

ANNUAL REPORT 2010



grupoCorreos

 **Correos**
TELECOM
grupoCorreos

 **CORREOS**
grupoCorreos

 **CHRONO EXPRES**
grupoCorreos

nexea
grupoCorreos

Key data 2010

Correos Group

Net turnover (in thousands of euros)	2,112,688
Consolidated result before tax (in thousands of euros)	2,033
Consolidated result of the financial year (in thousands of euros)	6,275
Employees (average staff excluding seasonal personnel hired for elections)	63,370

Sociedad Estatal Correos y Telégrafos

Net turnover (in thousands of euros)	1,969,743
Result before tax (in thousands of euros)	-2,568
Result of the financial year (in thousands of euros)	1,742
Real investments (in thousands of euros)	48,390
Employees (average staff excluding seasonal personnel hired for elections)	61,819
Postal items (in millions)	4,413.6
Service points	9,762
Post offices	2,360
Rural services	7,402
Admission and processing centres	64
Vehicles	14,314

Chronoexpres

Net turnover (in thousands of euros)	132,056
Result before tax (in thousands of euros)	-7,847
Employees (average staff)	1,309
Operating centres	54
Distribution and hauling routes	1,741

Nexea

Net turnover (in thousands of euros)	13,547
Result before tax (in thousands of euros)	7.9
Postal items (in millions)	282.3
Printed items (in millions)	419.4
Digitisation jobs (in millions)	14.6
Employees (average staff)	186
Operating centres	2

Correos Telecom

Net turnover (in thousands of euros)	7,154
Result before tax (in thousands of euros)	224.9
Employees (average staff)	56



Correos Group Annual Report 2010

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Letter from the Chairman

Law 43/2010, of 30 December, liberalised Spain's postal market as of 1 January 2011. This law was the culmination in Spain, as in 11 other European Union member states, of a process launched decades earlier designed to harmonise the internal market and improve the quality of postal services.

Among its provisions, this law also designated Correos as the universal postal service provider for the next 15 years. This activity is a fundamental part of the company's corporate purpose.

The full liberalisation of Spain's postal market arrives at a time of major challenges for all of the companies operating in that market, and Correos Group is making use of solid and efficient management in order to tackle those challenges. In this way, the company exceeded its financial targets in 2010 to close the financial year with a profit of over 6 million euros. The decrease in turnover, caused to a large extent by lower mail volumes, was offset by costs control within the austerity plan implemented in recent years.

Adapting to the new market reality, which is shaped by a range of factors (liberalisation, greater competition, the economic recession, lower postal volumes, electronic substitution of physical mail) led Correos Group to re-assess its business position.

Thus, in 2010, the company carried out an exhaustive analysis based on evaluating the risks and opportunities presented by the changes in its business environment. The conclusions of this exercise were included in the 2011-2014 Corporate Plan. This programme, which is to be applied from this financial year onwards, establishes the roadmap for the coming years to guarantee competitive business, reduce dependency on traditional postal activity and increase customer focus.

The plan includes measures to boost diversification, strengthen synergies between the Group companies and better position them in strategic market niches, such as the parcel sector, banking services, direct marketing and electronic products.

In keeping with these objectives and in order to provide a global and flexible response to the demands of each client segment, Correos Group is redefining its range of services to provide comprehensive, innovative, flexible and affordable services that offer increased added value.

To that end, Correos Group, the reference in the Spanish market, combines the Parent Company's many years of experience in distribution, its employees' professionalism and the considerable capillarity of its admission and delivery network – one of the largest in the country – with the strengths of the Group's three subsidiaries: Chronoexprés, Nexea and Correos Telecom. Chronoexprés is a parcel delivery company whose synergies with Correos allow it to provide a comprehensive range of services with 100% reliability and multiple pick-up and delivery options. Nexea is the Group's subsidiary specialising in

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complete communication solutions for companies, with a full array of services ranging from designing the document to delivering it through the postal network. Correos Telecom provides assessment and support to the Group's other companies as they incorporate advanced technologies.

Last year, Correos Group continued to foster technological progress and development, enabling it not only to improve its management but also to increase its presence in other areas of society. The introduction of digital signature pads in post offices and the widespread use of PDAs in delivery services, to mention but a few initiatives, contributed to optimising processes and improving service quality.

Equally, improved digital services, such as the "Electronic PO Box", and the use of social networks such as Facebook and Twitter provide us with new means of communicating with clients and better opportunities for meeting the demands of an increasingly technological society.

Correos Group also made progress on its social and environmental commitment. This financial year was the first year in which it published its Corporate Social Responsibility Report along with the present report, before this publication had become mandatory under *Ley 2/2011, de 4 de marzo, de Economía Sostenible* (Law 2/2011, of 4 March, of Sustainable Economy). This report is a reflection of the values which underpin all of the Group's activities and describes the achievements reached under ethical and sustainable management that is environmentally friendly and committed to meeting the social goals we have been pursuing for years in our different projects.

This assessment of the past year would not be complete without expressing my thanks, firstly, the customers for trusting us with their daily communications and for motivating us to improve; the unions for their responsible attitude which made it possible to reach an agreement in early 2011 to allow the company to address future challenges from a more robust base; and last but by no means least, the employees of Correos Group. Their dedication and professionalism were key in satisfying our clients and maintaining the group's results. I would like to encourage them to continue contributing to achieving our shared objectives.

Alberto Lafuente Féliz

Milestones

Regulatory milestones

- Liberalisation of the Spanish postal market with the entry into force of *Ley 43/2010, de 30 de diciembre, del servicio postal universal, de los derechos de los usuarios y del mercado postal* (Law 43/2010, of 30 December, on the universal postal service, users' rights and the postal market).
- Correos was designated by the Government to provide the universal postal service for a period of 15 years from the entry into force of Law 43/2010.

CORREOS GROUP

CORPORATE MILESTONES

- Creation of the Correos Group Management Committee composed of the members of the Correos Management Committee and the General Directors of Chronoexpres, Nexea and Correos Telecom.
- Creation of three Executive Committees (for Operations; Technology, Systems and Innovation; and Sales and Marketing) under the Management Committee.
- Publication of the first Correos Group Corporate Social Responsibility Report.

RESULTS

- The consolidated result of the financial year increased by 111.9%, reaching 6,275 thousand euros.

Sociedad Estatal Correos y Telégrafos

CORPORATE MILESTONES

- Alberto Lafuente Félez was named Chairman of Correos.
- Change to the organisational structure, in line with the Government's austerity targets.

OPERATIONS

- Implementation of 4,700 digital signature pads to approximately 2,400 post offices.
- Automated sorting for 90% of basic line mail.
- Acquisition of 1,360 new vehicles, of which 14.7% were electric models.
- Revenues from "Digital mail" grew by 9.4%. "Online bureaufax" turnover increased by 13.4%.
- International inbound parcel volumes grew by 16.9%.

QUALITY

- The number of complaints and claims dropped by 22.6% to reach a total of 230,260.

PRODUCTS AND SERVICES

- Launch of the “*Postal 48/72*” parcel product.
- Sale of the “*Xacobeo* parcel” in post offices along the Way of St. James during the Jubilee Year.
- The number of bills managed in branches increased by 27.4%, reaching a total of 14.4 million.
- Revenues from financial services increased by 15.0%.

EMPLOYEES

- Staff on permanent contracts remained at 79% of the total.
- Medical absenteeism decreased by 15.7%.
- Accidents in the workplace dropped by 21.9%.

AWARDS

- Correos received the “*Premio DINTEL Alta Dirección 2010*” (DINTEL Upper Management Prize) in the technological upgrading category due to its promotion of the use of ICTs to improve service quality.
- For the fourth consecutive year, the company was awarded the “*Empresa TOP para trabajar*” (Top Company to Work For) distinction.
- The Parent Company received two Randstad Awards in the categories for balancing work and private life, and for occupational safety.

Chronoexpres

- Parcel volumes increased by 6.2%.
- Launch of the “National Pre-Paid Product” with delivery guaranteed in 24 hours in mainland Spain and tailor-made insurance.

Nexea

- The number of postal items handled grew by 16.9%, with a 25.3% increase in printed items.
- Transfer of the head office of Madrid to a new facility with 5,000 square meters.

Correos Telecom

- Revenues from the management and marketing of telecommunications assets increased by 31.8%.

Events after the close of the financial year

- Correo Híbrido changed its brand to Nexea.
- The Correos Group 2011-2014 Corporate Plan was approved.
- The 3rd Collective Bargaining Agreement and the Correos Working and Employment Conditions Agreement were signed on 5 April.



01

Correos Group

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Organisational structure

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The Correos Group is made up of the Parent Company – Sociedad Estatal Correos y Telégrafos, S.A. – and its subsidiaries Chronoexpres, S.A.; Nexea Gestión Documental, S.A. (formerly Correo Híbrido, S.A.); and Correos Telecom, S.A.

Correos is the Group's parent company and holds a 100% stake in each of the three subsidiaries. Its commercial portfolio, consisting of postal and other services, is rounded out by Chronoexpres' express and parcel delivery services, Nexea's corporate communication solutions and Correos Telecom's telecommunication network management services.

The Management Committee (the Correos Group Management Committee since last financial year) has the overall responsibility for policymaking, development and coordination of all key issues for all of the different units and companies.

The Committee is composed of the Chairman; the General and Board Secretary; the

Managers of Planning and Finance; Human Resources; Technology, Systems and Innovation; Sales and Marketing; Operations; Auditing and Inspection; Institutional Relations and Coordination; the Deputy Manager for Communication; and the General Directors of the three subsidiaries.

In turn, the following committees report to the Management Committee: the Executive Committees for Operations; Technology, Systems and Innovation; and Sales and Marketing, which are responsible for coordinating each area's policies.

Correos is managed and represented by its Governing Board, composed by a maximum of seventeen members. Similarly, the three subsidiaries each have their own Governing Boards.

In order to meeting the austerity and organisational simplification targets set by the Government, the Parent Company's organisation structure was reviewed in 2010.

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Governing Board

Chairman



*At the beginning of 2011, Correo Híbrido changed its brand to Nexea.

Governing Board

Sociedad Estatal Correos y Telégrafos

At 31 December 2010

CHAIRMAN

Alberto Lafuente Félez

SECRETARY

Jesús Moreno Vivas

MEMBERS

José Antonio Benedicto Iruñ
Marta Cobo Omella
José Luis Díez García
Mercedes Díez Sánchez
Antonio Fernández-Paniagua Díaz-Flores
Fernando Flores Giménez
Oscar Graefenhain de Codes
Fernando Irurzun Montoro
Cristina Latorre Sancho
Tomás Moreno Bueno
Javier Francisco Paramio Fernández
José Alberto Pérez Pérez
Eusebio Pérez Torres
Juan Miguel Sánchez García
Felipe Sivit Gañán
Justo Zambrana Pineda

Chronoexprés

At 31 December 2010

CHAIRMAN

Magín Blanco González

SECRETARY

Jesús Moreno Vivas

ASSISTANT SECRETARY

José María Elías de Tejada Casanova

MEMBERS

Benigna Cano Pinto
Marta Fernández Estellés
Luis Pérez Capitán
Carlos Rosa Maureta
Domingo Sebastián Bello

Nexea

At 31 December 2010

CHAIRWOMAN

Benigna Cano Pinto

SECRETARY

César Delgado López

MEMBERS

José Antonio Amelibia Núñez
José María Elías de Tejada Casanova
Marta Fernández Estellés
Jesús Moreno Vivas
Luis Pérez Capitán

Correos Telecom

At 31 December 2010

CHAIRMAN

Juan Jesús Torres Carbonell

SECRETARY

Juan Risquete Fernández

MEMBERS

José María Elías de Tejada Casanova
Marta Fernández Estellés
Jesús Moreno Vivas



The Correos Group closed the 2010 financial year with a profit of 6,275 thousand euros, thanks to strict costs control measures.

2010 Assessment

Key data	2009	2010
Net turnover (in thousands of euros)	2,186,990	2,112,688
Consolidated result before tax (in thousands of euros)	-384	2,033
Consolidated result of the financial year (in thousands of euros)	2,962	6,275
Employees (average staff excluding seasonal personnel hired for elections)	65,613	63,370

The Correos Group is a group of companies working in the global communications sector. Its mission/vision is to become a facilitator of physical and electronic mail items between companies, individuals and government bodies.

The Group's Parent Company, the "Sociedad Estatal Correos y Telégrafos", is a publicly-owned company offering a wide range of postal products and services, as well as other products, including financial and telecommunications services, with which it aims to meet its clients' communication and business needs.

Furthermore, the company aims to fulfil its public service mission as the designated provider of the universal postal service in Spain by promoting operating efficiency and maintaining high levels of quality and accessibility.

The Parent Company operates mainly in the Spanish postal market which, since 1 January 2011, has been fully liberalised following the entry into force of Law 43/2010, of 30 December, on the universal postal service, users' rights and the postal market.



Since the 1960s, Spain has been one of the most liberalised European postal markets compared to most other EU member states.

For this reason, it has seen intensive development of competition and attracted several international operators. Correos has therefore been operating in a highly competitive environment for decades.

The express and parcel market, in which the Group's specialised urgent services subsidiary Chronoexpres works, is also highly competitive.

In Spain, this activity sector can be described as scattered; it features a large number of small companies while at the same time, large market shares are held by only a few operators.

The subsidiary Nexea provides comprehensive communication services to companies including document scanning, design, printing, envelope stuffing, data management and electronic document storage. This large range of services allows it to design customised solutions for a wide variety of sectors, such as direct marketing, financial services and government bodies.

Lastly, Correos Telecom is the company responsible for managing, promoting and marketing the assets of the Parent Company's telecommunications network.

Market

The Group's four companies operate in very demanding, now fully liberalised markets which undergo continuous transformation due to technological advances and evolving demand.

In response, Correos Group has prepared a new corporate plan for the 2011-2014 period. Based on the Group's strengths and its integrated management approach, the plan's fundamental objective is to define a sustainable model designed to position the Group in the new market and regulatory panorama.

This plan aims for Correos Group to be perceived differently by clients, in order to improve its brand image as an overall communications solutions provider, supplementing its physical services with new electronic, innovative services and benchmark solutions in the parcel and direct marketing sector.

From a business standpoint, this requires an improved customer focus, with a specific strategy for each of the markets in which the Group operates, both nationally and internationally. This is achieved by designing personalised comprehensive solutions with increased added value for each segment.

The plan aims to make use of the four companies' synergies, detect opportunities and identify opportunities for increasing efficiency and continuously improving processes, in a coordinated manner.

Economic situation

In the last quarter of 2010, the Spanish economy was showing signs of a budding recovery. However, this was not enough to offset the drop seen in the previous months. Thus, in general terms, the country remained weaker than other countries in the Eurozone.

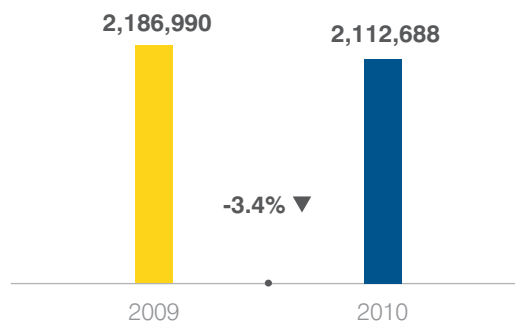
This sluggish recovery had an impact on confidence levels in companies, which continued to push cost-cutting measures and look for cheaper communication alternatives.

Moreover, the end of the year saw an increase in raw material prices, particularly oil, which was reflected in transport costs.

Therefore, the persistent economic challenges affected volumes in the postal sector and, to a lesser extent, the parcel sector.

