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ctt

Consolidated Results

2020

committed to deliver

CTT – CORREIOS DE PORTUGAL, S.A. – PUBLIC COMPANY

2020 CONSOLIDATED RESULTS

- **Revenues**¹ grew by 5.1% in 4Q20, accelerating the recovery started in 3Q20 (+0.3%) and amounting to €745.2m in 2020, €5.0m (+0.7%) more than in 2019. The strong dynamics of the growth levers Express & Parcels and Banco CTT allowed these businesses to grow significantly (+€40.6m; +26.6% and +€19.2m; +30.5%, respectively), offsetting the sharp decrease in the revenues of the Mail & other² (–€51.5m; –10.8%) and Financial Services & Retail² (–€3.3m; –7.1%) business units.
- **EBITDA**³ reached €32.8m in 4Q20, a year-on-year growth of €4.6m (+16.4%), representing the highest quarterly result since 1Q16. EBITDA of 2020 amounted to €90.5m, €11.0m less (–10.8%) than in 2019, penalized by the strong impact of the pandemic in Mail & other (–€34.0m; –43.6%) and Financial Services & Retail (–€1.4m; –6.2%). The EBITDA of the remaining business units grew significantly, with Banco CTT contributing +€15.5m (+416.7%) and Express & Parcels +€8.9m (+386.7%).
- **EBIT** amounted to €17.2m in 4Q20, growing by €4.2m (+32.1%) and reaching an 8.2% margin. In 2020, it totaled €34.5m, €12.8m less (–27.0%) than in 2019, strongly impacted by the decrease in EBITDA (–€11.0m).
- **Operating cash flow** amounted to €42.9m in 2020, €1.6m less than in 2019, and net own cash as of 31 December 2020 was €135.4m.
- **Express & Parcels** posted record revenues of €61.5m in 4Q20, 45.2% (+€19.1m) more than in 4Q19, and EBITDA of €5.6m (+€6.2m versus 4Q19).
- **Banco CTT** achieved consolidated net profit of €0.2m in 2020, for the first time in its history.
- **Net profit**⁴ of €16.7m, €12.5m less (–42.9%) than in 2019, in line with the negative evolution of EBIT (–€12.8m).

Consolidated results

	4Q19	4Q20	Δ%	2019	2020	Δ% 20/19
	€ million					
Revenues ¹	200.7	211.0	5.1%	740.3	745.2	0.7%
Mail & other	124.3	115.3	-7.2%	477.6	426.1	-10.8%
Mail ²	121.2	114.2	-5.8%	471.3	422.9	-10.3%
Central Structure	3.2	1.2	-62.5%	6.3	3.2	-49.6%
Express & Parcels	42.3	61.5	45.2%	152.4	193.0	26.6%
Banco CTT	20.0	22.4	11.7%	62.9	82.1	30.5%
Financial Services & Retail ²	14.0	11.8	-16.0%	47.4	44.0	-7.1%
Operating costs ³	172.5	178.1	3.3%	638.8	654.7	2.5%
EBITDA ³	28.2	32.8	16.4%	101.5	90.5	-10.8%
Leases (IFRS16)	6.4	7.5	16.2%	26.9	28.4	5.8%
EBITDA including IFRS 16	34.6	40.3	16.4%	128.3	118.9	-7.3%
Impairments & provisions	4.6	2.1	-54.5%	8.6	15.3	78.2%
Depreciation & amortization	14.8	16.1	8.9%	54.2	62.1	14.6%
Specific items	2.2	4.9	120.8%	18.2	7.0	-61.7%
EBIT	13.0	17.2	32.1%	47.3	34.5	-27.0%
Financial results (+/-)	-3.8	-3.0	21.9%	-11.8	-11.4	3.2%
Income tax for the period	2.8	1.9	-32.6%	6.2	6.4	1.9%
Non-controlling interests	0.06	0.01	-81.1%	0.09	0.10	10.8%
Net profit for the period ⁴	6.3	12.3	94.5%	29.2	16.7	-42.9%

¹ Excluding specific items.

² In 2020 and in the same period of the previous year (proforma), the retail products and services of the Mail & other business unit are considered within the Financial Services & Retail business unit (former Financial Services business unit).

³ Excluding depreciation/amortization, impairments and provisions, as well as the impact of IFRS 16 and specific items.

⁴ Attributable to equity holders.

1. Operational and Financial Performance of the Business Units

The year 2020 was marked by a global pandemic (COVID-19), declared in March 2020 by the World Health Organization, with a negative impact on companies and the economy.

Mail

The pandemic accelerated the downward trend in mail volumes as a result of the acceleration of digitalization.

