

A large red geometric shape, resembling a triangle or a trapezoid, is positioned on the left side of the page, extending from the top-left corner towards the bottom-right. The rest of the page is white.

**ctt**

**Consolidated Results**

1<sup>st</sup> Half 2020

**committed to deliver**



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

### 1<sup>st</sup> HALF 2020 CONSOLIDATED RESULTS

- **Revenues**<sup>1</sup> grew in all business units in 1H20, except Mail & other<sup>2</sup>, which was significantly affected by the COVID-19 pandemic. Revenues stood at €349.2m (-€5.8m; -1.6%), with special emphasis on Banco CTT (+€14.8m; +63.0%, of which €11.2m relative to 321 Crédito which was acquired in May 2019), Express & Parcels (+€12.3m; +16.9%) and Financial Services & Retail<sup>2</sup> (+€0.2m; +1.2%), all of which could not fully offset the sharp decline of Mail & other (-€33.2m) revenues.
- **EBITDA**<sup>3</sup> reached €33.4m, -€13.0m (-28.0%) vis-à-vis 1H19, strongly impacted by Mail & other (-€25.9m; -62.8%). The remaining business units grew significantly in 1H20 (+€12.9m; +246.8%) even if the inorganic effect of 321 Crédito (+€5.8m; +280.9%) is excluded. In June 2020, EBITDA returned to growth (+7.9%), resuming the robust growth path initiated in January and February 2020.
- **Express & Parcels** had a record quarter in terms of revenues, which totaled €47.8m. This business unit's EBITDA of €2.2m in 2Q20 corresponds to the best quarter in the last 5 years. To be noted is the performance in Portugal, with an EBITDA of €3.5m in this quarter.
- **EBIT** stood at €4.9m in 1H20, -€14.8m (-75.3%) vs. 1H19, penalized by the decrease in EBITDA (-€13.0m) and by the growth of impairments and provisions to cover potential losses from the projected economic downturn (+€8.7m) – mainly in Banco CTT, particularly in auto loans – but also due to the amortizations (+€3.6m) as a result of strategic investments, which did not offset the decline in specific items (-€10.9m).
- **Operating cash flow** amounted to €3.9m, -€2.3m compared to 1H19.
- **Net profit**<sup>4</sup> of -€2.0m, -€11.0m (-122.1%) versus 1H19, strongly impacted by the negative evolution of EBIT (-€14.8m), partly offset by the positive effect of the income tax for the period (-€4.8m).

#### Consolidated Results

	€ million		
	1H19	1H20	Δ% 20/19
<b>Revenues</b> <sup>1</sup>	<b>355.0</b>	<b>349.2</b>	<b>-1.6%</b>
Mail & other	237.4	204.2	-14.0%
Mail <sup>2</sup>	235.1	202.8	-13.7%
Central Structure	2.3	1.3	-42.6%
Express & Parcels	72.8	85.1	16.9%
Banco CTT	23.6	38.4	63.0%
Financial Services & Retail <sup>2</sup>	21.2	21.5	1.2%
<b>Operating Costs</b> <sup>3</sup>	<b>308.6</b>	<b>315.8</b>	<b>2.3%</b>
<b>EBITDA</b> <sup>3</sup>	<b>46.4</b>	<b>33.4</b>	<b>-28.0%</b>
Leases (IFRS16)	13.7	13.4	-2.8%
<b>EBITDA including IFRS 16</b>	<b>60.1</b>	<b>46.7</b>	<b>-22.3%</b>
Impairments & provisions	2.3	11.1	379.2%
Depreciation & amortisation	26.4	30.0	13.6%
Specific items	11.7	0.8	-93.2%
<b>EBIT</b>	<b>19.7</b>	<b>4.9</b>	<b>-75.3%</b>
Financial results (+/-)	-5.0	-5.9	-17.7%
Income tax for the period	5.7	0.9	-84.3%
Non-controlling interests	-0.002	0.06	>>
<b>Net profit for the period</b> <sup>4</sup>	<b>9.0</b>	<b>-2.0</b>	<b>-122.1%</b>

<sup>1</sup> Excluding specific items.

<sup>2</sup> 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).

<sup>3</sup> Excluding depreciation / amortisation, impairments and provisions, as well as the impact of IFRS 16 and specific items.

<sup>4</sup> Attributable to equity holders.

## 1. Operational and Financial Performance

### Mail

The **Mail** business unit was very much affected, from the second half of March until May, by the lockdown provoked by the COVID-19 pandemic. This situation led to the closure or reduction of the opening hours of CTT post offices, which resulted in lower demand for **B2C** services, as well as a reduction in the activity of customers in the **B2B** segment, with particular emphasis on the banking and utilities sectors and the Public Administration due the closure/suspension of activity of various public institutions and mail pre-sorters.

**Mail revenues** reached €202.8m in 1H20, -€32.2m (-13.7%) vis-à-vis 1H19, mainly due to the fall in the revenues of **transactional** (-€30.2m; -14.9%) and **advertising mail** (-€2.3m; -21.3%), somewhat mitigated by the revenue growth in **business solutions** (+€2.8m; +49.8%).