Net turnover

In thousands of euros



Results

In 2010, Correos Group achieved a net turnover of 2,112,688 thousand euros, a decrease of 3.4%.

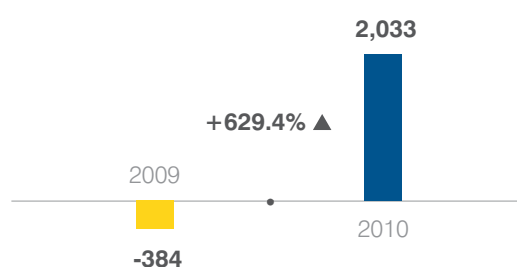
The consolidated result before tax increased 629.4% to 2,033 thousand euros.

The consolidated result of the financial year was 6,275 thousand euros, an increase of 111.9% over 2009.

It was possible to achieve these results thanks to cost-cutting efforts, especially for externalised services (leasing, security, transport and cleaning) and staff. These costs decreased by 4.3% and 3.2% respectively, due to having extended the austerity plan implemented in previous years.

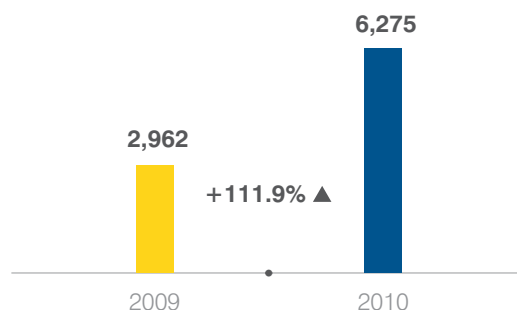
Consolidated result before tax

In thousands of euros



Consolidated result of the financial year

In thousands of euros





Horario límite de entrega

02

Sociedad Estatal Correos y Telégrafos



CORREOS

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Correos achieved a profit of 1,742 million euros in financial year 2010.

2010 Assessment

Key data	2009	2010
Net turnover (in thousands of euros)	2,043,701	1,969,743
Result before tax (in thousands of euros)	-5,230	-2,568
Result of the financial year (in thousands of euros)	-2,020	1,742
Real investments (in thousands of euros)	116,461	48,390
Employees (average staff excluding seasonal personnel hired for elections)	64,037	61,819
Postal items (in millions)	4,630.6	4,413.6
Service points	9,846	9,762
Post offices	2,349	2,360
Rural services	7,497	7,402
Admission and processing centres	64	64
Vehicles	13,966	14,314





Sociedad Estatal Correos y Telégrafos, S.A. is a company that is entirely owned by the Spanish government through the Directorate General for State Assets.

The company's corporate purpose is to manage postal services; provide money orders, money transfers, telegrams, telex and bureaufax services; receive notices between the public and the government bodies; deliver administrative and legal notices; to propose and market stamp issues as well as other postal services payment systems; execute all other activities relating to its corporate purpose as directed by government bodies; and develop other services complementary to or necessary for meeting its corporate purpose.

Correos is the designated universal postal service provider in Spain, and must meet certain quality, regularity, accessibility and affordability requirements ensuring all citizens' rights to postal communication.

Furthermore, it is also the postal company of reference in the national market due to the excellence and reliability of its services and its broad range of products and services comprising solutions for both physical and digital communications, as well as parcel services, direct marketing, and financial and telecommunications products.

Correos has 61,819 employees, 9,762 service points, 64 operating centres and a fleet of 14,314 vehicles, making it one of the largest companies in Spain in terms of size, coverage and human capital.

Spanish postal market

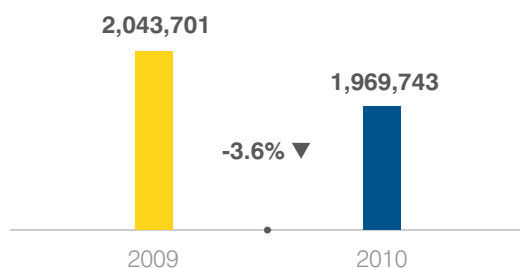
The Spanish postal market was liberalised on 1 January 2011, the date established by Directive 2008/6/EC, of 20 February, with regard to the completion of the single European market for postal services.

The transposition of the new European regulatory framework into Spanish law was achieved through Law 43/2010, of 30 December, on the universal postal service, users' rights and the postal market, which guaranteed the provision of the universal postal service, and named Correos as the provider for the next 15 years.

The *Comisión Nacional del Sector Postal* (Spanish National Commission for the Postal Sector) also began its work in 2010, assuming oversight of the Spanish postal market, which had until then been the responsibility of the Subdirector General for Postal Services in the Public Works Ministry.

Net turnover

In thousands of euros



Results

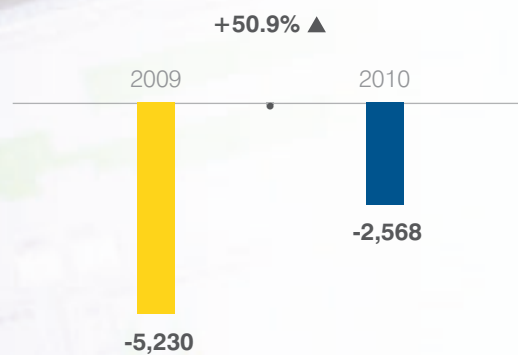
Last year company recorded a net turnover of 1,969,743 thousand euros, 3.6% less than in 2009.

Result before tax amounted to -2,568 thousand euros, an improvement compared with the 2009 result, which stood at -5,230 thousand euros.

The result of the financial year were positive at 1,742 thousand euros.

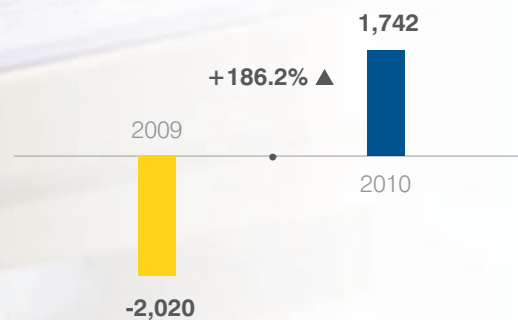
Result before tax

In thousands of euros

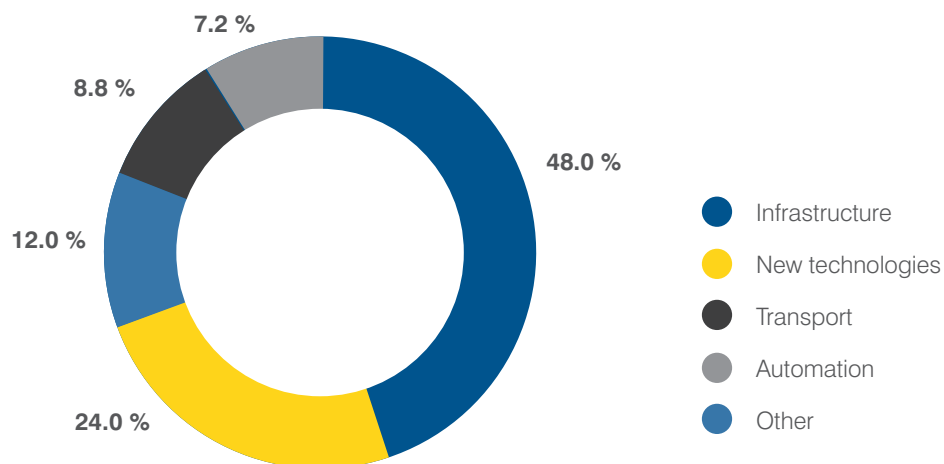


Result of the financial year

In thousands of euros



Real investments



Investments

After completion of the major modernisation plans carried out over the last decade, last year Correos dedicated 48,390 thousand euros to real investments, according to strict need and profitability criteria.

Broken down into categories, 23,230 thousand euros were invested in infrastructure, 11,628 thousand euros in new technologies, 4,262 thousand euros in transport and 3,453 thousand euros in automation processes.

Postal activity

In 2010, the company handled 4,413.6 million mail items, not including international inbound mail and mail generated by election processes.

This represented a drop in volume of 4.7%. This decrease, which was lower than that recorded in 2009, was the result of both the economic situation, which continued to affect companies, the main producers of mail items, and the electronic substitution of mail and increased competition in the market.

Of the total volumes, 81.0% was basic line mail items, 18.7% was economy line mail items and 0.3% was urgent line mail items.

Despite the general downward trend, some services experienced growth, including special agreement notices, economy line international packages, “*Publiccorreo*” and “*Postal Exprés*” products.

The company cooperated with the elections held in Spain by distributing census cards and campaign fliers, enabling postal voting and delivering postal ballots to polling stations, and collecting copies of the results of each count to deliver them to the election committees.

Correos delivered 5.2 million basic line mail items (census cards), 43.8 million economy line items (campaign fliers) and 0.3 million urgent registered items (election documentation and postal votes) having to do with the elections to the Parliament of Catalonia (28 November).

The company also managed 7,937.4 thousand money orders, 11.5% less than in 2009, with a total sum of 802,222.1 thousand euros.

Likewise, Correos admitted 6,769.2 thousand telegraph products, 13.1% less than the previous year.

Postal volumes by product line	2010
Basic line	3,575.6
Economy line	825.9
Urgent line	12.1
Total (in millions)	4,413.6

Money orders	2010
Domestic	7,749.5
Ordinary	7,592.1
Urgent	157.4
International	187.9
Total (in thousands)	7,937.4

Telegraphic products	2010
Telegrams	2,282.1
Bureaufax	3,880.2
Fax	606.9
Total (in thousands)	6,769.2

The number of claims and complaints filed fell by 22.6% to a total of 230, 269.



Quality and customer service

Correos' objective is a continuous quest for excellence in its operating processes and customer care in order to provide the highest quality products and services. In this way the company aims to satisfy the communication and business needs of companies and the general public, as well as to ensure proper provision of the universal postal service with which it has been entrusted.

Quality of service

The Postal Law and its Regulations establish the requirements for providing universal postal service and the delivery times for the different products it includes.

In this manner, the Regulation establishes the obligation to deliver 93% of letters, 95% of money orders and 80% of postal parcels within 3 days (D+3). The postal regulator carries out tests to evaluate fulfilment of these targets.



In addition, Correos takes its own measurements with the purpose of detecting possible deviations and means of improving its processes, using two systems (Internal Audit and SPEX).

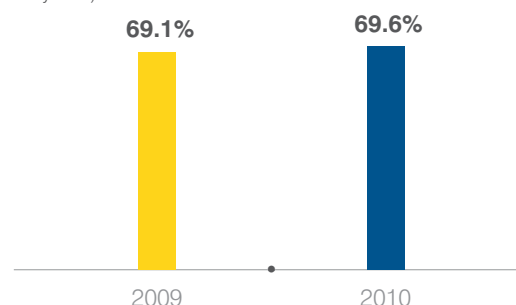
The Internal Audit model monitors mail items in the phase of the postal chain between postmarking and exit for delivery.

The SPEX system monitors the entire postal process from deposit to delivery, which corresponds better to the public's perception of the punctuality of the service. Beginning in 2011, Correos will use this model only, due to the progress achieved in recent years in its technological support.

According to both systems, in 2010 Correos exceeded its internally set delivery targets for all products included in the universal postal service.

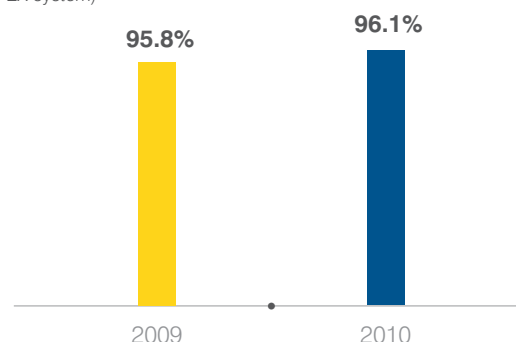
Letter on D+1

(SPEX system)



Letter on D+3

(SPEX system)



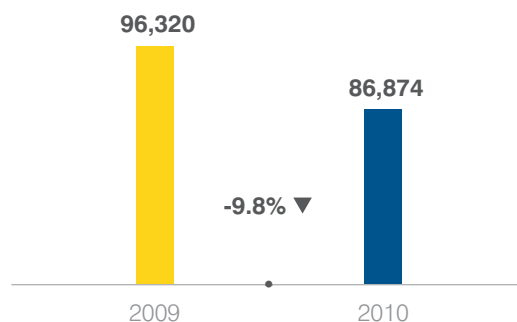
System	Universal postal service products	Delivery time	Results 2009	Results 2010	Target
Internal Audit	Ordinary letter	D+1	83.7%	83.6%	-
	Ordinary letter	D+3	98.9%	98.9%	93.0%
	Registered letter	D+3	97.5%	98.3%	93.0%
	Ordinary money order	D+3	99.3%	99.2%	95.0%
	"Paquete azul" parcel	D+3	89.0%	91.7%	80.0%
SPEX	Ordinary letter	D+1	69.1%	69.6%	-
	Ordinary letter	D+3	95.8%	96.1%	93.0%

Customer service

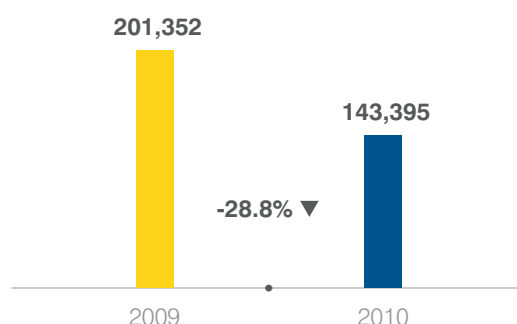
The company provides its clients with different customer service channels for the purposes of making suggestions and reporting any incidents. Some such channels are listed below:

- The claims and complaints system: over the last financial year, the total number of claims (including those related to international products) decreased by 28.8%, and complaints fell by 9.8%. The total at the end of the year was 230,269, representing a decrease of 22.6%.
- The customer service helpline 902 197 197: in 2010, it received 1.4 million calls, 13.5% less than in 2009.
- The website www.correos.es: it was used to manage 60,259 queries, 48.3% more than during the previous year.
- Social networks (Twitter and Facebook): in 2010, new communication channels were opened with clients using these networks. This allowed clients to become more familiar without our services and to share their evaluations and suggestions.

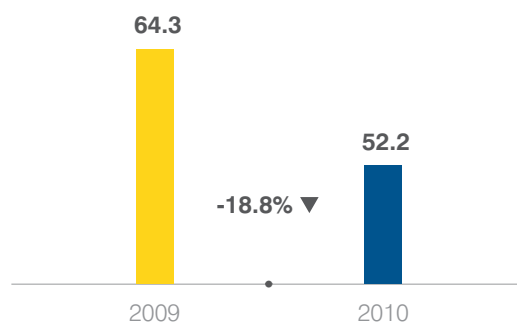
Complaints



Claims



Complaints and claims per million mail items



Continuous improvement

Correos' quality management system, based on the European EFQM model, allowed the company to apply the continuous improvement cycle to all of its activities and areas.

The company's post offices, centres and units have adopted process-based management in their daily operations, viewing it as the means of recognising its strengths and areas requiring improvement.

At the end of the year, 2,336 establishments, or 45.3% of the total, used the corporate quality and/or environmental management systems after they were introduced in all postal processing centres the previous year.

Since 2009, Correos has also had an online tool, called the *Liga de la Excelencia* (Excellence League), by which operating centres and post offices can identify their processes, access performance evaluation indicators and check their target meeting rate.

