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2. STRATEGIC BACKGROUND

2.1 Economic, Sectoral and Regulatory Environment

2.1.1 Economic framework

International economy

Following the historic contraction of 2020 due to the COVID-19 pandemic, with the world economy diminishing by 3.1%, the upturn of 2021 was significant, with the IMF²⁵ estimating world growth at 5.9%. In 2021, the world economy recovered its economic activity levels of 2019. The development of vaccines and the implementation of vaccination programmes contributed to restore economic confidence, with 58% of the world's population²⁶ vaccinated with at least one dose by the end of the year. Even so, the emergence of new variants like Delta and Omicron throughout 2021, brought in enforced periods of activity containment measures, albeit more directed than those experienced in 2020, with their impact on economic activity having been lower and with economic agents showing greater capacity to adapt. The year of 2021 was also marked by disruptions in supply chains and increased commodity prices, greatly influenced by the strong recovery of demand.

In the euro area, the economic recovery of 2021 is estimated to have reached 5.1%²⁷, largely underpinned by strong domestic demand.

The consumer price index of the euro area grew by 2.6% in 2021, reflecting the significant impact of commodity prices. The evolution of the consumer price index followed an upward trend over the year: standing at merely 1% in the first quarter, but having evolved to 4.7% in the last quarter of 2021, corresponding to a quarterly peak since the beginning of the single currency.

The labour market in the euro area was enormously dynamic, with an unemployment rate of 7.7% in 2021. Reference is made to its very positive evolution, with the rate varying from 8.2% in December 2020 to a historic minimum figure of 7.0% in December 2021.

The pandemic crisis support measures are still continuing to weigh heavily in public finance, with the aggregate deficit of the euro area estimated at 5.9%, following the 7.2% recorded in 2020.

The European Central Bank (ECB) upheld an expansionary monetary policy throughout the year, keeping reference interest rate levels at historically low figures. However, as a result of the economic upswing throughout the year, the ECB reduced the asset purchase rate of the Pandemic Emergency Purchase Programme in the last quarter and announced that it should be discontinued in March 2022, but with the purchase programme being increased in the second and third quarters of the following year.

The worldwide economic recovery should be maintained in 2022, when it is expected that many of the problems of the disruptions in supply chains will be overcome. The price of energy commodities and a robust labour market may keep the inflation rate at a relatively high level in 2022, where the possible reaction of central banks to apply restrictive monetary policies may constrain growth.

²⁵ Source: IMF, World Economic Outlook – Update, January 2022.

²⁶ Our World in Data: https://ourworldindata.org/explorers/coronavirus-data-explorer?facet=none&Interval=Cumulative&Relative+to+Population=true&Color+by+test+positivity=false&country=~OWID_WRL&Metric=People+vaccinated

²⁷ Source: ECB, Economic Bulletin, Issue 8, August 2021.

National economy

Portuguese Gross Domestic Product (GDP) grew by 4.9% in 2021, the highest annual growth since 1990, in the wake of the historic contraction of 8.4% in 2020, following the pandemic's negative effects on the economy. The growth of 2021 was greatly marked by the contribution of domestic demand, with private consumption and investment showing strong recovery. The contribution of external demand was far less negative than in 2020, with significant growth of exports of products and services.²⁸

The recovery of the economy boosted job creation and a reduction in the unemployment rate. Employment is estimated to have risen by 2.5% in 2021, after the 1.9% contraction experienced in 2020.

The hours worked are estimated to have increased by 8.3%, after the 9.3% reduction experienced in 2020. The difference between the net change of employment and hours worked over the last two years reflects the support measures implemented during the pandemic crisis. The evolution of the unemployment rate has been very favourable, ending the year at 5.9%, a minimum figure of 2002, compared to 6.9% recorded in December 2020 and 8.2% at the peak of the pandemic crisis in August 2020. Real disposable income is estimated to have increased by 1.2% in 2021, reflecting the increased employment and some buoyancy in wages.

The Consumer Price Index recorded an annual average variation of 1.3% for 2021, following the price stability of 2020. Excluding energy and food products, the variation rate was 0.8% in 2021. The inflation rate showed a strong upward movement throughout the year, in particular in the second half of the year²⁹. The year-on-year variation rate reached 2.7% in December 2021.

The economic recovery and increased employment improved the national public deficit in 2021, estimated at 4.3%. The level of Public Debt fell by 7.7% to 127.5% of GDP at the end of 2021, primarily driven by the improvement of GDP and a minor reduction of the nominal value³⁰.

The first half of 2022 is likely to herald the return of economic activity to pre-pandemic levels. The forecasts of Banco de Portugal³¹ point to growth of 5.8% in 2022, 3.1% in 2023 and 2% in 2024.

2.1.2 Sectoral framework

Impacts of the pandemic

The overall effect of the pandemic on the postal sector in Portugal showed an average 8.1% of loss of postal volumes per quarter during the seven quarters covered by the pandemic³². Despite the turnaround in relation to 2020, the first quarter of 2021 was marked by the adverse pandemic context, which affected the different business units in distinct ways. A boom was experienced in e-commerce during 2020 due to the long periods of lockdown that changed the customer purchasing patterns, with an observed increase in the average number of purchases, the acceleration and anticipation of the development of e-commerce in Portugal. In 2021, despite the deceleration of e-commerce growth, it is estimated that it has grown by more than 20%³³. The Express & Parcels activity stood out, with increased volumes in most postal operators, especially in the first two quarters of the year.

²⁸ Source: National Statistics Institute (INE), Quarterly National Accounts (Base 2016) – Rapid Estimate at 30 days, 31 January 2022.

²⁹ Source: National Statistics Institute (INE), Consumer Price Index, 12 January 2022

³⁰ Source: Press Release of the Ministry of State and Finance: <https://www.portugal.gov.pt/download-ficheiros/ficheiro.aspx?v=%3d%3dBQAAAB%2bLCAAAAAAABAAzNDIzMgQAaJsJnAUAAAA%3d>

³¹ Source: Banco de Portugal, Economic Bulletin, December 2021.

³² Source: ANACOM, Postal Services – 3rd quarter of 2021, November 2021.

³³ Source: CTT e-commerce Report 2021.

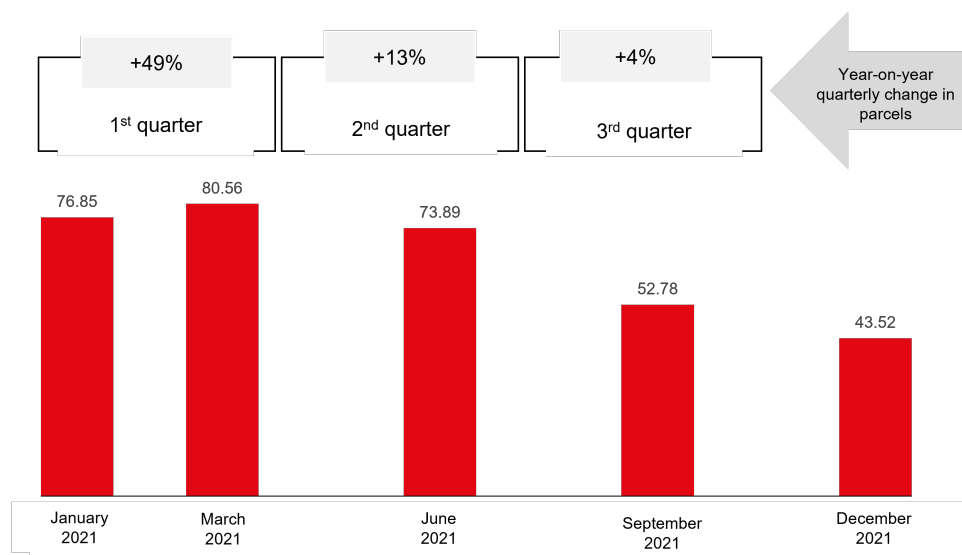
On the other hand, there was an acceleration in the decline of postal volumes, especially in the first and third quarter, due to the lockdown measures and the growing digitisation of processes occurred in most companies. In the second quarter, with the restarting of activity, with the resumption of campaigns of various advertisers associated to a period of larger release from lockdown, letter mail volumes (including editorial mail and addressed advertising mail) recorded increased postal volumes, compared to a period in the previous year that had been greatly affected by the pandemic.

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

According to the Oxford University lockdown requirement index, in the first two quarters of 2021, Portugal was ranked in the upper half (i.e., more demanding) of the International Post Corporation (IPC) member operators due to the imposed restriction measures³⁴. That period with more restrictive lockdown measures showed the highest growth of parcels (49% in the first quarter and 13% in the second quarter) but also the greatest declines of letter mail and editorial mail. Naturally, there was also a reduction of addressed advertising mail in the first period³⁴.

Government Response Stringency Index and increase in parcels volumes

Government Response Stringency Index
(0 to 100, 100= more restrictions)



The pandemic peaks led the Portuguese Government to implement different restrictive measures throughout the period (e.g., state of emergency, calamity, among others), with the corresponding impact on the postal sector by activity quarter of this year described below. In the quarterly comparative analysis³⁵ of the evolution of Mail and Express & Parcels in terms of volumes, between CTT and an average of postal operators, compared to the same periods of the previous year, it was found that:

- The decline of addressed mail volumes was higher at CTT compared to the average of the postal operators: decreased volume in the first and third quarters of 2021 with declining mail and lower increase of volume in the periods of release from lockdown (second quarter of 2021) at CTT compared to the average of the operators;

³⁴ Source: COVID-19 government response tracker (<https://www.bsg.ox.ac.uk/research/research-projects/covid-19-government-response-tracker>)

³⁵ Source: ANACOM, Postal Services – 3rd quarter of 2021, November 2021, and internal data.

- The same happened in the case of addressed advertising mail, with the exception of the first quarter of 2021, when the decline was significantly lower compared to the average;
- Editorial mail experienced a reduction in volumes in the first and third quarters of 2021 that was lower than that of the average of the postal operators, and an increase in volumes in the second quarter of 2021 that was higher than the average;
- Express & Parcels showed a growth rate higher than that of the average of the postal operators in the first three quarters of 2021.

Growth levels in Mail and Express & Parcels volumes, for CTT (Portugal) and for the sector average (% YoY, quarterly comparison, non-cumulative)³⁶

	1 st quarter		2 nd quarter		3 rd quarter	
	ctt	Sector average	ctt	Sector average	ctt	Sector average
Addressed mail	-15%	-14%	+7%	+8%	-10%	-6%
Advertising mail	-5%	-10%	-1%	+4%	-5%	-1%
Editorial mail	-9%	-20%	+6%	0%	-12%	-14%
Parcels	+96%	+49%	+24%	+13%	+17%	+9%

Greater pandemic impact

The structural change caused by the increased weight of parcels in relation to mail obviously has impact on the operations, particularly in the delivery process. As occurred in 2020, postal operators have reacted in an agile manner, adjusting the operation to deal with changes in demand and disruptions in transport, maintaining government support, employee protection and support for the vulnerable population as priority axes.

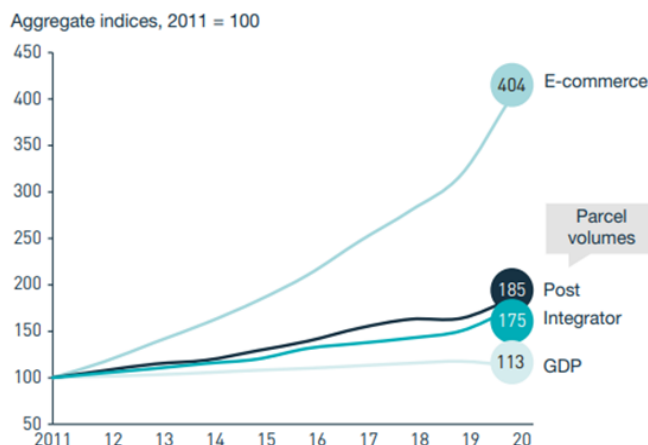
Drivers of sector growth

The constant increase in the levels of Express & Parcels, the changing consumption patterns arising from the lockdown periods, are factors that imply a long-term response from postal operators, forcing an **acceleration** in the operation's transition from mail to express and in its automation, to the detriment of manual procedures. During the periods of release from lockdown, it was observed that there was a need to increase the flexibility of working hours for the delivery of parcels outside the home, leading the operators to seek out partners with longer working hours where customers could pick up their parcels in a more convenient fashion. Deliveries referred to as "out of home" (delivery points and lockers) became more significant in the B2B segment, due to being more convenient to the customer and ensuring "**contactless**" deliveries, in the case of lockers, which are increasingly well-accepted by the consumers. Broadly speaking, the pandemic has fast-tracked the need for technological development, strengthening the growing trend of automation investments in the postal sector, and leading postal operators to search for ways to increase the capillarity of their parcel delivery network and flexibility of working hours.

