the creation of a new pricing zone for the USA, the approximation of the prices applicable to Spain to those for the "Rest of Europe" in international ordinary mail and the creation of a category of postal package up to 100g in the international service similar to that of the domestic service. It complied with the maximum price variation applicable in 2020 for the basket of letter mail, editorial mail and parcels services, i.e., 1.41%, as mentioned above.

The aforementioned updates correspond to an average annual price change of 1.76% and also takes into account the increase in the prices of the reserved services (services for the transmission of judicial and other postal notifications) and of the special prices of bulk mail.

On 02.10.2020, ANACOM defined the mechanism to compensate the users for non-compliance with the performance targets of the universal postal service quality indicators in 2019, corresponding to a) the deduction of 1 percentage point from the weighted average variation in the prices of the basket of letter mail, editorial mail and parcels services, allowed for the year 2020, a variation that would thus be of 0.41% and should benefit the users of these services as a whole; and b) a 0.31% deduction to the current prices for standard bulk mail subject to special prices in the domestic service, to be implemented in the period from 01.11.2020 to 31.12.2020. On 23.10.2020, CTT submitted to ANACOM the proposal for consumer compensation measures to be adopted to comply with this resolution, requiring the application of a different type of compensation to be reverted to users, which combined the price reduction stipulated for the basket of letter mail, parcels and editorial mail services with another measure, in the proportion of 50% for each action (alternative measure). Hence, on 06.11.2020, ANACOM approved the application of the compensation mechanism pursuant to the alternative proposal submitted by CTT, as follows:

- a) Price reduction, from 01.11.2020 to 30.11.2020, in the domestic letter mail services (ordinary mail, simple registered mail and registered mail), in international economy mail –

special prices, and in the subsidized pricing of editorial mail;

- b) Price reduction, from 01.11.2020 to 31.12.2020, of items in the 20g to 50g weight step, in the scope of ordinary and bulk mail subject to special prices, in the domestic service;
- c) Massive distribution of a postage paid postcard to all households in Portugal during the first half of December, to be used on a date at the customer's choice.

On 14.09.2020, ANACOM declared that the results of the cost accounting system used by CTT relative to the financial years of 2016 and 2017 were produced in accordance with ANACOM's decision on the reformulation of those results and imposing new criteria for the separation of costs between the postal activity and the banking activity of the Company.

On 30.09.2020, ANACOM stipulated that the density targets of the postal network and minimum service offers established by this entity's decision of 15.09.2017 complemented by its decision of 21.08.2019 – and in effect until that date – would remain in force until approval of the new targets under the terms of the concession contract. Subsequently, on 18.12.2020, ANACOM approved CTT's proposal to maintain such targets in force until 31.12.2020.

On 26.11.2020, ANACOM has granted CTT – Correios de Portugal, S.A. the license to provide postal services under no. SP-2012-001.

### Financial sector

In 2020, the European and national regulatory agenda was dominated by the COVID-19 pandemic crisis. Along with the concern with guaranteeing financing for families and companies, there was also a special concern to ensure operational continuity, from technological resources, with growing concerns about security and privacy, as well as about organizational and human resources.

Motivated by the pandemic crisis, the moratorium regime was published at national level through Decree-Law No. 10-J/2020 of 26 March, which introduced exceptional measures to protect credit to households, companies, and private charity institutions and other entities of the local economy. It also provides for a special regime of State guarantees within the scope of the COVID-19 pandemic, which applies to mortgage credit contracts and property leasing contracts entered into with consumers, consumer credit contracts for education purposes, including for academic and professional training, and credit agreements with companies, selfemployed people, private charity institutions, non-profit associations and other entities of the social economy. Subject to successive updates, the public moratorium regime is in effect (i) until 30 September 2021 for

contracts that benefited from these measures as of 1 October 2020, and (ii) until 31 December 2021 for take-up of the moratoria communicated between 1 January 2021 and 31 March 2021, and the total benefit period cannot exceed 9 months.

At European level, the European Banking Authority (EBA) published the Guidelines on treatment of public and private moratoria in light of COVID-19 measures, which were incorporated by the Bank of Portugal through its Circular Letter no. CC/2020/0000022. These Guidelines specify the terms and conditions that the extension of repayment deadlines inherent to credit obligations, related to public or private moratoria created in the context of the COVID-19 pandemic, must comply with to avoid a situation of default of an obligor, or a distressed restructuring, under the terms and for the purposes of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 ("CRR") and the EBA Guidelines relative, inter alia, to the application of the definition of default pursuant to article 178 of the CRR.

The year 2020 was also marked by the publication of Notice No. 3/2020 of the Bank of Portugal in July, which regulates the governance and internal control systems and defines the minimum standards on which the organizational culture of the entities subject to the supervision of the Bank of Portugal should be based. This notice is associated with Instruction No. 18/2020 of the Bank of Portugal, which regulates reporting duties regarding organizational conduct and culture, and the governance and internal control systems. Among these norms, the following main changes stand out: (i) an expansion of the range of matters dealt with in relation to the previous Notice; (ii) greater accountability for the supervisory body, the management body and the internal control functions; (iii) a need to align all parts of the financial and non-financial risk management system, including the risk appetite framework (RAF), the risk appetite statement (RAS), the global risk management policy, the specific risk management policies, the internal capital adequacy assessment process (ICAAP), the internal liquidity adequacy assessment process (ILAAP), the recovery plan, and remuneration policies and practices; (iv) the introduction of rules aimed at allowing the supervisory body to have the necessary conditions to effectively perform its duties, including the obligation to evaluate the internal control functions; and (i) the obligation of the supervisory body to ensure the reliability, completeness and consistency of all information produced by the institution, including information on prudential and financial reports to be made to the respective supervisory authorities.

In terms of banking fees, reference is made to the publication of Law No. 53/2020 of 26 August and Law No. 57/2020 of 28 August, in force as of 1 January 2021. The former set limits to the charging of fees for the use of payment applications operated by third parties, such as MBWay, and forbids the charging of commissions associated with withdrawal of funds, service payments

or transfers, imposing limits imposed to be complied with. The latter set new limits, particularly regarding the charging of fees for the analysis of the renegotiation of credit conditions, and in the scope of the credit contract entered into with the consumer, as well as for the issue of documents of discharge of lien.

As far as the prevention of money laundering and terrorist financing is concerned, 2020 was also marked by the transposition of Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 and Directive (EU) 2018/1673 of the European Parliament and of the Council of 23 October 2018 on combating money laundering by criminal law. Law No. 58/2020 of 31 August changed some of the definitions of the Anti-Money Laundering Act, such as the definition of "money laundering" itself, "close family members", as well as "legal arrangements". Among the main changes introduced by this Law, emphasis should be made to a greater transparency in terms of the Central Register of the Beneficial Owner (RCBE), since it now stipulates the need to update the information contained in the RCBE or to confirm that it is up to date so that the obliged entity can be voluntarily dissolved.