In 4Q20, **mail revenues** reached €114.2m, €7.0m lower (-5.8%) than those of the same period of 2019, with a significant recovery in transactional mail (-7.5%, which compares with -22.1% in 2Q20 and -9.5% in 3Q20), as a consequence of a considerable improvement in registered mail and international outbound mail (mail categories with a higher price per item), addressed advertising mail and philately versus 3Q20. In the full year, revenues reached €422.9m, €48.4m below (-10.3%) those recorded in 2019, mainly due to the decline in the revenues of transactional mail (-€47.5m; -11.7%) and advertising mail (-€4.6m; -19.9%), mitigated by the revenue growth in business solutions (+€5.6m; +54.8%). It should be noted that, excluding the effect of volumes related to the elections of September 2019, the revenues decrease for the year would have been €43.0m (-9.2%).

Mail volumes

	Million items					
	4Q19	4Q20	Δ	2019	2020	Δ
Transactional mail	130.1	110.4	-15.1%	536.0	447.2	-16.6%
Advertising mail	12.6	11.3	-10.9%	48.2	39.7	-17.6%
Editorial mail	9.3	7.9	-15.3%	34.8	30.0	-13.7%
Addressed mail	152.1	129.6	-14.8%	619.0	516.9	-16.5%
Unaddressed mail	144.9	107.0	-26.1%	521.4	412.3	-20.9%

In 2020, **transactional mail** volumes decreased by 16.6%, due to reductions in all products, except for **green mail** (+40.9%) which continued to grow throughout the year mostly as a result of product substitution (after discontinuation of the registered mail and priority mail prepaid product lines). The decline of **ordinary domestic mail** reached 15.8%, mainly in contractual clients of the banking and insurance, telecommunications, utilities, and Government segments. **Registered mail** volumes declined by 13.8%, especially in the B2B segment in the 1st half of 2020.

The pandemic has also negatively impacted **international mail** volumes. The yearly decline in international **outbound** mail was 28.1%; excluding the effect of the volumes of the legislative elections of September 2019, that decrease would be 23.0%. International **inbound** mail posted an annual decrease of 20.7% due to the constraints in air cargo transportation.

The **advertising mail** business has been significantly affected, as the pandemic crisis led to reduced utilization of this type of mail, in some cases with full suspension of mailing campaigns. In terms of **addressed** advertising mail volumes there was some pick-up in 4Q20 vis-à-vis the decline recorded in 9M20 (-10.9% vs. -20.0%). In the full year, **unaddressed** advertising mail volumes posted a decrease of 20.9%.

The **business solutions** segment recorded revenues of €15.9m in 2020 (+54.8%). This growth was the result of the investment in products and services through new partnerships, the optimization of the existing offer and the intense commercial drive.

In 2020, **philately** revenues amounted to €5.6m, a decrease of 17.4% compared to 2019 (-€1.2m), due to the effects of the pandemic, as some philatelic events did not take place and the performance of the sales outlets was also affected. The 4Q20 posted a slight recovery compared to the 9M20 (-12.6% vs. -19.4%), a period in

which the issue “A Time for Hope” was launched – the first one in the world to ever be produced with a graphene insert – within the commemorations of the 500 years of the postal service.

The average price change of the Universal Service⁵ in 2020 versus the previous year was 1.76%. After the effect of applying the consumer compensation mechanism⁶, the average year-on-year price variation was 1.42%.

Express & Parcels

The **Express & Parcels revenues** amounted to €193.0m in 2020, €40.6m more (+26.6%) than in 2019. In 4Q20, revenues reached a record amount of €61.5m, corresponding to a growth of €19.1m compared to 4Q19 (+45.2%).

Revenues in Portugal stood at €118.0m in 2020, up 20.2% compared to 2019. In 4Q20 revenues of €36.8m were recorded (+33.1% vs. 4Q19).

The business performance in Portugal in 2020 resulted mostly from the growth of the **CEP** (Courier, Express and Parcels) business, which recorded revenues of €96.5m (+28.6%) with an increasing acceleration in performance, thus at the end of 4Q20 revenues were €31.3m (+41.7%). In the full year 2020, the **banking** documents delivery business revenues amounted to €6.6m (-1.4%), while those of the **cargo** business amounted to €11.4m (-8.2%) and those of the **logistics** business €2.4m (-23.5%).

In 2020, the restrictions imposed on most sectors of the economy due to the COVID-19 pandemic substantially impacted the items’ profile, with a reduction in B2B volumes in 1H20 and a strong growth in e-commerce activity (B2C). This, together with great commercial focus and the repositioning of CTT, resulted in solid volume growth. In 2H20, a recovery in the B2B segment was observed, as well as continued growth of e-commerce activity. In Cargo, some pressure was maintained on the industrial and automotive sector, with a relevant impact on this business line, and in Logistics, the expected loss of a relevant customer was not compensated by new businesses.

In 2020, **CEP** volumes in Portugal totaled 25.9 million items, 35.7% more than in 2019. Contributing to this record-level activity was the strong boost of e-commerce, with very relevant growth in the sectors of food, sports and leisure, education and culture, and consumer electronics. In 4Q20, CEP volumes reached 8 million items, 38.4% above those of 4Q19, with a new historical daily high of 270k items.