³⁶ Source: ANACOM, Historical statistical information and internal data.

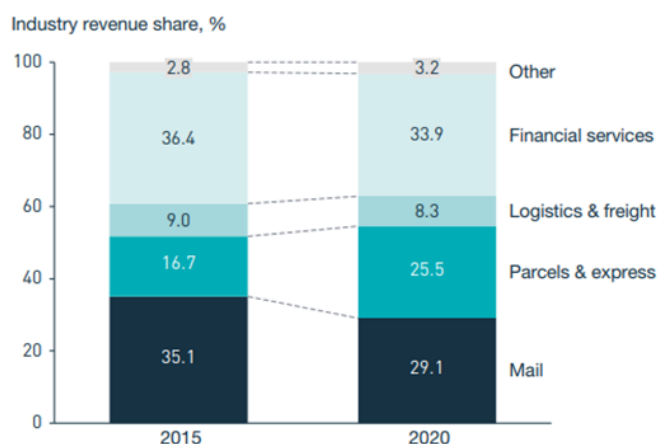
The aggregate volume of mail has declined by a quarter in the developed countries since 2009, and has actually fallen to half for some operators³⁷. On the other hand, the **Parcels market** continues to be the fastest growing market in the postal sector. Consequently, the weight of the mail business in the sector is increasingly smaller, representing approximately 29.1% in 2020 (decrease of close to 6 p.p. compared to 2015). In contrast, the Parcels & Logistics segment is the business that presents the highest growth rates, representing approximately 25.5% (increase of close to 9 p.p. compared to 2015) of revenue in the postal sector.

Evolution of aggregate indices since 2011



Since 2015, approximately 75% of operators have experienced a decrease in revenues from the mail activity. However, and despite the effort to diversify revenues, mail services still contribute to more than half of revenues in around 40% of the global postal operators analysed.

Industry revenue share (%)



The increased digitalisation and decline of postal volumes pushed operators to **diversify their business**. Operators sought to improve their positioning by investing in e-commerce logistics, expand their financial services, improve their retail network, etc. In 2020, 45% of the industry's revenue came from non-mail services. Operators also seek to diversify their business portfolio at an international level.

³⁷ Source: International Post Corporation, "Global Postal Industry Report 2021".

Revenue from the international subsidiaries reached the peak of 24% of total revenue in 2020. On average, since 2015, the growth rate of the international business has stood at 12%³⁸.

Business units

GRI 102-2

Mail

The increased digitalisation and internet use has affected the mail volumes observed in postal operators, both for government, business and individual customers. The increased penetration of these alternatives in society (e.g., 53.6% of the world's population used the internet and 75.6% of households used smartphones in 2019) implies that consumers focus on digital alternatives for communication solutions (89% of internet users worldwide used applications to communicate), personal financial management (35% of internet users worldwide used banking applications) and trade (66% of internet users worldwide used online shopping applications)³⁸.

Despite the pressure imposed by the digitisation of postal activity, most operators showed a sustainable growth of revenues associated with postal activity (about 60% of operators covered by the International Post Corporation (IPC), with the average growth of revenues in 2019 standing at 5.0%³⁸).

If, on the one hand, it was evident that digitisation has negatively affected mail activity, on the other hand, it was also a driver of development. Among the various operators, three main macro trends³⁹ of digital incorporation in traditional mail solutions are identified. Firstly, the **increase and optimisation of the link between the physical medium and the digital medium**, through synergies between the traditional channel and the technological channel, with potential added value for, merely as an example, advertising mail (e.g., incorporation of augmented reality technologies). Second, the **trend of adding information to mail products** reinforces the operators' central priority of ensuring that mail items will have increasingly more information about their shipping status and delivery. Lastly, recognising convenience as one of the main drivers of digitisation, operators have focused on **improved convenience in channels for sending and receiving mail**, through hybrid mail solutions (i.e., preparation of mail in digital format, subsequently converted to physical mail and delivered to the recipient).

Considering the Portuguese postal market, total volumes of postal services totalled 603.6 million objects in 2020, which represents a decrease of 12% when compared to the previous year. The first nine months of 2021 amounted to 362 million items (-7% year-on-year, corresponding to a period with a strong decline in volumes)⁴⁰.

Due to the release from lockdown in the second quarter of 2021, with the recommencement of various activities, there was a minor recovery of 8% of volume compared to the same period of 2020. However, it should be stressed that the second quarter of 2020 was the period most affected by the pandemic, with the evolution of revenues and volumes having been penalised by this effect. The drop of total postal volumes is associated with the decreased volume of letter mail (i.e., transactional mail) which lost 16.3 million items in the first nine months of the year compared to the previous period (-5%). Addressed advertising mail only recovered from the decline of volume in the second quarter of 2021, having experienced a loss in volumes of 3.8 million items in the first two quarters (-12%) compared to the same period of 2020. Editorial mail shows a 0.6% decrease in the third quarter of 2021. These reductions were partially offset by increased volumes of Express & Parcels of 22% (+9 million items) in the first nine months of the year compared to the same period of the previous year⁴⁰.

³⁸ Source: International Post Corporation, "Global Postal Industry Report 2021".

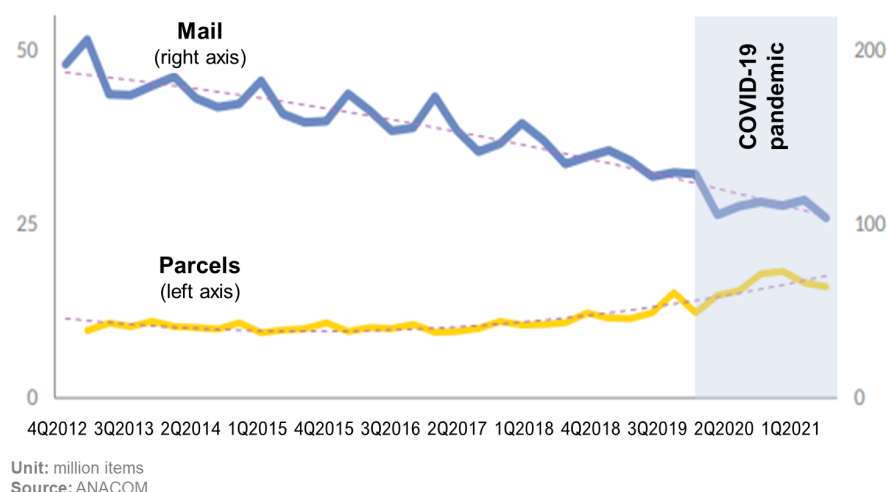
³⁹ Source: Internal study, focusing on a limited number of European postal operators.

⁴⁰ Source: ANACOM – Postal services – 3rd quarter 2021, November 2021.

From a quarterly perspective, it is evident that postal volumes were greatly affected in the first quarter of 2021, corresponding to the period of strongest lockdown, and that this effect was experienced again in the third quarter of 2021, although to a lesser extent, in line with the new restrictive measures related to the Covid-19 pandemic. It should be noted that the period with the most restrictive lockdown measures was the period when parcels increased by 49% (in the first quarter of 2021 compared to the same period of 2020).

The historical analysis of volumes in the Portuguese mail market shows a downward trend in mail activity, irrespective of the mail product analysed (transactional, addressed advertising and editorial mail)⁴¹.

Evolution of Mail market volumes in Portugal (2013-2020)⁴¹

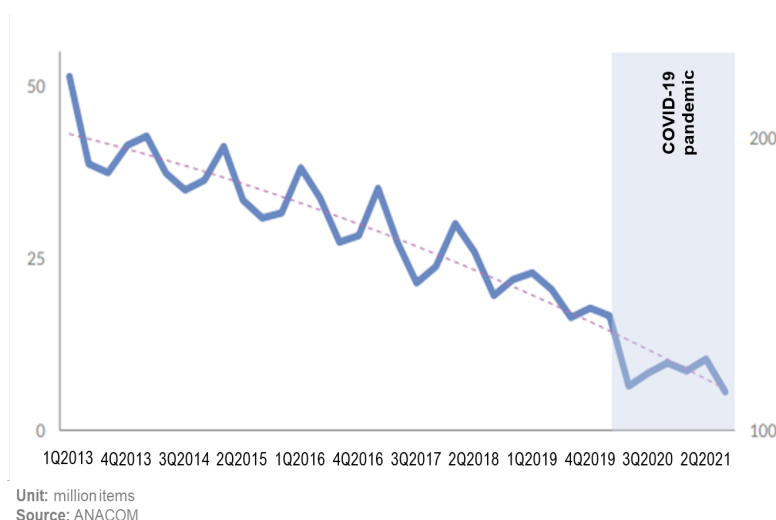


In line with the decrease in postal volume and in order to avoid cases of unsustainability in the postal service, member states have been creating postal service flexibility and compensation mechanisms. The flexibility mechanisms covered speed of delivery (e.g., in 6 European countries, next day delivery (D+1) is not part of universal service), frequency of delivery (e.g., elimination of Saturday deliveries in Norway), the scope of the universal service (e.g., exclusion of domestic parcels in Finland) and the price (commercial freedom and price flexibility in the United Kingdom). On the compensation side, it is noteworthy that half of the European Union (EU) governments subsidised incumbent operators for the financial effort imposed, but with each presenting different compensation models. This includes direct funding of the universal service (e.g., Italy, Spain and Norway), subsidies for other activities such as Services of General Economic Interest (SGEI) (e.g., Belgium and the United Kingdom) and subsidies through tax benefits (e.g., France).

Across the majority of postal operators, the percentage of revenues attributed to the Universal Service has been gradually decreasing⁴¹. To mitigate the effects of the decline in volumes, operators have sought to reduce service costs, as well as to stabilize revenues.

⁴¹ Source: ANACOM – Postal services – 3rd quarter 2021, November 2021.

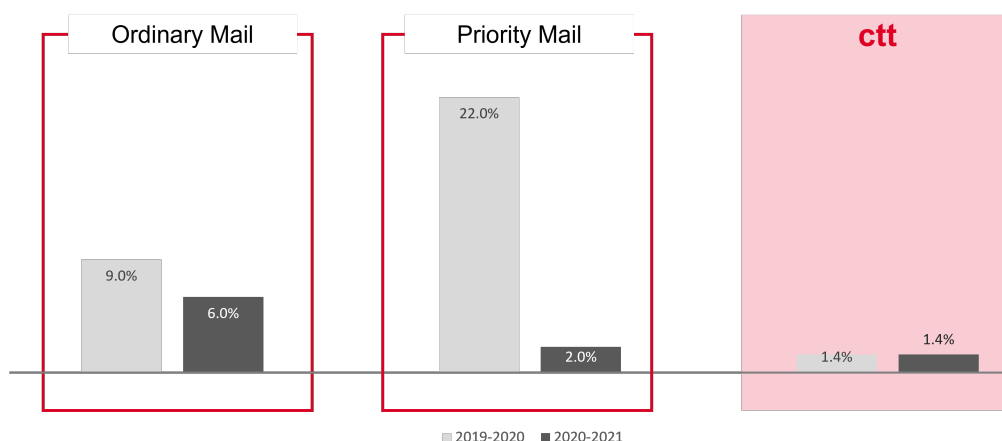
Quarterly evolution of universal postal service volumes in Portugal (2013-2021)⁴²



In parallel with the reduction in operating costs, several operators highlighted the increase in tariffs for postal services as an essential factor for maintaining (or growing) revenues from the postal activity. In the majority of European postal operators, significant price increases have been observed in recent years in the main postal products, mainly in terms of priority mail. In the Portuguese case, the postal service is entirely funded by the users, through the price of the services and without any direct public funding. The last mail price increase announced by CTT (2021) was of 1.35%⁴³ (cap in conformity with the limits established by the regulator), significantly below the average increases observed in other European countries. The profitability of the Mail business at CTT has fallen, with the Mail business having recorded negative earnings before interest and taxes (EBIT) in the second quarter of 2021, an EBIT margin of -3.6%, and close to zero in the third quarter of 2021, with an EBIT margin of 0.8%.

Average increase in postal tariffs of the European postal operators⁴⁴

(% year-on-year price increase)



⁴² Source: ANACOM – Postal services – 3rd quarter 2021, November 2021.

⁴³ Note: Update corresponding to an average annual variation in the overall price of letter mail, editorial mail and parcels services (excluding the prices of reserved services (services of summons and postal notifications), nor the provision of universal service to senders of bulk deliveries, to whom a special pricing applies).

