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03

CTT

Business Units



03 CTT BUSINESS UNITS

The revenues of unaddressed advertising mail increased by 1.1M€.

Increase +15.7%

3.1. Mail

Mail revenues of the 4th quarter of 2019 were almost in line with those of the same period of 2018 (-0.2%), totalling €125.7m. In 2019, they stood at €484.6m which corresponds to a decrease of €10.5m (-2.1%) vis-à-vis 2018.

This decrease is mainly the result of the combined effect of the €9.5m decline (-2.1%) in the revenues of **addressed mail** and €1.4m (-17.3%) decline in those of **philately**, mitigated by the strong revenue growth in **international inbound mail** of €7.6m (+20.4%) and in **international outbound mail** of €3.9m (+9.3%),

the latter positively influenced by items associated to the legislative election process in the 3rd quarter of 2019 (+€5.3m).

The revenues of **unaddressed advertising mail** increased by €1.1m (+15.7%) as a result of market share gains, and those of the **business solutions** grew by €0.7m (+7.4%) due to the more diversified offer, especially in geographical services.

The evolution of **transactional mail** volumes (-8.5%) continued to be negatively affected by the **domestic**

Mail volumes

| Million items | 4Q18 | 4Q19 | Δ | '18 | '19 | Δ |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Transactional mail | 140.6 | 130.1 | -7.5% | 585.8 | 536.0 | -8.5% |
| Advertising mail | 14.7 | 12.6 | -14.0% | 57.8 | 48.2 | -16.5% |
| Editorial mail | 9.7 | 9.3 | -3.6% | 37.2 | 34.8 | -6.5% |
| Addressed mail | 165.0 | 152.1 | -7.8% | 680.7 | 619.0 | -9.1% |
| Unaddressed mail | 110.5 | 144.9 | 31.1% | 427.3 | 521.4 | 22.0% |

ordinary mail volumes decline of 42.6 million items (-9.5%), particularly in the banking and insurance, telecommunications and government sectors, as well as by the **priority mail** volumes decline of 8.2 million items (-31.2%). **Green mail** grew by 1.5 million items (+39.8%) which corresponds to some substitution, as the prepaid registered items and priority items product line was discontinued.

The decline trend of **addressed advertising mail** volumes slowed down in the 2nd half of 2019 (12.1%) compared to the 1st half of the year (-20.4%) and reached a -16.5% decrease (-14.9% in revenues) in 2019. The implementation of the new General Data Protection Regulation (GDPR) together with the digitalisation of processes and the new business, communication and marketing models focusing on other types of advertising solutions impacted the performance of this product throughout the year.

Unaddressed advertising mail volumes continued its high growth dynamics in the 4th quarter of 2019 (+31.1%), which compares with 5.9%, 18.5% and 31.4% in the 1st, 2nd and 3rd quarters, respectively, thus consolidating growth in 2019 (+22.0%) and leading to a revenue increase of €1.1m (+15.7%). New customer acquisitions and the European and legislative elections (infomail) were the main reasons for the growth of this business line.

The **retail** business grew €0.1m (+1.0%), excluding the effect of Phone-Ix revenues in 2018 (€0.6m) that ceased activity on 31 December 2018. The growth in lottery sales, new partnerships that made it possible to expand the telecommunications offer, and new business models involving the sharing of space and advertising at the CTT Retail Network were the reasons for this growth.

Accessibility

As the Universal Postal Service provider, CTT's activity is of intrinsically social nature. By definition, all residents in Portugal are potential customers, whether active or passive (receivers of letter mail).

With close to 78 thousand customers/day at CTT post offices and a daily average of one postal item delivered per household, accessibility is one of its distinctive features. The Company provides the largest contact network at a national level, operating as a structuring and determinant element for social cohesion within the country.

At the end of the year, CTT's network of contact with the public consisted of 2,370 access points, comprising 539 CTT post offices and 1,831 postal agencies, as

well as 4,660 postman delivery rounds, ensuring the availability and accessibility of the attendance and delivery service, embodying a convenient and multi-service platform.

Supplementing this, the network also had 1,933 points of sale of stamps, 117 automatic stamp vending machines and 14 automatic vending machines of mail products. The network of mailboxes was composed of 10,731 boxes, located at 9,619 geographic points at a national level. Apart from these, there are also 4,821 Payshop agents.

The dimensioning of the postal network is determined by two critical factors: the capacity to generate business and the obligations to provide the aforesaid public service of universal character. This universal service implies that CTT is an operator committed to providing service throughout the entire country, in a permanent form, in the most far-flung and hidden corners, without exceptions and at the same price.