The **Dott marketplace**⁷, launched in May 2019 in partnership with Sonae, had, at the end of December 2020, 1,394 registered vendors on the platform (an increase of 160 in 4Q20) and more than 3 million products available for purchase. At the end of December 2020, circa 200k users were registered (+15% vs. September 2020), evidencing the healthy growth and the acceleration of digitalization and e-commerce during the lockdown period.

Revenues in Spain stood at €72.3m in 2020, 39.6% above those of 2019. In 4Q20, revenues reached €24.1m, corresponding to an additional €10.1m (+72.7%) versus 4Q19, as a result of the capture of new customers in 3Q20 and of e-commerce growth.

Volumes in Spain totaled 24.9 million items in 2020, a 57.7% growth versus 2019. This evolution translates the strong commercial focus on the capture of key B2C accounts and is a consequence of the COVID-19 pandemic, which led to high volumes growth resulting from changes in consumption patterns that drove

⁵ Including letter mail, editorial mail and parcels of the Universal Postal Service, excluding international inbound mail.

⁶ Reduction of some prices of the basket of non-reserved services during the month of November, corresponding to -0.5 pp of the average price increase allowed for this basket of services, and 0.31% deduction to the special prices of domestic ordinary mail during the months of November and December.

⁷ The Dott marketplace investment is accounted for by the equity method.

e-commerce purchases. In 4Q20, **CEP** volumes reached 8.2 million items, 95.0% above those of 4Q19, with over 200k items processed daily in peak days.

The Company proceeds with its strategy to position itself as a reference operator in the urgent delivery of parcels within the Iberian market. Twenty new sorting centers were opened, and the existing premises renovated, through a strong investment in automated sorting machines for its main centers in Madrid, Barcelona, Valencia and Murcia. Along with this investment in equipment, the Company acquired mobile devices and new software tools to optimize the day-to-day life of parcel carriers, their cargo loads and routes, and already has numerous vehicles operating with this equipment, which is already and will continue to contribute to improved productivity and quality of service, as well as to reduce delivery costs.

Revenues in Mozambique stood at €2.7m in 2020, 10.6% above those of 2019. The **CEP** and the **banking documents delivery** businesses positively contributed to this growth, the latter underpinned by the activity in the health area (collection of biological samples), which started in the 2nd half of 2019, as well as by the continued growth of the banking sector. The full year performance was penalized not only by the pandemic, but also by the continuation of military conflicts in the north and center of the country, which led to a contraction in economic activity.

Banco CTT

In 2020, a year profoundly marked by the COVID-19 pandemic impact, **Banco CTT** reached consolidated net profit for the first time. This important profitability milestone confirms that Banco CTT is already a benchmark banking institution for Portuguese families, with more than 600k clients with open bank accounts, of which 56k opened during the last year, which have certainly contributed to obtain the award as leader of the National Customer Satisfaction Index (ECSI 2020 award).

Banco CTT revenues reached €82.1m in 2020, a growth of €19.2m (+30.5%) compared to the previous year, of which €12.9m originated in 321 Crédito, acquired in May 2019. Excluding this inorganic effect, revenues would have amounted to €48.2m, up €6.3m (+15.1%) vis-à-vis 2019.

The revenue growth was driven by the positive impact of €44.6m in **net interest income** in 2020, €15.3m (+52.3%) above the level of 2019. Excluding 321 Crédito, the net interest income would be €17.3m, up €4.5m (+35.6%) versus 2019.

Banco CTT gross **commissions** grew by €4.7m (+52.9%), mainly due to customer transactionality (+14.6%), mortgage loans (+64.4%), as well as accounts and debit cards (+607.0%), boosted by the introduction of debit card commissions from the beginning of April 2020.

Commissions received in 2020 regarding **consumer credit**, in partnership with BNP Paribas, decreased by 24.4% (-€0.6m) vis-à-vis 2019, due to the reduction in production volumes (-26.5%), in line with what was observed in the market in view of the economic impacts of the health crisis.

Placements of the **PPR** product, which no longer has a guaranteed capital, fell by 78.2% to €72.2m versus 2019, although there was a slight recovery in 4Q20. It should be noted that the PPR production compared to the previous year is influenced by the change in the risk profile of the product, which in itself has retracted demand, added to the effects of the lockdown period. In terms of commissions received, the product continues to grow, in this case by €1.2m (+102.0%) versus 2019. The PPR product volume reached €428.8m (off-balance sheet), up 20.3% versus 2019.

The **payments** business line recorded a year-on-year decrease of €3.0m (-14.7%) in commissions received, and total revenues of €17.2m. It has progressively recovered in 2020 and reached €4.5m in 4Q20 (-8.3% vs. 4Q19 which compares to -14.3% and -30.1% in 3Q20 and 2Q20, respectively). The peak of the decline occurred in April, especially in the payment of tolls and invoices, with a gradual recovery in the two last

quarters of the year. Mention should also be made of the launch in September of a new payment solution: the Prepaid School Card for Municipalities.