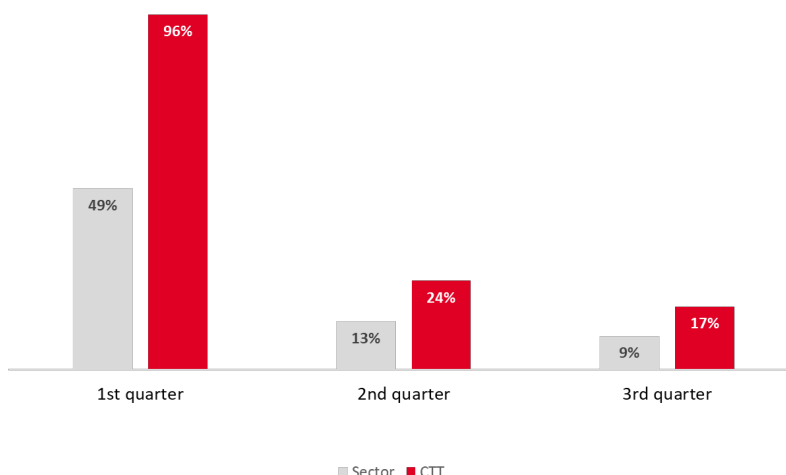
⁴⁴ Source: IPC, Website operators, internal data. Internal analysis. Note: The following operators were considered in the analysis: An Post, Bpost, Correos, Croatian Post, CTT, Cyprus Post, Czech Post, Deutsche Post DHL Eesti Post, Hellenic Post-ELTA, Iceland Post, Latvian Post, Le Groupe La Poste, Lithuania Post, Magyar Posta, Österreichische Post, Poczta Polska, POST Luxembourg, Posta Romana, Poste Italiane, Posten Norge, Posti Group, PostNL, PostNord Denmark, PostNord Sweden, Royal Mail, Slovenska Posta, Swiss Post.

Express & Parcels

The express and parcels market continues to show significant growth with the volume having grown by around 27.6% in 2020 for postal operators internationally compared to the same period of the previous year. It should be noted that this value does not allow direct comparability with annual growth, but is merely intended to situate the marked growth in 2020⁴⁵.

In Portugal, the market grew by 22% in the first nine months of 2021⁴⁶. It is important to note that, in general, half the acquisitions by the operators tend to be companies in the parcel and logistics segment, and one third of the acquired companies are in markets in which the operators seek to diversify their business⁴⁵.

Express & Parcels average volume growth in postal operators⁴⁶ (% volume change vs. previous year)



This growth was essentially due to the increased B2C parcels, boosted by the continuous growth of e-commerce. In Portugal, the number of e-buyers amounted to 4.4 million Portuguese in 2020. A growth rate above 20% was estimated for 2021. This growth arises from the increased frequency of purchases, the average price of the basket, as a result of the satisfaction in the purchase experience⁴⁷.

⁴⁵ Source: International Post Corporation, "Global Postal Industry Report 2021",

⁴⁶ Source: ANACOM – Historical statistical information and internal data,

⁴⁷ Source: CTT e-commerce Report 2021.

Evolution of the Portuguese e-buyer profile in 2021⁴⁸

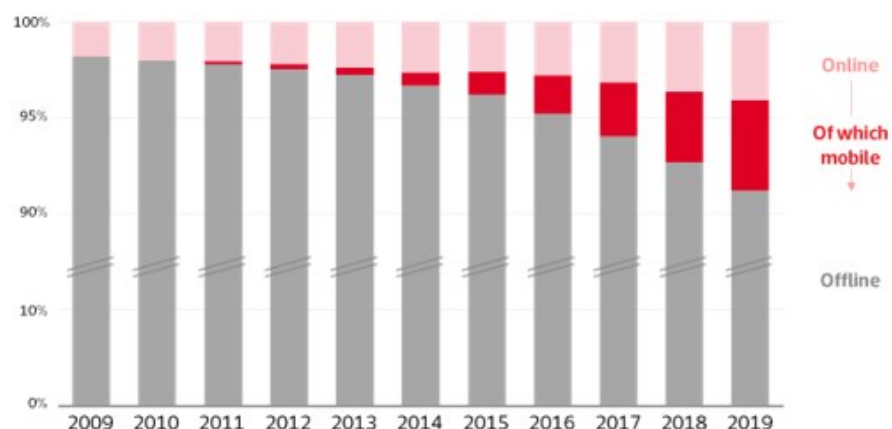
	2019	2020	2021	Annual evolution 20-21
Average number of purchases Per year	15.8	18.7	20.4	+9%
Average number of products Per purchase	3.8	4.3	4.9	+14%
E-commerce expenses Per year	807.2€	997.8€	1,075.10€	+8%
Average ticket	51.1€	53.36€	52.65€	-1%

In Portugal, parcels with deliveries within 2 days account for 45.6% of online purchases, which increased by 5.1 p.p. compared to 2020. Same-day deliveries increased to 5% in 2021⁴⁹.

Mobile phones grew significantly as the preferred device throughout the customer journey in 2021 (52.4% of purchases are made through this device). The price is one of the key drivers leading to online purchases. In payments, the convenience of means of payment such as PayPay (48.6% of online purchases) and MBWay (39.2%) is observed⁴⁹.

Evolution of the online sales market share⁵⁰

(% of total global sales)



Regarding purchase channels, the consumers show preference for brand websites (68.9% of respondents) and marketplaces (68.1%).

Alongside the growth of e-commerce, there was a trend of increasing levels of cross-border trade. After the end of the pandemic, 24.1% of e-sellers envision the internationalisation of their activity. Since 2014, online turnover from foreign online stores has quadrupled, and it is expected that in 2024 this turnover should exceed 400 billion euros and represent 12% of all e-commerce, according to Euromonitor⁵⁰.

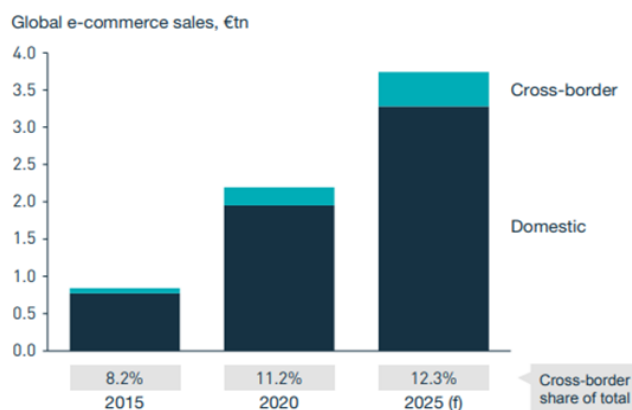
⁴⁸ Source: CTT e-commerce Report 2020 and CTT e-commerce Report 2021.

⁴⁹ Source: CTT e-commerce Report 2021.

⁵⁰ Source: International Post Corporation, "Global Postal Industry Report 2020".

Global e-commerce sales (€ tn)⁵¹

Global flows



Besides the growth in the volume of revenues (on average +21.0% in 2020) associated with the growing e-commerce parcel volumes that has been observed (6.2% increase in 2020 compared to 3.9% in 2019)⁵². The fierce competition has led to price pressures, with operators adopting promotional price strategies (such as, for example, offering free delivery) to counter the high bargaining power of large shippers. On the other hand, the operators are still investing in improving their parcel delivery service, investing in their distribution network, in human resources, acquiring companies of the parcel and logistics sector, among others.

In the Iberian market, there is also an overall growth trend in the express and parcels market. In Portugal, it is estimated that the value of expenditure by the Portuguese related to online purchases reached 4.4 billion euros. The number of e-buyers stood at 4.41 million Portuguese in 2020⁵².

Concerning the origin of the purchased products, in Portugal, there is a tendency to buy on Portuguese websites (55.8% of e-buyers), with the second shopping option being the neighbouring country, Spain (17.2%). Spain surpassed China (15.1%), which had consistently been the foreign country from which the Portuguese bought most products⁵².

The convenience (easier in comparison to physical shops) and the possibility of buying at any time of the day or night, are the main reasons given by e-buyers for their online shopping (with 74.2% and 62%, respectively), but they continue to prefer promotions/lower prices when shopping (56.3% and 52.4%, respectively)⁵².

Financial markets⁵³

The year of 2021 continued along the previous year's trend, with appreciation of the main risk assets. Developed stock markets and commodities recorded gains, in contrast to the bond market that recorded devaluations.

Observing the FTSE Global All Cap Total Return Index, that encompasses the developed and emerging markets, the stock market appreciated by 18.5% in 2021. The stock market was bullish practically throughout the entire year. Within the stock market, the European banking sector was the most

⁵¹ Source: International Post Corporation, "Global Postal Industry Report 2020".

⁵² Source: CTT e-commerce Report 2021.

⁵³ Source: Bloomberg.

outstanding, with an appreciation of 42%, strongly underpinned by the prospects of the resumption of the distribution of dividends and increased interest rates.

The evolution of the German 10-year interest rate was characterised by distinct moments. In the first half of 2020, the expectations of economic recovery, supported by the progress in vaccination, raised interest rates from -0.57% at the end of 2020 to -0.20% at the end of June. During the summer period, the appearance of the Delta variant once again exerted pressure on interest rates, which fell to -0.50%. In the months of September and October 2021, fears that inflation levels could be longer-lasting than had previously been expected, further raised the interest rate to -0.10%. The last month of the year recorded abrupt movements, at a first stage the initial fears of the new Omicron variant lowered the interest rate, but when it was perceived as a less harmful variant, the interest rate rapidly recovered to -0.18% at the end of the year.

The credit spread of Portuguese sovereign debt showed a relatively stable performance, with an average value of 60 basis points throughout the year, varying between approximately 50 and 70 basis points. The Spanish spread also showed a stable performance, with an average value of 67 basis points. Italy recorded an average spread of 109 basis points, with an evident increase in the last months of the year.

Corporate credit spreads also showed some stability of performance, with the Markit. iTraxx Europe CDS index with a 5-year maturity showing an average value of 49 basis points, having closed the year with exactly the same value as at the end of 2020.

Commodity prices showed a very significant rise, in particular energy commodities. The price of Brent appreciated by 50%, having closed the year at \$77.8 per barrel. In the European market, the spotlight was on the price of natural gas, with futures contracts for the next month in the market of the Netherlands having appreciated by 243%. In Portugal and Spain, the price of electricity for the next month in the OMIP wholesale market appreciated by 274% in 2021, to €210/MWh (having reached a peak of €408/MWh in December).

Volatility in the stock market was relatively contained in 2021, although at values higher than those recorded in the pre-pandemic year of 2019, showing an average value of 20 points, according to the Euro Stoxx 50 volatility index. On the other hand, it is important to highlight the significant rise in volatility implicit in the interest rate market in the last quarter of the year. Observing the Merrill Lynch Swaption Option Volatility Estimate Euro 6 Month, there was an appreciation from the 31 basis points at the end of 2020 to 61 basis points at the end of 2021.

In the foreign exchange market, the euro devalued nominally by 5.2% when compared to the 19 currencies of the main business partners of the euro area, having devalued by 7% in relation to the US dollar and appreciated by 6% in relation to the pound sterling.

Portuguese banking system⁵⁴

A review of the first 9 months of 2021 of the Portuguese banking system portrays a balance sheet structure with a 7% increase of total assets, standing at €440.7 billion, when compared to the end of 2020. This variation was primarily driven by the increased deposits at central banks repayable on demand, with a negative contribution of the portfolio of public debt securities. Customer deposits continue to be at very high values, accounting for 67.7% of the assets, and funding from central banks reached 9.2% of the assets in September, a trend shared with other banks of the euro area in the context of the monetary policy of supporting the banking system's liquidity. The loan-to-deposit ratio fell from 84.7% at the end of 2020 to 82.5% in September 2021.

⁵⁴ Source: Banco de Portugal, Portuguese Banking System: Recent Development – 3rd quarter 2021, December 2021.

Asset quality maintained its trend of improvement started in 2016, with the ratio of non-performing loans (NPL) reaching 4% and 1.8% net of impairment. Consulting the most recent information available by November 2021, reference should be made to the figure of merely 0.1% of the portfolio of loans to individuals still under the moratoria introduced in the context of the pandemic. Non-financial companies accounted for 1.4% of the total loans under moratorium, representing a significant reduction in relation to the 33.3% recorded at the end of 2020.

Profitability showed improvements in the first 9 months of 2021, with the return on assets reaching 0.46% and the return on equity standing at 5.4%. The increased profitability was primarily the result of the reduction of credit impairment, with the cost of risk amounting to 0.37%. The cost-to-income ratio also remained on its downward trend, having reached 53.3%.