Certifications

Correos renewed the following certificates in 2010:

- ISO 9001, for all post office network processes and the 17 automated processing centres.
- ISO 14001, for all processes in the 17 automated processing centres and 17 main post offices.

At the end of the year, a total of 2,292 postal establishments had quality and/or environmental management systems certified under the ISO 9001 and ISO 14001 standards.

Certifications	2009	2010
Establishments with quality and/or environmental management systems	2,273	2,336
Percentage of total	44.0%	45.3%
Certified establishments	2,273	2,292
Percentage of total	44.0%	44.5%

Standard	Certified establishments	Scope
ISO 9001	All post office network	All processes
	All automated processing centres	All processes
ISO 14001	All automated processing centres	All processes
	17 main offices	All processes



4,700 digital signature pads were installed in post offices.

Innovation

Correos permanently assigns resources to purchasing and improving its management and business IT systems, as well as technological infrastructure, with the purpose of increasing efficiency, guaranteeing high quality standards and supporting the development of new business areas.

In light of these targets, in 2010 new functions were introduced in the main information systems to support daily operations (SGIE, IRIS, MARABU, GISC, OCA). This made it possible to improve control over service, optimise internal processes and improve customer care.

At the same time, we added new clients to the company's e-billing system, which was set up in 2009. As a result, the number of registered users was multiplied by a factor of 60.





Improvements in admission and delivery

Correos uses a radio frequency (RFID) quality control model, which has been rolled out across 56 logistics facilities. This system uses tags, attached to mail items, which can be identified using the facilities' antennas and scanners. Their use enables exhaustive control of intermediate delivery times, which has had an impact on global delivery quality levels.

Around 15,600 employees in the ordinary and urgent delivery units use PDAs on a daily basis, facilitating the traceability of certified postal items and other added value products. In 2010, the percentage of mail items monitored using these tools increased to 52.8% of the total.

Last year, 4,700 digital signature tablets were installed in approximately 2,400 post offices. These devices make certified postal

item management faster and more secure by allowing Correos to record the client's signature in digital format and automatically enter all the details of the delivery process.

The company also set up 300 thermal printers to generate parcel labels. This process will be expanded to another 1,400 post offices and some client facilities.

Finally, Correos reached an agreement with the search engine Google under which post offices will be indicated on the mapping application Google Maps.

2010 saw the launch of the parcel product "Postal 48/72". It is specifically adapted to the needs of e-commerce.

Products and services portfolio

Correos' product range provides flexible and efficient communication solutions that adapt to the needs of diverse client segments and business types.

Furthermore, the company and the three Correos Group subsidiaries work to create a comprehensive range of services to integrate with companies' business processes.

Commercial agreements

In 2010, Correos participated in a range of processes promoted by government bodies and companies to provide postal services. The company designed customised, competitive, high quality and highly technical bids for each client and also included other Group services that complement traditional postal products.



Equally, Correos and its subsidiaries Chronoexpres and Nexea made progress in designing a single range of urgent delivery, printing and handling services, making it possible to formalise agreements with organisations in the financial, institutional and online sales sectors.

Three new contracts were also signed last financial year providing access to the postal network managed by Correos, in line with the conditions established by the regulations. Thus, at the end of the financial year the company had agreements with 13 private postal operators and 78 independent mail consolidators.

Products and services

With the aim of meeting the quality and price demands of certain growing sectors, Correos' actions last year focused on designing more technological services and specific solutions for direct marketing and electronic commerce activities.

In 2010, the following new services were added to the range of services:

- “*Postal 48/72*”. In line with Group's goal of improving its position in the parcel market, Correos launched this product, designed to meet the requirements of the e-commerce segment. This type of parcel offers a flexible delivery and affordable prices, for weights up to 30 kilograms.

It has added values such as full traceability, technological integration with the client, a pick-up option and returns management.

The online label and delivery note generation service and the availability of a multi-service envelope also make this product easier to use.

As proof of this product's success, at the end of 2010, the Coca-Cola Company entrusted its Christmas campaign, “*El almacén de la ilusión*”, to Correos, using the “*Postal 48/72*” product and the post office network.

- *Xacobeo* 2010. Correos, the sponsor and logistical operator for *Xacobeo* 2010 (the Year of Saint James), designed a customised range of services for those undertaking a pilgrimage in that year.

The “*Xacobeo* parcel” was offered in two formats: the “Backpack parcel”, which allowed customers to send luggage to any post office along the Way of St. James; and the “Bicycle parcel”, facilitating the transportation of bicycles to the start of the route and their subsequent return to the pilgrim's home address using special packaging and Chronoexpres' services.

Furthermore, an information website (www.xacobeo.correos.es) was set up and a promotional campaign was established through which *Xacobeo* cards were given out in post offices.

- “Correogiros”. Since 2008, the company has been offering this alternative network for electronic money transfers between Latin America and Spain. With a guaranteed delivery in 15 minutes for post offices in participating countries and one of the most competitive rates in the sector, this product’s security is guaranteed by the Universal Postal Union’s International Financial System (IFS) network.

In 2010, the service agreement, originally signed by Spain, Chile and Uruguay, was expanded to seven new countries (Argentina, Colombia, Costa Rica, Cuba, Ecuador, Peru and the Dominican Republic).

Sponsorships and commercial events

Last year, the company participated in various national and international commercial events, including:

- the “LogisExpo-Feria de Logísticas Especializadas, Transporte de Mercancías y Polígonos Empresariales” (LogisExpo Fair for Specialised Logistics, Goods Transport and Business Parks) in Zaragoza;
 - the “XII Salón Internacional de la Logística y la Manutención” (12th International Logistics and Material Handling Exhibition) and the “VIII Fórum Mediterráneo de Logística y Transporte” (8th Mediterranean Logistics and Transport Forum) in Barcelona;
 - The E-commerce fair (Paris);
 - the VAD E-commerce exhibition (Lille); and
 - the “*Deutscher Versandhandels-Kongress 2010*” (German Mail-Order Business Congress 2010) in Wiesbaden.
- Additionally, Correos participated in institutional acts such as the “European Day of the Sea 2010” (Gijón) and sponsored different business events and meetings, such as:
- Xacobeo 2010, mentioned above;
 - the “*Campeonato de España de atletismo*” (Spanish Athletics Championship) in Avilés;
 - the “*II Jornadas Adeje Tecnológico*” (2nd Adeje Technology Conference) in Tenerife;
 - the Business Global Conference in Bilbao;
 - the Europe@n eCommerce Conference 2010 in Madrid;
 - the Expo E-commerce 2010 fair in Madrid;
 - the ExpoManagement 2010 fair in Madrid;
 - the Global Marketing and Sales Forum 2010 in Madrid.

Rates

The rates of the postal services were updated in January 2010. The price for standard national letters and cards up to 20 grams was set at 0.34 euros.

Correos thus continued to guarantee the affordability of the universal postal service for all citizens and continued to be one of the most economical postal operators in the European Union.

Rates for 20g letter (in euros)	2010
Domestic	0.34
International – European Union	0.65
International – Other countries	0.80



As part of the annual fleet renewal plan, 1,360 vehicles were purchased, of which 14.7% were electric.

Operations and processes

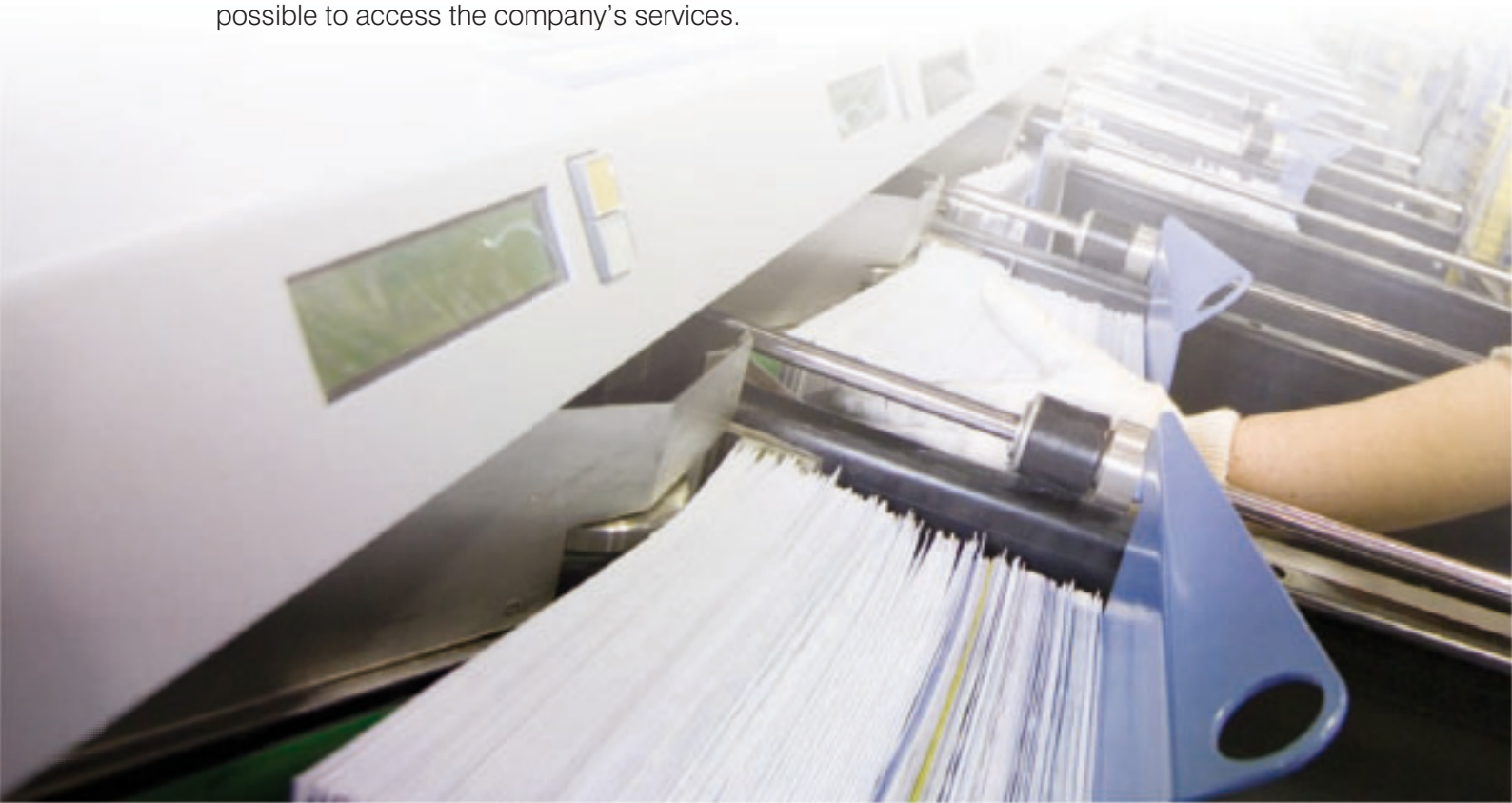
Correos provides postal services throughout the country, collecting, admitting, processing, sorting, transporting and distributing mail items daily through the most extensive networks in Spain.

Collection and admission

The postal chain begins with the collection and admission phases. For these phases, in 2010, the Parent Company had 2,360 post offices, 6 mass admission centres and 57 units with the same function located in different facilities, 7,402 rural services (composed of 795 auxiliary post offices and 6,607 rural linkages) and more than 33,000 letterboxes which, as a whole, made it possible to access the company's services.

The operations improvements last year were mainly intended to optimise the collection and admission processes. The new functions incorporated into the MARABU IT system (designed to control and monitor letterboxes) enabled the more appropriate scaling of the daily collection routes. Equally, the admission procedures for the centres and units specifically intended for this activity were enhanced.

Centres	2010
Mass admission centres	6
Automated processing centres	17
Postal processing centres	36
Local processing centres	5



Processing and sorting

Correos processes and sorts postal items using an array of different facilities spread across the country. These include 17 automated processing centres featuring different types of mail-sorting equipment. In 2010, they included 43 lines for standard mail, 14 for non-standard (flat) and 17 for letterbox mail.

This technology permitted the company to increase the percentage of automatically processed basic line mail to 90%. Consequently, a significant number of mail items that were transferred to the distribution units were pre-sorted by delivery sections and ready for final delivery. The number of sections that received pre-sorted mail increased to 14,655 (72.2% of the total).

The company also added 179,670 units of logistics equipment in the different centres.

Automated processing lines	2010
Standard mail	43
Non-standard mail (flat)	14
Letterbox mail	17

Transport

Last financial year, Correos' transport network was composed of 13,175 vehicles owned by the company, as well as 1,139 managed by third parties.

As part of the annual fleet renewal plan, 1,360 vehicles were purchased, of which 14.7% were electric models. These additions replaced 10.3% of the vehicles owned by the company. With this fleet, the company travelled 800,000 kilometres daily transporting 8,000 tonnes of letters and parcels.

Punctuality on transport routes, which contributes to meeting final delivery targets, was 96.9% for incoming schedules at the centres and 99.1% of outgoing schedules.

Vehicles	2010
Correos-owned	13,175
Third party	1,139
Total	14,314

Punctuality on transport routes	2010
Arrivals	96.9%
Departures	99.1%

Distribution

The distribution and delivery activities were conducted by 1,837 delivery units, 100 special services units (for urgent deliveries) and 7,402 rural services. With these material and human resources, Correos guaranteed complete coverage throughout Spain.

The suitability of these tools for our distribution needs was also evaluated by dimensioning studies conducted in 965 urban delivery sections and 987 rural services. As a result, 37 urban sections and 21 rural services were created. Additionally, 30,955 equipment units of different types were acquired for delivery tasks.

Since 2009 the company has had a geographical information system (GIS) which contains all of the digital maps used in daily transport and distribution activities and for planning services and routes.

Last year a new version of the application was rolled out throughout the territorial structure, bringing the new functions included in the government *CartoCiudad* project database, as well as the digital photographs from the PNOA (National Aerial Orthographic Plan).

Distribution services	2010
Delivery units	1,837
Special services units	100
Rural services	7,402
Auxiliary post offices	795
Rural linkages	6,607

At the end of 2010 Correos had 2,360 post offices, of which one in four had all-day opening hours.



Accessibility and multi-service offices

Correos' post office network is a multi-service distribution channel that markets a wide range of postal, philatelic, financial and telecommunication products. Its extensive network is also essential to ensure accessibility to the universal postal service, for both admission and delivery.

At the end of 2010, the network was composed of 2,360 post offices, of which one in four, 621 in total, provide uninterrupted service from morning to evening, thereby offering the public with convenient and easy access to the company's services.

Range of services

The post offices are comprehensive centres offering clients numerous services in a single location. In addition to providing a full range of postal services, clients can carry out procedures such as paying bills issued by the 24 entities and companies subscribing to this option, including utility providers, telecommunications companies and others.

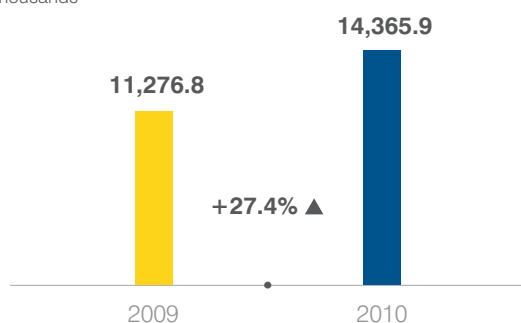
In 2010, Correos processed the payment of 14.4 million bills. This figure represents a 27.4% increase with respect to the previous year. Generated revenues rose to 10,755.2 thousand euros, 27.0% more than in 2009.