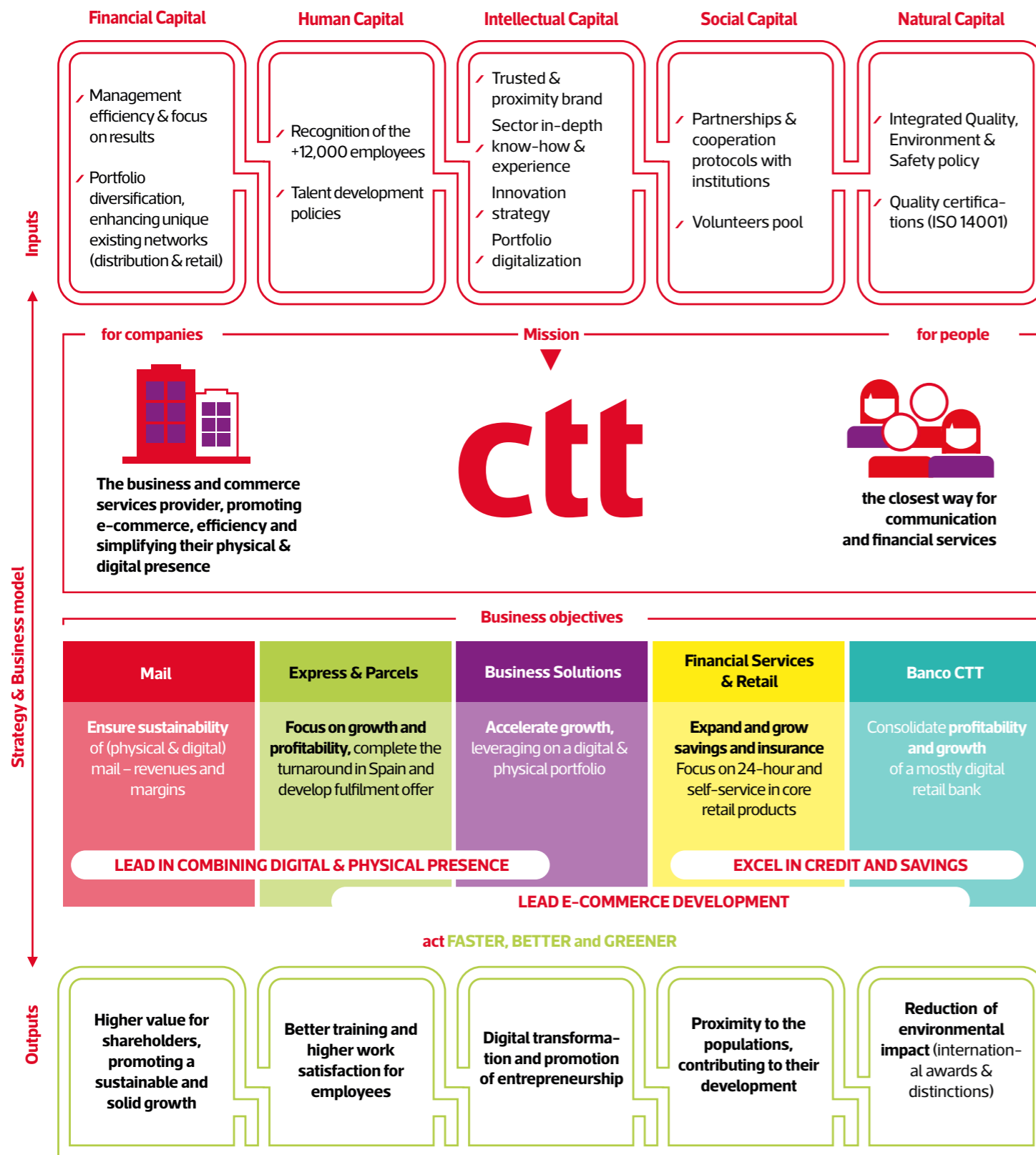
With regard to the insurance activity, it is noteworthy the publication of the Information Note on January 17, 2020, indicating that all insurance or reinsurance intermediaries, members of the management body responsible for the activity of insurance or reinsurance distribution and persons directly involved in the activity of insurance or reinsurance distribution who carried over from Decree-Law No. 144/2006, of 31 July, must attend a compliance course with the appropriate qualification requirements set out in the legal framework for insurance and reinsurance distribution, approved by Law No. 7/2019, of 16 January, and Regulatory Rule No. 6/2019-R, of 3 September.

The year 2020 ended with the publication of Regulatory Standard 13/2020-R of 30 December, coming into force on 25 February 2021, which regulates the legal framework for insurance and reinsurance distribution, approved in an annex to Law No. 7/2019 of 16 January. This rule of the Insurance and Pension Funds Supervisory Authority set forth the requirements applicable to the new category of insurance intermediaries on an ancillary basis, the revision of the procedures applicable to the assessment of suitability and control of qualifying holdings and the implementation of the duties applicable to the policy on treatment of policyholders, insured parties, beneficiaries and injured third parties, and complaint management.

<sup>43</sup> See article 14-A of the Postal Law as amended by article 4 of Decree-Law No. 160/2013, of 19 November.

## 2.2 Strategic Lines

**We connect people and companies, committed to deliver!**



In a context of profound transformation in the sector, reflected particularly in the acceleration of digitalization and the consequent decrease in mail activity, CTT's strategy aims to diversify the Company's business. In addition to the search for increasingly higher levels of efficiency in the mail activity that will ensure its sustainability, CTT's priorities include the development and consolidation of other growing businesses that will progressively reduce its dependence on mail, contributing to the Company's greater medium and long-term solidity. As the provider of the Universal Postal Service, the Company always stood out for its positioning within the population and the promotion of its development. We believe that the goals that we set out to be leaders in the combination of physical and digital presence and in the development of e-commerce are essential for the development of the country, and that CTT is the company that can best play this role in our community. CTT has also been a major contributor to concrete progress, either in terms of large customers or in the support it has given to small and medium enterprises, contributing to the transformation and modernization of business processes, with special emphasis on those supporting commerce. On the other hand, we are proud of our proximity to the population, which will be enhanced through the strategy defined for the evolution of our offer to the people on a national level, aimed at promoting the well-being of families country-wide through simple credit, savings and insurance solutions.

Specifically in 2020, we have implemented several initiatives that contribute to long-term sustainability, such as:

- **Economic** sustainability: launch of the solution to create online shops; progress in the turnaround strategy in Spain (e.g., improved capacity – buildings, equipment and software); specific initiatives implemented in terms of the express & parcels business profitability in Portugal (e.g., progress in the turnaround of the cargo segment; full structural revision of the pricing mechanisms; facilities, equipment and software); new business development and introduction of a strong commercial dynamics in Business Solutions; implementation of a new post office concept with emphasis on 24x7 and selfservice.
- **Social** sustainability: implementation of the "CTT Comércio local" app aimed at very small businesses in a partnership with municipalities; digital reconstruction of countless regional fairs; campaign CTT #FiqueEmCasa; home delivery of medicines in a partnership with the National Association of Pharmacies; delivery to nursing homes and health establishments of sanitizer gel manufactured and offered by Hovione; home delivery of citizen cards; streamlined access to individual protection products to deal with the pandemic; offer of the service to pay pension cheques at home during the peak of the health crisis.

<sup>44</sup> CTT has identified various value and supply chains for its business activities that are distinctive from one another. In this exercise, the value chain of the postal, express and parcels business was adopted, due to being one of the most significant.

## 2.3 Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) have become a fundamental work tool for companies, as they serve as guides or guidelines to support them in defining, implementing, communicating and reporting their strategies, objectives and activities. The SDG have 17 priority topics identified and endorsed by 190 countries at a global level, for the preservation of the planet and the dignity of human beings.

CTT, in addition to aligning its environmental management strategy with the priority SDGs for the sector, resulting from a study by the IPC - International Post Corporation, mapped and prioritized the SDGs for its value chain<sup>44</sup>, using the SDG Compass methodology, developed by the WBCSD, UN Global Compact and GRI.

The SDGs that could contribute to fostering positive impacts or mitigating/preventing negative impacts were identified and allocated to each phase of the value chain, considering the risks and opportunities.

The majority of these goals are already incorporated in CTT's activities and programs, in various aspects, and feature in the table of ESG Commitments (point 1.6). Consultation of the SDG Compass corporate indicators supported the identification and choice of CTT's specific indicators and goals. In the GRI index, Annex IV, the indicators were associated with the corresponding SDGs.