#### Mail volumes

	million items								
	1Q19	1Q20	Δ	2Q19	2Q20	Δ	1H19	1H20	Δ
Transactional mail	142.6	126.2	-11.5%	136.4	102.0	-25.2%	279.0	228.3	-18.2%
Advertising mail	13.1	11.1	-15.3%	11.3	8.5	-24.3%	24.4	19.6	-19.5%
Editorial mail	8.5	7.6	-11.2%	8.7	7.5	-13.8%	17.3	15.1	-12.5%
<b>Addressed mail</b>	<b>164.2</b>	<b>144.9</b>	<b>-11.8%</b>	<b>156.4</b>	<b>118.1</b>	<b>-24.5%</b>	<b>320.6</b>	<b>263.0</b>	<b>-18.0%</b>
<b>Unaddressed mail</b>	<b>106.2</b>	<b>115.4</b>	<b>8.6%</b>	<b>131.4</b>	<b>67.8</b>	<b>-48.4%</b>	<b>237.6</b>	<b>183.2</b>	<b>-22.9%</b>

In 1H20, **transactional mail** volumes decreased by 18.2% in all products, except for **green mail** (+75.6%) which maintained the growth of recent quarters mainly due to product substitution, as the registered mail and priority mail prepaid products business lines were discontinued. The decline of **domestic ordinary mail** reached 16.2%, mainly in the banking and insurance, telecommunications and Government segments, **priority mail** volumes fell by 46.8% and **registered mail** ones by 20.9%. It should be noted that in June there was a marked recovery in registered mail in some government sectors, namely in the area of courts and notifications regarding administrative offences, as well as a growth in volumes from private consumers.

International mail suffered a more severe drop due to the rather restrictive measures imposed by the pandemic both in **international outbound mail** (-27.5%) and in **international inbound mail** (-25.1%).

The **advertising mail** business suffered a significant negative impact in the months of March to May, with the pandemic crisis leading to a reduced utilization of this type of mail by the customers, in some cases with full cancellation of shipments and campaigns. In June there was a recovery compared to the previously mentioned months, and a pick-up of the activity is expected in 2H20.

**Addressed advertising mail** volumes decreased by 19.5%. **Unaddressed advertising mail** volumes recorded a decline of 22.9% in 1H20 as a result of the reduction in the frequency of campaigns by retail customers that offset the growth momentum observed at the beginning of the year (+44.7% in the first two months) triggered mainly by the capture of new customers.

In 1H20, the **business solutions** area recorded revenues of €8.3m, +49.8% versus 1H19. This increase resulted from the management team's ambition to pursue revenue alternatives to compensate for the mail revenues decline. This has been achieved mainly by designing and establishing partnerships and sought, at this stage, to focus mostly on new needs that stemmed from the COVID-19 pandemic, such as the sale and delivery of personal protection products or the supply of IT equipment as a result of the increased needs due to teleworking.

In 1H20, **philately** revenues amounted to €2.4m, corresponding to -20.2% versus 1H19 (-€0.6m) but it should be noted that due to the pandemic some events planned for 2Q20 have not taken place.

The average change in prices of the Universal Service<sup>5</sup> in 1H20 was 0.97% vs. the same period of the previous year. The price increase for 2020 took place in June.

## Express & Parcels

The **Express & Parcels revenues** totaled €85.1m in 1H20, growing €12.3m (+16.9%) compared to the same period of 2019. In 2Q20, they reached €47.8m, up €11.7m (+32.5%) versus the same quarter of 2019, which illustrates the strong growth achieved in the period, when B2C deliveries grew consistently and significantly. The performance of this quarter showcases unprecedented revenues figures and the best EBITDA figure of the last 17 quarters.

**Revenues in Portugal** stood at €51.8m in 1H20, 12.8% above those of the same period of 2019, with a marked upturn in 2Q20, when revenues reached €27.4m, up €4.4m (+19.1%) versus 2Q19. This growth resulted mostly from the **CEP** (Courier, Express & Parcels) business which totaled €41.5m (+20.2%) in revenues.

1H20 was marked by the impacts of the COVID-19 pandemic, as the end of March and the beginning of April were particularly affected by the restrictions on operation imposed on most sectors of the economy. These restrictions had a strong impact on the profile of shipments, with a reduction in B2B volumes of both parcels and cargo, while strong growth in e-commerce activity was observed.

In 1H20, **CEP** volumes in Portugal totaled 11.2 million items, 35.0% more than in the same period of 2019. In 2Q20, CEP volumes reached 6.2 million items, 49.3% above those of 2Q19 and more than the double of the growth rate recorded in 1Q20 (+20.4%). This evolution was strongly boosted by e-commerce, with very relevant growth in the sectors of health and well-being, food, sports and leisure, education and culture, and consumer electronics.

The growth achieved in Portugal resulted from a number of initiatives launched by CTT seeking to accelerate and leverage on solutions that would help bolster the recovery of lost activity and create growth opportunities, among which the following services should be noted:

- **CTT Comércio Local** (CTT Local Trade) is a digital platform that ensures the entire process of selling and buying local products to traders and end customers. Traders can join the service at the respective City Hall and thus have a new means of selling their products, while consumers can make their purchases safely without leaving home.
- **Create CTT Online Shops**, an offer that allows domestic SMEs to create online shops and facilitates the sale of their products. There are currently 1,020 registered online shops and at the end of June there were 297 in operation, covering various sectors of activity, with emphasis on food products, clothing and footwear.
- **Home delivery of medical supplies** in partnership with the National Association of Pharmacies, which allows end users to order medicines by e-mail or telephone directly to the participating pharmacies, while CTT ensures the next-day delivery.
- **Expresso para Hoje** (Express for Today), a comprehensive online service for urgent delivery of parcels, goods or documents within 2 hours in a partnership between CTT and Uber.