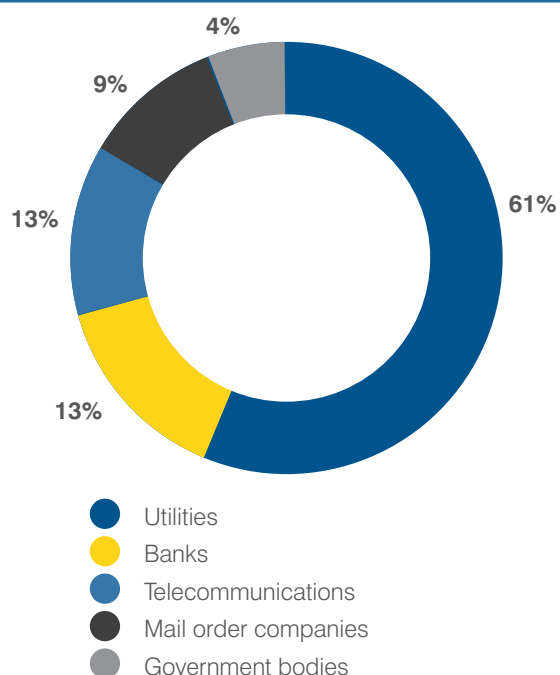
One of the most recent companies to add this option was the online travel agent Rumbo, whose electronic reservations can now be confirmed and paid for at post offices since last year.

Bill payments at post offices

In thousands



Companies accepting bill payments at post offices, by business sector



BanCorreos

BanCorreos is Correos' financial brand, the result of an agreement with Deutsche Bank. Its products are sold at post offices, on the webpage www.bancorreos.es and over the customer service helpline 902 337 338.

Last financial year, despite the volatile behaviour of the banking market, its total business volume grew by 12.1%.

New mortgages increased by 67.8% and consumer loans by 77.2%.

BanCorreos also participated in placing debt issues for the Catalan and Valencian Regional Governments and handled some of the largest volumes for these operations in the banking market.

BanCorreos	2009	2010
Customers	160,141	154,804
Liabilities*	763,277.6	759,078.1
Assets*	574,113.0	740,631.4

* In thousands of euros

Other financial services

Through its post office network, Correos offers several money transfer alternatives including different money order formats.

The company also has an agreement with Western Union to provide its "Money in Minutes" service, available in 200 destinations around the world. In this regard, 2010 saw a slight recovery in international remittances. This 0.7% growth was driven by increased transfers to Eastern Europe.

Telecommunication and other services

Correos provides telecommunications solutions via agreements with other companies. In collaboration with the department store El Corte Inglés, the Correos Telcor network (with 63 shops located in post offices) supplies telephony products and services, internet access, television and home security services.

The post offices also sell other products such as electronic Identity Card readers and TDT set-top boxes, products sold by partner companies such as the electronics company Energy System, or prepaid telephone or internet card top-ups.

Post office network results

Last financial year, the post office network's revenues depended once again on the economic context.

Sales of postal-related and philatelic products reflect this situation, showing drops of 9.7% and 22.7% respectively.

However, revenues from financial services began to recover, growing by 15.0%, as did those from Western Union money transfers, increasing by 2.3%. Non-postal services grew by 12.2%, extending the trend seen in previous years.

Revenues by category	Change 2009/2010
Postal-related products	-9.7%
Non-postal services	+12.2%
Financial services	+15.0%
Philatelic products	-22.7%
Western Union services	+2.3%

International inbound parcel volumes increased by 16.9%, and outbound volumes by 6.3%.

International activity

Correos aims to position itself as a specialised operator on the international mail and parcel market. To do so, it offers a range of specific products and services to meet the cross-border needs of individuals and companies.

Activities

In 2010, the trend in international postal volumes, mirroring national trends, was decided by the economic situation, by the effect of electronic substitution of mail and by increased competition in the market.

Therefore, both import and export mail flows fell, although less sharply than in 2009. Conversely, the traffic coming from the “direct injection” channel (by which international clients can access national prices and products or give their cross-border transfer an appearance of proximity) grew by 29.2% in the case of outbound volumes, and 3.8% for inbound volumes. These results were achieved by diversifying large client customer base and securing agreements with the world's main postal operators, in order to attract and boost their postal volumes to Spain.



International products		Change 2009/2010
Mail	Inbound items	-4.3%
	Outbound items	-4.4%
Parcel	Inbound items	+16.9%
	Outbound items	+6.3%
EMS	Inbound items	+9.7%
	Outbound items	-11.3%

Meanwhile, parcel activity made better progress than mail activity. Export volumes increased by 6.3%, reversing the trend from the previous financial year. Import volumes showed similar growth to 2009 trends (+16.9%), thanks to the “direct injection” channel, whose volumes increased by 43.7%. The latter increase was achieved due to the acquisition of new customers, mainly from the European e-commerce sector. In fact, Correos has become the operator of reference for French and German companies looking to deliver their products in Spain.

Urgent items (primarily “EMS *Postal Expres*” product) showed a drop of 11.3% in outbound volumes; however, this decrease was lower than that seen in the previous year. Inversely, inbound volumes increased by 9.7% thanks to flows from Asia (especially China, Japan and Hong Kong), the region which generates 70% of this type of inbound mail traffic.

In addition to offering a wide range of international mail and parcel products, the company provides other types of service such as drawing up the DUA (Single Customs Document) for exports. The general public and

companies can request this document at post offices to pay the taxes on mail items sent to the Canary Islands, Ceuta, Melilla and countries in the European Union (except Andorra).

Furthermore, in 2010 *Orden PRE/773/2010, de 24 de marzo, sobre el despacho de aduanas de los envíos procedentes de fuera de la Unión Europea* (“Order PRE/773/2010, of 24 March, on items from outside the European Union clearing customs”) was passed. It reduced the number of customs clearance offices in Spain from 18 to 5 (Madrid, Las Palmas, Santa Cruz de Tenerife, Ceuta and Melilla).

In compliance with this regulatory change, admission and customs clearance of international volumes destined to the Iberian Peninsula and the Balearic Islands were centralised in Madrid. Correos therefore introduced this new model in its postal facilities at Madrid-Barajas airport which, since 2009, has been authorised to conduct these procedures by using an ADT (Temporary Storage Deposit).

International networks

The company is part of different international networks, allowing it to ensure global coverage and increase the competitiveness of its services.

One of these international networks is Kahala Post Group (KPG), an association of 10 postal operators designed to promote priority and urgent parcel services.

Last years, KPG's members met to analyse trends in volumes, and the impact that the combination of two events had on the air transport sector: the decrease in flights from Asia to the European Union and the United States, and the volcanic eruption in Iceland, which had a negative impact on quality performance.

Correos is also a member of the European Parcel Group (EPG), which Poland and Estonia joined in 2010. Last year, the EPG's work focused on building a joint reverse logistics solution specially targeted at the e-commerce segment.

To the same end, the company reached an agreement with the logistics company TransExpress to import parcels from the United States for Spanish buyers over the internet.

Institutional relations

Correos participates actively in the main multilateral postal organisations and institutions. Last year, the company became a member of PostEurop's Management Board and, for the next three years, it will chair its International Affairs Committee.

In the Universal Postal Union, Correos retained the chairmanship of the Strategy Implementation Project Group and the deputy chairmanship of the Joint Committee of Development and Cooperation of the Council of Administration, where it was also appointed chair of the Ad Hoc Group on Evaluation of Development Cooperation Projects.

The company also worked with the European Commission and the Public Works Ministry to organise the "Second High Level Conference on Postal Services" (Valencia) to analyse the challenges of setting up the single European market.

The website www.correos.es received 3.2 million visits per month, 19.2% more than in 2009.



Online services

The online post office is the online channel for accessing Correos products, covering the company's full product range, including both physical products and others created specifically for the digital environment.

In 2010, the website www.correos.es received an average of 3.2 million visits per month, 19.2% more than in 2009. The number of new registered users increased to 85,000.

Revenues from online services reached 8,067.1 thousand euros, an increase of 3.6% over the previous financial year. Particularly noteworthy was the higher demand for "Online bureaufax" (+13.4%) and "Digital mail" (+9.4%) products.

The improvements made to the online post office improved the security of electronic payment operations and added new website personalisation options.

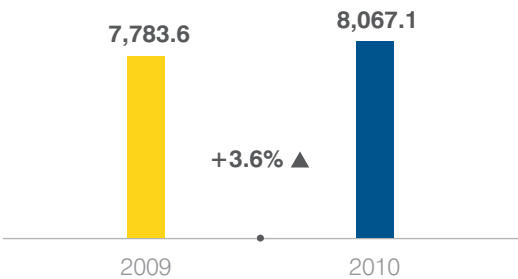


The “Electronic PO Box” service, which provides people and companies with a single access point for digital versions of their documents, saw an increase in senders and recipients.

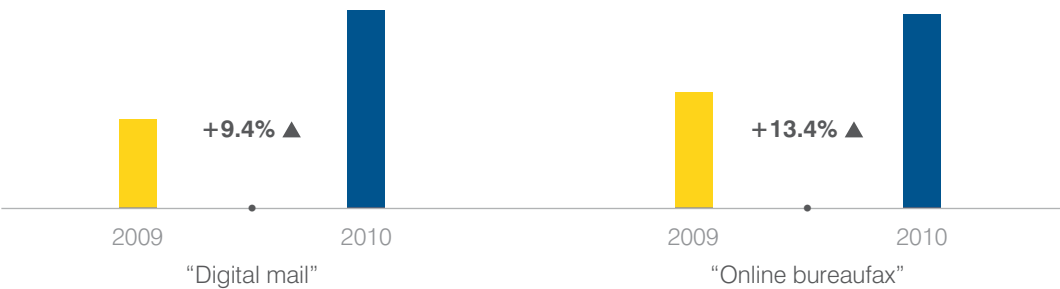
Last year also saw the migration of the “Secure Telematic Notices” service to the “Electronic PO Box” platform and new virtual notice formats were added. Equally, the system was expanded to adapt to the Spanish Tax Authority’s capacity requirements, in accordance with the said body’s recent regulations on digital communications.

Online revenue

In thousands of euros



Evolution of products revenue



In 2010, 108 stamps were issued and the albums *"Libro de los Sellos de España y Andorra 2010"* and *"Espacios Naturales de España"* were published.



Philately

Correos' philatelic activities include proposing and distributing stamps, marketing stamps and other products and promoting stamp-collecting.

In 2010, 108 stamps, four pre-franked cards and three pre-stamped envelopes were put into circulation, 266 postmarks and 65 first day envelopes were created and the philatelic albums *"Libro de los Sellos de España y Andorra 2010"* (Spanish and Andorran Stamps Book) and *"Espacios Naturales de España"* (Spain's Nature Preserves) were released.

Some of the most noteworthy stamps were those created using three-dimensional gold leaf stamping to commemorate the founding of the Kingdom of León and Spain's 2010 World Cup win, as well as the joint issue with the Turkish postal operator.

Also within the range of collectors' items, commemorative coins were released in collaboration with Spain's National Mint.





As in previous years, the company collaborated in events such as the National Philatelic Exhibition, "Exfilna 2010" and the International Themed Philatelic Exhibition, "Filatem 2010". It also organised the National Stamp Fair in Madrid and the Philatelic Exhibition in Barcelona.

In Europe, Correos was represented at the Antwerp, Essen, Lisbon and Paris Fairs. In these last two fairs, the "*Testimonios con valor*" (Testimonies with value) collection was once again awarded the gold medal in the issues category.

The company continued to sponsor school exhibitions organised by the Spanish Federation of Philatelic Societies (FESOFI), which took place in 26 schools last year. Correos also continued promoting the work of the Royal Hispanic Academy of Philately to teach about Spain's postal history.

This work was also supported by Correos' Postal and Telegraphic Museum, which preserves and exhibits representative postal, philatelic and telecommunications pieces from the 19th century onwards.

The Museum, whose exhibit rooms can also be visited virtually at www.correos.es, has a library and documentation centre with bibliographic and documentary resources containing more than 23,700 items.

Correos fostered job stability, internal promotion, training and prevention of occupational risks.



Employees

Correos is one of the largest companies in Spain by number of employees. Their professionalism and dedication are essential in making the company one of the most highly-valued public services in recent years.

For that reason the company promotes stable, quality employment, a good work-private life balance, professional development and employee protection.

Last year, Correos had 61,819 employees (plus seasonal personnel hired for the election who occupied 31 positions). Of this figure, permanent employment made up 79% of the total. The employee mix was 53% male and 47% female. Employees under ordinary contracts made up 59% of the personnel, and 41% were civil servants.



Promotion and mobility

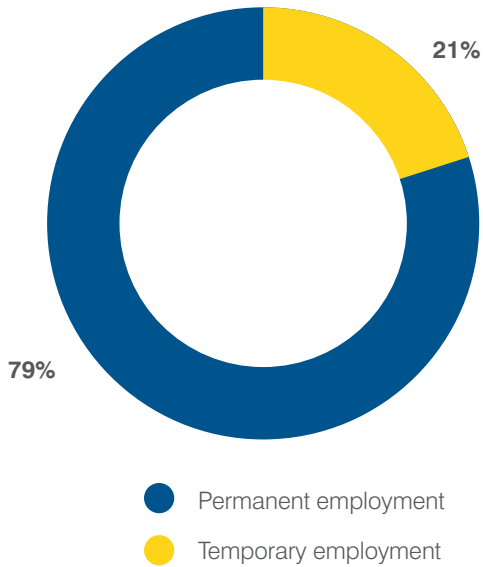
In 2010, Correos promoted employment stability by covering temporary needs due to seasonal increases in production with non-continuous permanent employees, whose experience and relationship to the company contributed to improving service quality.

Most general vacancies were filled using internal promotion and selection procedures. In total, 886 selection processes were carried out. For the first time, these included a new online method of assessing applicants for certain operational positions.

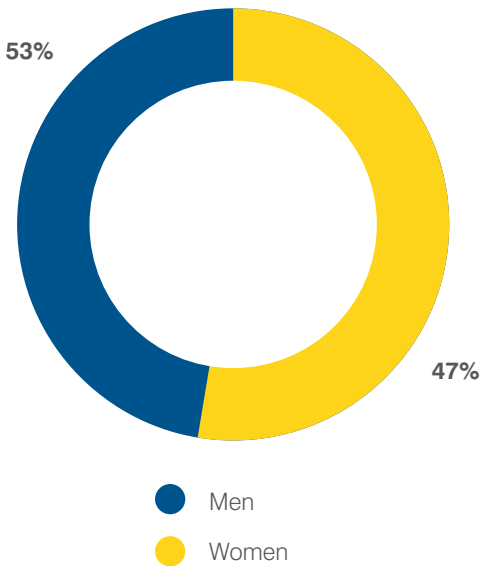
Last year a professional development and talent management programme was also launched in order to identify the most suitable employees to fill certain local management positions and to provide them with a specific training plan.

As in prior years, and in order to guarantee the right to professional mobility, the permanent transfer system facilitated the horizontal promotion of 3,675 employees. Of that number, 1,521 were non-continuous permanent employees who then took up continuous positions.