Concerning solvency, the ratio of total own funds stood at 17.8% and the ratio of common equity tier 1 stood at 15.2%, compared to 18% and 15.3% respectively at the end of 2020.

2.1.3 Regulatory Framework

Postal sector

The **universal postal service concession agreement** of 01.09.2000 remained in force until 31.12.2021, beyond its expiration date - 31.12.2020 -, following its unilateral extension decided by the Government, pursuant to article 35-W(a) of Decree-Law No. 10-A/2020, of 13 March, as amended by Decree-Law No. 106-A/2020, of 30 December. In disagreement with said extension, in February 2021, CTT initiated a formal procedure aimed at the resolution of the issues related to the sustainability of the concession agreement concerning the years 2020 and 2021. In this context, and following the Government's understanding that the proper mechanism for the resolution of said issues would be arbitration, on 11.06.2021, CTT initiated arbitration proceedings against the Portuguese Government, as Grantor of the concession. This proceeding aims to protect CTT's rights, specifically: (a) the impact and contractual effects, as those of a compensatory nature (estimated at around €23m), of the pandemic associated with COVID-19, as well as the public measures adopted in this context, particularly in light of the clauses of the Concession Agreement which regulate changes of circumstance; and (b) the legal compatibility, impacts and contractual effects, as those of a compensatory nature (estimated at around €44m), of the decision to extend the agreement. The proceedings are pending a decision and the production of evidence will start soon. The aforementioned amounts are those that CTT considers it is entitled to in accordance with currently available data and are subject to updating, assessment and decision in the proceedings that are underway.

Through Executive Order no. 1849/2021, of 18 February, the Government created a working group with the purpose of analysing the evolution of the universal postal service, as well as assessing the need to introduce adjustments in the scope of the universal service and the obligations of its provider. On 03.11.2021, the Council of Ministers approved Resolution no. 144/2021 of 23.09.2021, which determines the opening of a direct award procedure aimed at appointing CTT as the provider of the universal postal service.

On 29.04.2021, ANACOM approved several decisions relative to the provision of the universal postal service ("USO") after the term of the current concession. These decisions refer to: (i) the criteria setting the formation of prices; (ii) the quality of service parameters and performance targets; (iii) the concept of unreasonable financial burden for purposes of compensation of the net cost of the universal postal service; (iv) the methodology for calculating the net costs of the universal service; (v) the information to be provided by the universal service provider(s) to the users; and (vi) the delivery of postal items at premises other than the domicile.

On 23.12.2021, the Council of Ministers communicated the approval on that date of the decree amending the legal framework applicable to the provision of postal services in Portugal. The corresponding decree was promulgated on 05.02.2022 and the Decree-Law no. 22-A/2022 was published on 07.02.2022. The new concession agreement entered thus into force and will have a duration of approximately seven years - until 31.12.2028. The main amendments considered in the new regulatory framework arising from the law and the new concession agreement are as follows:

1. With regard to pricing:

- Pursuant to the law, pricing criteria will be defined by agreement between CTT, ANACOM and the Consumer Directorate-General for periods of three years or, if no agreement is reached, by the Government. This definition shall take into consideration the sustainability and the economic and financial viability of the USO provision, and shall also consider the variation in volumes, the change in relevant costs, the quality of the service provided and the incentive to an efficient provision of the universal service;
- For the year 2022, which will be the transition period, the agreement stipulates that the prices to be implemented by CTT shall respect a maximum annual average variation of 6.80%, which considers the decline in volumes observed in the first nine months of 2021 and the variation of the Consumer Price Index for the Transport expense category, as communicated by the National Statistics Institute for the month of October 2021.

2. With regard to quality of service indicators and performance targets:

- Quality criteria shall be approved by the Government upon ANACOM's proposal, also for three-year periods, following a set of clear guidelines: ensure high levels of quality of service in line with current best practices in the European Union and the relative importance of the postal services covered by the USO, and taking into account the average standards of the European Union countries, applicable for each indicator;
- Quality indicators and performance targets defined by ANACOM on 29.04.2021 shall apply until the definition of new indicators and performance targets; as long as the current indicators remain in force, specifically in 2022, should there be any penalties, these will be translated into investment obligations that result in improvements for the benefit of the service provision and end users;
- In the event of non-compliance with the new quality indicators, the penalty to be applied by the Government will translate into investment obligations or price revisions, in accordance with the principles of proportionality, adequacy, non-discrimination and transparency.

3. Density of the postal network:

- The procedure to define the objectives of postal network density and minimum service offers is maintained, which foresees a decision by ANACOM upon CTT's proposal;
- The current criteria for the definition of objectives remain in force, with the additional obligation of ensuring the existence of a post office in each municipality. This situation already occurs, following the reopening of post offices in municipality seats voluntarily concluded by the Company.

This framework improves the decision-making mechanisms and provides clear criteria to guarantee the provision of the USO under sustainable economic conditions, promoting a better balance between the continuity of the postal service provision and the reinforcement of the Company's capacity to face the challenges of digital transition, pursuing the consistent implementation of its transformation process. For reasons of general interest, only the following activities and services have remained reserved to the concessionaire: sitting of letter boxes on the public highway intended for the deposit of postal items,

issue and sale of postage stamps bearing the word Portugal and the registered mail service used in court or administrative proceedings.

As the international public health emergency continued due to the **COVID-19 pandemic**, Portugal remained in a state of emergency until 30.04.2021, followed by a declaration of disaster situation and by the state of alert as of 19.02.2022, which shall be in force until 22.03.2022. As in the previous year and in the scope of the force majeure clause of the concession agreement, CTT continues to implement the public health rules issued by the competent authorities and to adopt the necessary and appropriate measures to protect workers and customers while ensuring the functioning and continuity of postal services. CTT continues to periodically submit an update on the situation of the postal network to the Government, as a counterparty in the agreement, and to ANACOM, the regulatory authority responsible for overseeing the provision of the universal postal service, until 21.02.2022. By decision on 28.10.2021, ANACOM granted CTT's request regarding the records deduction, in all domestic flows directly affected by the COVID-19 pandemic for the purposes of calculating the Quality of Service Indicators (QSI) for the year 2021.

The proposal regarding the **prices of the universal postal service** submitted by CTT on 17.02.2021 was approved by ANACOM by its resolution of 25.03.2021⁵⁵. The prices underlying this proposal, which complied with the defined principles and criteria of price formation, entered into force on 01.04.2021. This update corresponded to an average annual change in the price of the basket of letter mail, editorial mail and parcels services of 1.35%, not including the offer of the universal postal service to bulk mail senders, to whom special prices apply.

The **special prices of the postal services included in the universal postal service offer** applicable to bulk mail senders were also updated⁵⁶ on 01.04.2021 following a proposal presented to the Regulator on 25.03.2021. The aforementioned updates correspond to an average annual price change of 1.72% for 2021, and also take into account the increase in the prices of the reserved services (services for the transmission of judicial and other postal notifications) and of the special prices of bulk mail.

On 24.06.2021, ANACOM stipulated the cost of capital rate to be taken into account in CTT's cost accounting system results in 2021, which was set at 7.4712%, under the terms of the methodology approved by that authority in 2019.

By decision dated 02.09.2021, ratified on 06.09.2021, ANACOM approved the statement of conformity of the results of CTT's **cost accounting system** for the 2018 financial year, as well as the final decision regarding the determinations to improve the system, following the respective audit, and the report of the prior hearing. The determinations will remain in force after 2021, until the approval of a new decision on this matter.

Financial sector

In 2021, the European and national regulatory agenda was once again dominated by the COVID-19 pandemic crisis. The concern to ensure the funding of companies was extended during 2021, not only through the moratorium measures but also through additional protection offered under the Action Plan for Default Risk (PARI) and the Extrajudicial Procedure to Settle Situations of Default (PERSI).

Due to the pandemic crisis, in the national and European sphere, the beginning of 2021 was marked by the updating of the timeline for the application for the General Moratoria of payment, in order to ensure

⁵⁵ Pursuant to the criteria of price formation defined by ANACOM's decision of 12.07.2018, supplemented by a decision of 05.11.2018, under article 14(3) of Law 17/2012, of 26 April (Postal Law), as amended by Decree-Law no. 160/2013, of 19 November, and Law no. 16/2014, of 4 April.

⁵⁶ See article 14-A of the Postal Law, as amended by Decree-Law no. 160/2013, of 19 November.

the continuous funding of companies and households. As a follow-up of the reactivation, in December 2020, of the Guidelines of the European Banking Authority (EBA) related to legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis, Banco de Portugal published Circular Letter No. CC/2021/00000001 in January. This Circular Letter and, likewise, the EBA Guidelines, stipulated the timeline for the application of the moratorium scheme of 31 March 2021, nevertheless applying two restrictions – a maximum time limit and the introduction of reporting requirements. The time limit determined that moratoria granted after 30 September 2020 could only benefit from these measures for a maximum period of 9 months. The second restriction imposed mandatory reporting requirements of documentation on the assessment of the low likelihood of payment, requiring the institutions to submit, to the competent authorities, a plan describing the process, information sources and responsibilities inherent to the assessment of potential situations of “unlikelihood to pay” due to exposures/borrowers subject to general moratoria of payment.

The end of the support measures regarding public banking moratorium was followed by the publication of Decree-Law No. 70-B/2021 of 6 August, which established protection measures for bank customers covered by the exceptional and temporary loan protection measures, and also changed the arrangement for prevention and settlement of situations of default on loan contracts. This decree-law defined that, under PARI, an assessment should be made of any signs of deterioration of the bank customer’s financial situation within 30 days prior to the end date of the moratorium, and proposals should be submitted taking into account the financial situation, objectives and needs of the customers with a view to preventing default, within 15 days prior to the end date of that moratorium. Concerning PERSI, the decree-law also defined that any customers included in this procedure during the 90 days following the termination of the moratorium, maintain the guarantees established in Decree-Law No. 227/2012 of 25 October, for the period of 90 days counted from the date of inclusion in PERSI (if the payment or an agreement between the parties does not take place in the meantime), namely the guarantee against the cancellation of the contract or against the lending institution filing judicial proceedings.

The year of 2021 was also marked by the regulation of matters related to the organisation of institutions subject to the supervision of Banco de Portugal, particularly on matters of internal governance, and organisational, technical, material and advertising resources.

In order to clarify the arrangement applicable to payment and electronic money institutions, Banco de Portugal published Notice 2/2021 concerning the definition of the regulatory framework applicable to these entities, which include Payshop. This notice updated the regulatory framework on the matters that payment institutions and electronic money institutions are subject to under the supervision of Banco de Portugal. As a result, this notice makes a selective reference to certain provisions of Banco de Portugal Notice 3/2020, where its rules on internal governance become applicable to those institutions.

Also in the national sphere, Banco de Portugal published Notice 4/2021 that regulates the type and registration of branches and the framework applicable to branch extensions. This notice defines the separation of spaces of the branches when shared with other institutions, whether financial or not, and determined that their customer care area should be endowed with technical, material and advertising means that ensure their exclusive use by the actual institution as well as the clear identification of the acting institution.

Furthermore, due to the need for entities to ensure a high degree of resilience, the National Council of Financial Supervisors (CNSF) approved new recommendations on business continuity management in 2021, aimed at reflecting the Portuguese legal system, the harmonised legislative and regulatory framework at a European level, and the principles of the Basel Committee on Banking Supervision on the management of operational risk and operational resilience.

In the European sphere, the EBA revised the Guidelines on sound remuneration policies, on internal governance, and on the assessment of the suitability of members of the management body and key

function holders. The Guidelines on sound remuneration policies (EBA/GL/2021/04) were updated so as to clarify various provisions contained in the previous Guidelines on severance pay and retention bonuses with a view to reinforcing the specific framework applicable to these types of remuneration. The Guidelines on internal governance (EBA/GL/2021/05) updated the previous guidelines in accordance with the relevant legislation in the European Union, with Banco de Portugal having disclosed that most of the amendments were made early, in advance of their mandatory requirement, being established in Banco de Portugal Notice 3/2020. Finally, the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2021/06) also aimed to enshrine the European legislative amendments arising from various European legislative documents, primarily concerning the combat of money laundering and terrorist financing.

Regarding insurance activity, it is important highlight the publication by the Insurance and Pension Funds Supervisory Authority (ASF) of Circular Letter No. 1/2021 of 6 April on market information related to reporting duties concerning insurance and reinsurance distribution. The aim of this Circular Letter was to facilitate the preparation of the different reports established in ASF Regulatory Standard No. 13/2020-R of 30 December, that the entities bound to such must carry out during 2021, in particular (i) Information about insurance brokers and insurance brokers acting on an ancillary basis used for distribution of insurance products, and excluded entities; (ii) publication of the annual financial statements; (iii) list of persons directly involved in the insurance distribution activity (PDEDS); and (iv) report on the management of complaints.