The revenues of the **cargo** business amounted to €5.4m in 1H20 (-17.2%) and those of the **logistics** business to €1.2m (-17.8%). These business lines were already under pressure in 1Q20 and felt the economic impact of the

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

pandemic on sectors such as automotive, textile and retail. In June, the cargo activity recovered somewhat compared to the previous months. The **banking** documents deliveries business remained stable with revenues of €3.4m (+1.2%).

The Dott marketplace<sup>6</sup>, launched in May 2019 in partnership with Sonae, had, at the end of June 2020, 1,060 registered vendors on the platform (an increase of 296 in the quarter) and more than 2.3 million products available for purchase. At the end of June 2020, a total of 150k users were registered (+79% vs. the end of March 2020), evidencing the strong growth and the acceleration of digitalization and e-commerce in the confinement period.

**Revenues in Spain** stood at €31.9m in 1H20, 23.2% above those of the same period of 2019. In 2Q20, they reached €19.8m, corresponding to more €7.2m (+57.2%) versus 2Q19.

Volumes totaled 11.3 million items, growing 43.9% vis-à-vis the same period of 2019. However, an increase took place in B2C volumes with lower weight and consequently lower price per item, while a decline was registered in B2B volumes as a result of the COVID-19 pandemic.

The month of March 2020 was strongly impacted by COVID-19; however, this trend was reversed immediately after, in the month of April. The months of April and May recorded strong volumes growth resulting from changes in consumption patterns that drove e-commerce purchases and captured the confidence of new B2C customers. Commercial initiatives that resulted in agreements with major global e-tailers that started urgent parcels operations throughout the Iberian Peninsula also contributed to this.

The Company is preparing to take on this increase in activity – compatible with the restructuring and relaunch plan presented for Spain –, having invested in sorting machines for its main centers – in Madrid and Barcelona – and acquired more than 1,500 mobile devices and a new artificial intelligence software to optimize the day-to-day life of parcel carriers, their cargo loads and routes, and improve the quality of service while reducing costs per item.

**Revenues in Mozambique** stood at €1.4m in 1H20, 43.2% above those of the same period of the previous year. In 2Q20 they amounted to €0.7m, up €0.2m (+30.3%) vis-à-vis 2Q19. The CEP and the bank documents delivery businesses positively contributed to this growth, the latter underpinned by the capture of a new important business in the health area (collection of biological samples), which started in the 2<sup>nd</sup> half of 2019, but also by the continued growth of the banking sector.

## Banco CTT

**Banco CTT revenues** reached €38.4m in 1H20, a year-on-year growth of €14.8m (+63.0%), of which +€11.2m originated in 321 Crédito, acquired in May 2019. Excluding this inorganic effect, the revenues would amount to €22.1m, up €3.7m (+19.8%) vis-à-vis 1H19.

The revenues growth was driven by the positive performance of **net interest income** in 1H20, €12.3m more (+135.3%) than in the same period of 2019. Excluding 321 Crédito, the growth of the net interest income would be €3.2m (+63,2%) in 1H20.

Banco CTT business performance continued to allow for growth in customer **deposits** to €1,512m (+42.1% versus 1H19 and +17.8% compared to the end of 2019) and in the number of accounts to 489k (81k more than in 1H19 and 28k more than at the end of 2019).

<sup>6</sup> The Dott marketplace investment is accounted for by the equity method.

Banco CTT **commissions** received grew €2.2m (+62.5%), mainly due to customer transactionality (+20.7%), as well as accounts and debit cards, and were boosted, as from the beginning of April, by the introduction of debit card commissions. The charge of an annual commission on debit cards contributed to an increase of 612.9% in commissions in 2Q20 versus 2Q19.

The **consumer credit** commissions increased by 11.9% (+€0.1m), albeit affected by the current economic context. While in 1Q20 they grew by 80.3% compared to the same period of the previous year, in 2Q20 they decreased by 37.7%, with a reduction in production volumes of 64.4% compared to 2Q19 and 59.5% compared to 1Q20.

**PPR** placements fell by 84.3% to €22.2m compared to 1H19. Although the PPR production compared to the previous year is also influenced by the change in the risk profile of the product, that no longer guarantees the preservation of the customer's capital, which in itself has contracted demand, the effects of the lockdown period also contributed to the reduction in placements from 1Q20 to 2Q20. In terms of commissions received, the product continues to grow, in this case by €0.8m (+285.1%) versus 1H19. The volume of the PPR product reached €378.8m (off-balance sheet), up 127.0% versus 1H19.

The **payments** business line recorded a decrease of €1.8m (-18.2%) in commissions received in 1H20 compared to the same period of the previous year, with total revenues of €8.0m. Revenues have been strongly affected by the lower demand for transactional services in the payments area in the course of the restrictive measures imposed by the state of emergency. This was partly offset by the focus on extending the MBSPOT service, which allows for payments with ATM and Payshop references, to all the agents. The peak of the decline occurred in April, especially in the payment of tolls and invoices, with the last two months of this semester already showing signs of recovery.