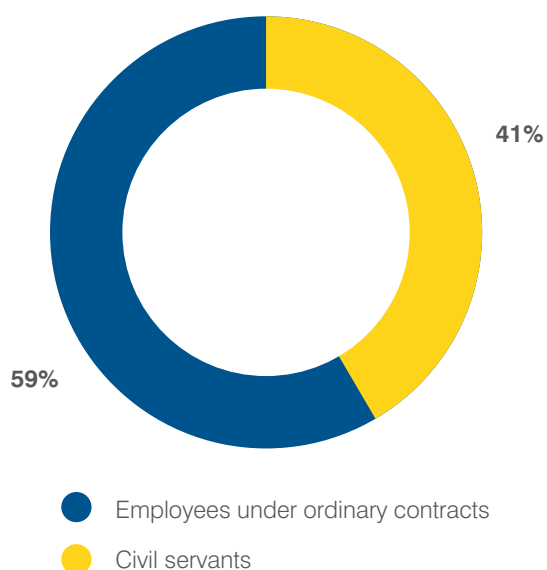
Proportion of permanent employment



Gender proportion



Breakdown of staff



Training

A total of 361 training courses for a wide range of subjects were conducted in 2010 over 1.9 million classroom hours, equal to 31 training hours per employee. The 86,536 participants in these activities evaluated their level of satisfaction as higher than 8 out of 10.

The company continued developing the middle management skills programme in which nearly 3,000 employees participated.

The e-learning method was used by most participants, or 71.8%. This type of training was used for 77.0% of the total training hours, because it is highly suited to a company whose personnel are spread out across the country.

Training	Online	Other methods*	Total
Courses	107	254	361
Attendees	62,146	24,390	86,536
Training hours	1,483,506	444,049	1,927,555

* Includes classroom-based, remote access and combined method courses

Workplace health and safety

One of Correos' top commitments to its employees is to prevent occupational risks in all of the company's areas and activities and to improve occupational safety conditions.

Over the year, more than 1,000 risk assessments were carried out in the centres and more than 350 emergency plans were implemented. As a result, accident levels dropped by 21.9% and serious accidents decreased by 44%.

As part of the annual health plan, the personnel took part in 13,800 preventative medical screenings in addition to other specific initiatives. Measures intended to reduce medical absenteeism were successful in achieving a drop of 15.7% compared to the previous year.

Pension plan and social action

The company supplements its employees' pension provision with a pension plan which, last year, included 40,649 registered members and received funds of 13.2 million euros. At the end of the financial year, the fund's total assets sat at 165.2 million, of which 112.6 million were paid in by the company.

Correos has also set up various social action programmes offering support to employees, including 6,171 grants for healthcare, 5,124 grants for care of children with disabilities and for education, and 962 to support leisure, culture and sports, reaching a total sum of two million euros.

Equally, 3,389 payment advances and personal loans at no interest were also made, for a total of 13.5 million euros.





03



Chronoexpres launched the “National Pre-Paid Product” with delivery guaranteed in 24 hours in mainland Spain and tailor-made insurance.

2010 Assessment

Key data	2009	2010
Net turnover (in thousands of euros)	132,518	132,056
Result before tax (in thousands of euros)	-4,659	-7,847
Employees (average staff)	1,324	1,309
Operating centres	54	54
Distribution and hauling routes	1,893	1,741

Chronoexpres is the Correos Group's specialised subsidiary in the urgent national and international delivery of documents and parcels.

Chronoexpres provides door to door services across Spain using a network of 54 company-owned operating centres, warehouses covering more than 109,000 square meters and 1,741 distribution and hauling routes.



Employees

In 2010 the subsidiary's average number of employees was 1,309, of which 97% were on permanent contracts. Of that figure, 72% were men and 28% women.

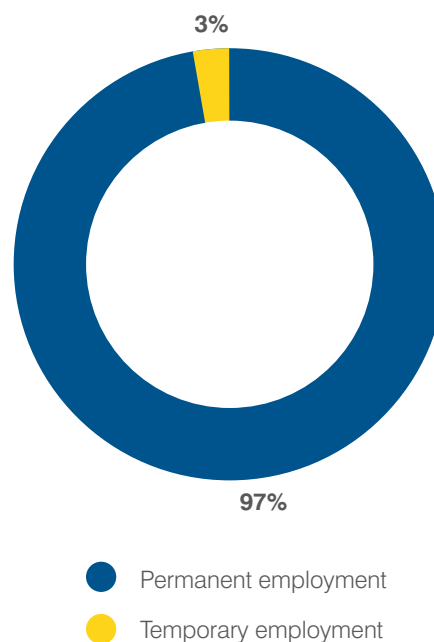
Range of services

Chronoexpres' services include courier and parcel products with guaranteed delivery times, such as "Chrono 10", "Chrono 14" and "Chrono 24". Added to these the company have customised solutions such as "Multichrono", mailbag services and others that meet the needs of different business sectors.

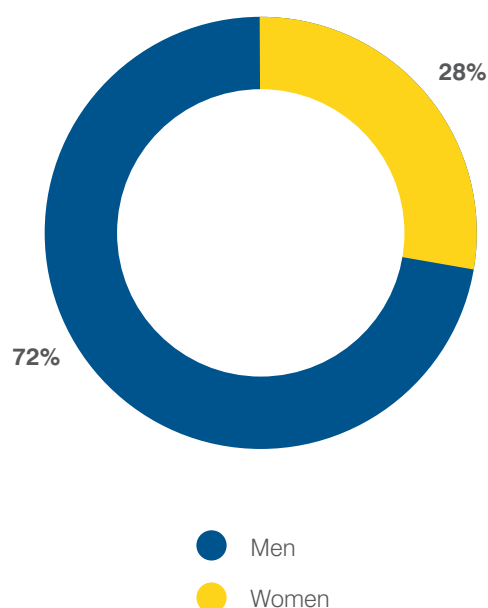
The company also offers international services in cooperation with major European and global operators including FedEx and GLS. Agreements with these last two operators were renewed last year.

In 2010, the "National Pre-Paid Product" was launched, with delivery guaranteed in 24 hours in mainland Spain and tailor-made insurance. This product provides real time information, digital delivery confirmation and immediate incident management.

Proportion of permanent employment



Gender proportion



Equally, a specific option for this product was created for opticians and hearing specialists allowing them to send goods of up to 5 kilos anywhere in Spain.

Chronoexpres also participated in the "Bicycle parcel" designed by Correos for Xacobeo 2010. The subsidiary was tasked with distributing the bicycles across the post offices along the Way of St. James and to the pilgrims' home addresses.

With the goal of improving the traceability, new technological applications were introduced such as web service connections with clients and the generation of e-mails or text messages to track parcels.

Last year, a new pricing scheme and a more flexible commercial management system were also created. Both are easier to use and in keeping with the company's strategy and market needs.

The company presented its range of services at various prestigious business events such as the "Europe@n eCommerce Conference

2010" (Madrid), the "*XII Salón Internacional de la Logística y la Manutención*" (12th International Logistics and Material Handling Exhibition) (Barcelona) and the "*Foro Mundial de Marketing y Ventas*" (Global Marketing and Sales Forum) (Madrid).

It also participated in the "*VI Forum de Contactología*" (6th Contact Lens Forum) (Valencia and Seville), "*21 Congreso Internacional de Optometría, Contactología y Óptica Oftálmica*" (21st International Conference on Optometry, Contact Lenses and Ophthalmic Optics) (Madrid), the "*ExpoÓptica*" fair (Madrid) and the "*Evento Óptico y Audiológico*" (Optic and Audiological Event) (Barcelona).

Activities

The company maintained delivery quality levels for its main products ("Chrono 10", "Chrono 14" and "Chrono 24") above 93% in 2010.

Quality of service	2009	2010
"Chrono 10"	94.1%	93.0%
"Chrono 14"	94.2%	94.0%
"Chrono 24"	96.5%	96.5%

Chronoexpres continued to boost innovation in its operations. For that reason, it formalised an agreement last year with ITENE (the Institute for Packaging, Transport and Logistics Technology) to set up an R&D and innovation project titled “*Nuevas alternativas tecnológicas para fomentar un reparto capilar de mercancías sostenible basado en el uso de energías limpias integradas con las TIC*” (New technological alternatives to boost sustainable widespread delivery of goods based on the use of clean energies and ICT).

The PDAs used by Chronoexpres’s employees were updated with leading market technologies, expanding their ability to manage items in real time.

Equally, new IT tools for information management were adopted to optimise planning and monitoring of the business goals throughout all operational areas.

The subsidiary made progress toward integrating its operating processes with those of the larger Correos Group. This will allow its parcels to be marketed in and delivered to Correos’ post offices in the coming months.



Results

The number of items handled increased by 6.2% and the total transported tonnage grew by 6.4% in 2010 compared to the previous year.

Net turnover stood at 132,056 thousand euros a 0.3% decrease compared to 2009.

Result before tax was -7,847 thousand euros. This resulted from the drop registered in sales

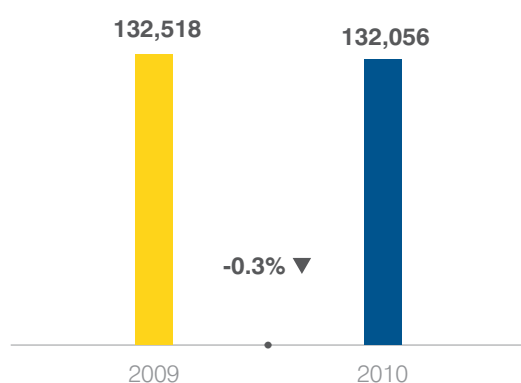
during the economic recession and from the impact of the turnaround measures that were adopted.

In 2010 the Parent Company, as the sole shareholder in Chronoexpres, agreed to increase its share capital by issuing ordinary shares with a value of 1,000 euros and a share premium of 5,999 thousand euros.



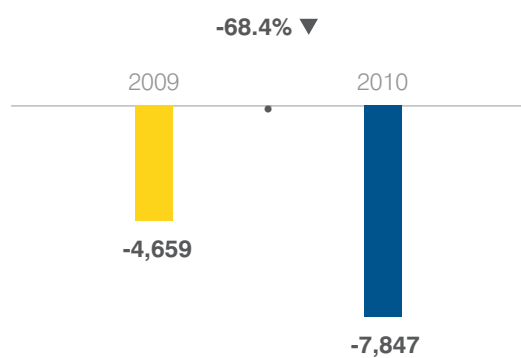
Net turnover

In thousands of euros



Result before tax

In thousands of euros



Investments

The company made investments in the amount of 1,940 thousand euros. Of this total, 84.9% was used to acquire and modernise IT applications and processing equipment and the remaining 15.1% was channelled to improve technical facilities and other areas.



04

nexea
grupoCorreos



Nexea, Correo Híbrido's new brand name since early 2011, managed 419.4 million printed items and 282.3 million postal items.

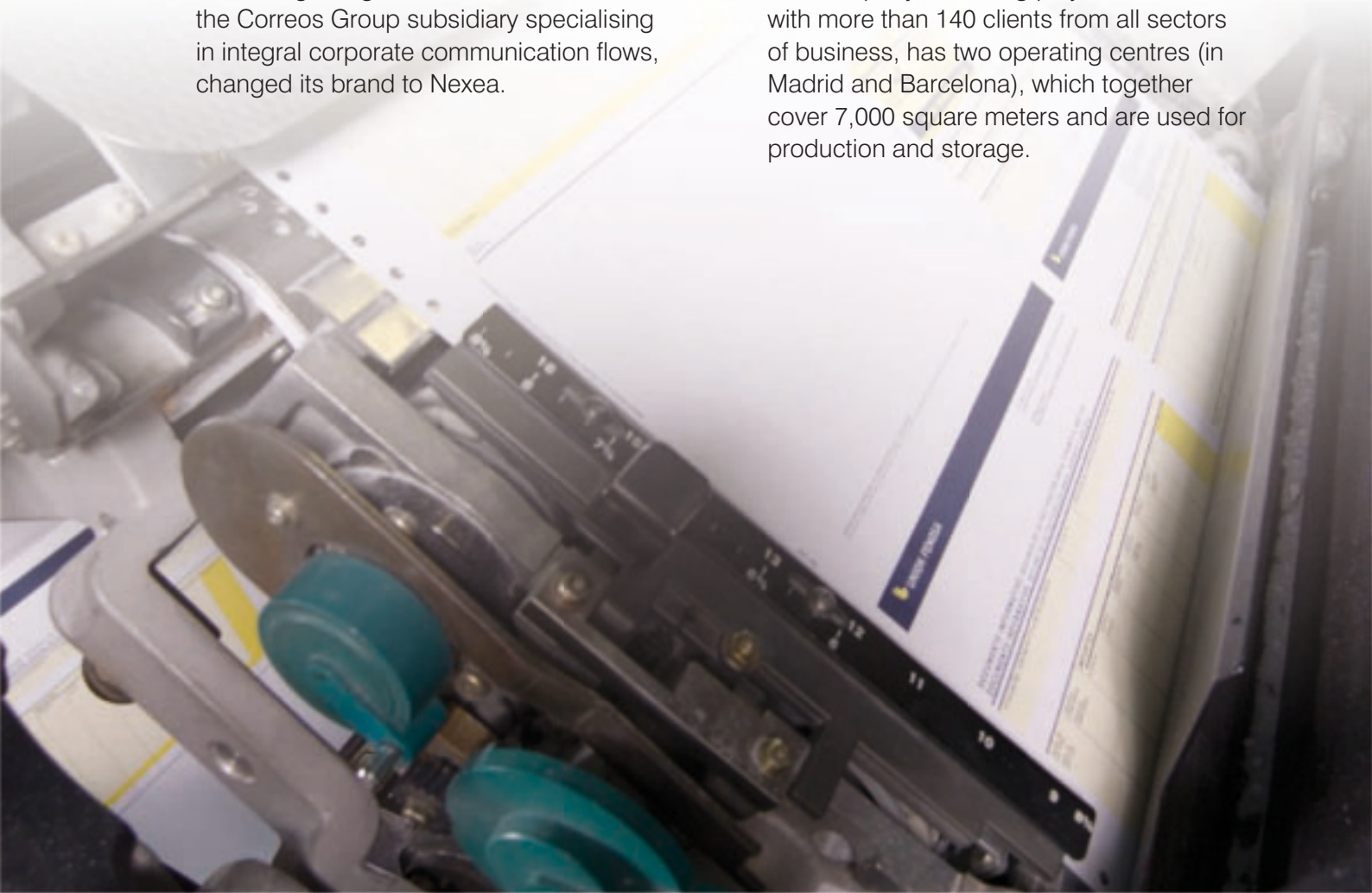
2010 Assessment

Key data	2009	2010
Net turnover (in thousands of euros)	12,797	13,547
Result before tax (in thousands of euros)	-934.7	7.9
Postal items (in millions)	241.4*	282.3
Printed items (in millions)	334.6*	419.4
Digitisation jobs (in millions)	23.8	14.6
Employees (average staff)	195	186
Operating centres	3	2

*2009 data have been modified to allow for a proper comparison with 2010 figures.

At the beginning of 2011, Correo Híbrido, the Correos Group subsidiary specialising in integral corporate communication flows, changed its brand to Nexea.

The company, a leading player in the market with more than 140 clients from all sectors of business, has two operating centres (in Madrid and Barcelona), which together cover 7,000 square meters and are used for production and storage.



In 2010, the Madrid premises were moved to a new 5,000 square meter centre in which 16 million euros have been invested recently.

Both facilities are equipped with the latest graphic design, editing and printing technologies and the most advanced management systems and physical and logistical security systems.

Employees

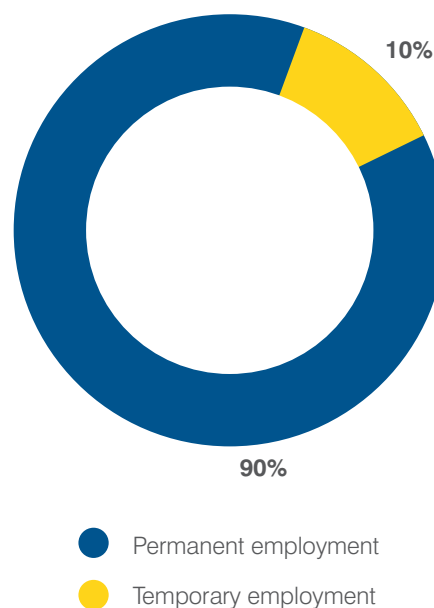
Last financial year Nexea employed an average staff of 186. Permanent employment represented 90% of the total.