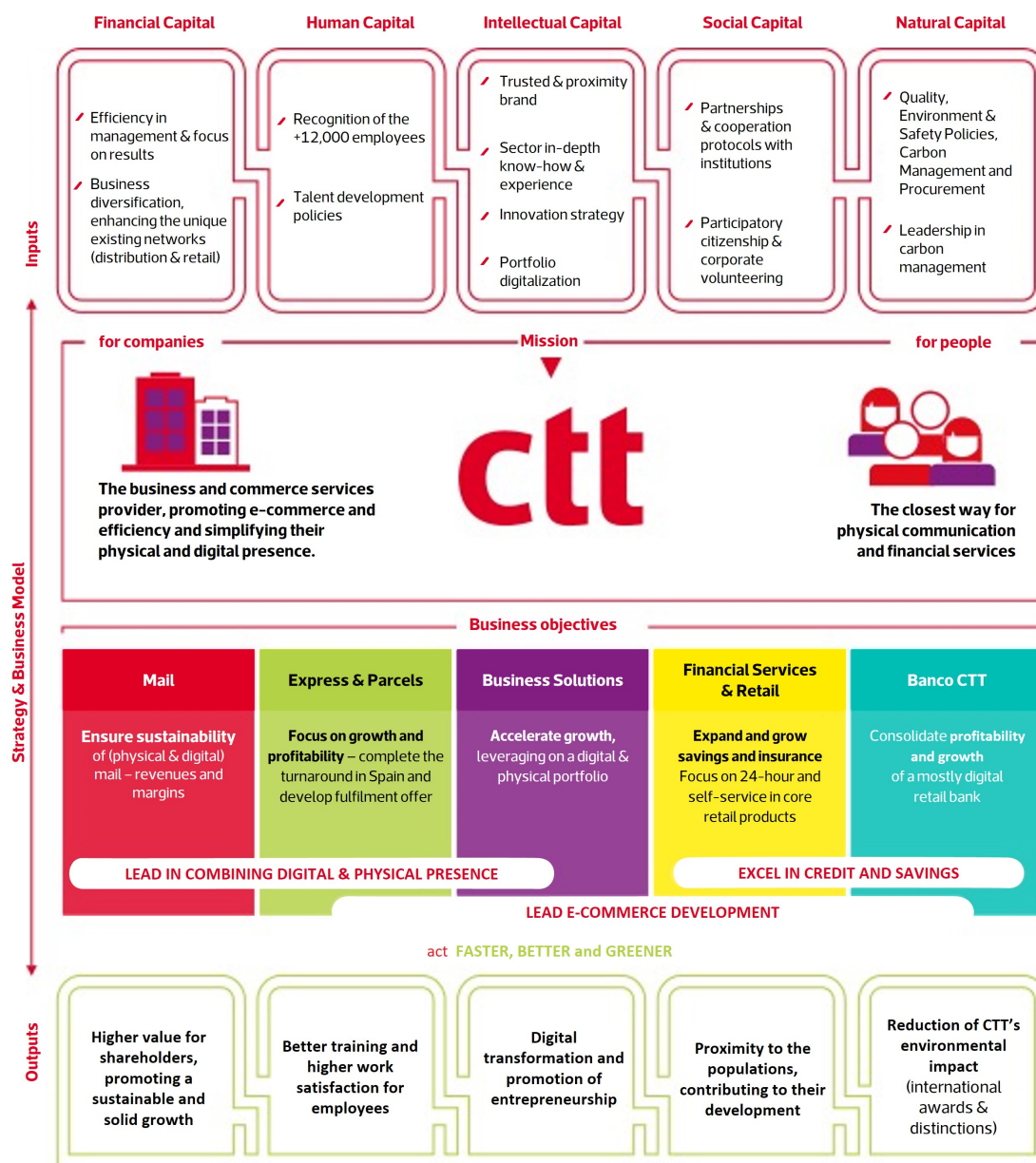
The growing concern to combat corruption led to the publication of Decree-Law No. 109-E/2021, creating the National Anti-Corruption Mechanism and establishing the general arrangement for prevention of corruption. Pursuant to this decree-law, it should be noted that legal persons in Portugal (or branches on national territory) that employ 50 or more workers should implement a programme of regulatory compliance that includes at least a plan for prevention of risks of corruption and related offences, a code of conduct, a training programme and a whistleblowing channel.

Finally, the year of 2021 closed with the publication of Law No. 93/2021 of 20 December, that establishes the general arrangement for protection of whistleblowers, transposing Directive (EU) 2019/1937 of the European Parliament and Council of 23 October 2019, on the protection of persons who report breaches of Union law. This law foresees the creation of a general arrangement for protection of those that, in good faith and based on information obtained in a professional context that they reasonably consider to be true, report on breaches or disclose offences to European Union law, or acts of crime, especially when violent or highly organised. To this end, and apart from the necessary measures of protection against acts of retaliation, it is stipulated that legal persons of a certain size or engaged in certain activities should create channels for reporting breaches and establish procedures for analysis of breaches that assure the confidentiality and security of the information received.

2.2 Strategic Lines

GRI 102-2, 102-6, 102-15, 102-45, GRI 203-1, 203-2

We connect people and companies, committed to deliver!



CTT's strategy continues to be focused on the Company's transformation, associated with the challenging and disruptive context in which it is involved, aimed at growth of business units such as Express & Parcels, Banco CTT, and Financial Services and Retail, while seeking to ensure the sustainability of the Mail business. CTT thus seeks to further diversify its business and reduce its dependence on the Mail business, while working to achieve high efficiency levels to ensure the sustainability of the business and the Company. CTT believes that it performs a unique and leading role by combining a physical and digital presence, and being one of the main drivers of the development of e-commerce in Portugal, both among large customers and in supporting the business structure of small and medium-sized enterprises, contributing to modernisation and digital transformation. On the other hand, CTT strengthens the value of its proximity to the population, through physical communication and

financial services with saving, credit and insurance solutions, attained through its operating and retail networks and digital channel.

Specifically in 2021, CTT implemented various initiatives that contribute to long-term sustainability, as illustrated by the following examples:

- **Economic** sustainability: consolidation of the turnaround strategy in Spain, with increased market share, scale and operating efficiency, achieving break-even and contributing positively to EBITDA; investment to increase capacity in sorting parcels in Portugal and respond to the growth of volumes; partnership agreement between Banco CTT and Sonae Financial Services, making the Bank the management entity of the portfolio of financial products and services under the brand of Universo; acquisition of the company NewSpring Services, a reference company in the sector of Business Process Outsourcing (BPO) and contact centres, strengthening CTT's offer in the segment of business solutions; creation of joint ventures with the Chinese logistics company, YunExpress, to manage the locker network business; consolidation of the 2-hour delivery service by establishing partnerships with Worten, NOS and Zomato; launch of a new service for companies to create online campaigns, in partnership with a company of the Omnicom Media Group; partnership with Santos e Vale for the provision of cargo delivery services, with a view to the turnaround of this segment at CTT.
- **Social** sustainability: completion of the process of reopening the 33 post offices in municipal capitals; relaunch of the voluntary work project with EPIS, where mentors and volunteers support youth at risk of educational underachievement; launch of a campaign to promote national cinema, through *Cine Caravana* that took Portuguese cinema to the squares and parks of 27 cities countrywide, passing through all the districts; continuation of the CTT Road Accident Prevention programme, with very positive and internationally distinguished results, having won the Prince Michael International Road Safety Award, at a European level, for the Road Safety Award 2021; continuation of the partnership with *Pirilampo Mágico*, marketed at post offices, with the value being donated to children, young people and adults with intellectual disabilities and/or multiple disabilities; consolidation of the Prepaid School Account (School Wallet) enabling municipalities to manage the supply of meals at a central level, and implement an integrated payments system at a municipal level; extension of the solution for local trade and creation of online stores, driving e-commerce and supporting the process of digital transformation of small and medium-sized enterprises.
- **Environmental** sustainability: increased ecological fleet; continuation of the "A Tree for the Forest" campaign with Quercus, that was distinguished with an honourable mention in the national sustainability award; installation of production units for own consumption of photovoltaic energy; launch of reusable packaging for e-commerce sellers and buyers, aimed at launching disruptive sustainable solutions and boosting the circular economy; launch by Banco CTT of a Sustainable Investment product, in partnership with Zurich, a fund that invests in financial assets of companies and institutions that pursue and promote the Sustainable Development Goals; sale of Christmas decorations produced with used disposable individual protection masks.

2.3 Sustainable Development Goals

GRI 205-2, GRI 305-5, 306-2, GRI 403-9

The United Nations Sustainable Development Goals (SDG) reflect 17 priority topics, at a global level, for the preservation of the planet and the dignity of human beings.

CTT has mapped and prioritised the SDG for its value chain⁵⁷, in addition to aligning its environmental management strategy with the SDG considered priority for the sector in an International Post Corporation (IPC) study. SDG Compass methodology, developed by the WBCSD, UN Global Compact and GRI was used for this purpose. This exercise related to the SDG goals enabled identifying potential positive impacts and how to mitigate/avoid negative impacts, taking into account the risks and opportunities. The majority of these goals are already incorporated in CTT's activities and programmes, in various aspects, and feature in the table on Environmental, Social and Governance (ESG) Commitments (point 1.6). In the GRI index (Annex IV), the indicators were associated with the corresponding SDGs.

CTT's commitments are aligned with these global goals, with a view to achieving balance between the creation of economic value and the preservation of the dignity of human beings.

Accordingly, this year, CTT endorsed the Ten Principles of the United Nations Global Compact concerning Human Rights, Labour Practices, Environmental Practices and Anti-Corruption, expressing its intention to support and disseminate these principles in its sphere of influence.

CTT is committed to ensuring that the Ten Principles are reflected in the strategy, culture and daily operations of the organisation and to engaging in cooperative projects that promote the most far-reaching development goals of the United Nations, in particular the Sustainable Development Goals.

The table below presents the performance in 2021 in relation to the goals defined by CTT for that year.

	Good Health and Well-Being		Quality education
	Focus on road accident and prevention goals		Focus on training goals in response to employee needs
	5.2% fewer labour-related accidents and incidents than in 2020.		More than 217k hours of training were carried out, 16% up on the previous year.
	Affordable and clean energy		Decent work and economic growth
	Focus on renewable energy and energy efficiency goals		Focus on the goals for working conditions and support to SMEs, especially in local trade
	100% of the electrical energy consumed is produced through renewable sources.		CTT plug-ins launched for some of the online sales management tools most commonly used by small retailers.
	Sustainable cities and communities		Responsible consumption and production
	Focus on electric and smooth mobility and carbon neutral offer		Focus on the eco portfolio and the production of the circular economy
	57% increase in the number of kilometres travelled in electric vehicles.		Sale of ToBeGreen's Christmas decorations, made from disposable mask waste and packed with recycled materials.
	Climate Action		Peace, Justice and Strong Institutions
	Focus on carbon management, in the compliance with international standards and environmental education		Focus on anti-corruption and bribery, governance and ethics, and engagement with stakeholders
	Leadership Level and A- rating in the Carbon Disclosure Project 2021.		Public lawsuits related to corruption filed against the organization or its employees: 0.

⁵⁷ CTT has identified various value and supply chains for its business activities that are distinctive from one another. In this exercise, the value chain of the postal, express and parcels business was adopted, due to being one of the most significant.

2.4 Materiality Analysis

GRI 102-42, 102-47; 103-1

The materiality analysis reflects contributions that result from the last stakeholder consultation exercise, carried out by CTT in accordance with the guidelines of AA1000SES - Stakeholder Engagement Standard.

The analysis enabled identifying the relevant topics and critical stakeholders for the Company and a mapping exercise that led to the definition of the strategy of engagement with these stakeholders, that has been systematically applied.

The most recent stakeholder consultation exercise started in 2019 and extended over various months, with longer time frames due to the changes to the conditions of conducting the study caused by the pandemic. This study was expected to identify new critical topics and enable the appropriate positioning of CTT in light of the needs and perceptions of the stakeholders.