Revenues from **auto loans** remained stable, with a quarterly average of €2.7m per month in both quarters of 1H20 and a credit portfolio net of impairments of €506.1m (up 7.8% compared to December 2019). The volume of auto loans production was strongly affected by the closure of auto dealerships, as a result of the confinement measures. In mid-March, a downward trend of new proposal generation began, a situation that lasted until the second week of May, when the trend was reversed.

The net **mortgage loan** portfolio stood at €472.7m (up 16.7% versus December 2019). The mortgage loan production grew by 3.5% (+€2.9m) in 1H20 compared to the same period of the previous year, although a decrease of 16.4% (-€7.6m) from 1Q20 to 2Q20 was recorded.

In 2Q20, impairments of €5.8m were registered, reflecting the evolution of the credit portfolio in the quarter for an amount of €2.6m and the effect of the estimate of the potential losses due to the projected economic downturn (forward-looking effect) in the order of €3.2m. As a result of the worsening economic situation, 321 Crédito's impairments and provisions reached €7.0m in 1H20, an increase of €6.2m vis-à-vis the same period of the previous year.

Moratorium requests (public and private) reached 2.9k with a total exposure of €66.6m, representing circa 7% of the total gross credit portfolio.

## Financial Services & Retail

**Financial Services & Retail** revenues amounted to €21.5m in 1H20 (€16.5m relative to Financial Services and €5.0m to Retail), with a growth of €0.2m (+1.2%) compared to the same period of the previous year. While in 1Q20 growth was 23.0% (+€2.4m), in 2Q20 a decrease of 20.4% (-€2.2m) was registered.

The 2Q20 of this business unit was strongly influenced by (i) the restrictive measures of the state of emergency, namely the effect it generated on the preference for liquidity and consequently on medium/long-term financial investments, (ii) limited access to the CTT retail network and changes in post office opening hours, (iii) suspended



launch of new products and services by suppliers and the adjustment of supplies, (iv) the cancellation and postponement of shows, and (v) the cancellation since 20 March of the subletting of space in the post offices.

**Financial products** obtained revenues of €16.5m, an increase of €1.1m (+7.5%) versus 1H19, due to the strong performance in 1Q20 that allowed to absorb the significant decreases that occurred after the second half of March 2020. The increase in subscriptions of public debt certificates (Savings Certificates and Treasury Certificates Savings Growth) in the first two months of 2020 due to the good performance in recapturing the amounts of public debt certificates (PDC) maturing in January 2020 (circa €1,500m in maturing PDC) allowed to obtain revenues of €6.6m (+66.4%) and €1,176m in subscriptions, +89.7% compared to the two first months of 2019.

The revenues of **public debt certificates** subscriptions totaled €12.0m in 1H20, +€1.0m (+8.9%) versus 1H19, as €1,933.3m were placed (+11.1%). In 2Q20, subscriptions fell by 31.0% (-€260.2m) vis-à-vis 2Q19. The daily average in April was the lowest in subscriptions with €6.1m per working day although a sustained recovery in subscriptions is currently taking place as in June the daily average was €11.5m per working day.

**Money orders** revenues stood at €3.0m, +€0.2m vs. 1H19 (+7.4%), as the money order issuance service was used to pay unemployment and other social assistance benefits, from year-end 2019 onwards. Also noteworthy is the launch in May of a new Portugal/Senegal electronic money order exchange in partnership with La Poste Sénégal.

**CTT payment services** reached revenues of €0.8m in 1H20, with a positive performance of 21.0% (+€0.1m), as the **payment of taxes**, namely IMI – Municipal Property Tax, absorbed the structural effect of e-substitution in the this type of service.

The **retail products and services**, with a €5.0m revenues performance in 1H20, recorded a decrease of 12.1% (-€0.7m), intensifying the reversal of the growth trend of the first two months of 2020. It was in third-party retail products and services, essentially in lottery, books and in the payment of the air transport subsidy (Azores and Madeira) that the reduction was most felt due to the significant reduction of customer visits to the post offices. Conversely, merchandising posted a positive year-on-year growth of €0.5m (+273.0%) due to the successful introduction of products such as protection masks and alcohol gel for hand disinfection.

In retail there was a gradual, albeit slow, recovery with CTT strengthening its position, both with the sale of new book issues (novelties with weight in the competitive market) and the establishment of new partnerships in telecommunications and merchandising.

## Operating Costs

**Operating costs**<sup>7</sup> amounted to €315.8m in 1H20, an increase of €7.2m (+2.3%) vs. 1H19, with an impact of €6.0m from 321 Crédito. Excluding 321 Crédito, operating costs totaled €309.8m (+1.0%).

In 2Q20, operating costs totaled €156.1m, a growth of €3.4m (+2.2%) vs. 2Q19, and the impact of 321 Crédito was €3.0m. Excluding 321 Crédito, operating costs totaled €153.1m in 2Q19 (+1.5%).

<sup>7</sup> Excluding depreciation / amortisation, impairments and provisions, the impact of IFRS 16 and specific items.