The staff was composed of 58% men and 42% women.

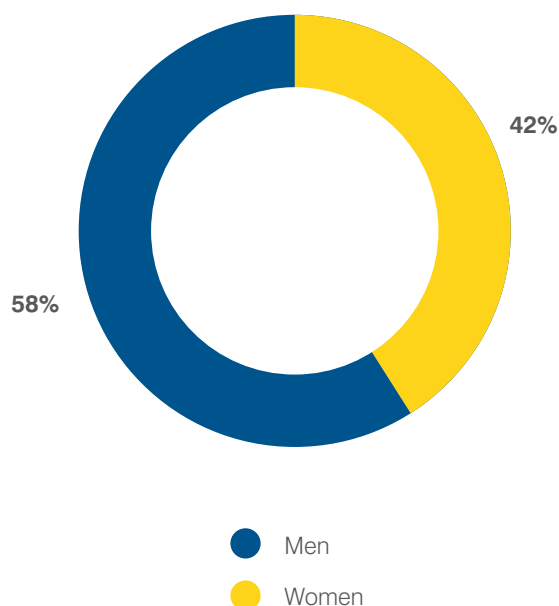
Range of services

The services offered by the company cover all phases of the document production cycle: processing, design, printing, envelope-stuffing, sorting and transport to Correos facilities for delivery.

Proportion of permanent employment



Gender proportion



It also offers other services such as database management, document scanning and recording, automatic replies and returns, digital storage, consulting and planning services, fulfilment options and made-to-measure solutions for each sector.

Last year the subsidiary developed new communication models to meet clients' needs for the design and preparing of marketing campaigns, particularly for companies in the banking sector. One example is the full colour inkjet printing service which can produce large scale advertising materials which can also be customised to a great extent.

As a specialist in comprehensive document management, Nexea added new options to centralise companies' document processes and generate and integrate electronic documents in web environments.

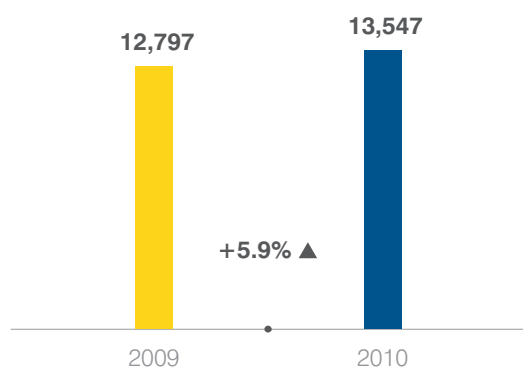
Activities

As part of its overall quality management policy, the company made progress with respect to identifying processes and drafting procedural manuals and documents. It also drew up plans for various operating areas based on the continuous improvement cycle.

Moreover, by adopting new IT tools, such as the Java Toolkit application, it was able to improve delivery times and production quality.

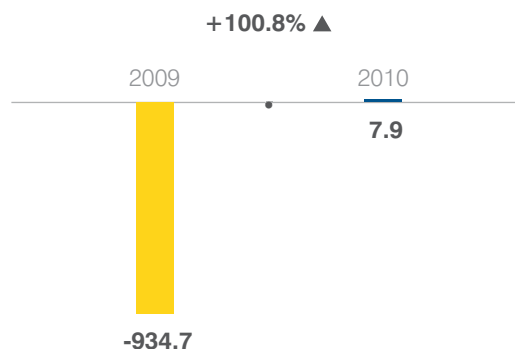
Net turnover

In thousands of euros



Result before tax

In thousands of euros



Results

In 2010, the company increased printed items by 25.3% to 419.4 million, and postal items managed by 16.9% to 282.3 million. Digitisation jobs decreased by 38.6%, falling to a total of 14.6 million.

Net turnover stood at 13,547 thousand euros, reflecting growth of 5.9%.

Result before tax amounted to 7.9 thousand euros compared to the -934.7 thousand euros recorded the previous year.

Investments

During the last year, Nexea invested 3,074 thousand euros in adding technical printing equipment and replacing its envelope-stuffing systems.



05



*grupo*Correos



Correos Telecom increased its revenues from managing and marketing telecommunications assets by 31.8%.

2010 Assessment

Key data	2009	2010
Net turnover (in thousands of euros)	7,298	7,154
Result before tax (in thousands of euros)	500.3	224.9
Employees (average staff)	57	56

Correos Telecom is the Correos Group company specialising in providing technological services and telecommunications solutions.

Its corporate purpose includes managing the Parent Company's telecommunications network, marketing surplus capacity and providing other services to third parties.

At the end of the 2010 financial year, the network administered by the subsidiary was composed of 230 locations (138 urban and 92 rural locations) and more than 5.4 million kilometres of line infrastructure (1.5 million for conduits, 1.4 million for optical fibre, 1.5 million for overhead lines and 1.1 million of gallery lines and other types of cable).

Employees

Last financial year the subsidiary employed an average staff of 56, all of whom were on permanent contracts.

The employee mix was 75% male and 24% female.

Range of services

Correos Telecom markets the network's surplus capacity by providing high capacity data circuits, leasing optical fibre, rights to the use of conduits or locations in order to install additional communication equipment, telecommunications installations and engineering, and consulting and management for telecommunications costs.

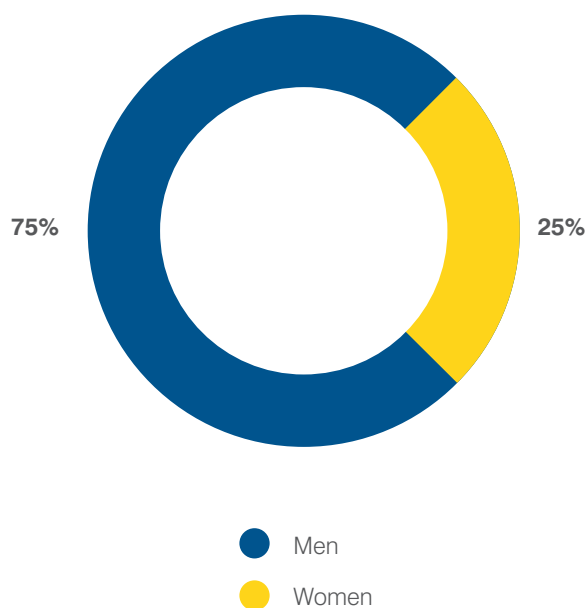
In this business area, the company signed new contracts with certain government bodies, such as the Ministry of Education, to offer connections to their head offices.

Proportion of permanent employment



● Permanent employment

Gender proportion



Activities

In its role as network manager, Correos Telecom contributed to maintaining optimum availability levels at the Parent Company's premises (100%), as well as proactive incident management (95.9%).

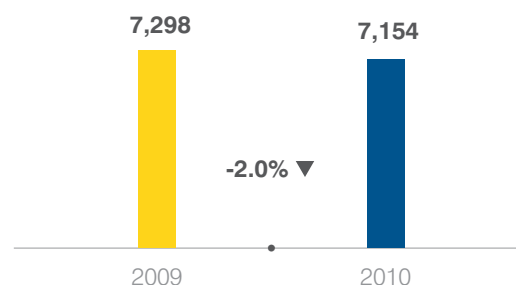
The subsidiary also provided services to the Group's other companies on a regular basis, such as connections to 11 Correos' post offices and the establishment of voice, data, perimeter security and structured cabling infrastructure at Nexea's new Madrid premises.

In addition, it worked on Correos' major technology projects, such as developing new networks and cabling for the main data processing centre; the plan to segment unreliable networks in different centres; and laying fibre optics to close the loop for infrastructure in Madrid.

The company also participated in changing the "Secure Telematic Notices" service to the "Electronic PO Box" platform and in setting up the postal address standardisation service. Clients can use this service to check databases and increase the reliability of their mailings, decrease return rates, reduce costs and access new business opportunities in geomarketing.

Net turnover

In thousands of euros



Management of Correos' telecommunications network

2010

Centres	2,861
Data circuits	3,592
Voice circuits	4,934
Telephone lines	8,571
Data hardware	7,080
Switchboards	127

Results

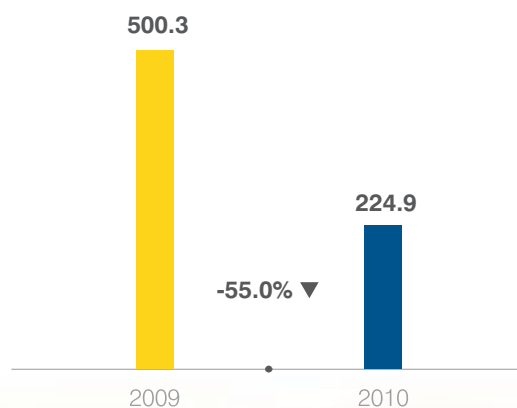
In 2010 Correos Telecom achieved net turnover of 7,154 thousand euros, a decrease of 2.0% compared to the previous financial year.

Result before tax stood at 224.9 thousand euros, a drop of 55.0%.

Revenues from the management and marketing of telecommunications assets increased by 31.8%. Of that revenue, 8.0% was achieved by signing new contracts.

Result before tax

In thousands of euros





06

Consolidated annual accounts

*grupo***Correos**



Auditors' report of the consolidated annual accounts



**AUDITORS' REPORT OF THE CONSOLIDATED ANNUAL ACCOUNTS**

To the single shareholder of Sociedad Estatal Correos y Telégrafos, S.A.

We have audited the annual accounts of Sociedad Estatal Correos y Telégrafos, S.A. (the Parent Company) and its subsidiaries (Correos Group), which comprise the Consolidated balance sheet as at 31 December 2010, the Consolidated profit and loss account, the Statement of changes in the consolidated net assets, the Consolidated cash flow statement and the Consolidated annual accounts report for the financial year ending on said date. The preparation of the said accounts is the responsibility of the Parent Company's Directors, in accordance with the applicable regulations about financial statements (stated in Note 3 of the attached Consolidated annual accounts report), and in particular, with the accounting principles included in these regulations. Our responsibility is to give an opinion on the aforementioned consolidated annual accounts as a whole based on the work carried out in accordance with Spanish account auditing legislation, which require the examination, by means of selective tests, of evidence relevant to the consolidated annual accounts and the evaluation of whether their presentation, the accounting principles that have been applied and the estimates made are used according to the applicable regulations about financial statements.

In our opinion, the consolidated annual accounts for the 2010 financial year attached herein express, in all important aspects, a true and faithful image of the consolidated assets and consolidated financial situation of the Sociedad Estatal Correos y Telégrafos, S.A. and its subsidiaries as at 31 December 2010, and of the consolidated results of its operations and the consolidated cash flows corresponding to the financial year ending on said date, in accordance with the applicable regulations about financial statements, and in particular, with the accounting principles included in these regulations.

The attached 2010 consolidated Management report contains the explanations the Parent Company's Directors consider relevant regarding the Group's position, the development of their businesses and other issues and does not form an integral part of the 2010 consolidated annual accounts. We have verified that the accounting information contained in the Management report corresponds to that given in the 2010 consolidated annual accounts. Our work as auditors is limited to the verification of the Management report with the scope mentioned in this paragraph and does not include the review of information not found in the accounting records of Sociedad Estatal Correos y Telégrafos, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Rafael García Anguita
Board Member – Accounts Auditor

31 March 2011



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Consolidated balance sheet at the end of 2010

(Expressed in thousands of euros)

Assets	Notes	Balance at 31/12/2010	Balance at 31/12/2009
A) NON-CURRENT ASSETS		1,887,618	1,803,455
Intangible fixed assets	6	16,487	16,528
Patents, licences, trademarks and similar		74	109
IT applications		16,124	16,165
Other intangible fixed assets		289	254
Tangible fixed assets	7	1,671,866	1,752,906
Land and built assets		1,309,228	1,298,929
Plants and other tangible fixed assets		248,122	292,429
Fixed assets in progress and advance payments		114,516	161,548
Property investments	8	6,533	7,321
Long-term financial investments		155,911	1,066
Deferred tax assets	18	36,821	25,634
B) CURRENT ASSETS		677,317	805,368
Non-current assets held for sale	9	538	906
Stocks	10	1,993	6,911
Trade debtors and other accounts receivable	11	422,181	502,767
Clients by sales and provision of services		388,324	371,568
Other debtors		15,937	15,451
Staff		13,984	9,142
Current tax assets		3,757	8,207
Other credits with government bodies		179	98,399
Short-term financial investments	11	8,180	8,578
Short-term accruals		299	884
Cash and other equivalent liquid resources	12	244,126	285,322
TOTAL ASSETS (A+B)		2,564,935	2,608,823

Net Assets and Liabilities	Notes	Balance at 31/12/2010	Balance at 31/12/2009
A) NET ASSETS		1,825,126	1,880,712
Equity	13	1,470,023	1,493,963
Capital		611,521	611,521
Share premium account		250,938	281,003
Reserves		598,530	598,530
Reserves at consolidated companies		4,779	(53)
Losses from previous years		(2,020)	-
Profit for the year attributable to Parent Company		6,275	2,962
Government contributions, donations and legacies received	14	355,103	386,749
B) NON-CURRENT LIABILITIES		283,379	275,743
Long-term provisions	15	128,349	104,996
Long-term debts		2,160	3,652
Creditors for financial leasing		2,059	3,519
Other financial liabilities		101	133
Deferred tax liabilities	18	152,363	166,975
Long-term accruals		507	120
C) CURRENT LIABILITIES		456,430	452,368
Short-term provisions	15	2,708	250
Short-term debts	16	36,366	64,826
Trade creditors and other accounts payable	16	417,067	387,110
Suppliers		3,327	4,147
Other creditors		270,024	268,930
Staff		59,539	41,774
Other debts with government bodies		56,447	48,923
Customer advances		27,730	23,336
Short-term accruals		289	182
TOTAL NET ASSETS AND LIABILITIES (A+B+C)		2,564,935	2,608,823

Consolidated profit and loss account for the financial year ending 31 December 2010

(Expressed in thousands of euros)

Continued operations	Notes	Financial year 2010	Financial year 2009
Net turnover	17-a)	2,112,688	2,186,990
Procurement		(19,683)	(18,278)
Consumption of merchandise	17-b)	(15,518)	(16,884)
Depreciation of merchandise, raw materials and other provisions	10	(4,165)	(1,394)
Other operating revenue		73,447	92,358
Income from accessory and ordinary activities		4,651	7,027
Operating contributions included in result of financial year	17-c)	68,796	85,331
Staff costs		(1,592,912)	(1,646,055)
Wages, salaries and similar remuneration		(1,342,146)	(1,393,811)
Social security contributions	17-d)	(241,941)	(241,356)
Other expenses		(8,825)	(10,888)
Other operating expenses		(523,271)	(514,248)
External services	17-e)	(478,908)	(500,494)
Taxes	17-f)	(4,986)	839
Losses, depreciation and variation of provisions for trade operations		(19,795)	(3,659)
Other expenses from ordinary activities		(19,582)	(10,934)
Amortisation of fixed assets	6,7,8	(114,329)	(123,838)
Allocation of government contributions in the form of non-financial and other fixed assets	14	52,457	60,757
Excess provisions	15	159	2,476
Depreciation of and result for disposal of fixed assets	17-g)	7,012	(49,220)
Depreciation and losses		(13,931)	(41,159)
Results for disposals and others		20,943	(8,061)
Other results		(130)	(9)
OPERATING RESULT		(4,562)	(9,067)