Mapping of the Stakeholders



Source: Stakeholder Engagement Exercise – Ernst & Young

The materiality matrix and material topics

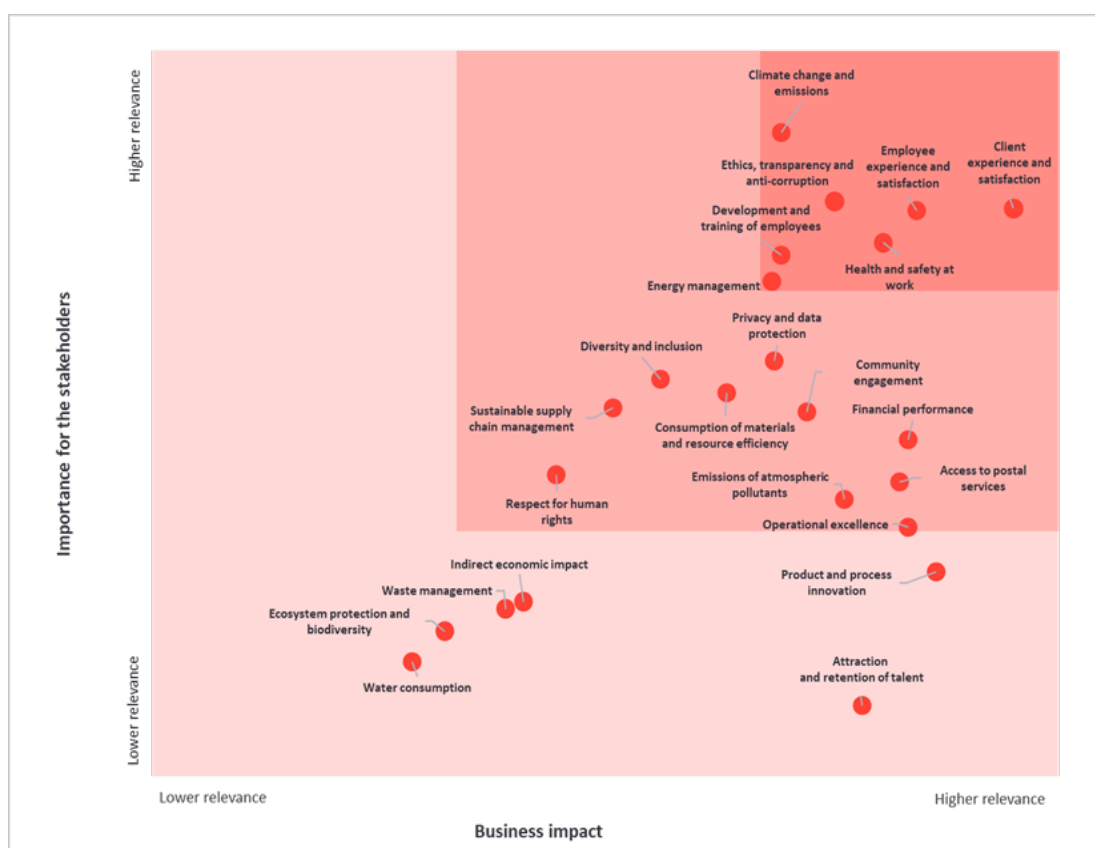
GRI 103-1, 102-42, 102-47

The stakeholder consultation exercise was based on a process of benchmarking the reference peers, so as to enable identifying a set of potentially relevant topics to underpin the process. In order to assess the impact of the topics for the business, several focus groups were held with members of the Board of Directors and senior CTT directors, aimed at obtaining their perception.

This exercise led to the identification of 23 potentially relevant topics, whose relevance to the stakeholders was subsequently assessed through a series of strategic interviews and an online questionnaire. The following stakeholder groups were consulted at this stage: Investors and Shareholders, Employees and their Representative Entities, Customers, Community Representatives, Suppliers, Partners, the Media and other public entities.

The topics were represented in a materiality matrix, grouped into three distinct levels of relevance: material topics, important topics and emerging topics. The hierarchy of topics took into account the relevance criteria indicated by AA1000SES - Stakeholder Engagement Standard. **Drawn up in partnership with the consultant Ernst & Young**, in a service that was hired before the end of 2020, the final composition of the matrix resulted in the crossing of the perceptions and points of view of the stakeholders with the vision of the Company's senior management.

Materiality Matrix



Source: Stakeholder Engagement Exercise - Ernst & Young

Material topics		Important topics		Emerging topics	
21	Client experience and satisfaction	22	Privacy and data protection	19	Product and process innovation
9	Employee experience and satisfaction	17	Financial performance	23	Indirect economic impacts
1	Greenhouse gas emissions and climate change	13	Community engagement	12	Attraction and retention of talent
16	Ethics, transparency and anti-corruption	15	Accessibility of postal services	4	Waste management
11	Development and training of employees	6	Consumption of materials and resource efficiency	5	Ecosystem protection and biodiversity
10	Health and safety at work	8	Diversity and inclusion	3	Water consumption
2	Energy management	20	Sustainable supply chain management		
		14	Respect for human rights		
		7	Emission of atmospheric pollutants		
		18	Operational excellence		

The structure of this report and the importance given to each topic arise precisely from the results of the materiality analysis and the level of criticality assigned to the different topics. Nevertheless, CTT continues to present data on the less critical issues, as they continue to be pertinent for the financial statements, for alignment with the SDG and for the actual engagement with the stakeholders. These topics include, for example, sustainable marketing, biodiversity and equal opportunities.

In the questionnaire, the stakeholders were asked to assess the importance of each topic for CTT and express their vision of the Company.

The stakeholders were questioned about their perception of CTT's activity, where the aspect that was most highly acknowledged, both by the employees and by the stakeholders, was the reputation of the CTT brand, as a symbol of credibility.

A particular issue for which it appears necessary to communicate more effectively outside the Company is that of the environmentally responsible products (the so-called "green products"). This was the issue that showed the greatest deviation between internal and external perceptions, with the external stakeholders showing more unawareness of the Company's offer in this field.

2.5 Stakeholder Engagement

GRI 102-21, 102-43, 102-44, 207-3

The different forms and means of engagement used have been reflected in regular actions of consultation and dialogue, as well as the monitoring of stakeholder needs and satisfaction. Examples of this type of engagement are found in the request to complete questionnaires and, on the other hand, CTT's written response to requests for information from different institutional investors, research analysts, other investors and the public in general. Internal meetings were also held with customers, market analysts and investors and shareholders, CTT received visits, held and attended conferences, working groups and panels, and informative newsletters were produced. Timely disclosures have been issued on privileged information and on qualifying holdings related to transactions and acquisitions, in addition to periodic reporting exercises and other types of external and internal communication undertaken by the Company in its current activity.

The stakeholder consultation enabled updating the engagement strategy and the identification of critical stakeholders that could thus benefit from enhanced communication and involvement.

The communication channels, the most common approaches and some of the measures implemented during this year to meet stakeholder expectations are listed below. CTT aims to establish effective, permanent and transparent dialogue with its stakeholders by strengthening all the forms and channels of hearing and engagement.

Table 1 – List of stakeholders and forms of engagement

GRI 102-21, 102-34, 102-40, 102-41, 102-43, 102-44

Stakeholders	Expectations and needs	Forms of communication with stakeholders and their consultation	Measures adopted
Shareholders and investors	Provision of clear, transparent and timely information that enables knowing the Company's evolution and its economic, financial and governance reality	Quarterly, half-yearly and annual reporting presented in a rigorous, reliable and consistent manner through presentations, press releases and annual and interim reports disclosed to the market and the general public on CTT and CMVM's websites	Social and environmental initiatives and investments
	Management alignment with shareholder guidelines	Participation in conferences, roadshows, meetings and conference calls with investors and research analysts	Ongoing communication with research analysts, seeking to increase the number of analysts who cover CTT
	Guarantee the commitment to ensure the long-term sustainability of the Company	Clarification of shareholders and other investors through the telephone line and electronic mailbox provided for the purpose	Maintaining and deepening engagement with stakeholders through participation in conferences, roadshows, meetings, conference calls and webcasts for the dissemination of results and communication of management guidance on the Company's business strategy
	Guarantee the creation of value, through the alignment of the interests of the various stakeholders		Participation in corporate ratings on environment and sustainability
Regulators	Quality of service of the Universal Postal Service	Information on services	Procedure for collecting and organizing information to comply with reporting obligations
	Prices of the Universal Postal Service	Participation in hearings and/or public consultations of draft decisions	Compliance with universal service obligations in terms of quality, prices and network coverage
	Criteria for density of the postal network and minimum service offers	Regular report of indicators	Maintenance of an analytical accounting system and calculation of the net cost of universal service (CLSU)
	Compliance with competition rules	Regular response to requests for information and clarification	Monitoring of the application of EU and national principles and rules on market competition
	Establishment of a relationship of greater proximity and dialogue to improve the effectiveness of regulation		Response to Regulators' requests for information
Other Legal Authorities	Maintaining accessibility to the postal network (post offices and postal agencies)	Good Company practices	Regular provision of information
		Company Strategy	Compliance with legal and contractual requirements
	Maintaining cooperative relations with all local entities	Ethics and transparency	Protocol with the National Association of Parishes
	Audits	Regular reporting	
	Clarification meetings		
	Legislative compliance		

Stakeholders	Expectations and needs	Forms of communication with stakeholders and their consultation	Measures adopted
Customers	<p>Improvement of responsiveness and involvement with the customer - customer care</p> <p>Need to improve self-care tools, in order to simplify the problem-solving process</p> <p>Increase of service detail, such as parcel tracking, delivery events, transport links</p> <p>Improvement of customer communication</p> <p>More effective incident management process</p> <p>Need for better management of customer expectations, complying with procedures and programmed/communicated events</p> <p>Reliability and trust</p> <p>Satisfaction</p> <p>Security of mail items (liability)</p> <p>Security of banking operations</p> <p>Geographic coverage and accessibility</p> <p>Responsibility and environmental image</p>	<p>Listening channels related to quality of service</p> <p>SMS/e-mail</p> <p>Social media</p> <p>NPS</p> <p>Information campaigns</p> <p>Personalised and permanent communication</p> <p>Advertising and accessibility of information</p> <p>Call centre /hotlines</p> <p>Regular surveys on delivery and customer services</p> <p>Decentralized meetings of the Management Board with customers</p>	<p>Improved customer satisfaction</p> <p>Launch and reformulation of new customized business solutions</p> <p>212 Banco CTT branches</p> <p>Environmentally more responsible operating model (fleet and buildings)</p> <p>Studies on the adequacy of the offer of products and services</p> <p>Consolidation of the eco-friendly portfolio (products and services)</p>
Competitors	<p>Participation in initiatives of common interest</p> <p>Sector benchmarking</p> <p>Give access to the postal network</p>	<p>Participation in forums</p> <p>Participation in benchmarking exercises</p> <p>Representation in bodies of the postal sector</p>	<p>Compliance with market rules</p> <p>Intervention in joint projects, in the context of sectoral bodies</p>

Stakeholders	Expectations and needs	Forms of communication with stakeholders and their consultation	Measures adopted
Employees	Stability (employment security, wage, social protection) Adequate remunerations Opportunities for career development and professional progression Good working conditions Merit-based performance reward Participative management Maintenance of social support measures Equal opportunities and management of diversity Better work-family balance Retirement conditions	Information in due time Personalized communication through the leadership/ dialogue chain Team meetings Written internal communication (magazine, thematic newsletters, electronic formats, SMS, letters, intranet) Training Forums Systems for suggestions Surveys	Widespread disclosure of work-related information Hygiene & Safety Program continuity Assessment of working conditions Modernization and renovation of infrastructure and equipment Training on safe/defensive/ ecological driving 98% of employees covered by training Participation in the INOV+ program Forum Organizations for Gender Equality Trainee programs Integration of trainees in voluntary work projects
Workers' Unions/ Committee	Proximity in the relationship with the organisations representing the workers aiming at their involvement Feedback and proposals for approaches on labour issues Management of collective bargaining Respect for their opinions/ positions Transparent negotiation Consultation on matters of corporate responsibility Participation in collective bargaining and contracting processes Compliance with Public Service Obligations Maintenance of social support measures to employees and their families	Monthly and/or extraordinary meetings with senior management Written internal communication (magazine, electronic formats, letters, intranet) Meetings with Union Organizations and Associations Representing Functional Groups, whenever needed Relevant management communication	Entry into force of the first CTT Espresso Company Agreement 98.9% of employees covered by collective bargaining agreements Signing and entry into force of the Wage Review Agreement of the CTT Company Agreement Signing and entry into force of the Wage Review Agreement of the CTT Espresso Company Agreement