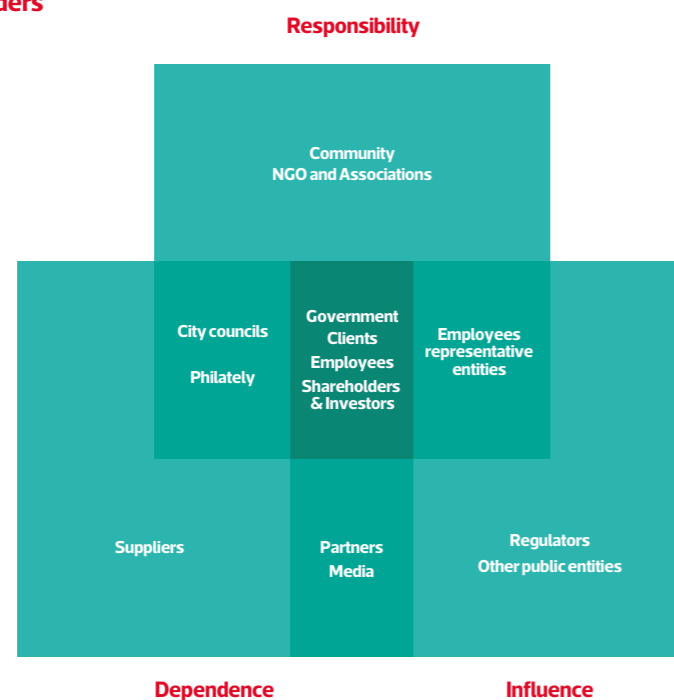
 <p><b>3 GOOD HEALTH AND WELL-BEING</b></p>	<p><b>Good Health and Well-Being</b> Focus on road accident and prevention goals</p>	 <p><b>4 QUALITY EDUCATION</b></p>	<p><b>Quality education</b> Focus on training goals in response to employee needs</p>
 <p><b>7 AFFORDABLE AND CLEAN ENERGY</b></p>	<p><b>Affordable and clean energy</b> Focus on renewable energy and energy efficiency goals</p>	 <p><b>8 DECENT WORK AND ECONOMIC GROWTH</b></p>	<p><b>Decent work and economic growth</b> Focus on the goals of working conditions and access to financial services, and expanding the express business</p>
 <p><b>11 SUSTAINABLE CITIES AND COMMUNITIES</b></p>	<p><b>Sustainable cities and communities</b> Focus on electric and smooth mobility and carbon neutral offer</p>	 <p><b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b></p>	<p><b>Responsible consumption and production</b> Focus on the eco portfolio and the production of the circular economy</p>
 <p><b>13 CLIMATE ACTION</b></p>	<p><b>Climate Action</b> Focus on carbon management, on the compliance with international standards and environmental education</p>	 <p><b>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</b></p>	<p><b>Peace, Justice and Strong Institutions</b> Focus on anti-corruption and bribery, governance and ethics, and engagement with stakeholders</p>

## 2.4 Materiality analysis

The materiality analysis reflects contributions that result from the last stakeholder consultation exercise, carried out by CTT in accordance with the guidelines of Standard AA1000SES – Stakeholder Engagement Standard. This allows the mapping, identification of relevant topics and critical stakeholders of the

company and consequently the definition of the strategy of engagement with them that has been applied systematically. In 2019, a new stakeholder consultation exercise began, which took place throughout 2020, with the expectation of identifying new critical topics, and allowing CTT to properly position itself in relation to their needs and perceptions.

### Mapping of the Stakeholders



Source: Stakeholder Engagement Exercise – Ernst & Young

### The materiality matrix and material topics

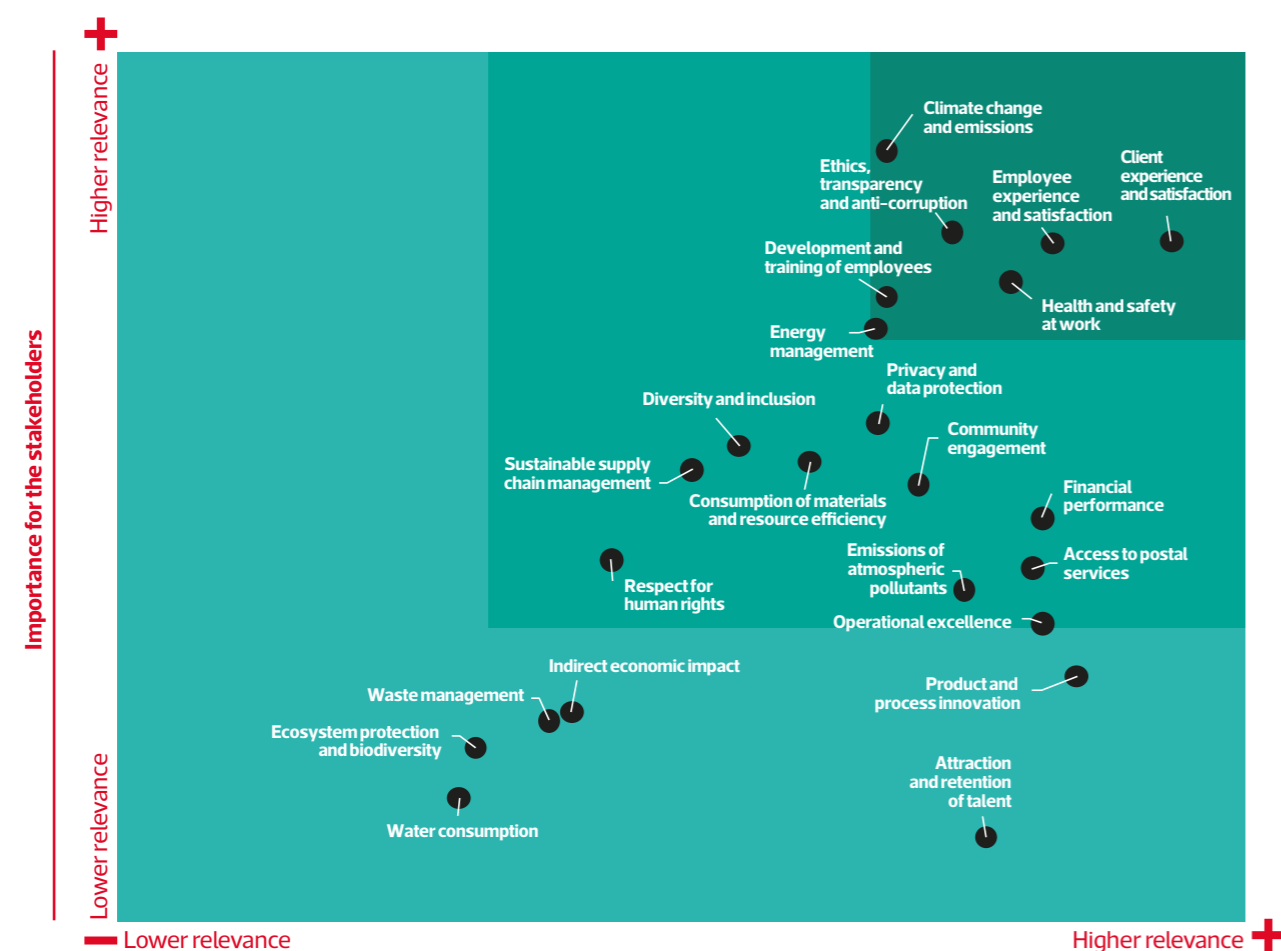
The stakeholder engagement exercise was based on a benchmark process for the peers of reference, which allowed the identification of a set of potentially relevant topics, that served as the basis for the process. To assess the impact of the topics for the business, several focus groups were held with members of the Board of Directors and top CTT directors, with the objective of capturing their vision on the topics that mirror the main challenges and impacts related to sustainability in CTT.

Through this exercise, 23 potentially relevant topics were identified, whose relevance to stakeholders was subsequently assessed through a set of strategic interviews and

an online questionnaire. The stakeholder groups heard at this stage of the process were as follows: Investors and Shareholders, Employees, Customers, Community representatives, Regulatory Entities, Suppliers, Partners, Entities representing employees, Media and other public entities.

The topics were represented in a materiality matrix, grouped into three distinct levels of relevance, material topics, important topics, and emerging topics. The hierarchy of topics considered the relevance criteria indicated by AA1000SES – Stakeholder Engagement Standard. The stakeholders’ perceptions and points of view were crossed with the management’s view, giving rise to the materiality matrix.