### Operating Costs

	€ million			
	1H19	1H20	Δ	Δ%
<b>Operating costs</b>	<b>308.6</b>	<b>315.8</b>	<b>7.2</b>	<b>2.3%</b>
Staff costs	169.2	170.1	0.9	0.5%
ES&S	125.9	129.6	3.8	3.0%
Other operating costs	13.5	16.0	2.5	18.5%

**Staff costs** increased €0.9m (+0.5%) in 1H20. Excluding the effect of 321 Crédito, those costs decreased €0.9m (-0.5%) mostly due to the fact that health costs with active members of staff have decreased by €1.8m (-55.8%) due to the effect of the COVID-19 pandemic. This effect was partly offset by actuarial gains in 2019, related to liabilities with retirees, following the reduction of average mobile phone tariffs, which had a positive impact of €0.9m in 1Q19, and reduced liability relative to employees with suspension agreements in 2Q19, due to early retirement (+€0.3m). While in 1Q20 staff costs increased €2.4m (+2.8%), in 2Q20 they decreased €1.5m (-1.8%), especially in the Mail & other business unit where the reduction was €2.2m (-3.1%) compared to 2Q19.

**External supplies & services costs** increased €3.8m (+3.0%), of which €1.5m resulted from the integration of 321 Crédito. Excluding the inorganic effect, the growth was €2.3m (+1.8%) which includes mainly: (i) the increased direct costs (+€2.7m), as a result of the growth of costs in the Express & Parcels business unit (+€7.0m), partly offset by the decline in the costs of Mail & other (-€4.4m); (ii) the increase in costs related to temporary work (+€2.1m), mainly in the Express & Parcels business unit; and (iii) the reduction in commercial costs, costs from equipment and other costs (-€2.6m).

**Other operating costs** grew €2.5m (+18.5%) when compared to 1H19. Excluding the inorganic effect of 321 Crédito (+€0.8m), these costs increased €1.7m (+12.8%), mostly due to the launch of new partnerships (+€3.1m), an evolution in line with the revenues, which were partly offset by: (i) the reduction in other sales costs (-€0.5m); (ii) the lower amount of indemnities paid (-€0.6m); and (iii) the reduction of other administrative costs (-€0.3m).

### Staff

As at 30 June 2020, the CTT headcount (permanent and fixed-term staff) consisted of 12,015<sup>8</sup> employees, 546 less (-4.3%) than as at 30 June 2019.

	Headcount <sup>9</sup>			
	30.06.2019	30.06.2020	Δ 2020/2019	
Mail & other	10,978	10,382	-596	-5.4%
Express & Parcels	1,154	1,175	21	1.8%
Banco CTT	392	420	28	7.1%
Financial Services & Retail	37	38	1	2.7%
<b>Total, of which:</b>	<b>12,561</b>	<b>12,015</b>	<b>-546</b>	<b>-4.3%</b>
Permanent	10,889	10,806	-83	-0.8%
Fixed-term contracts	1,672	1,209	-463	-27.7%
Portugal	12,090	11,487	-603	-5.0%
Other geographies	471	528	57	12.1%

<sup>8</sup>It should be noted that from 2020 onwards, the methodology for counting staff was changed and members of staff with suspension agreements were no longer considered, with an impact in the period under review of -45 employees. Excluding this effect, the decrease in total staff would have been of 501 employees.

<sup>9</sup>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.

There was a decrease in the number of staff (permanent and fixed-term staff) in the Mail & other (-596) business unit which more than offset the increase in the Financial Services & Retail (+1), Express & Parcels (+21) and Banco CTT (+28) business units.

Together, the areas of operations and distribution within the basic network (5,972 employees, of whom 4,360 delivery postmen and women) and the retail network (2,281 employees) represent circa 76% of CTT's permanent staff.

## EBITDA

In 1H20, the Company generated an EBITDA<sup>10</sup> of €33.4m, €13.0m (-28.0%) below that of 1H19, with an EBITDA margin of 9.6% (versus 13.1% in 1H19). This performance was strongly influenced by the impacts occurred in the semester, namely the restrictions related to the COVID-19 pandemic, given that EBITDA was growing by €5.9m (+49.7%) in the first two months of 2020.

## Specific Items

In 1H20, the Company recorded specific items for the amount of €0.8m, broken down as shown below:

<b>Specific Items</b>				
	<b>1H19</b>	<b>1H20</b>	<b>Δ</b>	<b>Δ%</b>
				€ million
<b>Specific items</b>	<b>11.7</b>	<b>0.8</b>	<b>-10.9</b>	<b>-93.2%</b>
Corporate restructuring costs and strategic projects	11.6	0.6	-11.0	-94.7%
Other non-recurring revenues and costs	0.1	0.2	0.1	140.6%

The decline of €11.0m 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 (-€6.8m) within the Human Resources Optimization Program, and consulting services (-€1.6m), both under the ongoing Operational Transformation Plan; (ii) the acquisition of 321 Crédito (-€1.2m); and (iii) the implementation of the changes to the Quality of Service Indicators measurement system required by ANACOM (-€1.0m).

In 1H20, corporate restructuring stood at €0.1m, €7.4m less than in the same period of the previous year, and strategic projects registered €0.5m (-€3.6m), mainly in studies to support the renegotiation of the new concession agreement. Other revenues and costs had an impact of €0.2m, of which the capital gains of +€0.6m (+€0.4m) from the sale of real estate, and other costs of €0.4m (+€0.3m), mainly associated with the pandemic, stand out.