Stakeholders	Expectations and needs	Forms of communication with stakeholders and their consultation	Measures adopted
Suppliers	<p>Equal opportunities and transparency (clear rules)</p> <p>Compliance with payment deadlines</p> <p>Increased volume of new supplies</p> <p>Tightening of relations</p> <p>Registration of suppliers for the different purchasing categories</p> <p>Supplier qualification</p> <p>Supplier evaluation</p>	<p>Information and communication of company projects</p> <p>Sustainable procurement policy – contractual clauses</p> <p>Regular communication on non-compliance in supplies – opportunity for improvement</p> <p>Electronic platform</p>	<p>High standards in social, human rights and environmental requirements</p> <p>Eco-friendly Procurement Policy – compliance with objectives</p> <p>Participation in the development of new products/services and improvement of existing ones</p> <p>Invitation of suppliers to meetings for presentation of products/services provided</p> <p>Implementation of an electronic platform</p>
Media	<p>Access to reliable and relevant information</p> <p>Communication to the market</p>	<p>Media Advisory (direct contact with media)</p> <p>Press releases</p> <p>Press conferences</p> <p>Presence in the social networks</p> <p>Media reports</p>	<p>Disclosure of information on services, projects, results and other aspects of corporate life</p>

Stakeholders	Expectations and needs	Forms of communication with stakeholders and their consultation	Measures adopted
Community	<p>Compliance with Public Service obligations</p> <p>Proximity/presence on the ground</p> <p>Stimulation of the local economy</p> <p>Capacity of communication/dialogue with local partners</p> <p>Accessibility to services</p> <p>Good corporate citizenship, in social and environmental terms</p>	<p>Direct/personalized information</p> <p>CTT website</p> <p>Presence in local and national press and social networks</p> <p>Direct contact with the postman and customer service personnel</p> <p>Philatelic issues and book publishing, among other items. Topics: culture, history, national and international events, protection of biodiversity</p>	<p>Accessibility for people with reduced mobility in 95% of CTT post offices, with the construction of a new ramp at the Odemira CTT post office</p> <p>Sale of Pirilampo Mágico (Magic Firefly), "A Tree for the Forest" kits, CTT - ToBeGreen Christmas decorations packages and solidarity sales in favour of the Portuguese Oncology Institute and the organization Animais de Rua (Street Animals)</p> <p>73 participations in voluntary, one-off and ongoing actions, despite the pandemic context limiting face-to-face actions</p> <p>Renovation of CTT post offices premises</p> <p>Initiatives with a call for public participation, such as the selection of carbon offsetting projects or "A Tree for the Forest"</p> <p>Targeted measures to improve energy efficiency in electricity and fuels, including enhancing sustainable mobility</p> <p>Optimisation of resource consumption</p> <p>Maintenance/increase of the waste recovery rate</p> <p>Initiatives to protect biodiversity and raise environmental awareness, with an impact on GHG emissions and other pollutant emissions</p>

Memberships and significant participation

GRI 102-12, 102-13

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

CTT is also a member of APDC (Portuguese Association for the Development of Communication), APAN (Portuguese Advertisers Association) Self-Discipline Agency), COTEC (Business Association for Innovation), APEL (Portuguese Association of Publishers and Book Sellers), IPAI (Portuguese Internal Audit Institute) and IPCG (Portuguese Corporate Governance Institute), among others.

As a founding member of the Universal Postal Union (UPU), CTT is present in a number of other affiliated organisations such as PostEurop (Association of European Public Postal Operators) where CTT chairs the Innovation Forum, UPAEP (Postal Union of the Americas, Spain and Portugal), Euromed (Postal Union of the Mediterranean) and AICEP (International Association for Portuguese Expression Communications) whose board is chaired by CTT since 2009.

CTT was elected in 2016 to represent Portugal for four years at the Council of Postal Operations of UPU, having left this Council following the 27th Universal Postal Congress held from 9 to 27 August, in Abidjan (Ivory Coast). CTT is a member of the International Post Corporation (IPC) and, since 2020, through its Chief Executive Officer, Professor João Bento, CTT joined the Board of Directors for a three-year term of office, representing countries South of the Alps. At PostEurop, CTT holds the position of Vice-Chairman of the Environment work group and Chairman of the Innovation Forum.

CTT has also fully joined the United Nations Global Compact and endorsed its 10 Principles. Annex IV, GRI Index, matches these indicators with the Global Compact principles observed by the implementation of measures meeting those indicators.

2.6 Corporate Ethics

GRI 102-16, 102-17, 102-31, GRI 205-1, 205-2, 205-3

The “CTT and Subsidiaries Code of Conduct” aims to reinforce the relationships of trust between the CTT Group and its stakeholders (shareholders, customers, depositors, investors, suppliers, business partners and society in general), and clarify the rules of conduct to be observed by all employees in the relations that they establish, both in-house or with external entities, highlighting fundamental principles such as equality, transparency, impartiality, loyalty and integrity, strengthening a common culture within the Group.

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

In line with the provisions of the Codes of Conduct (“CTT and Subsidiaries” and “CTT and Bank”) and “Code of Good Conduct for the Prevention and Combat of Harassment”, this year, 771 and 496 employees, respectively, successfully completed training actions in e-learning format. Various training actions were ministered on the combat of money laundering and terrorist financing, covering 2,412 employees, essentially those directly involved in the marketing of financial products.

The Ethics Committee is responsible for the monitoring and supervision of the application of the “CTT and Subsidiaries Code of Conduct” and “Code of Good Conduct for the Prevention and Combat of Harassment at the Workplace”, where there are specific channels for communication of irregularities related to situations of breach of rules of conduct and procedures defined for their handling. The Audit and Quality Department was entrusted with the technical support in terms of its operationalisation, assuring the confidential handling of the communications received and preservation of the principle of confidentiality and non-retaliation in relation to the persons reporting irregularities.

This Committee focused on monitoring the information received through the existing channels on possible situations of breach of the Code of Conduct, and on redesigning the approach to the topic of Ethics in the CTT Group, more centred on the organisation’s involvement, on the definition of the most pressing issues to be addressed, on more personalised disclosure, continuously involving the stakeholders.

In 2021, the Ethics Committee received seven communications, which were analysed and decided upon, in order to assess possible irregularities related to breach of the rules of conduct and combat of harassment, of which two were dismissed and filed for not falling within the scope of ethics/conduct, and the rest were analysed by the competent department.

There is also the figure of the CTT Group's Customer Ombudsman whose mission is to defend and promote the legitimate rights and guarantees of customers, and contribute to strengthening trust in the relationships between the Group and its customers, operating as a review body for appraisal and settlement of claims not answered by the competent services or with which the claimant does not agree.

CTT also has a whistleblowing system for matters of fraud or corruption, banking and financial crime, money laundering and terrorist financing, insider dealing and other issues identified in the Regulation on the Communication of Irregularities (RPCI), with the Audit Committee being the competent body to receive such communications, and counting on the collaboration of the Audit and Quality Department. In this context, no cases were received for handling under the RPCI.

Preventive procedures have been implemented concerning money laundering and terrorist financing, and on the use of the financial system by persons and entities subject to sanctions and restrictive measures by the United Nations (UN) and European Union (EU), covering the financial products provided on its own behalf and those marketed on behalf of entities with which CTT has partnership agreements.

In 2021, 43 communications were reported to the competent authorities (Central Department of Investigation and Criminal Action of the Attorney General's Office and the Judicial Police Financial Intelligence Unit) involving financial operations amounting to approximately 4.4 million euros.

CTT has procedures in place for the identification of active and passive perpetrators of situations of bribery and corruption with a view to their legal and criminal framing, where whistleblowing and complaints are investigated, and procedures and practices that cause or configure irregular and corrupt behaviours are analysed.

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

It should also be highlighted that the "CTT and Subsidiaries' Code of Conduct" includes the Standard of Individual Conduct alluding to the "prohibition of corrupt and bribery practices and external influences", in which the prohibition of the practice of corruption is stated in all its active and passive forms, whether through acts and omissions, or through the creation and upholding of situations of favour or irregularity. In relation to Banco CTT, the Code of Conduct is disclosed to all employees and members of the governing bodies, in addition to being available on the Bank's intranet and website.

As a result of the audit and inspection actions, 125 post offices, 65 postal agencies and 59 delivery offices were audited, representing, respectively, 22%, 18% and 28% of the total number. During the investigative actions, there were 4 rescissions of employment contracts of permanent employees and fixed-term employees, due to theft/breach of postal items (3 cases) and unlawful appropriation of products/cash (1 case).

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

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

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

Compliance with ethical requirements

GRI 102-13, 102-19, 103-2, GRI 206-1, GRI 307-1, GRI 419-1

Pursuant to laws and regulations relative to products and services, CTT was fined the value of €87,699. CTT was not the object of any legal actions in the context of unfair competition and anti-trust conduct with application of significant fines or non-monetary penalties, derived from non-compliance with environmental or corporate laws and regulations.

There were 154 occurrences or proceedings related to breach of labour laws and regulations (21 less than in 2020), 39 of which were closed in 2021. Also, 173 cases from previous years were resolved. Fines were paid in this regard, amounting to €47,502 (€40,103 less, or 54.2% less, than last year).

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

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

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

- Audit of the annual values of quality of service indicators and of CTT's complaints and information requests system, to verify the reliability of results and adequacy of methodologies for determining service quality levels, as well as the complaints management system and requests for information. Following the audits for the years 2016 and 2017, concluded in 2018, ANACOM defined adjustments in the scope of the measurement system for the quality of service indicators, implemented on 1 July 2019. The results of the audit process relative to 2018, 2019 and 2020 are awaited.
- Audit of CTT's cost accounting system, to check the conformity of the system and the obtained results, as well as compliance with national and international rules, standards and good practices. On 14 September 2020, ANACOM announced the compliance of the results of the analytical accounting system of CTT for 2016 and 2017, pursuant to ANACOM's decision determining the reformulation of those results, imposing new criteria for the allocation of expenses between its postal activity and banking activity. The statement issued by ANACOM on 6 September 2021, on the

audit to the results of the analytical accounting system for 2018, indicates that the results were produced in accordance with the applicable legal and regulatory provisions.

2.7 Risk Management

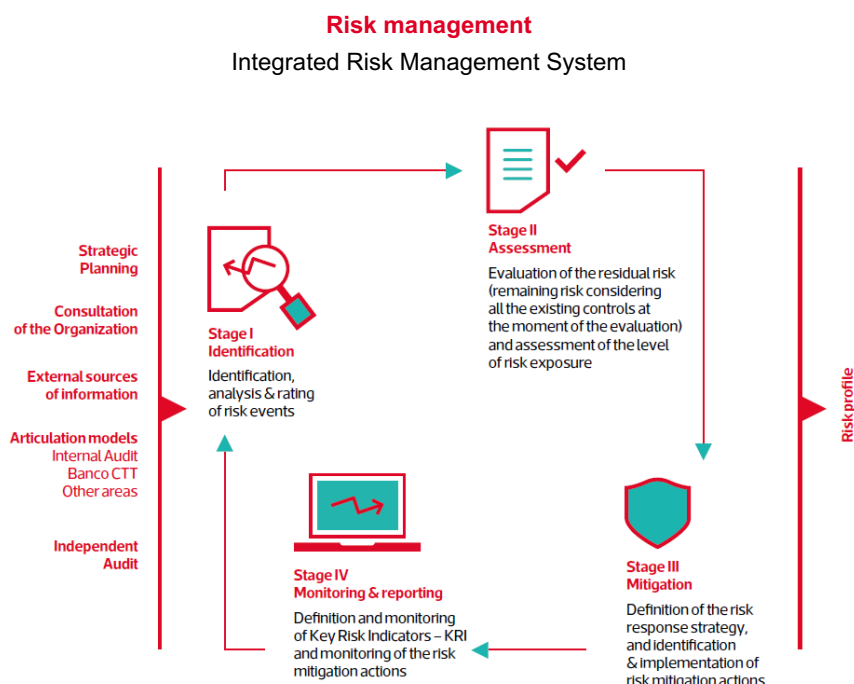
2.7.1 Description of the risk management process

GRI 102-29, 102-30, 102-31, GRI 205-1

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

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

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



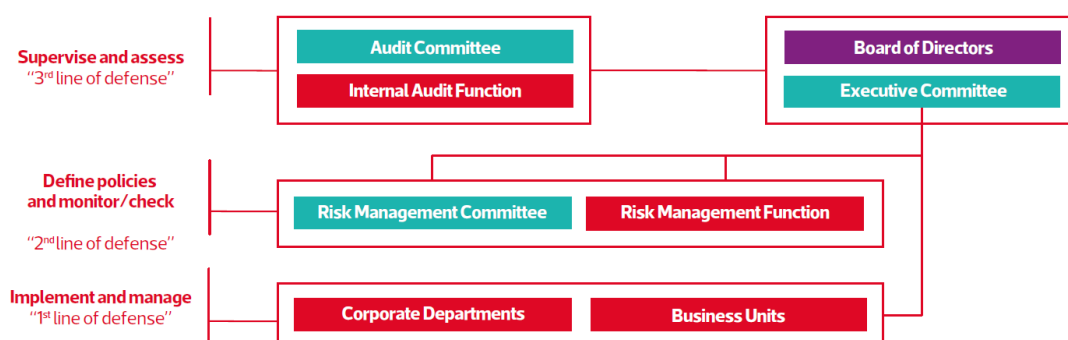
The risks identified during Stage I are assessed in Stage II according to qualitative and quantitative criteria in terms of probability of occurrence, impact and speed of materialization of the effect, pursuant to the guidelines established in the Regulations of the Risk Management System.