## Materiality Matrix



### Business impact

Source: Stakeholder Engagement Exercise - Ernst & Young

Material topics	Important topics	Emerging topics
Client experience and satisfaction	Privacy and data protection	Product and process innovation
Employee experience and satisfaction	Financial performance	Indirect economic impacts
Climate change and emissions	Community engagement	Attraction and retention of talent
Ethics, transparency and anti-corruption	Accessibility of postal services	Waste management
Development and training of employees	Consumption of materials and resource efficiency	Ecosystem protection and biodiversity
Health and safety at work	Diversity and inclusion	Water consumption
Energy management	Sustainable supply chain management	
	Respect for human rights	
	Emission of atmospheric pollutants	
	Operational excellence	

The results of the materiality analysis and the criticality level attributed to the different **topics** are reflected in the selection of the contents of the present report and in the emphasis given to them. CTT continues, however, to present data on other less critical matters, as we consider them relevant for accountability, for engagement with stakeholders and for contributing to the fulfilment of the SDGs, such as sustainable marketing, biodiversity, or equal opportunities, among others.

In the questionnaire, in addition to the stakeholders assessing the importance of each of the topics for CTT, they were invited to express themselves regarding the CTT vision, its responsibilities in environmental, social and economic matters, in a long-term perspective and also regarding its performance in these same areas. All shareholders and investors, entities representing employees and other public entities consider that CTT present a clear vision of their responsibilities in these matters, followed by 80% of suppliers, 70% of employees, 67% of partners, 61% of the community, 50% of regulators and 38% of customers.

## 2.5 Stakeholder Engagement

The different forms and means of engagement used have been reflected in regular actions of consultation, dialogue and monitoring of stakeholder needs and satisfaction, such as through surveys, answers in writing to institutional investors, research analysts, other investors and public in general, in-house meetings with customers, market analysts and investors, shareholders, hosting of visits, conferences, working parties, panels, newsletters, release of privileged information, reports, qualifying holdings relative to transactions and acquisitions and other types of external and internal communication which the company undertakes in its daily activity.

The consultation of stakeholders carried out until the end of 2020 allowed to update the engagement strategy and the identification of critical stakeholders who can benefit from enhanced communication and involvement.

The communication channels, the most common approaches and some of the measures implemented during this year to meet stakeholder expectations are listed below. CTT's objective is to establish effective, permanent and transparent engagement with its stakeholders, reinforcing all forms and channels of hearing and involvement.

**Table 1 – List of stakeholders and forms of engagement**

Stakeholders	Expectations and needs	Forms of communication with stakeholders and their consultation	Measures adopted
<b>Shareholders and investors</b>	Provision of clear, transparent and timely information that enables knowing the Company's evolution and its economic, financial and governance reality	Quarterly, half-yearly and annual reporting presented in a rigorous, reliable and consistent manner through submission of communications, half-yearly and annual reports and financial statements disclosed on the website of the company and CMVM	Social and environmental initiatives and investments  Ongoing communication with market analysts, seeking to increase the number of analysts that cover CTT shares  Maintaining and deepening engagement with stakeholders through participation in conferences, roadshows, meetings, conference calls and webcasts for the dissemination of results and communication of guidance on business strategy management
	Management alignment with shareholder guidelines	Participation in conferences, roadshows, meetings and conference calls with investors and market analysts  Clarification of shareholders and other investors through the telephone line and mailbox provided for the purpose	Participation in business environment and sustainability ratings
<b>Regulators</b>	Quality of service of the Universal Postal Service	Information on services	Procedure for collecting and organizing information to comply with reporting obligations
	Prices of the Universal Postal Service	Participation in hearings and/or public consultations of draft decisions	Compliance with universal service obligations in terms of quality, prices and network coverage
	Criteria for density of the postal network and minimum service offers	Regular report of indicators  Regular response to requests for information and clarification	Maintenance of an analytical accounting system and calculation of the net cost of universal service (CLSU)  Monitoring of the application of EU and national principles and rules on market competition
	Compliance with competition rules		Response to Regulators' requests for information
<b>Other Legal Authorities</b>	Audits	Good Company practices	Regular provision of information
	Clarification meetings	Company Strategy	Compliance with legal and contractual requirements
	Legislative compliance	Ethics and transparency	
		Regular reporting	

Stakeholders	Expectations and needs	Forms of communication with stakeholders and their consultation	Measures adopted
<b>Customers</b>	Better products at accessible prices, i.e., greater value for money	Information campaigns	
	Reliability and trust	Personalized and permanent communication	Improved customer satisfaction
	Convenience	After-sales actions	Launch and reformulation of new customized business solutions
	Satisfaction	Advertising and accessibility of the information	212 Banco CTT branches
	Flexibility and customization	Proactive management of deficiencies	Environmentally more responsible operating model (fleet and buildings)
	Security of postal items (accountability)	Call center /hotlines	Studies on the adequacy of the offer of products and services
	Security of the banking operations	Key Account Managers, managers of large accounts and customer managers	Consolidation of the ecological portfolio (products and services)
	Geographic coverage and accessibility	Market research	
	Responsibility and environmental image	Regular surveys on delivery and customer services	
	Closer and more frequent relations (newsletters, portals, focus groups, satisfaction assessment studies, etc.)	Decentralized meetings of the Management Board with customers	
<b>Competitors</b>	Participation in initiatives of common interest	Participation in forums	Compliance with market rules
	Sector benchmarking	Participation in benchmarking exercises	Intervention in joint projects, in the context of sectoral bodies
	Access to the postal network	Representation in bodies of the postal sector	
<b>Employees</b>	Stability (employment security, wage, social protection)		Widespread disclosure of work-related information
	Adequate remunerations	Information in due time	Hygiene & Safety Program continuity
	Opportunities for career development and professional progression	Personalized communication through the leadership/dialogue chain	Assessment of working conditions
	Good working conditions	Team meetings	Modernization and renovation of infrastructure and equipment
	Recognition of merit	Written internal communication (magazine, thematic newsletters, electronic formats, SMS, letters, intranet)	Training on safe/defensive /ecological driving
	Participative management		98% of employees covered by training
	Maintenance of social support measures	Training Forums	Participation in the INOV+ program
	Equal opportunities and management of diversity	Systems for suggestions	Forum Organizations for Gender Equality
	Better work-family balance	Surveys	Trainee programs
	Retirement conditions		Integration of trainees in voluntary work projects

Stakeholders	Expectations and needs	Forms of communication with stakeholders and their consultation	Measures adopted
<b>Workers' Unions/ Committee</b>	Respect for their opinions /positions		
	Transparent negotiation	Monthly and/or extraordinary meetings with senior management	Signing of the first CTT Expresso Company Agreement
	Consultation on matters of corporate responsibility	Meetings with Union Organizations and Associations Representing Functional Groups, whenever needed	89.7% of employees covered by collective bargaining agreements
	Participation in collective bargaining and contracting processes	Relevant management communication	Harmonization of work hours
	Compliance with Public Service Obligations		
	Maintenance of social support measures to employees and their families		
<b>Suppliers</b>	Equal opportunities and transparency (clear rules)	Information and communication of company projects	High standards in social, human rights and environmental requirements
	Compliance with payment and other deadlines	Sustainable procurement policy – contractual clauses	Eco-friendly Procurement Policy – compliance with objectives
	Increased volume of new supplies	Regular communication on non-compliance in supplies – opportunity for improvement	Participation in the development of new products/services and improvement of existing ones
	Tightening of relations		
	Registration of suppliers for the different purchasing categories	Electronic platform	Invitation of suppliers to meetings for presentation of products/services provided
	Supplier qualification		Implementation of an electronic platform
	Supplier evaluation		
<b>Media</b>		Media Advisory (direct contact with media)	
	Access to reliable and relevant information	Press releases	Disclosure of information on services, projects, results and other aspects of corporate life
		Press conferences	
	Communication to the market	Presence in the social networks	
		Media reports	
<b>Community</b>		Direct/personalized information	Support to social inclusion:
	Compliance with Public Service obligations	CTT website	- 95% of accessibility to post offices by people with reduced mobility
	Proximity/presence on the ground	Presence in local and national press and social networks	- Collection of donations through Payshop agents
	Stimulation of the local economy		
	Capacity of communication /dialogue with local partners	Direct contact with the postman and customer service personnel	- 6 corporate volunteering actions until the beginning of the pandemic (March)
	Accessibility to services	Raising awareness of sustainability issues with 15 philatelic issues and book publishing, among other items. Topics: culture, history, national and international events, environment (circulation exceeding 5.2 million)	- Renovation of CTT post office facilities - Continuity volunteering
	Good corporate citizenship, in social and environmental terms	Environmental program – reduction of energy consumption and emissions	

## Memberships and significant participation

In the context of the company's sustainability strategy, CTT is a member and develops joint activities with BCSD Portugal (Business Council for Sustainable Development), APQ (Portuguese Association for Quality) and APCE (Portuguese Association of Company Communication).