## EBIT and Net Profit

EBIT stood at €4.9m in 1H20, -€14.8m (-75.3%) compared to 1H19, with a margin of 1.4% (5.6% in 1H19), strongly penalized by the growth in impairments and provisions (+€8.7m), mainly in Banco CTT business unit, particularly in auto loans, and amortizations (+€3.6m) that result from strategic investments that have been made to increase productivity in Mail and the implementation of the strategic plan for Iberian growth in the Express & Parcels business unit. As mentioned above, impairments of €5.8m were registered in Banco CTT in 2Q20

<sup>10</sup> Excluding depreciation / amortisation, impairments and provisions, the impact of IFRS 16 and specific items.

reflecting the evolution of the credit portfolio in the quarter (€2.6m) and the effect of the estimate of potential losses (€3.2m) due the projected economic downturn (forward-looking effect).

With the exception of Mail & other, all the remaining business units, despite the adverse environment, managed to show growth in EBIT.

### EBIT by business unit

	1H19	1H20	Δ	Δ%
<b>EBIT</b>	<b>19.7</b>	<b>4.9</b>	<b>-14.8</b>	<b>-75.3%</b>
Mail & other	22.3	0.02	-22.2	-99.9%
Mail	48.7	29.9	-18.9	-38.8%
Central Structure	-26.5	-29.8	-3.3	-12.6%
Express & Parcels	-4.3	-3.5	0.8	18.9%
Banco CTT	-7.2	-2.3	5.0	68.9%
Financial Services & Retail	9.0	10.6	1.6	17.7%

€ million

The consolidated **financial results** totaled -€5.9m, corresponding to a deterioration of €0.9m (-17.7%) compared to the same period of the previous year.

### Financial Results

	1H19	1H20	Δ	Δ%
<b>Financial results</b>	<b>-5.0</b>	<b>-5.9</b>	<b>-0.9</b>	<b>-17.7%</b>
Financial income, net	-4.8	-4.7	0.1	1.8%
Financial costs and losses	-4.9	-4.7	0.2	3.9%
Financial income	0.1	0.01	-0.11	-94.5%
Gains / losses in subsidiaries, associated companies and joint	-0.2	-1.2	-1.0	527.8%

€ million

Financial costs and losses incurred amounted to €4.7m, mainly incorporating financial costs related to post-employment and long-term employee benefits of €2.2m, interest associated to finance leases liabilities linked to the implementation of IFRS 16 for an amount of €1.6m, and interest on financial debt for an amount of €0.8m.

In 1H20, CTT obtained a consolidated **net profit** attributable to equity holders of CTT Group of -€2.0m, €11.0m (-122.1%) below that obtained in 1H19, strongly impacted by the negative evolution of EBIT (-€14.8m), partly offset by the positive performance of the income tax for the period (-€4.8m).

### Investment

Capex stood at €10.9m, which is 25.8% (-€3.8m) less than in 1H19.

The financial effort made, in an economic environment strongly impacted by the pandemic, continued to focus on the expanding business unit of Express & Parcels (+€2.6m), in order to improve the systems that support this activity. This amount was offset by initiatives to reduce investment in information systems in the remaining business units (-€2.9m) and in sorting equipment in the Mail & other business unit with a natural reduction of €3.4m following the strong investment of 2019.

## Cash flow

In 1H20, the Company generated an operating cash flow of €3.9m, -€2.3m versus 1H19.

### Cash flow

	1H19	1H20	€ million Δ
EBITDA	46.4	33.4	-13.0
Specific items*	11.7	0.79	-10.9
CAPEX	14.7	10.9	-3.8
Δ Working capital	-13.8	-17.8	-4.0
<b>Operating cash flow<sup>11</sup></b>	<b>6.2</b>	<b>3.9</b>	<b>-2.3</b>
Employee benefits	-6.7	-5.1	1.6
Tax	-1.6	0.62	2.26
<b>Free cash flow</b>	<b>-2.1</b>	<b>-0.6</b>	<b>1.5</b>
Debt (principal + interest)	36.7	-0.7	-37.5
Dividends	-15.0	0.0	15.0
Financial investments	-112.9	0.0	112.9
<b>Net change in organic own cash</b>	<b>-93.3</b>	<b>-1.3</b>	<b>92.0</b>
Changes to consolidation perimeter - 321Crédito	6.8	0.0	-6.8
<b>Change in own cash</b>	<b>-86.4</b>	<b>-1.3</b>	<b>85.1</b>
Δ Liabilities related to Financial Services & other & Banco CTT, net <sup>12</sup>	19.4	-34.9	-54.3
Δ Other <sup>13</sup>	8.0	-10.2	-18.2
<b>Net change in cash (Balance Sheet)</b>	<b>-59.0</b>	<b>-46.4</b>	<b>12.6</b>

\* Specific items affecting EBITDA.

The negative change in working capital compared to 1H19 (-€4.0m) 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 2018 (€18.9m in 4Q18), implying a negative evolution in working capital related to Capex in the amount of €10.5m in 1H20 vs. 1H19. This change was partially offset by a positive evolution of working capital related to the current business, with a strong contribution from the positive evolution in the management of accounts receivable, particularly general customers (+€13.8m) and financial services customers (+€3.0m).