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

The evolution of CTT's main risks (those with higher level of exposure) is monitored in Stage IV through **Key Risk Indicators (KRI)**. The KRI operate as a barometer of CTT's current level of exposure to risks, warning of possible changes of the probability of occurrence and/or impact of the risk event, thus allowing timely action in order to reduce the level of exposure to comfort values within the defined risk appetite.

Governance Model

At CTT, risk management and control are undertaken by the entire organizational structure, involving top management down to the more operational levels, through a model of “3 lines of defence” based on good practices of Audit and Internal Control:



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

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

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

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

The **Risk Management Function**, performed by the Risk Management division of the Audit & Quality department, is responsible for the centralized coordination of the CTT Risk Management System and the planning and implementation of risk management programs supported by the Company's Regulations of the Risk Management System.


The **Internal Audit Function**, performed by the Internal Audit division of the Audit & Quality department, assesses the quality and efficacy of the Risk Management system, and identifies and characterizes risk events under the audit activities carried out.



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




2.7.2 Identification of risks and CTT response


GRI 102-2, 102-11, 102-15, 102-43, 102-44, GRI 201-2, 203-1, 203-2, GRI 413-2



Given their importance in 2021, we highlight in the following table the evolution over the year of the main strategic and operational risks faced by CTT:

Business affected	Risk rationale	Evolution and mitigation
	<p>Cyber incidents Class: Business interruption risk</p> <p>Cybercrime is one of the most serious economic and national security challenges facing governments around the world. In view of the increasingly stronger dependence on information technologies in CTT's business lines, the security and protection of information is, therefore, a very critical issue. The growth in volume and sophistication of cyber-attacks is of particular concern today, especially in a pandemic context. The implementation of teleworking for quite a large number of employees (more than 2 thousand) represented a huge challenge to the performance and security of CTT's information systems and considerably increased the level of exposure to this risk.</p>	<p>CTT continued to focus on strengthening technological security controls and on training its employees on good teleworking practices and cybercrime awareness.</p> <p>At the same time, the investment effort in information security solutions continued, namely by reinforcing the standard of robustness and quality and implementing control procedures and tools for the identification of vulnerabilities and threats.</p>

Business affected	Risk rationale	Evolution and mitigation
	<p>Conditions of the new Universal Postal Service concession agreement Class: Regulatory risk</p> <p>The Universal Postal Service concession agreement, which was due to expire on 31 December 2020, was extended for a year, until 31 December 2021. In the context of the configuration of the execution aspects of the future concession agreement, the legal and contractual framework that will be defined, particularly in terms of network density, quality and pricing, may present a level of demand and complexity of the conditions and obligations that may not safeguard the expected balance between continuity and sustainability in the fulfilment of the universal postal service obligations.</p>	<p>The Portuguese Government has approved the Resolution of the Council of Ministers no. 144/2021 of 23 September 2021 ("RCM"), which determines the provision of the universal postal service ("SPU") by a sole provider throughout the whole national territory, by means of the signature of a new, seven-year concession agreement. Considering that "there is no alternative or reasonable substitute to the provision of the SPU in national territory by CTT", the Government concludes that it is inevitable to proceed to a direct award for the SPU concession agreement and, in this context, CTT should be invited to present a proposal. During 2022 CTT signed the new concession agreement for the provision of the SPU. The new agreement entered into force on 8 February 2022 and will have a duration of seven years, including a first transition period - to take place in 2022 - followed by two three-year periods. This new agreement reflects the changes to the rules regarding the model for defining the SPU pricing criteria - which will now be established by multi-year agreement - and the setting of service quality parameters and performance objectives associated with the service provision, in accordance with Decree-Law no. 22-A/2022.</p>
	<p>Epidemics Class: Business interruption risk</p> <p>Researchers have long warned of the possibility that pandemic outbreaks could occur with increasing frequency. As with the current COVID-19 pandemic, phenomena of this nature can cause high economic and social damage while inducing the emergence of new risks and increasing exposure to existing risks. In light of the current pandemic, some uncertainties remain about the future, including the possible emergence and severity of new waves/variants of the virus that may escape the protective effect of current vaccines, and, in general, the capacity for economic recovery at national and international level.</p>	<p>During 2021, in a test of the resilience of its operations, CTT never failed to ensure the provision of services to its customers, always with a very low level of disruption, notwithstanding some operational constraints resulting from high levels of absenteeism seen especially throughout the 1st quarter of the year. Within the scope of the containment measures decreed in the course of the pandemic, whenever mandatory or recommended, CTT adopted teleworking in all functions that allowed it.</p>

Business affected	Risk rationale	Evolution and mitigation
	<p>Mail volume plummet Class: Demand risk</p> <p>The intensification of the phenomenon of digitalization and substitution of physical mail by other forms of digital communication have led to a continuous decline of postal volumes over the last decade. The effects of the pandemic on the economy further accelerated this trend, with demand for mail services reaching historic lows. Although some uncertainty remains as to the future of the pandemic and, consequently, the evolution of the decline in postal volumes, in a sustainability logic, CTT will have to rethink its current operating models to adapt them to substantially lower volumes.</p>	<p>After the record drop in 2020, addressed mail volumes resumed the rhythm of "natural decline" that had been evidenced prior to the outbreak of the pandemic. In order to offset this systematic pressure on revenues, which are still relatively dependent on mail, CTT continues to focus on business diversification while developing new efficiency initiatives aimed at adjusting the fixed cost structure to medium-term needs. CTT is also convinced that a structural improvement of mail profitability requires a more balanced and sustainable universal postal service concession model.</p>
	<p>Iberian Express & Parcels operations Class: Competitiveness risk</p> <p>CTT's strategy for the Express & Parcels (E&P) business aims at a strong Iberian presence through a leading platform, which is fundamental to promote the competitiveness of its offer, both in Portugal and in Spain. In addition to strengthening its leading position in the domestic market, the successful implementation of the turnaround plan in Spain is of particular importance, as it is crucial given the size and speed of growth of the Spanish market.</p>	<p>By continuing to invest in the implementation of complementary solutions in the e-commerce value chain, CTT managed to grow sustainably in 2021, consolidating its leadership position in the postal services market in Portugal. In Spain, the implementation of the transformation plan in operations initiated in 2019 continued. The focus on diversifying the customer base towards more profitable small B2B accounts and reducing operating costs has enabled profitability to be improved while gaining market share with B2C customers. As a result of this growth, CTT Express reached EBITDA breakeven in the second quarter of 2021.</p>
	<p>Natural disasters Class: Business interruption risk</p> <p>Natural disasters are currently a growing threat, causing thousands of deaths and huge economic losses every year all over the world. In particular, the increased frequency and severity of extreme phenomena associated with climate change, such as droughts, floods, cold or heat waves, have become a major concern for companies at a worldwide scale. The risk to CTT arises from the potentially devastating effects caused by the occurrence of this type of phenomena and the direct and indirect economic losses derived thereof.</p>	<p>The damages (human and material) to buildings and the fleet caused by Natural disasters are covered by insurance. In case these events occur, CTT has established communication channels with the authorities, namely the Civil Protection, aimed at ensuring the protection of the facilities and its employees.</p>

Business affected	Risk rationale	Evolution and mitigation
	<p>ESG (environmental, social and governance) performance Class: Sustainability risk</p> <p>ESG (environmental, social and governance) performance is increasingly an essential factor for the sustainable development, success and survival of companies these days. CTT's activity implies direct and indirect environmental impacts, namely the depletion of energy resources of fossil origin, the emission of atmospheric pollutants, in particular greenhouse gas emissions, the consumption of natural resources (e.g., paper and water), potential soil contamination and effluents due to waste produced by CTT as well as noise emission. The environmental impacts may also be felt at the social level. More than the response to compliance with legal and regulatory obligations, the risk arises mainly from reputation damage resulting from failures in the commitments assumed with mitigation and adaptation to climate change and energy transition, as well as an external perception of CTT as an environmentally unfriendly company.</p>	<p>To minimize its carbon footprint, CTT has implemented certified environmental management sustainability program in line with the UN sustainable development goals and certified environment management systems. Energy and carbon efficiency are ensured through energy rationalisation and efficiency measures, the promotion of green energy consumption and the development of the supply of green and/or carbon-neutral products and services that support the transition to a more sustainable economy. Sustainable mobility is also promoted by CTT through the management and streamlining of fleet consumption, the expansion of the electric fleet and the search for smooth mobility solutions. Non-financial reporting, complemented by training actions and communication initiatives (internal and external), also strengthen engagement with employees and stakeholders.</p>
	<p>Health and safety Class: Human capital risk</p> <p>Notwithstanding the permanent effort to prevent work accidents, their occurrence constitutes a significant risk in such a vast universe of workers. Operating one of the largest fleets in Portugal, CTT is particularly exposed to the risk of road accidents. On the other hand, the pandemic had an enormous impact on the workers' access to health care, implying the cancellation or postponement of medical appointments, exams and surgeries, a situation that has not yet been fully normalised. In addition, there is the problem of mental health, which has been made worse by the interruption of normal working routines and conditions and by isolation during the pandemic, and which may result in increased levels of absenteeism and/or a fall in productivity.</p>	<p>CTT is committed to ensuring its employees safety conditions in all aspects of their work, in order to prevent injuries and provide health conditions.</p> <p>In 2021, CTT continued to implement several preventive measures aimed at safeguarding employees' health and safety in a pandemic context. Following the Health Promotion and Prevention initiatives, the Viver (Living) Programme was launched which, besides the prevention and alert approach to workers on health-related themes, includes specific screening campaigns, informative documentation and remote or face-to-face counselling. Within the scope of road safety, to further clearly mark the commitment in this area, CTT's Road Safety Commitment was approved, a further stage in the development of a road safety culture.</p>

Business affected	Risk rationale	Evolution and mitigation
	<p>New working models and talent management Class: Human capital risk</p> <p>The ability to hire and retain skilled workers and to manage the risks associated with the development of critical and high-level talent plays a key role in the sustainable success of companies. In recent years (pre-pandemic), a trend towards the development of new models of work and organisation of human resources more flexible than the traditional ones was perceptible. The pandemic and the "forced" adoption of telework accelerated this gradual evolution. In this context, as the demand for qualified talent with specific skills is much higher than the existing supply in the market, many qualified candidates will be willing to make changes and opt for offers that allow them to work from anywhere with total autonomy. On the other hand, these new work models with less personal interaction may contribute to the erosion of team cohesion and organisational culture.</p>	<p>CTT has pursued an effort to retain the appropriate skills and high levels of motivation. From a talent management perspective, both actions to attract and recruit new knowledge and skills in the market and actions to develop technical staff and management have been considered. Within the scope of the transformation process underway, one of the pillars of action aims to increase employee satisfaction through a number of actions based on four vectors: communication, engagement, leadership and enhancement of the employer brand. In this last area, the 5th edition of the Trainee Programme 2021/22 began. This programme aims to attract and retain young people with high potential, promote their development, contribute to the rejuvenation of the workforce, foster a culture of mobility and position CTT as an Employer of first choice.</p>
	<p>Customer satisfaction and experience Class: Efficacy and reputation risk</p> <p>Operating in a highly competitive market, CTT's growth and sustainability are strongly dependent on the offer of products and services focused on customer satisfaction. In this regard, it is essential to anticipate, assess, respond in a timely manner and monitor their needs, offering adequate and differentiating products and services at competitive prices and high quality levels.</p>	<p>In recent years CTT has been developing a very significant work to transform its business portfolio with the objective of focusing the experience around private and business customers. In addition to the implementation of new solutions, there are also ongoing initiatives aimed at getting to know the client better, fostering an omni-channel approach and increasing revenue sources. At the same time, there is a modernisation and investment effort in operations, focused above all on intelligent management of network capacity and optimisation of processes through lean projects in the operational area supporting the activity.</p>