CTT is also a member of APDC (Portuguese Association for the Development of Communication), APAN (Portuguese Advertisers Association), ICAP (Civil Advertising Self-Discipline Agency), COTEC (Business Association for Innovation), APEL (Portuguese Association of Publishers and Book Sellers), IPAI (Portuguese Internal Audit Institute) and IPCG (Portuguese Corporate Governance Institute), among others. This year CTT joined the Portuguese Franchising Association and the Portuguese Association of Digital Economy and took on the European Green Capital Commitment 2020-Climat Action Lisbon 2030, in partnership with the Municipality of Lisbon.

As a founding member of the Universal Postal Union (UPU), CTT is present in several other affiliated organizations such as PostEurop (Association of European Public Postal Operators), UPA-EP (Postal Union of the Americas, Spain and Portugal), Euromed (Postal Union of the Mediterranean) and AICEP (International Association for Portuguese Expression Communications).

CTT was elected in 2016 to represent Portugal at the Council of Postal Operations of UPU for four years. It is a member of IPC – International Post Corporation and this year, through its Chief Executive Officer, Professor João Bento, CTT joined the Board of Directors for a three-year term, representing the countries South of the Alps. At PostEurop, CTT holds the position of Vice-Chairman of the Environment work group and Chairman of the Innovation Forum.

## 2.6 Corporate Ethics

The "Code of Conduct of CTT and Subsidiaries" aims to reinforce the trust relationships between CTT Group and its stakeholders (shareholders, customers, depositors, investors, suppliers, business partners and society in general), as well as clarifying the rules of conduct to be observed with all employees in the relations that they establish, either internally or with external entities and also consolidate with them the experience and sharing of values and standards of conduct, reinforcing a common culture within the Group.

Likewise, the "Code of Good Conduct for the Prevention and Combat of Harassment", does not allow any degree of tolerance in relation to conduct that qualifies as harassment at work, in any form, by employees towards colleagues, clients, partners or any people with whom they interact.

In line with the provisions of the Codes of Conduct ("CTT and Subsidiaries" and "CTT and Bank") and "Code of Good Conduct for the Prevention and Combat of Harassment", this year 482 and 837 workers, respectively, successfully concluded training actions, in an e-learning format. Training on the prevention of money laundering and the financing of terrorism, reached 346 workers directly involved in the sale of financial products.

The Ethics Committee is responsible for monitoring and supervising the application of the "Code of Conduct of CTT and Subsidiaries" and the "Code of Good Conduct for the Prevention and Combat of Harassment", with specific channels for communicating irregularities (whistleblowing) related to situations of non-compliance with the rules of conduct, as well as defined procedures for their processing. The Audit & Quality Department is the responsible for the technical support regarding its implementation and for assuring the confidential handling of the received communications and upholding the principle of confidentiality and non-retaliation in relation to the persons reporting irregularities.

The Committee focused on monitoring the communications received from existing channels in terms of possible situations of violation of the Code of Conduct, as well as training indices related to those codes, in addition to monitoring the status of lawsuits in disciplinary and litigation areas related to the topic of harassment.

In 2020, the Ethics Committee received eight communications, which were analyzed and decided upon, to assess possible irregularities related to the non-compliance with the rules of conduct and to fight harassment, of which three were filed for not meeting the ethics/conduct rules, and the rest were analyzed by a competent department.

There is also the figure of CTT Group Customer Ombudsman whose mission is to defend and promote the legitimate rights and guarantees of customers, as well as to contribute to the strengthening of trust in the relationships between the Group and its customers.

CTT also has a system for the communication of irregularities related to matters of fraud or corruption, banking and financial crime, money laundering and terrorist financing, insider trading and other matters that are identified in the Regulation on Procedures for Communication of Irregularities (Whistleblowing Regulation), the Audit Committee being the competent body to receive such communications, with the collaboration of the Audit & Quality Department. Under the Whistleblowing Regulation no cases were received for handling.

Preventive procedures are in place regarding money laundering and terrorist financing, covering financial products provided on CTT's account, as well as those sold on behalf of entities with

which CTT has partnership agreements. In general terms, these procedures are in alignment with current legislation and regulations, guaranteeing the fulfilment of the various duties set forth therein, with the approval of a policy in this matter that extends to the CTT Group, as well as a set of documents that are part of the control duty, including the model of risk management, procedures and controls within the scope of identifying customers and counterparts, monitoring customers and transactions, analyzing and reporting suspicious transactions and applying sanctions and restrictive measures.

In 2020, 58 communications were reported to the competent authorities (Central Department of Investigation and Criminal Action of the Attorney General's Office and the Judicial Police Financial Information Unit) involving financial operations amounting to approximately 3.2 million euros.

CTT has procedures in place for the identification of active and passive authors of situations of bribery and corruption with a view to their legal and penal framework, where denunciations and complaints are investigated and procedures and practices that provide or configure irregular and corrupt behaviors are analyzed.

In this context, it is worth noting the existence of a specific channel for receiving communication of irregularities related to accounting matters, internal accounting controls, risk controls, insider dealing, fraud or corruption, banking and financial crime, and money laundering and terrorist financing, with defined procedures for receiving, retaining and handling such communications.

Mention should also be made of the inclusion in the "CTT and Subsidiaries' Code of Conduct" of the Standard of Individual Conduct alluding to the "prohibition of corrupt and bribery practices and external influences", in which the prohibition of the practice of corruption is stated in all its active and passive forms, either through acts and omissions, or through the creation and keeping of favor or irregular situations.

As a result of the audit and inspection actions, 133 post offices, 74 postal agencies and 76 postal delivery offices were audited, representing, respectively, 24%, 21% and 35% of the total number. In the development of investigative actions, there were 8 employment contracts of permanent and fixed-term employees that were terminated for illicit appropriation of assets/cash (5 cases), theft/tampering of postal items (2 cases) and abandonment of postal items (1 case).

All the operations of Banco CTT are submitted to risk assessment. The customers and transactions made are analyzed according to the risk they might represent in terms of use of the Bank for purposes of money laundering or terrorist financing (which includes the crime of corruption).

The relevant relations with financial and non-financial counterparts are also subject to a due diligence process which seeks to prevent the conduct of business with entities that show risks of money laundering or might represent reputational risks, due to being involved in financial crimes or associated to practices of corruption.

No cases of fraud or other offences were recorded. Banco CTT has an Anti-Money Laundering and Terrorist Financing Policy and a series of processes and procedures aimed at assuring compliance with the legal requirements and mitigating the risks of the Bank being used for these purposes. Every year, a team of external auditors assesses these processes and procedures and perform effectivity tests. No significant risks related to corruption were identified in the assessments made.

### Compliance with ethical requirements

Pursuant to laws and regulations relative to products and services, CTT was fined the amount of €104,018. CTT was not the object of any lawsuits in the context of unfair competition and anti-trust conduct, application of significant fines or non-monetary penalties, derived from non-compliance with environmental or corporate laws and regulations.

There were 172 occurrences/proceedings relative to non-compliance with labor laws and regulations, where 17 of the year under analysis were resolved in addition to 96 of previous years. There was a payment of fines in this area in the amount of €87,605.

CTT assures the safeguarding of the company's responsibilities on legal matters and complies with the Code of Advertising and Marketing Communication Practice of the ICC (International Chamber of Commerce), being represented at and a member of ICAP (Civil Advertising Self-discipline Agency) and APAN (Portuguese Advertisers Association). CTT complies with codes/regulations, such as the Code of Conduct on Advertising Matters and the Code of Fair Practices on Environmental Advertising, among others. CTT abides by the self-discipline that the industry imposes upon itself, with the objective of quickly and efficiently ensuring respect for the rules in advertising communication.