The volume of **auto loan** production stood at €193.8m (+35.4%) in 2020, with a credit portfolio net of impairments of €560.4m (+19.3% compared to December 2019). The year was strongly affected by the temporary closure of auto dealerships in 2Q20, because of the lockdown measures, affecting the capture of new proposals.

The net **mortgage loan** portfolio stood at €524.6m (29.5% above that of December 2019). The mortgage loan production decreased by 15.5% (-€29.4m) versus the previous year.

Banco CTT business performance continued to allow for growth in customer **deposits** to €1,689.1m (+31.6% vs. December 2019) and in the number of accounts to 517k (56k more than at the end of 2019). The loans-to-deposits ratio stood at 64.8% at the end of the year.

In 2020, total **impairments and provisions** of €9.3m were registered, of which €5.8m in 2Q20, reflecting the credit portfolio's evolution. As a result of the deterioration of the economic situation, 321 Crédito's impairments and provisions reached €8.3m in 2020, of which €5.5m in 2Q20. In the following quarters there was a significant reduction in impairments, with €0.4m recorded in 4Q20.

At the end of 2020, moratorium requests reached a total exposure of €40.4m (€31.1m regarding mortgage loans, €6.4m auto loans, and €2.9m other loans), representing 3.6% of the total gross credit portfolio.

The private auto loans moratoria ended on 30 September. As of that date, they amounted to €27.6m and represented 40.1% of the total moratorium requests. At the end of 2020, circa 86.3% of these loans were in compliance status.

Financial Services & Retail

Financial Services & Retail revenues amounted to €44.0m in 2020 (€30.8m relative to Financial Services and €13.0m to Retail), with a decrease of €3.3m (-7.1%) vis-à-vis 2019.

The performance in 2Q20 was strongly influenced by the restrictive measures of the state of emergency, namely the effect it generated on the preference for liquidity and consequent lower appetite for medium/long-term financial investments, as well as by the limited customer access to the CTT Retail Network and the reduced post office opening hours.

Financial products obtained revenues of €30.8m in 2020, a decrease of €2.8m (-8.3%) broken down as follows:

- **Public debt certificates** (Savings Certificates and Treasury Certificates Savings Growth) with revenues of €22.1m, decreased by €3.2m (-12.8%) vis-à-vis 2019, with €3,834.7m in subscriptions (-2.0%). Notwithstanding the slight decrease in subscriptions, the revenue decline was mainly influenced by the change in the terms of the contract between CTT and IGCP, the Treasury and Public Credit Management Institution, which had a negative impact on revenues.
- **Capitalization insurance** products negatively impacted the change in revenues by €0.5m (-32.2%) compared to 2019.
- **Money orders** revenues grew to €6.0m, up €0.4m versus 2019 (+7.5%), due to the partnership with the Government for the delivery of unemployment and other welfare subsidies, as from year-end 2019.

- **CTT payment services** posted revenues of €1.5m in 2020, up €0.4m (+31.0%), as the **payment of taxes** was made at the Retail Network, thus reducing the structural effect of e-substitution in this type of service.

Retail products and services obtained revenues of €13.0m in 2020, a decrease of €0.3m (-2.5%) versus 2019, penalized by third-party retail products and services, mainly in the sale of lottery, books, and in the payment of the air transport subsidy (Azores and Madeira), which posted the sharpest decline. Conversely, merchandising posted a year-on-year growth of €1.7m (+307.2%), and the introduction in September of the sale of instant lottery (scratch cards) in 315 post offices generated revenues of €0.6m.

Retail products and services recorded a significant recovery in the last two quarters of the year, particularly in 4Q20, with a growth of 10.7% versus 4Q19. CTT has been strengthening its position with the sale of new book issues and launch of exclusive CTT collections, the increase in monthly sales of lotteries, the establishment of new partnerships in telecommunications and merchandising, with emphasis on the offer of individual protection products and the consolidation of the gaming and wearables product portfolio.

Operating Costs

Operating costs⁸ amounted to €654.7m in 2020, an increase of €15.9m (+2.5%) versus 2019, with a €12.5m impact from 321 Crédito. Excluding 321 Crédito, operating costs totaled €642.2m (+1.8%).

Operating costs

	2019	2020	Δ	Δ%
Operating costs	638.8	654.7	15.9	2.5%
Staff costs	344.1	338.6	-5.5	-1.6%
ES&S	264.7	282.5	17.9	6.8%
Other operating costs	30.0	33.6	3.5	11.8%

€ million

Staff costs declined by €5.5m (-1.6%) in 2020 compared to 2019. Excluding the effect of 321 Crédito, those costs decreased by €7.5m (-2.2%). This is mostly due to the net reduction of the personnel structure initiated in previous years, with a positive impact of -€6.1m in 2020, and due to the savings achieved in medical and healthcare costs, resulting not only from the pandemic but also from the renegotiation of the work accidents insurance contract with savings of -€2.2m.