This reality generates conflicting goals between the maintenance of the Company's economic sustainability and its action of social responsibility towards the surrounding community, with the inherent costs. In this context and when necessary, CTT has established solutions with local partners, preferably Parish Councils, in this way keeping the relations of proximity and trust that CTT has upheld with the customers and population, and assuring the quality of service.

Any alteration and impact on the community of possible changes in the operating model are analysed internally, based on information collected onsite by internal and external agents, so as to assure the satisfaction of the population.

As established in the Concession Contract, for 2018/2020 the objectives were defined for postal network density considering factors such as the distance to be travelled by customers in order to reach the closest access point, according to the urban or rural nature of the geographic areas, as well as the citizens' accessibility to the various mail services and the opening hours when they can use them. Full compliance with the objectives defined reinforces the Company's intention to maintain a network offering proximity and convenience to its customers and the population in general.

In European terms and based on the available data, CTT continues to show a good level of penetration of the postal services, with a postal coverage similar to that of the European Community average.

Postal density and coverage

| | Inhabitants per postal establishment | | | | | Km ² per postal establishment | | | | |
|------------|--------------------------------------|-------|-------|-------|-------|--|-----|-----|-----|------|
| | '15 | '16 | '17 | '18 | '19 | '15 | '16 | '17 | '18 | '19 |
| EU Average | 4,389 | 4,605 | 5,167 | 4,989 | n.a. | 38 | 40 | 45 | 43 | n.a. |
| Portugal | 4,444 | 4,413 | 4,350 | 4,314 | 4,338 | 40 | 39 | 39 | 39 | 39 |

Source: UPU
Note: Considering fixed postal establishments.



Retail Network and postal agencies



Network of postal delivery offices

In terms of accessibility by disabled people, the Company continued to pursue modernisation and renovation work of the value of 82,473 euros. The types of accesses which have been constructed include interior or exterior access, ramps, lift platforms, removable ramps, ramping in public areas close to the entrance of the post office, alteration of façades with door opening with side elevation, or others. Thus, around 95% of the total post offices currently show improved conditions of accessibility.

Eco portfolio

CTT has progressively experienced the continued interest of its customers in using environmentally friendly mail products which are very often also an element of communication, in view of the customers' sensitivity to these arguments, thus contributing to improve the Company's image among the public. Since its launch in 2010, total sales of the range of CTT eco products represent revenues of approximately 108 million euros, to a large extent driven by the visibility of their environmental and carbon attributes.

"Green" mail is a 100% ecological offer, which focuses on the environmental component and guarantees the carbon neutrality of its products, at no additional costs for customers. In 2019, the "green" mail revenues and volumes showed an increase, with close to 5.9 million items having been sold, corresponding to a 36% increase year-on-year. On average, 53.5 grams of CO₂ are emitted for each "green" mail item delivered by CTT.

The range of eco direct marketing services provides a distinctive symbol for the campaigns which stand out positively due to their environmental performance, through compliance with various ecological criteria. This measure sought to project the use of the channel of mail with ecological merit, through the use of ecological raw materials, responsible production processes and appropriate management of the end of life cycle. In 2019, the eco range maintained its relative weight (43%) in the domestic direct mail volumes, involving around 20.8 million items.

CTT carries out the carbon offsetting of "Green" Mail by supporting two projects, one national and the other international. The voting process took place in 2018 and is valid for two years, giving rise to the national project named Create Woods which promotes the planting of indigenous species, original trees and

bushes of the Portuguese flora, and to the international project that promotes the use of renewable biomass, through a factory that produces bricks and other construction materials in the northeast of Brazil.

Philately

In 2019, philately generated revenues of €6.7m, -€1.4m (-17.3%) than the figure recorded in 2018. A recovery is expected in 2020 with the celebration of the 500 Years of Postal Services in Portugal and various philatelic initiatives associated to this event.

During the year, CTT was awarded two philatelic prizes: the ASIAGO Award for Philatelic Art for the "Europe 2018 – Bridges" issue, and the Graphis Gold Award for the "250 Years of Imprensa Nacional" issue.

There were various issues with innovations, in particular: (i) the "Europe – National Birds" issue, that, using augmented reality, enables hearing the chirping of the birds; (ii) the "150 Years since the Birth of Mahatma Gandhi" issue produced on *khadi*, the natural fibre handcrafted fabric that Mahatma Gandhi spun on his *charkha* (spinning wheel) and used for his clothing, with Portugal and India being the only countries of the world used to print stamps; and (iii) the Christmas issue that, for the first time in the world, included a LED light.