The company's Code of Conduct is clear in relation to marketing and advertising practices, with compulsory disclosure of correct and accurate information on the marketed products and services, namely their technical characteristics, after-sales assistance, prices and payment terms.

ANACOM (National Authority for Communications) is responsible for the regulation and supervision of the postal sector. CTT's activity, as a provider of the universal postal service, is subject annually to two types of audits:

- Audit of the annual values of quality-of-service indicators and of CTT's complaints and information requests system, to verify the reliability of results and adequacy of methodologies for determining service quality levels, as well as the complaints management system and requests for information. Following the audits for the years 2016 and 2017, concluded in 2018, ANACOM defined adjustments in the scope of the measurement system for the quality-of-service indicators, implemented on 01.07.2019. Audits for the years 2018 and 2019 are ongoing.
- Audit of CTT's cost accounting system, to check the conformity of the system and the obtained results, as well as compliance with national and international rules, standards and good practices. On 14.09.2020 ANACOM declared the results of CTT's cost accounting system for the years 2016 and 2017 to be in conformity with the decision of ANACOM which determined the reformulation of those results imposing new criteria for the allocation of expenses between postal activity and the company's banking activity. The results of the audit process on the results for the year 2018 are awaited.

## 2.7 Risk Management

### 2.7.1 Description of the risk management process

The risks arising from the activity of CTT and its subsidiaries are managed pursuant to the manner described in the **Regulations of the Risk Management System** approved by the Board of Directors. This document, in addition to establishing guiding standards, principles and procedures for Risk Management, defines duties, responsibilities and governance model, ensuring the implementation of a framework supporting the decisionmaking process, taking into consideration the risks to which CTT is exposed.

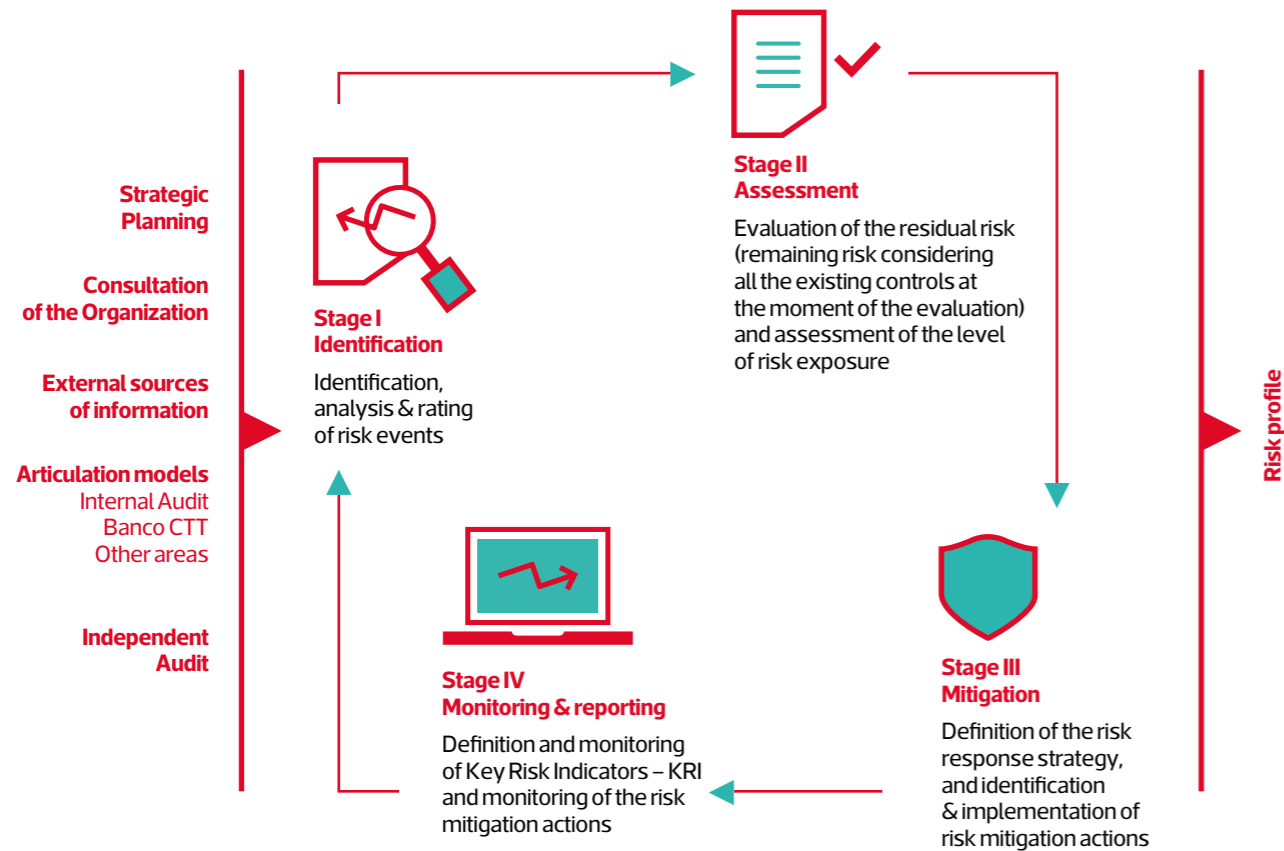
Under the banking activity, Banco CTT has an independent risk management system, based on a set of concepts, principles, rules and on an organizational model applicable and adjusted to the specificities and to the regulatory framework of its activity. However, a model has been established for articulation between the areas responsible for the Risk Management of CTT and Banco CTT, to ensure an alignment relative to the main interdependent risks.

The **Risk Profile** is viewed as the main output of the process, reflecting the vision of a given moment on events that, should they occur, could adversely affect the achievement of the strategic objectives, compromising CTT's sustainability. The review and continuous updating of the Risk Profile is, therefore, fundamental, and is based on a dynamic process consisting of four sequential and interrelated phases, fed by a series of inputs, as illustrated in the figure below:

The risks identified during Stage I are assessed in Stage II according to qualitative and quantitative criteria in terms of probability of occurrence, impact and speed of materialization of the effect, pursuant to the guidelines established in the Regulations of the Risk Management System.

**Risk management**

Integrated Risk Management System



The **level of exposure to risk** arises from the combination of its probability and impact. During Stage III, if the level of exposure to a particular risk is higher than the stipulated appetite, corrective or mitigating actions are defined and implemented, aimed at reducing the exposure, by lowering the probability and/or impact. The **risk appetite** thus translates into the maximum level of exposure that CTT consciously assumes and is willing to accept in pursuing its strategy considering its business principles, policies and procedures as well as the fact that they operate in tightly regulated markets. The risk appetite is reviewed annually and is defined by risk typology, according to the approved taxonomy.

The evolution of CTT's main risks (those with higher level of exposure) is monitored in Stage IV through **Key Risk Indicators (KRI)**. The KRI operate as a barometer of CTT's current level of exposure to risks, warning, in due time, of possible changes of the probability of occurrence and/or impact of the

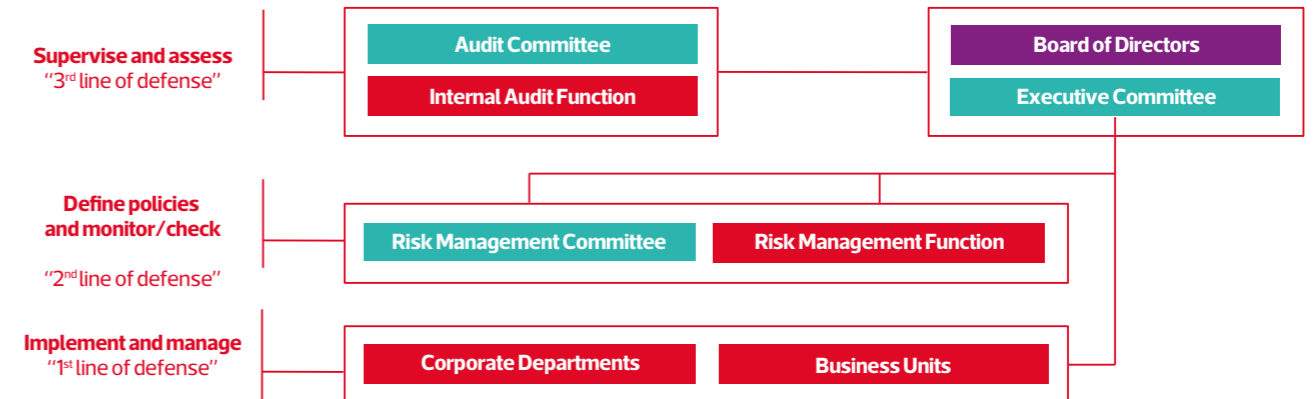
risk event. Each KRI has a defined **objective** and **tolerance level**. Surpassing this tolerance level could mean that CTT will incur in financial losses that are higher than expected (value-at-risk), thus requiring the adoption of immediate response measures. In some cases, to maximize the effectiveness of the KRI, action plans are defined *a priori* with specific mitigation measures whose implementation is conditioned to the surpassing of the defined tolerance levels for the KRI.