<sup>11</sup> The 1Q19 operating cash flow was restated to be comparable with that of 1Q20. In 2Q19 the methodology to calculate the operating cash flow was changed, in particular with respect to the change in working capital, which no longer includes a non-cyclical value related to the mobility allowance.

<sup>12</sup> The change in net liabilities of Financial Services & Retail 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 the financial services of CTT, Payshop, Banco CTT and 321 Crédito.

<sup>13</sup> 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.

## Consolidated Balance Sheet

### Consolidated Balance Sheet

	31.12.2019	30.06.2020	Δ	Δ%
				€ million
Non-current assets	1,734.7	1,864.9	130.2	7.5%
Current assets	778.8	775.4	-3.4	-0.4%
<b>Assets</b>	<b>2,513.4</b>	<b>2,640.3</b>	<b>126.8</b>	<b>5.0%</b>
<b>Equity</b>	<b>131.4</b>	<b>129.8</b>	<b>-1.6</b>	<b>-1.2%</b>
<b>Liabilities</b>	<b>2,382.0</b>	<b>2,510.5</b>	<b>128.4</b>	<b>5.4%</b>
Non-current liabilities	512.8	497.3	-15.6	-3.0%
Current liabilities	1,869.2	2,013.2	144.0	7.7%
<b>Equity and Liabilities</b>	<b>2,513.4</b>	<b>2,640.3</b>	<b>126.8</b>	<b>5.0%</b>

The key aspects of the comparison between the Balance Sheet as at 30.06.2020 and that as at 31.12.2019 are as follows:

- **Assets** increased €126.8m, mostly due to the increase in Credit to banking clients (+€102.5m), especially mortgage loans and Debt securities (+€66.9m), while Cash & cash equivalents decreased (-€46.4m), largely as a result of the drop in third-party cash amounts.
- **Equity** decreased €1.6m following the generation of net income attributable to equity holders of CTT Group in 1H20 for an amount of -€2.0m.
- **Liabilities** increased €128.4m, with emphasis on the increase in Banking clients' deposits and other loans (+€190.5m) partly offset by the decrease in Accounts payable (-€60.5m) as a direct consequence of the substantial reduction of Treasury Certificates subscriptions, and the decrease of Other banking financial liabilities (-€10.9m).

The CTT Group consolidated Balance Sheet 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 Balance Sheet excluding Banco CTT

	31.12.2019	30.06.2020	Δ	Δ%
				€ million
Non-current assets	615.8	608.4	-7.5	-1.2%
Current assets	456.9	415.4	-41.6	-9.1%
<b>Assets</b>	<b>1,072.8</b>	<b>1,023.7</b>	<b>-49.0</b>	<b>-4.6%</b>
<b>Equity</b>	<b>131.4</b>	<b>129.9</b>	<b>-1.6</b>	<b>-1.2%</b>
<b>Liabilities</b>	<b>941.3</b>	<b>893.9</b>	<b>-47.5</b>	<b>-5.0%</b>
Non-current liabilities	432.0	430.7	-1.3	-0.3%
Current liabilities	509.3	463.1	-46.2	-9.1%
<b>Equity and Liabilities</b>	<b>1,072.8</b>	<b>1,023.7</b>	<b>-49.0</b>	<b>-4.6%</b>

As at 30 June 2020, the **liabilities related to employee benefits** (post-employment and long-term benefits) decreased to €285.8m, -€0.9m compared to December 2019, as specified in the table below:

### Liabilities related to employee benefits

	31.12.2019	30.06.2020	Δ	Δ%
<b>Total liabilities</b>	<b>286.7</b>	<b>285.8</b>	<b>-0.9</b>	<b>-0.3%</b>
Healthcare	274.4	274.8	0.4	0.1%
Healthcare (321 Crédito)	1.3	1.3	0.1	4.5%
Suspension agreements	3.1	2.0	-1.2	-37.0%
Other long-term employee benefits	7.1	7.0	-0.2	-2.2%
Other post-employment benefits	0.2	0.2	0.0	3.8%
Pension plan	0.4	0.4	0.0	-2.9%
Other benefits	0.1	0.2	0.0	17.9%

### Consolidated net debt

#### Consolidated net debt

	31.12.2019	30.06.2020	Δ
<b>Net debt</b>	<b>60.0</b>	<b>65.0</b>	<b>5.0</b>
<b>ST &amp; LT debt</b>	<b>175.4</b>	<b>179.1</b>	<b>3.6</b>
Of which Finance leases (IFRS 16)	84.0	87.5	3.5
<b>Own cash (I+II)</b>	<b>115.4</b>	<b>114.1</b>	<b>-1.3</b>
<b>Cash &amp; cash equivalents</b>	<b>443.0</b>	<b>396.6</b>	<b>-46.4</b>
<b>Cash &amp; cash equivalents at the end of the period (I)</b>	<b>414.9</b>	<b>378.7</b>	<b>-36.2</b>
Other cash items	28.1	17.9	-10.2
<b>Other Financial Services liabilities, net (II)</b>	<b>-299.5</b>	<b>-264.6</b>	<b>34.9</b>

The key aspects of the comparison between the consolidated net debt as at 30.06.2020 and that as at 31.12.2019 are as follows:

- **Own cash** decreased €1.3m due mostly to the reduction in operating cash flow (-€2.3m).
- **Short-term & long-term debt** increased €3.6m mainly due to the increase in the liabilities from financial leases in the scope of IFRS 16 (+€3.5m), resulting from the expansion of the network of logistics centers to support the growth in the Express & Parcels activity.