In contrast, long-term employee benefits increased by €0.8m, mostly due to the decrease in the liability related to the “telephone subscription charge”, which took place in 2019, and the update of actuarial assumptions in the remaining benefits. Besides, overtime work costs increased by €0.4m due to the growth in the activity of Express & Parcels.

External supplies & services costs increased €17.9m (+6.8%), of which €1.6m resulted from the integration of 321 Crédito. Excluding the inorganic effect, the growth was €16.3m (+6.2%), which includes mainly the increase in direct costs (+€14.6m), namely in handling, transport and delivery costs and in costs related to temporary work (+€5.6m), in both cases mostly in the Express & Parcels growth lever. This increase was partly offset by the reduction in physical resources, commercial and after-sales costs (-€3.9m).

Other operating costs grew €3.5m (+11.8%) compared to those of 2019. Excluding the inorganic effect of 321 Crédito (+€1.0m), these costs grew by €2.5m (+8.7%), mostly due to sales costs related to new partnerships, lottery and other (+€3.9m), which were partly offset by the reduction in the remaining sales costs (-€0.5m) and the decrease in the amount of the indemnities paid to customers (-€1.5m).

⁸ Excluding depreciation/amortization, impairments and provisions, the impact of IFRS 16 and specific items.

Staff

As of 31 December 2020, the CTT **headcount** (permanent and fixed-term staff) consisted of 12,234 employees, 121 less (-1.0%) than as of 31 December 2019. It should be noted that as from 2020, the methodology for counting permanent staff changed; hence permanent staff under a suspension agreement, corresponding in the period under analysis to -136 employees, is no longer considered. Excluding this effect, the decrease in permanent staff would have been 76.

Headcount⁹				
	31.12.2019	31.12.2020	Δ 2020/2019	
Mail & other	10,709	10,445	-264	-2.5%
Express & Parcels	1,201	1,319	118	9.8%
Banco CTT	406	435	29	7.1%
Financial Services & Retail	39	35	-4	-10.3%
Total, of which:	12,355	12,234	-121	-1.0%
Permanent	10,979	10,767	-212	-1.9%
Fixed-term contracts	1,376	1,467	91	6.6%
Portugal	11,874	11,671	-203	-1.7%
Other geographies	481	563	82	17.0%

There was a decrease in the number of staff (permanent staff and fixed-term employees) in the Mail & other (-264) and the Financial Services & Retail (-4) business units, which more than offset the staff increase in the Express & Parcels (+118) and Banco CTT (+29) business units.

Together, the areas of operations and distribution within the basic distribution network (5,904 employees, of whom 4,312 delivery postmen and women) and the Retail Network (2,436 employees) represented circa 77% of CTT's permanent staff.

EBITDA

In 4Q20, **EBITDA¹⁰** of the Group grew by 16.4% (+€4.6m), consistently recovering from the declines of 48.2% and 9.6% in in 2Q20 and 3Q20, respectively. In the full year, the Company generated an **EBITDA** of €90.5m, €11.0m less (-10.8%) than in 2019, due to the strong impact of Mail & other (-€34.0m; -43.6%) and Financial Services & Retail (-€1.4m; -6.2%). EBITDA of the remaining business units grew significantly vis-à-vis 2019 – in Banco CTT by €15.5m (+416.7%) and in Express & Parcels by €8.9m (+386.7%). In 2020, the EBITDA margin stood at 12.1% (13.7% in 2019), while in 4Q20 it was 15.6% – the best in the last 15 quarters.

EBITDA by business unit								
	4Q19	4Q20	Δ	Δ%	2019	2020	Δ	Δ%
EBITDA	28.2	32.8	4.6	16.4%	101.5	90.5	-11.0	-10.8%
Mail & other	19.0	16.4	-2.5	-13.4%	78.0	44.0	-34.0	-43.6%
Mail	30.6	25.4	-5.2	-17.0%	120.6	85.5	-35.2	-29.2%
Central Structure	-11.6	-9.0	2.6	22.7%	-42.6	-41.4	1.2	2.8%
Express & Parcels	-0.6	5.6	6.2	966.3%	-2.3	6.6	8.9	386.7%
Banco CTT	3.4	6.5	3.1	92.7%	3.7	19.2	15.5	416.7%
Financial Services & Retail	6.5	4.3	-2.2	-33.8%	22.1	20.7	-1.4	-6.2%

€ million

⁹ In 2020 and in the same period of the previous year (proforma), the retail products and services of the Mail & other business unit are considered within the Financial Services & Retail business unit (former Financial Services business unit). This migration had an impact on the movement of workers between these business units.

¹⁰ Excluding depreciation/amortization, impairments and provisions, as well as the impact of IFRS 16 and specific items.