**Governance Model**

At CTT, risk management and control are undertaken by the entire organizational structure, involving top management down to the more operational levels, through a model of "3 lines of de-

fense" based on good practices of Audit and Internal Control:

The **Board of Directors** approves CTT's main risk policies and guidelines, defining its profile and objectives on risk-taking matters and creating systems for their control. It carries out the annual assessment of the effectiveness of the Risk Management system, with a view to ensuring that the risks incurred are con-



sistent with the defined objectives.

The **Audit Committee** supervises and appraises the Risk Management policies and system and may propose measures to the Executive Committee aimed at improving their functioning. It also monitors and appraises the profile and objectives on matters of risk-taking, the levels of exposure to risk and the mitigation measures in this context.

The **Executive Committee** approves CTT's risk profile and levels of exposure to risk, as well as the models, processes and procedures for risk management, in addition to the proposed mitigation initiatives, ensuring their implementation and considering the terms and objectives defined and approved by the Board of Directors.

The **Risk Management Committee** supports the Executive Committee in the process of preparation and approval of Risk Management strategies and policies, monitoring their implementation.

The **Risk Management function**, included in the Finance & Risk department (see note below) and directly dependent on the Executive Committee (hierarchically reporting to the Chief Financial Officer ("CFO")), is responsible for the centralized coordination of the CTT Risk Management System and the planning and implementation of risk management programs supported by the Company's Regulations of the Risk Management System.

The **Internal Audit function**, performed by the Audit division included in the Audit & Quality department, assesses the quality

and efficacy of the Risk Management system, and identifies and characterizes risk events under the audit activities carried out.

All the remaining **Corporate Departments** and **Business Units** put in place the approved Risk Management policies and procedures and propose mitigation actions for the main risks identified.

**Note:** The risk management function is ensured by the Risk Management division. During 2020, this area was integrated in the Finance & Risk department. In 2021, the Risk Management division was integrated in the Audit & Quality department and reports hierarchically to the Chief Executive Officer. This organizational change allows for greater methodological alignment, as well as to leverage synergies between the risk management and internal audit functions.

**2.7.2 Identification of risks (risk matrix) and CTT response**

CTT's activity in 2020 was strongly conditioned by the COVID-19 pandemic, namely by the restriction measures imposed on most sectors of the economy - closure of trade and services, industry and retraction of consumption in some sectors due to lockdown. Despite always being part of CTT's risk profile, the risk of epidemics gained a visibility and relevance that it did not have until this year.

Given its importance, we highlight in the following table the evolution over the year of the main risks faced by CTT. For each risk,



its rationale is presented, its applicable classification, the business segments affected, a brief description of the mitigation strategies implemented and the trend of exposure in relation to the previous year:

Business affected	Trend	Risk rationale	Evolution and mitigation
  		<p><b>Epidemics</b>                      Category: External                      Sub-Category: Disasters</p> <p>On 11 March, more than three months after the first cases of infection with a new coronavirus (SARS-CoV-2) were detected in China, the World Health Organization declared COVID-19 as a pandemic. Given the gravity and magnitude of the facts and to comply with the instructions and recommendations of the public health authority, CTT immediately took a series of necessary and appropriate measures to protect employees and customers. A Crisis Management Committee was created, chaired by the CEO, which has coordinated the implementation of all initiatives aimed at both the safety of people and business continuity.</p>	<p>Researchers have long warned of the possibility that pandemic outbreaks could occur with increasing frequency. There are several causes identified, namely deforestation, climate change, consumption of wild animals or population growth. In an increasingly globalized world, a new virus can cross oceans in a few hours and, exploiting the lack of effective medical therapies, be able to multiply on a planetary scale. Phenomena of this nature can cause high economic and social damage while inducing the emergence of new risks and increasing exposure to existing risks.</p>
  		<p><b>Iberian CEP (Courier, Express &amp; Parcels) challenge</b>                      Category: Strategic                      Sub-Category: Competitiveness</p> <p>The outbreak of the COVID-19 pandemic and the consequent lockdowns had the initial effect of a significant drop in B2B volumes in both countries. However, this drop was offset throughout the year by a strong growth in B2C activity resulting from e-commerce, which led to a substantial increase in Express &amp; Parcels revenue of around 27% compared to the previous year. In this context, and to continuously seek efficiency, work continued on the implementation of an Iberian Express &amp; Parcels platform, namely the investment in new logistical infrastructures, the increase in processing capacity and dynamic routing and the launch of the new D+1 cross-border offer. Finally, seeking to improve the value proposition, the portfolio of products/services was expanded in Portugal (e.g., same-day, night and Saturday deliveries) while in Spain we tried to align installed capacity to the needs of customers.</p>	<p>CTT's strategy for the Express &amp; Parcels business aims to develop and consolidate its position as a strong and benchmark Iberian operator, reinforcing its position as leader in the national market and increasing scale in Spain. If CTT fails to consolidate its position in the CEP Iberian business, and this being a fundamental growth lever to respond to the decline of the traditional postal business, the effects on its results will be quite adverse.</p>

Express & Parcels
 Mail
 Banco CTT & Financial Services
 Trend

Business affected	Trend	Risk rationale	Evolution and mitigation
  		<p><b>Business continuity</b>                      Category: Operational                      Sub-Category: Operational efficiency</p> <p>The occurrence of certain adverse events that are unpredictable and inevitable, beyond CTT's will and control, could affect computer systems, facilities and people, and ultimately lead to stoppage of postal operations. The lack of a prompt and coordinated response could prolong the stoppage time, causing considerable financial losses in addition to irreparable damage to the Company's reputation and image.</p>	<p>In view of the declaration of a state of emergency, CTT activated its contingency plans for the operational areas, the retail network and the central services managing to ensure the continuity of all activity with the least possible disturbance, considering the very adverse circumstances. Contingency plans were adjusted according to the evolution of the pandemic, ensuring alignment with the guidelines issued by the General Health Directorate.</p>
  		<p><b>Public image</b>                      Category: Strategic                      Sub-Category: Brand/Reputation</p> <p>CTT's image and reputation and the confidence and trust of the customers, investors and other stakeholders in the brand are key factors for success. For this reason, the occurrence of events triggering negative media pressure on CTT's image could give rise to materially adverse effects on the Company's business and results.</p>	<p>Pressed by the pandemic context, but aware of the critical role it plays in maintaining vital communication and logistics chains for the Portuguese economy and society, CTT has always maintained its activity throughout the year, adopting a set of preventive measures with a view to the protection and safety of its employees and customers. In addition, CTT joined the #FiqueEmCasa movement, implementing several initiatives with the objective of facilitating customer access to the services provided and thus reinforcing its image of proximity to the population (e.g., online CTT shops, fairs and digital showrooms, CTT local commerce app, 24-hour lockers, partnership with National Association of Pharmacies, partnership with Uber, etc.).</p>
  		<p><b>Cybersecurity</b>                      Category: Operational                      Sub-Category: IT</p> <p>Cybercrime is one of the most serious economic and national security challenges facing governments around the world. In view of the increasingly stronger dependence on information technologies in CTT's business lines, the security and protection of information is, therefore, a very critical issue. In addition to behavioral failures, whether deliberate or not, on the part of employees or third parties, the growth in volume and sophistication of cyber-attacks in a pandemic context is of particular concern today. If a target of this type of crime, CTT may have to face disruptions in activity, unforeseen costs, loss of sensitive data, application of sanctions and/or high reputational damage.</p>	<p>The lockdown measures enacted during the pandemic forced the implementation of a teleworking regime in all services where this was possible. With more than 2 thousand employees remotely accessing CTT's internal network from home, the level of exposure has increased considerably to risk, so there was a need to strengthen technological security controls and invest in training on good teleworking and cybercrime awareness practices.</p> <p>At the same time, CTT continued to invest in its information security solutions, reinforcing the standard of robustness and quality and implementing control procedures and tools for the identification of vulnerabilities and threats.</p>
  		<p><b>Work accidents</b>                      Category: Operational                      Sub-Category: Human Resources</p> <p>CTT's business is labor-intensive and requires a large number of employees, especially in the operational areas. Despite the ongoing effort to prevent accidents at work on the road or other causes, the occurrence of accidents at work is a latent problem and constitutes a significant risk in such a vast universe of employees.</p>	<p>In 2020 there was a very significant reduction in occupational accidents due to the implementation of reduced and alternate schedules and the decrease in road traffic resulting from lockdown measures during the COVID-19 pandemic. Within the scope of its Occupational Health and Safety Policy, CTT undertakes the commitment to ensure its employees' safety conditions in all aspects of their work, with a view to preventing injuries and health issues. In this sense, the awareness-raising actions on occupational safety, accident prevention and ergonomics, in postal delivery offices and post offices.</p>