	Notes	Financial year 2010	Financial year 2009
Financial income	17-h)	2,425	4,968
For negotiable securities and other financial instruments:			
For third parties		2,425	4,968
Financial expenses	17-h)	(694)	(1,392)
For debts with third parties		(311)	(578)
For updating provisions		(383)	(814)
Exchange differences		4,864	5,107
FINANCIAL RESULT		6,595	8,683
RESULT BEFORE TAX		2,033	(384)
Income tax	18	4,242	3,346
CONSOLIDATED RESULT OF THE FINANCIAL YEAR		6,275	2,962

Consolidated cash flow statement for the financial year ending 31 December 2010

(Expressed in thousands of euros)

	Notes	Financial year 2010	Financial year 2009
A) OPERATING ACTIVITIES			
Result for the financial year before taxes		2,033	(384)
Adjustments to the result			
Amortisation of fixed assets	6,7,8	114,329	123,838
Valuation adjustments for depreciation	7,10,11	37,825	42,039
Provisions variation		34,172	25,264
Allocation of capital contributions	14	(52,457)	(60,757)
Results for removals and disposals of fixed assets		(21,161)	13,296
Financial income	17-h)	(2,425)	(4,968)
Financial expenses	17-h)	694	814
Exchange differences		(1,219)	(497)
Other income and expenses		585	(12)
Changes in the current capital			
Decrease/(increase) in stocks		753	(1,385)
Increase in debtors and other accounts receivable		(84,754)	(97,244)
Decrease in other current assets		38,250	15,059
Increase/(decrease) in creditors and other accounts payable		116	14,576
Increase/(decrease) in other current liabilities		(12,473)	5,043
Other non-current assets and liabilities (+/-)		(7,440)	(8,166)
Other operating activities' cash flow			
Interest payments		(282)	(366)
Interest charges		1,606	7,910
Payments for income tax		(8,548)	(12,110)
Other collections		442	-
TOTAL CASH FLOWS FOR OPERATING ACTIVITIES		40,046	61,950

	Notes	Financial year 2010	Financial year 2009
B) INVESTMENT ACTIVITIES			
Payments for investments			
Intangible fixed assets		(13,640)	(9,242)
Tangible fixed assets		(68,483)	(149,298)
Other financial assets		(8)	-
Charges for withdrawal of investment			
Tangible fixed assets		885	243
Other financial assets	11	4	90,000
TOTAL CASH FLOWS FOR INVESTMENT ACTIVITIES		(81,242)	(68,297)

Consolidated cash flow statement for the financial year ending 31 December 2010

(Expressed in thousands of euros)

	Notes	Financial year 2010	Financial year 2009
C) FINANCING ACTIVITIES			
Charges and payments for equity instruments			
Government contributions, donations and legacies received	14	-	5,970
Payments for dividends and accruals from other equity instruments			
Dividends	13	-	(38,966)
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		-	(32,996)
NET DECREASE IN CASH OR EQUIVALENTS (A+B+C)		(41,196)	(39,343)
Cash and other equivalent liquid resources at the start of the financial year		285,322	324,665
Cash and other equivalent liquid resources at the end of the financial year		244,126	285,322

Statement of changes in the consolidated net assets for the financial year ending 31 December 2010

(Expressed in thousands of euros)

*grupo***Correos**

A) Statement of recognised consolidated income and expenses for the financial year ending 31 December 2010:

	Notes	Financial year 2010	Financial year 2009
A) Consolidated result of the financial year		6,275	2,962
B) Income and expenses directly allocated to the net consolidated assets:	14		
Government contributions, donations and legacies received		7,094	14,620
Tax effect		(2,100)	(4,386)
		4,994	10,234
C) Transfers to consolidated profit and loss account:	14		
Government contributions, donations and legacies received:			
due to amortisation		(36,909)	(45,275)
due to adjustments for depreciation		(13,045)	(15,483)
due to disposals		(2,388)	-
Tax effect		15,702	18,228
		(36,640)	(42,530)
TOTAL RECOGNISED CONSOLIDATED INCOME AND EXPENSES (A+B+C)		(25,371)	(29,334)

Statement of changes in the consolidated net assets for the financial year ending 31 December 2010

(Expressed in thousands of euros)

B) Total statement of changes in the consolidated net assets for the financial year ending 31 December 2010:

		<u>Reserves held by the Parent Company</u>		
	Capital	Share premium	Legal reserve	Voluntary reserves
BALANCE START OF 2009 FINANCIAL YEAR	611,521	281,003	67,031	492,533
Total recognised consolidated income and expenses	-	-	-	-
Operations with the Sole Shareholder:				
- Operations with shares	-	-	-	-
- Payment of dividends	-	-	-	-
Other variations in the consolidated net assets	-	-	7,794	31,172
FINAL BALANCE 2009 FINANCIAL YEAR/ BALANCE START OF 2010 FINANCIAL YEAR	611,521	281,003	74,825	523,705
Total recognised consolidated income and expenses	-	-	-	-
Operations with the Sole Shareholder:				
- Decrease in share premium	-	(30,065)	-	-
Other variations in the consolidated net assets:	-	-	-	-
BALANCE END OF 2010 FINANCIAL YEAR	611,521	250,938	74,825	523,705

Other reserves	Reserves in consolidated companies	Results at previous financial years	Consolidated result of the financial year	Government contributions, donations and legacies received	Total
160,341	(161,659)	-	79,267	419,045	1,949,082
-	-	-	2,962	(32,296)	(29,334)
-	(70)	-	-	-	(70)
-	-	(38,966)	-	-	(38,966)
-	1,335	38,966	(79,267)	-	-
160,341	(160,394)	-	2,962	386,749	1,880,712
-	-	-	6,275	(31,646)	(25,371)
-	(70)	-	-	-	(30,065)
9,940	(5,108)	(2,020)	(2,962)	-	(150)
170,281	(165,502)	(2,020)	6,275	355,103	1,825,126

Consolidated annual accounts report for the financial year ending 31 December 2010

(1)

Company activity

Sociedad Estatal Correos y Telégrafos S.A (hereinafter, Correos, the Parent Company, or the Company) was incorporated as a public limited company [*sociedad anónima estatal*] pursuant to article 6.1.a) of the Consolidated Text of the *Ley General Presupuestaria* (the Budget Act) enacted by Royal Decree 1091/1988, dated 23 September, and additional item twelve of the *Ley 6/1997, de 14 de abril, Organización y Funcionamiento de la Administración General del Estado* (the Central Government Organisation Act, dated 14 April 1997), by a resolution of the Council of Ministers, dated 22 June 2001, under article 58.1 of the *Ley 14/2000, de 29 de diciembre, de Medidas Fiscales, Administrativas y del Orden Social* (the Tax, Administrative and Social Measures Act, dated 29 December 2000). Since it was founded, the Company has been governed by the *Ley de Sociedades de Capital* (the Companies Act), by the rest of applicable laws and regulations, and by its Articles of Association.

Under articles 58.2 and 58.3 of the aforementioned *Ley 14/2000* (the Tax, Administrative and Social Measures Act), the Company began its operations, and was automatically subrogated to the activities, assets, rights and obligations of the former *Entidad Pública Empresarial Correos y Telégrafos* (hereinafter, the Entity), on 3 July 2001, the day of registration with the *Registro Mercantil* (the Spanish registrar of companies) of the public deed of incorporation of the Company, dated 29 June 2001. From that day, the Company took on all of the functions carried out by the Entity and was subrogated to the status of authorised operator for the provision of the universal postal service entrusted to the former Entity by additional item one of *Ley 24/1998, de 13 de julio, del Servicio Postal Universal y de Liberalización de los Servicios Postales* (the Postal Act, of 13 July 1998).

Pursuant to article 58.4 of the Tax, Administrative and Social Measures Act, the Company owns, as of its incorporation, all the assets, rights and obligations of the former Entity. The state-owned assets transferred from the former Entity to the Company at the time of its incorporation were removed pursuant to article 58.4 of the aforementioned Tax, Administrative and Social Measures Act. Nonetheless, the Central Government, through the *Dirección General del Patrimonio del Estado* (Directorate General for State Assets), has a pre-emptive right over certain buildings belonging to the Company, in accordance with the Council of Ministers' decision authorising the incorporation of the Company. The exercise price of that right of first refusal will be set by surveyed value appraised by the technical units of the Directorate General for State Assets, which will use a property valuation prepared by a public corporation specialising in property surveying. The lease rights are likewise reserved in the case that the Company decides to operate those buildings.

In accordance with article 21 of Royal Decree 176/1998, of 16 February, which approved the setting up of the former Entity (to whose rights and obligations the current Company was subrogated by

the Tax, Administrative and Social Measures Act) and without prejudice to that expressed above, the Company may purchase, own, lease, exchange and dispose of any type of assets, without it being necessary for it to return its own assets deemed to be unnecessary for its purposes to the State Assets. However, the Company shall previously notify the Directorate General for State Assets before disposing of assets worth over 6 million euros, which in any event shall be approved by the Company's Governing Board.

Furthermore, under article 58.7 of the Tax, Administrative and Social Measures Act, public employees who were actively employed by the former Entity at the time of registration of the public deed of incorporation of the Company became employees of the Company without interruption, under the same employment terms and retaining their status as Central Government civil servants in their respective divisions and grades, with length of service, established pay and acquired rights being wholly preserved. Labour relations between this type of employee and the Company are regulated by Royal Decree 370/2004, of 5 March, which approved the Sociedad Estatal Correos y Telégrafos, S.A. Workers' Statute.

In addition, and pursuant to article 58.17 of the aforementioned Tax, Administrative and Social Measures Act, any worker contracted by the Company to provide his/her services from when it started to trade shall be engaged under an ordinary employment contract.

Some of the services provided by the Company come under the universal postal service established by the Postal Act. Pursuant to that legislation, a significant part of those services is exclusively reserved for the Company. Under article 30 of that Act, the financial considerations for providing these services shall be set and must be authorised by the competent authorities. The prices of the non-reserved postal services provided by the Company may be freely set according to market conditions and within the legally envisaged restrictions.

The Postal Act grants the Company, as the operator in charge of providing universal postal service, a series of remuneration sources to finance the costs arising from the obligations to provide that service, which result in certain exclusive rights being established, such as the services reserve system and the financing of the costs arising from providing this service, by means of the universal postal service compensation fund (not set up as at the date of these annual accounts). The Act likewise envisages a complementary allocation system by the State should the providing of the universal postal service be a burden for the operator in question, not offset by reserved services and the compensation fund. This complementary allocation takes the form of operating and capital contributions covered by the Spanish National Budget.

Based on the above, article 29 of the Postal Act establishes the obligation for the aforementioned operator to keep a duly audited analytical accounting system, with separate accounts being kept for each reserved service and for the non-reserved services, at the very least. This obligation is

regulated by Order FOM/2447/2004, of 12 July, concerning analytical accounting and the separation of accounts of postal operators.

The Postal Act assures that general access to the postal network, through the operator appointed by the Central Government to provide the universal postal service, be available to all users and, where applicable, to postal operators on whom the law imposes universal postal service duties, in terms of transparency, non-discrimination and impartiality. Furthermore, article 23.5 of said Act prescribes that postal operators other than those appointed by the Central Government to provide the universal postal service must negotiate the terms for access to the public postal network with the relevant universal postal service provider managing that network (currently Correos) so as to preclude any collective agreement, decision or recommendation, or agreed or knowingly parallel practice aimed at restricting or distorting competition in the Spanish postal market.

Royal Decree 1298/2006, of 10 November, lays down the regulations for access to the public postal network and establishes the procedure to resolve disputes between postal operators by setting benchmark terms and conditions for access to the network by all postal operators with individual licences that so request. The benchmark terms and conditions of network access shall be made public, shall serve as guidelines and shall set out the technical and economic provisions for access to the public postal network which in turn serve as the basis for bilateral agreements between the operator in charge of the universal postal service and all other postal operators. The benchmark terms and conditions shall be fixed following principles of transparency, impartiality and non-discrimination in the terms and prices of access for all operators.

On 23 April 2007, the Public Works Ministry approved the provisional benchmark terms and conditions for access to the public postal network, managed by the Company. These terms and conditions are guidelines and contain the technical and economic provisions for access to the public postal network which serves as the basis for bilateral agreements between the Company, as the operator in charge of the universal postal service, and other postal operators.

The *Ley 23/2007, de 8 de octubre, de creación de la Comisión Nacional del Sector Postal* (the Spanish National Commission for the Postal Sector Act, of 8 October 2007) created this regulatory body (hereinafter, CNSP). Its main objective is to ensure transparency and the appropriate functioning of the postal sector, as well as to meet the demands of open competition. The CNSP began operating on 6 October 2010, under the stipulations of Order FOM/2575/2010, of 1 October. One particularly important function among those assigned to the CNSP's Governing Council is that of determining, on an annual basis, the net cost or burden of providing the universal postal service for the designated operator.

On 11 December 2009, Royal Decree 1920/2009 was approved, in accordance with that set out by final provision four of Act 23/2007. This Decree passed the general regulatory directive for the abovementioned Act 23/2007.

Pursuant to article two of the Articles of Association, the corporate purpose of the Company, whose registered address is at Vía Dublín no. 7 in Madrid, is as follows:

- To manage and operate postal services of all kinds.
- To provide money order and money transfer services.
- To receive applications, written submissions and notices which the public directs to government bodies, subject to applicable laws and regulations.
- To serve government and court notices in accordance with applicable laws and regulations.
- To provide telegram, telex and bureaufax services and undertake other activities and services relating to telecommunications.
- To propose stamps to be issued, issue all other forms of payment for postal services, and sell and distribute its products and issues.
- To provide, on a mandatory basis, such services relating to its purpose as government bodies may order.
- To carry on any other activities or services complementing the above or which may be needed for the proper undertaking of the Company's purpose. To this end the Company may create and control holdings in other companies.

The Company holds signed contracts with the various Central Government Ministries to provide postal and telegraph services.

The Company is a single shareholder company. According to Article 12 of *Ley de Sociedades de Capital* (the Companies Act) approved by Legislative Royal Decree 1/2010 of 2 July, its sole shareholder is the Central Government of Spain, through its Directorate General for State Assets.

The Company is the head of a group of companies known as the Correos Group. The annual accounts of the Company corresponding to the financial year ending 31 December 2009, both individual and consolidated, were drawn up by the Governing Board of Correos on 30 March 2010, approved by its Sole Shareholder on 5 May 2010, and subsequently filed at Madrid's *Registro Mercantil* (the Spanish business register).

(2)

Structure of the Correos y Telégrafos Group

The Parent Company's subsidiaries that comprise the Correos y Telégrafos Group (hereinafter, the Group or the Correos Group) falling within the scope of consolidation as at 31 December 2010 were the following:

Company name	Main activity	Registered address
Correos Telecom, S.A.	Management of the Company's telecommunication network	c/ Conde de Peñalver, 19 (Madrid)
Correo Híbrido, S.A.	Hybrid mail services	c/ Rejas, 9 (Madrid)
Chronoexpres, S.A.	Courier services for documents and small parcels	Avenida de Europa, 8 Coslada (Madrid)

Chronoexpres, S.A. has its registered address at Avenida de Europa, 8 in Coslada (Madrid) and provides goods delivery services, auxiliary and complementary courier activities and collection, sorting and distribution of goods and parcels. The main activity of Chronoexpres, S.A. is the transport of documents and small parcels ('express sector'), both nationally and internationally.