National and International Events 2019



Commemorative Issues of 2019

- Portugal China – 40 Years of Diplomatic Relations
- Figures from History and Culture
- 150 Years of the Abolition of Slavery in Portugal
- 200 Years of the Birth of Queen Maria II
- 700 Years of the Foundation of the Order of Christ
- Commemorating Calouste Sarkis Gulbenkian (joint issue with Armenia)
- Aga Khan Music Awards
- Centenary Museums of Portugal (1st group)
- 100 Years of the International Labour Organisation
- 100 Years of Einstein's Eclipse
- 600 Years of the Discovery of the Madeira Archipelago
- World Figures from History and Culture
- International Year of the Periodic Table
- Commemorating Artur de Sousa
- 500 Years of the Magalhães – Elcano Expedition (joint issue with Spain)
- 40 Years of the National Health Service
- 20 Years of Harry Potter in Portugal
- 150 Years of the Birth of Mahatma Gandhi
- 500 Years of the Postal Service (4th group)
- 30 Years of ANACOM – National Communications Authority
- Archbishops of Braga (2nd group)
- The Liberal Revolution of 1820
- Christmas 2019
- 600 years of *Crónica de Portugal 1419*
- Almeida's Bible: Unabridged Edition 1819–2019

Environment and Sustainability

Commemorative Issues of 2019

- Portuguese Autochthonous Breeds (2nd group)
- Europa Issue – National Birds
- The Tea (Azores)
- Costumes of the Mediterranean (EuroMed)
- 100 Years of the of the Directorate-General for Livestock Services

Self-adhesive


- Traditional Desserts of Portugal (3rd group)
- Greater Lisbon/Central Portugal Booklets
- Alentejo/Algarve Booklets

Editions 2019

- Queen Maria II – A Woman between Family and Politics
- 100 Years of Einstein's Solar Eclipse
- Centenary Museums of Portugal I
- The Liberal Revolution of 1820
- My Stamp Album 2019
- Portugal in Stamps 2019

More information on the plan of philatelic issues of CTT at:
<https://www.ctt.pt/particulares/filatelia/plano-emissoes/>

3.2. Express & Parcels

The **Express & Parcels revenues** amounted to €152.4m in 2019, +€3.5m (+2.4%) vis-à-vis 2018.

Revenues in Portugal totalled €98.2m, +7.4% compared to the previous year. The development of this business in Portugal resulted mostly from the **CEP** business, which reached €75.0m (+10.7%), the banking activity that totalled €6.7m (+5.3%) and logistics that amounted to €3.1m (+1.5%). The cargo business totalled €12.4m (-2.8%).

Volumes in Portugal totalled 22.0 million items, +11.2% vs. 2018. The **CEP** business performance posted sustained improvement throughout the year, as its volumes grew +1.4%, +3.7%, +13.3% and +22.0% from the 1st to the 4th quarter. **Cargo** volumes also showed a positive evolution during 2019, reaching a growth of 15.8% in the 4th quarter, which translated into a growth of 14.9% in 2019. This performance was driven by relevant customer additions, both in the B2B and in the B2C segment (e-commerce), and a good performance in the international area.

CTT continued its strategy of developing the B2C market in Portugal and promoting Portuguese e-sellers by launching the Dott marketplace and the e-fulfilment platform “CTT Logística”.

The **Dott** marketplace was launched in May through a partnership between CTT and Sonae. At the end of 2019, 663 sellers were present on this platform (an increase of 103 in the 4th quarter) and more than 1.5 million products were available. At the end of 2019, there were around 50 thousand registered users (an increase of 29 thousand in the 4th quarter).

At the end of 2019, CTT launched “CTT Logística”, another solution to promote the development of e-commerce in Portugal, particularly for Portuguese SMEs that aim to start or develop their digital presence. This solution provides a complete fulfilment platform, from the creation of the product catalogue, storage, order preparation and distribution to the final consumer, allowing customers to focus on the development and sale of their products.



Revenues in Spain stood at €51.8m, -€3.7m (-6.8%) vis-à-vis the previous year mainly due to the 9.8% decline in volumes, greatly influenced by the loss of one of the largest customers. Excluding the impact of this large customer, the evolution of revenues and volumes in 2019 would have been +8.8% and +7.0%, respectively.

On 20 December 2019, Tourline was merged into the company CTT Expresso as a branch in Spain. The company has a new management team in Spain that is focused on improving its operating model to ensure more efficiency and better quality of service in a market where e-commerce is increasingly representative, and to resume growth in order to ensure scale and profitability, positioning itself as an Iberian reference operator, especially in cross border flows.

Revenues in Mozambique accelerated in the 4th quarter of 2019 (+40.4%), confirming the 3rd quarter trend (+40.8%), which compares to a previous performance of 4.2% in the 1st half of 2019. Due to this acceleration the operation in Mozambique managed to close 2019 with 23.0% growth vs. 2018.

CEP and banking businesses contributed positively to this growth, underpinned by the capture of new businesses in the health area (collection of biological samples).