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	30.06.2020	Δ
<b>Net debt with Banco CTT under equity method</b>	<b>144.1</b>	<b>149.7</b>	<b>5.6</b>
<b>ST &amp; LT debt</b>	<b>173.2</b>	<b>176.9</b>	<b>3.6</b>
Of which Finance leases (IFRS 16)	81.8	85.3	3.5
<b>Own cash (I+II)</b>	<b>29.1</b>	<b>27.2</b>	<b>-1.9</b>
<b>Cash &amp; cash equivalents</b>	<b>268.2</b>	<b>216.4</b>	<b>-51.7</b>
<b>Cash &amp; cash equivalents at the end of the period (I)</b>	<b>268.2</b>	<b>216.5</b>	<b>-51.7</b>
Other cash items	-0.02	-0.03	-0.01
<b>Other Financial Services liabilities, net (II)</b>	<b>-239.1</b>	<b>-189.3</b>	<b>49.8</b>

## 2. Other Highlights

### REGULATORY ISSUES

Under the Universal Postal Service Concession Contract, on 13.03.2020, CTT invoked *force majeure* before the Regulator, following the public health emergency of international scope, declared by the World Health Organization on 30.01.2020 and the subsequent classification of COVID-19 as a pandemic, on 11 March. In view of the seriousness and magnitude of the facts, which are public and notorious, and in order to comply with the public health instructions issued by the competent authorities, CTT could not fail to take the necessary and appropriate measures to protect workers and customers.

Pursuant to the provisions of the concession contract, CTT continued to ensure the functioning and continuity of postal services, which were indeed considered an essential service, taking the necessary and appropriate measures to the situation of *force majeure*, in terms of planning, prevention of the operation and human resources, submitting a daily update on the situation to the Government, as a counterparty in the contract, and to ANACOM, the regulatory authority responsible for overseeing the provision of the universal postal service.

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>14</sup>. The prices underlying this proposal, which complied with the principles and criteria of price formation defined, entered into force on 01.06.2020. This update corresponded to an average annual 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>15</sup> on 01.06.2020 following a proposal presented to the Regulator on 22.05.2020.

Under the company's pricing policy for 2020, these updates correspond to an average annual variation of 1.76% in prices, also reflecting the effect of the updating of prices for reserved services (service of legal summons and notifications by post) and special prices for bulk mail.

### OUTLOOK FOR THE 2020 FINANCIAL YEAR

Assuming the gradual recovery of the economy and the improvement of the pandemic situation, CTT expects that the positive dynamics in its growth levers will continue.

Although it is expected that Mail will endure significant reductions in letter (statements) and advertising mail, which are expected to lead to double-digit addressed mail volumes decline for the year, a continued positive performance is projected in Express & Parcels, Banco CTT and Financial Services. Express & Parcels will continue to be the main growth engine of the Company, spurred by the fast approximation of e-commerce adoption to developed markets' averages and continued market share gains; Banco CTT is sufficiently provisioned and well capitalized to face potential challenges in 2H20 (in accordance with the current projections), such as lower GDP and increased unemployment as a result of the pandemic; and Financial Services will benefit from the Portuguese population's increasing propensity to save, boding well for the placement of public debt; hence, all of them, with the exception of Mail, are expected to grow in revenues and EBITDA.

In 2H20, margin and cost focus will be on the foreground, as various operational improvement initiatives will be launched. The notable recovery towards the end of 2Q20 provides a steppingstone for the remainder of the year. As a result of sales countermeasures to cope with the sudden decline in mail, CTT expects to achieve growth in

<sup>14</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 17/2012, of 26 April (Postal Law), amended by Decree-Law 160/2013, of 19 November, and by Law 16/2014, of 4 April

<sup>15</sup> See article 14-A of the Postal Law as amended by article 4 of Decree-Law 160/2013, of 19 November.



revenues driven by parcels, as well as an EBITDA<sup>16</sup> above €90m and more than €30m in EBIT in the full year 2020.

## Final Note

This press release is based on CTT – Correios de Portugal, S.A. interim condensed consolidated financial statements for the 1<sup>st</sup> half of 2020 with limited revision by an auditor registered with the Portuguese Securities Commission (CMVM).

Lisbon, 5 August 2020

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

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<sup>16</sup>Excluding depreciation / amortisation, impairments and provisions, the impact of IFRS 16 and specific items.

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**Forward-looking statements**

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 with respect to 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.

Forward-looking statements (in particular, the objectives, estimates and projections as well as the corresponding assumptions) do neither represent a commitment regarding the models and plans to be implemented, nor are they guarantees of future performance, nor have they been reviewed by the auditors of CTT. You are cautioned not to place undue reliance on the forward-looking statements herein.

All forward-looking statements included herein speak only as at the date of this document. Except as required by applicable law, CTT does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.