Express & Parcels
 Mail
 Banco CTT & Financial Services
 Trend

Business affected	Trend	Risk rationale	Evolution and mitigation
		<p><b>E-substitution</b>                      Category: External                      Sub-Category: Macro-trends</p> <p>The intensification of the phenomenon of digitalization and replacement of physical mail by other forms of digital communication have led to a continuous decline of postal volumes. In the last decade, the postal market has lost more than 50% of addressed mail volumes, with a substantial increase in the speed of the decline in recent years. This reality, in addition to putting pressure on CTT's operating income still very dependent on the Mail business, will compel, in a sustainability logic, to rethink current distribution models to adapt them to drastically smaller volumes.</p>	<p>The impact of measures to combat the pandemic on the economy and society has accelerated an expected shift from physical to digital communication, reducing demand in postal services and accelerating the decline in the volume of letter mail. These changes affected CTT's postal activity reflecting a 16% decrease (compared to the previous year) in the volume of addressed mail. Although it is too early to assess it, the changes generated by the pandemic in the consumption habits of citizens and companies worldwide are expected to be definitive, so it is legitimate to believe that part of the lost postal volumes in this context may not be recovered. To respond to this systematic drop in addressed mail volumes, CTT continues to invest in business diversification, while developing new efficiency initiatives to adjust the fixed cost structure to medium-term needs, while maintaining high operational efficiency standards.</p>
		<p><b>Regulatory changes</b>                      Category: External                      Sub-Category: Political</p> <p>As the Universal Postal Service provider, CTT operates in an intensely regulated environment, and is subject to a significant number of legal and regulatory requirements relative to the pricing regime, parameters of provision of the Universal Postal Service and service quality. The alteration of these requirements, their application or interpretation could lead to a significant increase in the costs associated to their compliance and consequent adverse effect on CTT's results. Also, in the context of the configuration of the execution aspects of the future universal postal service concession agreement, the escalation of the level of demand and complexity of the conditions and obligations that universal postal service may be defined and presented cannot be ruled out, which, in a scenario in which CTT continues with the mission of providing the public service, will represent an increased risk.</p>	<p>CTT is governed by the practice of active regulatory management and enhancing the sustainability of the universal postal service. Regulatory certainty and predictability are, for this reason, essential conditions for the provision of a public service with high levels of quality and proximity to the population.</p> <p>Despite CTT's efforts, it was not possible for the transition to a new universal postal service concession agreement to occur in due time, with the Government extending the current contract until 31 December 2021, without immediately changing the current terms and conditions of service provision. CTT thus ensures the continuity of the provision of the public mail service and other concessionary services at a particularly difficult time when it is considered crucial to maintain services to the population and the integrity of the logistics chains, without prejudice to the initiatives deemed appropriate, including in the extension period, considering the need for a sustainable and balanced concession agreement.</p>
		<p><b>Extreme climate phenomena</b>                      Category: External                      Sub-Category: Disasters</p> <p>The increased frequency and severity of extreme phenomena associated with climate change, such as droughts, floods, cold or heat waves, have become a major concern for companies at a worldwide scale. The risk to CTT arises from the potentially devastating effects caused by the occurrence of this type of phenomena and the economic losses derived thereof.</p>	<p>The damages (human and material) to buildings and the fleet caused by extreme weather conditions are covered by insurance. In case these phenomena occur, CTT has established communication channels with the authorities, namely the Civil Protection, aimed at ensuring the protection of the facilities and its employees.</p>

Express & Parcels
 Mail
 Banco CTT & Financial Services
 Trend

Business affected	Trend	Risk rationale	Evolution and mitigation
		<p><b>Environmental damage</b>                      Category: Strategic                      Sub-Category: Brand/Reputation</p> <p>CTT's activity implies direct and indirect environmental impacts, namely the depletion of energy resources of fossil origin, the emission of atmospheric pollutants, in particular greenhouse gas emissions, the consumption of natural resources (e.g., paper and water), potential soil contamination and effluents due to waste produced by CTT as well as noise emission. Risks arise from reputation damage due to a perception of CTT as an environmentally unfriendly company.</p>	<p>To minimize its carbon footprint, CTT has implemented certified environmental management programs and systems. Energy and carbon efficiency are ensured through measures to rationalize electricity, the acquisition of green energy and the promotion of ecological and/or carbon neutral products and services. Sustainable mobility is also promoted by CTT through the management and streamlining of fleet consumption, the expansion of the electric fleet and the search for smooth mobility solutions. Supplemented by training actions, these initiatives strengthen the Company's engagement with its employees and stakeholders</p>

Express & Parcels
 Mail
 Banco CTT & Financial Services
 Trend

## Emerging Topics

There are some emerging risk trends (mostly resulting from the pandemic) that, despite not being, for the moment, an immediate threat to CTT, may come to assume, in the medium term, a very relevant position in the risk profile, reason for which they will receive special monitoring during 2021. Among these emerging topics, we highlight the following:

### Social instability

The costs of the measures taken to mitigate the effects of the pandemic, namely lockdowns, were enormous. Analysts anticipate a deep recession, with rising unemployment rates and public debt. The pandemic is also expected to further widen the wealth gap, as the low-skilled labor force disproportionately bears the brunt of economic volatility. This increase in inequality may lead to the emergence of social tensions and conflicts.

### Geopolitical uncertainty

In recent years, several countries have taken measures widely considered as nationalist: protectionist trade policies in global trade, barriers to immigration or even the active weakening of international organizations designed to promote multilateral cooperation. The pandemic has brought to the table some questions regarding the risks of Western industry's dependence on Chinese manufacturing and technology. Governments will tend to become more protective of certain industries because of their strategic importance to the economy, introducing greater restrictions and barriers to foreign investment.

### Mental health

According to UN warnings, the pandemic could cause a serious global mental health crisis. In addition to the trauma caused by illness and death, social isolation and economic uncertainty are, in themselves, factors that trigger an increase in cases of anxiety and depression. In this scenario, if the mental health support systems are unable to respond effectively to an expected demand that is likely to increase, an increase in absenteeism levels, a fall in productivity and, if this situation persists over time, high socio-economic impacts can be expected.

### Climate change

Although it has lost some media attention, there is growing consensus around the threat posed by climate change and its economic and geopolitical consequences. The pandemic and the lockdown measures had the side effect of increasing awareness of the impact of individual behavior on the planet, leading to a gradual adjustment in consumption habits. The transition to a green and low-carbon economy is increasingly certain in the post-pandemic environment and will entail profound legal, regulatory, judicial, technological and market changes that companies will have to adapt to.