Specific Items

In 2020, the Company recorded **specific items** in the amount of €7.0m, broken down as shown in the table below:

Specific items				
	2019	2020	Δ	Δ%
Specific items	18.2	7.0	-11.2	-61.7%
Corporate restructuring costs and strategic projects	16.9	4.2	-12.6	-74.9%
Other non-recurring revenues and costs	1.4	2.8	1.4	101.3%

The decline of €12.6m in corporate restructuring and strategic projects is mostly related to spending on (i) compensations paid for termination of employment contracts by mutual agreement and suspension agreements (-€7.9m) within the Human Resources Optimization Program, and consulting services (-€1.6m), both under the Operational Transformation Plan; (ii) fees related to the acquisition of 321 Crédito (-€1.4m); and (iii) the implementation of the changes to the Quality of Service Indicators measurement system required by ANACOM (-€1.0m).

In 2020, specific items for an amount of €7.0m relate to (i) corporate restructuring for €3.3m (-€8.6m vs. the same period of the previous year); (ii) strategic projects for €0.9m (-€4.0m), mainly studies to support the renegotiation of the new concession agreement; and (iii) other revenues and costs for €2.8m (+€1.4m), especially the price penalty imposed by ANACOM (+€1.0m) for failure to comply with the 2019 Quality of Service Indicators, costs associated with the COVID-19 pandemic, particularly personal protection equipment, nebulization, temperature measurement, and extra cleaning services (+€1.1m), and payment of an extraordinary bonus to employees who during the confinement period were permanently at the forefront, with enormous professionalism and total commitment to their job (+€0.5m).

EBIT and Net Profit

EBIT grew by 32.1% in 4Q20 (+€4.2m), amounting to €34.5m in the full year 2020, €12.8m below (-27.0%) that recorded in 2019, strongly penalized by the decrease in EBITDA (-€11.0m), the growth in impairments and provisions (+€6.7m) and in depreciation/amortization (+€7.9m), which did not offset the decrease in specific items (-€11.2m).

EBIT by business unit

	2019	2020	Δ	Δ%
EBIT	47.3	34.5	-12.8	-27.0%
Mail & other	42.9	9.9	-32.9	-76.8%
Mail	98.6	66.4	-32.2	-32.6%
Central Structure	-55.7	-56.5	-0.7	-1.3%
Express & Parcels	-12.1	-0.5	11.6	95.9%
Banco CTT	-4.9	4.6	9.5	193.1%
Financial Services & Retail	21.5	20.5	-1.0	-4.5%

The consolidated **financial results** totaled –€11.4m, corresponding to an improvement of €0.4m (3.2%) compared to 2019.

Financial results

	2019	2020	Δ	Δ%
				€ million
Financial results	-11.8	-11.4	0.4	3.2%
Financial income, net	-10.4	-9.6	0.7	6.9%
Financial costs and losses	-10.4	-9.7	0.8	7.3%
Financial income	0.1	0.02	-0.04	-68.4%
Gains /losses in subsidiaries, associated companies and joint ventures	-1.4	-1.7	-0.3	-24.3%

Financial costs and losses incurred amounted to €9.7m, mainly incorporating financial costs related to post-employment and long-term employee benefits of €4.5m, interest associated with financing leases liabilities linked to the implementation of IFRS 16 for an amount of €3.3m, and interest on the financial debt for an amount of €1.7m.

In 2020, CTT obtained a consolidated **net profit** attributable to CTT Group equity holders of €16.7m, €12.5m below (-42.9%) that obtained in the previous year, strongly impacted by the negative evolution of EBIT (-€12.8m).

Investment

Capex stood at €33.4m, corresponding to 26.4% less (-€12.0m) than in 2019.

The financial effort made in an economic environment strongly impacted by the pandemic continued to focus on the growth businesses, namely Express & Parcels (+€10.7m) and Banco CTT (+€6.3m), in order to improve and optimize the systems that support their activity. This amount was offset by initiatives to reduce investment in IT in the remaining business units (-€7.4m) and in sorting equipment in the Mail business unit (-€8.4m) due the strong investment in this area in 2019.

Cash flow

In 2020, the Company generated an operating **cash flow** of €42.9m, €1.6m less than 2019.

Cash flow

	2019	2020	€ million Δ
EBITDA	101.5	90.5	-11.0
Specific items*	16.8	7.0	-9.9
CAPEX	45.4	33.4	-12.0
Δ Working capital	5.3	-7.2	-12.5
Operating cash flow	44.5	42.9	-1.6
Employee benefits	-14.4	-12.1	2.3
Tax	2.2	-9.0	-11.2
Free cash flow	32.3	21.8	-10.5
Debt (principal + interest)	59.3	-1.5	-60.9
Dividends	-15.0	0.0	15.0
Financial investments	-114.4	-0.3	114.1
Net change in organic own cash	-37.7	20.0	57.8
Changes to consolidation perimeter - 321Crédito	6.8	0.0	-6.8
Change in own cash	-30.9	20.0	51.0
Δ Liabilities related to Financial Services & other & Banco CTT, net ¹¹	30.9	63.9	33.0
Δ Other ¹²	20.3	-8.8	-29.0
Net change in cash (Balance Sheet)	20.3	75.2	54.9

*Specific items affecting EBITDA.