Eco portfolio

In 2019, CTT once again put to public vote the selection of the projects for full carbon offsetting of the Express offer through the CTT website (www.ctt.pt). The emissions produced along the value chain, which are unavoidable, are fully offset by the support given to two projects with environmental benefits (fight against climate change and conservation of biodiversity) and social benefits (support to employment creation and improvement of the quality of life of local communities). The winners were the national project "Conservation of fluvial bodies", which seeks to preserve some of the most threatened freshwater fish species in our country, fostering actions of reproduction of these species and conservation measures for their habitat to later return them to the natural environment, and the international project "Bandeira e Capelli" which promotes the use



of renewable biomass for the production of bricks, roof tiles and structural ceramic products, sold on the local market by two ceramic factories located in the state of Alagoas. This initiative fulfils the expectations of our stakeholders and allows them to participate actively in the decision-making process.

The express offer accounts for 15.1% of the company's total revenues.

3.3. Banco CTT

The **revenues of Banco CTT** reached €62.9m in 2019, representing year-on-year growth of €29.3m (+87.2%). These revenues were achieved with a €21.0m contribution from 321 Crédito, acquired in May 2019. Excluding the inorganic effect of the acquisition of 321 Crédito, the revenues amounted to €41.9m, +€8.3m (+24.5%) vis-à-vis 2018.

The revenues growth of this business unit, excluding 321 Crédito, counted on the good performance achieved with the net interest income growth (+€4.9m; +61.8%), registering a year-on-year increase of 53.6% in the 4th quarter of 2019. The commissions received from the banking activity grew by 79.3% in 2019, due

to the growth in the placement of the PPR product (Retirement Savings Plan) in partnership with the insurance company Zurich (+€331.0m placed), as well as in customer transactionality and consumer credit.

Noteworthy was the operating performance of Banco CTT, which led to a significant growth of accounts opened to 461 thousand accounts (+113 thousand more than at the end of 2018) which shows the great capacity of Banco CTT to open more than 450 accounts/day, together with the continued growth of customer deposits to €1,283.6m (+45.2%) and the growth of the mortgage loan portfolio net of impairments to €405.1m (+69.9%). With the acquisition of 321 Crédito, Banco CTT structurally boosted the loan-to-deposit ratio of its credit portfolio from 28.1% as at December 2018 to 69.0% as at December 2019, through the integration of an amount of €479.6m in its portfolio of credit to customers, and the sustained growth of mortgage credit.

In the specialised credit area, the operational performance is to be highlighted with an auto loan production of more than €200m in the 12 months of 2019, representing a market share of around 11.8% in the used car loans segment.

The payments business recorded a year-on-year decrease of €0.6m (-2.9%) in commissions received,

and total revenues of €20.1m. Despite the decrease in payment products revenues, it is worth noting the 85.8% growth in ticketing due to new contracts signed in 2019, and also due to the launch of a new service in early December 2019 that allows payment of products with references through MBSPOT in the Payshop network, expanding the offer to B2B customers and creating greater convenience and options for users of the network.

3.4. Financial Services

Financial Services revenues reached €34.1m in 2019, a growth of €7.3m (+27.2%) compared to 2018.

Savings & Insurance products contributed €26.9m to the revenues, corresponding to a 42.1% increase vs. the previous year. Of these, the **Public Debt Certificates** (Savings Certificates and Treasury Certificates Poupança Crescimento) represented €25.3m (+47.0% vs. 2018) and reached €3,912.1m in subscriptions, +51.9% compared to the volume recorded in 2018. The remuneration paid by IGCP, the Treasury and Public Credit Management Institution, to the Company will decrease in 2020 as it will vary according to the sales volume.

The robust performance of the **Savings & Insurance** products more than offset the evolution of **Payments** (+1.7%) and **Money Orders** (-8.6%) revenues.

3.5. Future perspectives

Save the impacts resulting from the crisis associated with the ongoing pandemic, which are still difficult to estimate, CTT, supported by organic developments in the growth levers and the contribution of 321 Crédito, should post a 4% to 6% revenue growth which, together with the implementation of efficiency measures, should translate into a high single-digit growth of EBIT and an EBITDA equal to or above €110m in 2020.

Addressed mail volumes are expected to decline 6% to 8%, while double-digit growth is projected for the Express & Parcels business in Portugal. To cope with the latter and support the operation in general, CTT estimates that it would need a €40m investment, aimed at increasing automation and eliminating capacity bottlenecks in the Express & Parcels business unit.

With regard to the dividend for the 2019 financial year, the Board of Directors will propose a shareholder remuneration of €0,11 per share, a 10% increase vs. the previous year, payable in May 2020.

CTT has formally announced its intent to be the new universal service concessionaire, of a more sustainable concession contract.