The negative change in working capital compared to 2019 (-€12.5m) resulted mainly from the high investment at the end of 2019 (€27.0m in 4Q19), which was paid mainly in 1H20 and compares to a lower investment at the end of the year (€15.2m in 4Q20) leading to a negative evolution in working capital related to Capex in the amount of €20.6m in 2020 versus 2019. This change was partially compensated by a positive evolution of working capital related to the current business, with a strong contribution from a more effective management of accounts receivable (+€7.6m) and accounts payable (+€2.0m).

Consolidated Balance Sheet

Consolidated balance sheet

	31.12.2019	31.12.2020	€ million Δ	Δ%
Non-current assets	1,734.7	1,984.3	249.6	14.4%
Current assets	778.8	910.6	131.8	16.9%
Assets	2,513.4	2,894.9	381.5	15.2%
Equity	131.4	150.3	18.9	14.4%
Liabilities	2,382.0	2,744.6	362.6	15.2%
Non-current liabilities	512.8	493.4	-19.4	-3.8%
Current liabilities	1,869.2	2,251.2	382.0	20.4%
Equity and Liabilities	2,513.4	2,894.9	381.5	15.2%

¹¹ The change in net liabilities of Financial Services and Banco CTT reflects the evolution of credit balances with third parties, depositors or other banking financial liabilities, net of the amounts invested in credit or investments in securities/banking financial assets, of entities of the CTT Group providing financial services, namely CTT financial services, Payshop, Banco CTT and 321 Crédito.

¹² The change in other cash items reflects the evolution of Banco CTT's sight deposits at Bank of Portugal, outstanding cheques/clearing of Banco CTT cheques, and impairment of sight and term deposits and bank applications.

The key aspects of the comparison between the **balance sheet** as of 31.12.2020 and that as of 31.12.2019 are as follows:

- **Assets** increased €381.5m, mostly due to the increases in Tangible fixed assets (+€31.5m) as a result of the increase in Rights of Use related to the extension of lease contract maturity terms, in Credit to banking clients (+€207.5m), especially mortgage loans, in Debt securities (+€61.4m), and in Cash & cash equivalents (+€75.2m), following the significant increase in new deposits in Banco CTT.
- **Equity** increased €18.9m following the generation of net income attributable to equity holders of CTT Group in 2020 for an amount of €16.7m and the increase in Other changes in equity (+€2.1m) as a result of actuarial gains recognized within CTT Healthcare Plan.
- **Liabilities** increased €362.6m, with emphasis on the increase in Banking clients' deposits and other loans (+€367.0m) and the increase in Debt (+€31.5m) following the extension of lease contracts maturity terms, partially compensated by the decrease in Other banking financial liabilities (-€28.1m) and Income taxes payable (-€4.6m).

The CTT Group consolidated Balance Sheet, excluding Banco CTT from the full consolidation perimeter and accounting for it as a financial investment measured by the equity method, would be as follows:

Consolidated balance sheet excluding Banco CTT

	31.12.2019	31.12.2020	Δ	Δ%
				€ million
Non-current assets	615.8	638.8	23.0	3.7%
Current assets	456.9	484.0	27.1	5.9%
Assets	1,072.8	1,122.8	50.1	4.7%
Equity	131.4	150.3	18.9	14.4%
Liabilities	941.3	972.5	31.2	3.3%
Non-current liabilities	432.0	444.0	12.0	2.8%
Current liabilities	509.3	528.5	19.2	3.8%
Equity and Liabilities	1,072.8	1,122.8	50.1	4.7%

In 2020, the **liabilities related to employee benefits** (post-employment and long-term benefits) decreased to €283.0m, down €3.7m compared to December 2019, broken down as specified in the table below:

Liabilities related to employee benefits

	31.12.2019	31.12.2020	Δ	Δ%
				€ million
Total liabilities	286.7	283.0	-3.7	-1.3%
Healthcare	274.4	271.2	-3.3	-1.2%
Healthcare (321 Crédito)	1.3	1.4	0.1	11.4%
Suspension agreements	3.1	2.8	-0.4	-12.1%
Other long-term employee benefits	7.1	6.9	-0.2	-2.8%
Other long-term benefits (321 Crédito)	0.2	0.2	0.0	9.1%
Pension plan	0.4	0.3	-0.1	-19.3%
Other benefits	0.1	0.2	0.1	42.1%

The reduction in CTT, SA healthcare liabilities derives mostly from the introduction of a stop-loss mechanism in 2020 combined with the effect of the lower utilization of healthcare services due to the COVID-19 pandemic. These effects were partly compensated by the reduction in the discount rate.

Consolidated net debt

Consolidated net debt

	31.12.2019	31.12.2020	€ million Δ
Net debt	60.0	71.4	11.4
Short-term & long-term debt	175.4	206.9	31.5
of which financial leases (IFRS 16)	84.0	115.2	31.3
Own cash (I+II)	115.4	135.4	20.0
Cash & cash equivalents	443.0	518.2	75.2
Cash & cash equivalents at the end of the period (I)	414.9	498.8	84.0
Other cash items	28.1	19.4	-8.8
Financial Services payables, net (II)	-299.5	-363.4	-63.9

The key aspects of the comparison between the **consolidated net debt** as of 31.12.2020 and that as of 31.12.2019 are as follows:

- **Own cash** increased by €20.0m, as the positive evolution of operating cash flow (+€42.9m) more than offset the payment of employee benefits (-€12.1m), taxes (-€9.0m), and debt service (-€1.5m).
- **Short-term & long-term debt** increased by €31.5m mainly due to the increase in the liabilities related to lease contracts in the scope of IFRS 16 (+€31.3m), following the revision of the terms of those contracts. This review of lease terms was carried out by the CTT Group following a recent interpretation of the IFRS Interpretations Committee on the concept of lease term, which essentially determines that an entity should assess whether the contract is enforceable beyond the period in which it can be cancelled, taking into account not only the strict terms of the contract, but also its broader economic aspects.

CTT Group net debt excluding Banco CTT from the full consolidation perimeter and accounting it as a financial investment measured by the equity method would be as follows:

Consolidated net debt excluding Banco CTT

	31.12.2019	31.12.2020	€ million Δ
Net debt with Banco CTT under equity method	144.1	153.9	9.8
Short-term & long-term debt	173.2	204.7	31.5
of which financial leases (IFRS 16)	81.8	113.0	31.3
Own cash (I+II)	29.1	50.8	21.7
Cash & cash equivalents	268.2	286.4	18.3
Cash & cash equivalents at the end of the period (I)	268.2	286.5	18.3
Other cash items	-0.02	-0.02	0.0
Financial Services payables, net (II)	-239.1	-235.7	3.5

2. Other Highlights

REGULATORY ISSUES

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 106-A/2020 of 30 December. Compensation mechanisms for the unilateral decision to extend the contract were triggered by the Company at the beginning of 2021.

3. Future Perspectives

Due to a new general lockdown as of the second half of January 2021, a negative economic and social impact is anticipated, which will affect society in general and the Group's business, which may impact the current forward-looking perspectives. The Management will continue to monitor the implications to the business and provide the stakeholders with all the necessary information.

In 2021, CTT, supported by the dynamism of Express & Parcels due to the constant growth of e-commerce, as well as the continued good performance of Banco CTT, expects to deliver high single-digit growth in revenues, double-digit growth in EBITDA, EBIT to exceed €50m and Capex of c. €35m (of which €15m of expansion capex).

On the other hand, the Company intends to resume dividend payment in 2021, and therefore the Board of Directors will propose to this year's General Meeting of Shareholders a shareholder remuneration of €0.085 per share relating to the 2020 financial year, payable in May 2021. The Company will continue to invest to be the shaper of e-commerce in Portugal.

Final Note

This press release is based on CTT – Correios de Portugal, S.A. statutory reported financial information for the year 2020, audited by an auditor registered with the Portuguese Securities Market Commission (CMVM).

Lisbon, 16 March 2021

The Board of Directors

This information to the market and the general public is made under the terms and for the purposes of article 248 of the Portuguese Securities Code. It is also available on CTT website at:

https://www.ctt.pt/grupo-ctt/investidores/comunicados/index?language_id=1.

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This document contains forward-looking statements. All the statements herein which are not historical facts, including, but not limited to, statements expressing our current opinion or, as applicable, those of our directors regarding the financial performance, the business strategy, the management plans and objectives concerning future operations and investments are forward-looking statements. Statements that include the words “expects”, “estimates”, “foresees”, “predicts”, “intends”, “plans”, “believes”, “anticipates”, “will”, “targets”, “may”, “would”, “could”, “continues” and similar statements of a future or forward-looking nature identify forward-looking statements.

All forward-looking statements included herein involve known and unknown risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results, performance, or achievements to differ materially from those indicated in these statements. Any forward-looking statements in this document reflect our current views concerning future events and are subject to these and other risks, uncertainties, and assumptions relating to the results of our operations, growth strategy and liquidity, and the wider environment (specifically, market developments, investment opportunities, and regulatory conditions).

Although CTT believes that the assumptions beyond such forward-looking statements are reasonable when made, any third parties are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of CTT, what could cause the models, objectives, plans, estimates and / or projections to be materially reviewed and / or actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

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