Correos Telecom, S.A., has its registered address at Calle Conde de Peñalver, 19 in Madrid and its corporate objective, coinciding with its principal activity, consists of managing the telecommunications network owned by the Company, providing telecommunication services, mediating, promoting and selling surplus capacity belonging to the Company's telecommunications network and providing postal service-related telecommunication services.

Correo Híbrido, S.A., in turn, has its registered address at Calle Rejas, 9 in Madrid and its corporate objective, coinciding with its principal activity, consists of providing hybrid mail services. Hybrid mail refers to postal services which allow the client to send documentation to Correo Híbrido, S.A. telematically or electronically. The latter becomes responsible for printing the contents sheets which are subsequently sealed in envelopes and deposited in the Company's admission centres for delivery to addressees.

The breakdown for the equity instruments of the Parent Company held by Correos Group as at 31 December 2010 and 2009, before standardisation and/or consolidation adjustments, is as follows:

	Financial year 2010			Financial year 2009		
	Chronoexpres S.A.	Correos Telecom S.A.	Correo Híbrido S.A.	Chronoexpres S.A.	Correos Telecom S.A.	Correo Híbrido S.A.
Net book value	3,009	1,503	1,022	7,409	1,503	1,022
Direct shareholding (%)	100%	100%	100%	100%	100%	100%
Share capital	64	1,503	974	63	1,503	974
Share premium account	65,486	-	48	59,487	-	48
Legal reserve	-	294	127	-	258	127
Other reserves	(560)	2,193	(56)	(560)	1,873	(56)
Results from previous financial years	(55,949)	-	(472)	(51,290)	-	182
Results for the financial year	(7,847)	158	5	(4,659)	355	(654)
Government contributions	91	-	-	-	-	-
Total net assets	1,285	4,148	626	3,041	3,989	621
Operating result	(8,130)	245	326	(4,714)	497	(503)

On 21 December 2010, the Parent Company, as the sole shareholder in Chronoexpres, S.A., agreed to increase the latter's capital in order to redress the balance between its share capital and net assets. That operation was completed by issuing an ordinary share with a nominal value of 1,000 euros and a share premium of 5,999 thousand euros. This increase, made public on 27 January 2011, was fully subscribed and paid out by the Parent Company by means of a due, liquid and demandable loan which the Parent Company held for its subsidiary on the aforementioned date.

(3)

Basis for presenting the consolidated annual financial statements

When preparing these consolidated annual accounts, the Parent Company Directors applied the accounting regulations included in the Spanish General Accountancy Plan approved by Royal Decree 1514/2007 and the modifications to the same arising from Royal Decree 1159/2010 which approved the criteria applicable when preparing Consolidated Annual Financial Statements, in addition to all other commercial legislation in force on 31 December 2010. In particular:

- The annual financial statements of the Parent Company are consolidated with those belonging to subsidiaries (see Note (2)) using the full consolidation method. The Company holds all voting rights in all consolidated companies.
- Where subsidiaries have followed significantly different accounting and valuation principles from those of the Parent Company, adjustments have been made as needed to present the consolidated annual financial statements of the Group in a standardised manner.
- The different items on the previously standardised individual annual accounts are aggregated according to item type.
- The representative book values of the capital instruments belonging to all of the Parent Company's subsidiaries are compensated with their net assets.
- Inter-Group balances, transactions and cash flows between Correos Group companies have been eliminated in the consolidation process. Similarly, all results from internal operations are eliminated and deferred until performed for third parties which are not part of the Group.
- The variations in reserves belonging to different subsidiaries between their respective dates of coming under the control of the Parent Company or of first consolidation and 31 December 2010 are covered by the item 'Reserves at consolidated companies' on the consolidated balance sheet.

As regards the depreciation of the assets registered under the "Tangible fixed assets" section, the Parent Company has been applying since 2009 (first application 1 January 2009) the stipulations of Order EHA/733/2010, of 25 March, approving accounting aspects for public companies operating in certain circumstances. Said Ministerial Order applies to the member bodies of the public business sector at the national, regional and local levels, regardless of their legal nature, which should apply the accounting principles and regulations in the Commerce Code and in the Generally Accepted Accounting Principles (GAAP) and which, given the strategic or public utility nature of their activities, regularly deliver goods or provide services to other bodies or users without remuneration, or in exchange for a fee, or according to a pricing policy set directly or indirectly by the Government.

These consolidated annual accounts have been drawn up by the Parent Company Board of Directors in order to be submitted for approval by its Sole Shareholder. The Parent Company Directors believe that they will be approved with no modifications.

a) True and fair view

These consolidated annual financial statements have been prepared on the basis of the accounting records of the companies that make up the Correos Group, and in accordance with the legal

regulations on accounting in force at 31 December 2010, to provide a true and fair view of the assets, financial situation and results of the Group. The consolidated cash flow statement has been prepared with the aim of truthfully reporting the origin and the use of the monetary assets representing cash and other equivalent liquid assets of the Group.

The figures contained in these consolidated annual financial statements are expressed in thousands of euros, unless stated to the contrary, with the euro being the functional currency of the Parent Company.

b) Critical aspects of the valuation and estimation of uncertainty

In preparing the consolidated annual financial statements, the Parent Company Directors have had to use judgments, estimates and assumptions that have a bearing on the application of the accounting policies and the balances of assets, liabilities, income and expenses and the breakdown of contingent assets and liabilities at the date of issue of the same.

The related estimates and assumptions are based on historical data and on other diverse factors which are understood as being reasonable in accordance with the circumstances; they are used as a base in order to establish the book value of the assets and liabilities that are not easily available by means of other sources. The respective estimates and assumptions are reviewed continuously; the effects of the reviews of the book estimates are recognised in the period in which they were made, if they affect only that period, or in the period of review and future periods, if the review affects both of the above.

Apart from the general process of generating systematic estimates and reviewing them periodically, the Parent Company Directors have made certain value judgments regarding topics of particular importance concerning the consolidated annual financial statements.

The main judgments relating to future events and other sources of uncertain estimates at the date on which the consolidated annual financial statements were drawn up are as follows:

- **Leasing obligations – Correos Group as lessee**

Correos Group has signed leasing contracts for the undertaking of its activities. The classification of said leasing contracts as operating or financial requires that, based on the terms and conditions of these agreements, the Correos Group determines who retains all of the risks and benefits of the ownership of the assets. According to that classification, the contracts will be classified as operating or financial leasing contracts.

- **Leasing obligations – Correos Group as lessor**

Correos Group maintains different agreements with third parties to lease certain assets under its ownership. The Group has determined that, based on the evaluation of the terms and conditions of these contracts, it retains all ownership risks and benefits of the same, thereby recognising these contracts as operating leases.

- **Tax situation**

As set out in current legislation, taxes may not be deemed definitively settled until the filed tax statements have been inspected by the tax authorities or the statute of limitations has passed. In the opinion of the Parent Company's Board of Directors, at 31 December 2010 there are no contingencies other than those recorded in these consolidated annual financial statements which could represent significant liabilities for the Parent Company and/or its dependent companies in the event of an audit.

The principal assumptions and estimates relating to future events and other sources of uncertain estimates at the date of the drawing up of the consolidated annual financial statements are as follows:

- **Deferred tax assets**

The recognition of the deferred tax assets is made on the basis of the future estimates made by the Correos Group relating to the probability of future taxable gains being available, or the existence of deferred liability amounts to fund them during the same periods of time.

- **Provisions**

The Correos Group recognises provisions for risks, in accordance with the accounting policy stated in Note (5-k) of these annual accounts, "Provisions and contingencies". The Correos Group makes judgments and estimates regarding the probability with which said risks may occur, as well as their amount. It records a provision when the risk has been considered likely, is a present debt from past events, either legal or rightful, and when the costs can be reliably estimated.

- **Depreciation of non-financial assets**

In general terms, the Correos Group analyses on a yearly basis whether there are indicators for depreciation of non-financial assets. In the specific case of non-financial assets other than the

intangibles with an indefinite service life, the Group subjects them to value depreciation tests when there is evidence of said depreciation.

- **Calculation of reasonable values, values in use, current values and values that can be recovered**

The calculation of reasonable values, values in use, current values and values that can be recovered implies calculating future cash flows and assuming hypotheses related to the future values of the flows, as well as the discount rates applicable to the same. The related estimates and assumptions are based on historical data and on other diverse factors which are understood to be reasonable in accordance with the circumstances.

c) Comparison of the information

As indicated in the fourth section of the “Regulations for the Preparation of Annual Accounts”, the Parent Company Directors have included quantitative information corresponding to the previous financial year in these annual accounts.

In addition to the comparative numerical information corresponding to the previously filed financial year, and where relevant for the understanding of this consolidated annual accounts, the Parent Company Administrators have included descriptive information regarding the previous period.

In compliance with the fifth transitory provision of Royal Decree 1159/2010, the Parent Company has chosen to consider the current consolidated annual accounts for financial year 2010 as initial values for purposes of making comparisons and applying the uniformity principle. Therefore, the comparable figures from the previous year have not been adapted to the new criteria. Notwithstanding the above, since the changes introduced by said Royal Decree do not apply to the Parent Company, its incorporation does not affect the comparability or the uniformity of these consolidated accounts.

(4)

Application of the results of the Parent Company

The proposal for distribution of results drawn up by the Parent Company Directors and pending approval by its Sole Shareholder is as follows:

	Thousands of euros
Distribution base:	
Result for the financial year	1,742
Legal reserve	74,824
Reserves required by Articles of Association	163,627
Voluntary reserves	367,141
Losses from previous years	(2,020)
Total	605,314
Application proposal:	
To legal reserve	74,999
To reserves required by Articles of Association	163,976
To voluntary reserves	366,339
Total	605,314

Limitations on the distribution of results and dividends

Pursuant to Article 274 of the *Ley de Sociedades de Capital* (the Companies Act) approved by Legislative Royal Decree 1/2010, of 2 July, companies are obliged to use 10% of the profits from each financial year to establish the legal reserve until the reserve matches at least 20% of the Share Capital. This reserve cannot be distributed to the shareholders, and it can only be used to cover the negative balance of the profit and loss account in the event that other reserves are not available.

In addition, the Parent Company Articles of Association require that 20% of the profits from the financial year be used to establish the Articles of Association reserves. These reserves can be disposed of freely.

(5)

Recording and valuation rules

The main recording and valuation criteria used by the Parent Company in preparing these consolidated annual financial statements, pursuant to the terms set out in the Spanish Generally Accepted

Accounting Practices approved by Royal Decree 1514/2007 and the changes incorporated by Royal Decree 1159/2010, are as follows:

(a) Intangible fixed assets

Intangible fixed assets are valued at their purchase price or at their production cost and reduced by the accumulated amortisation and by the possible losses due to depreciation of their value. Indirect taxes on intangible fixed assets are included in the purchase price when they cannot be recovered directly from the Tax Authorities. An intangible asset is recognised as such if and only if it is likely to generate future profits and its cost can be valued in a reliable manner.

An intangible fixed asset with a defined service life is systematically amortised throughout its estimated service life and its recoverability is analysed when events or changes take place that indicate that the net book value may not be recoverable. The methods and periods of amortisation applied are reviewed at the close of the financial year, and they are adjusted prospectively as appropriate.

IT applications

These items are recorded at their acquisition cost and are amortised by the straight-line method throughout their estimated service life which, in general terms, ranges between three and five years. The IT application maintenance costs are listed as expenses as soon as they are incurred.

Patents, licences and similar

These items are recorded at the actual cost paid for certain purchased patents and amortised over a ten year period.

(b) Tangible fixed assets

Tangible fixed assets are valued at their acquisition cost or contribution value to the Parent Company by the former Entity (see Note (1) on Company activity), reduced by the accumulated amortisation and, as appropriate, by the accumulated amount of the recognized valuation adjustments for depreciation. Indirect taxes on tangible fixed assets are included in the purchase price when they cannot be recovered directly from the Tax Authorities.

Tangible assets are amortised from the time at which they are made available for commissioning and are amortised systematically and rationally (on the basis of their service life and of their residual value), using a straight-line method during the following years of estimated service life:

Buildings and other built assets	35 – 75
Plants and machinery	3 – 33
Other fixtures, tools and furnishings	5 – 20
Information processing systems	3 – 8
Transport elements	6 – 10
Other fixed assets	3 – 11

Likewise, should there be signs of depreciation, the Correos Group evaluates the need to make valuation adjustments to the elements that form part of its tangible fixed assets, with the aim of consistently allocating them to the lesser of either their book value or the amount that can be recovered.

Maintenance and repair costs for tangible fixed assets that do not improve utility or lengthen lifetime are entered in the profit and loss account at the time of accrual.

The investments made by the Correos Group in property owned by third parties that meet the requirements to be considered as operating leases are valued, provided that these are not separated from the leased or transferred asset in use, at the cost of said investments and amortised during an estimated service life of 20 years, provided that the contractual conditions on the basis of which the properties are used so permit.

Expenditures on adapting provisionally rented premises during renovation of other premises are capitalised and amortised in the year in which they are incurred.

(c) Property investments

Property investments comprise land and built assets that the Parent Company has leased to third parties to obtain long-term income. The items included under this heading are valued at their acquisition cost, minus their corresponding accumulated amortization and any losses due to depreciation. The amortisation of property investments is calculated following the linear method, according to the estimated service life of the different elements, which is 35-75 years.

(d) Operating and financial leases

Correos Group assesses leasing contracts as financial when it can be deduced from their economic conditions that all of the risks and benefits inherent in the ownership of the asset subject to the

agreement are substantially transferred. The agreements that do not substantially transfer all of the risks and benefits and in which the lessor is only entitled to use the asset for a certain period of time are classified as operating leases.

Correos Group as lessee

The assets acquired by means of financial leases are recorded according to their nature as the lesser of the reasonable value of the asset and the current value at the start of the minimum agreed payments at the start of the lease, with a financial liability being recorded for the same sum. The payments for the lease are distributed between the financial costs and the liability reduction. For these purposes, we apply the same amortisation, depreciation and cancellation criteria as to all other assets of this nature.

Payments for operating leases are recorded as costs in the consolidated profit and loss account on the basis of their accrual on the linear base of the total lease period.

Correos Group as lessor

Earnings from operating leases are recorded in the consolidated profit and loss account on the basis of their accrual on the linear base of the total lease period. The direct costs that can be allocated to the agreement are included as the highest value of the leased asset and are recognised by applying the same criterion used for recognising the earnings from the lease.

(e) Depreciation of the value of the non-current, non-financial assets

Assets not generating cash flows

The Parent Company's main activity is the provision of a general interest public service, the universal postal service, in exchange for which it receives a price set directly or indirectly by the Government. In this way, the vast majority of the property comprising the Parent Company's tangible and intangible fixed assets is held mainly with a view to producing socio-economic flows benefiting society. It does not correspond to investments in assets with the sole objective of economic profitability and whose recovery would be based on the economic flows produced.

In accordance with the point above, and in application of the stipulations of Order EHA/773/2010, of 25 March, approving accounting aspects for public companies operating under certain circumstances, the Parent Company determines the depreciation in the value of its tangible and intangible assets with reference to the depreciated replacement cost of each asset.

Remaining assets

Should there be signs of depreciation, the book value of the non-current, non-financial assets of the Correos Group is reviewed, by the date of the close of the financial year at the latest, in order to determine whether such indices are predominant. Should such signs exist, and for any intangible asset with an unlimited service life where applicable, the value of these assets that can be recovered is estimated.

The value that can be recovered is either the reasonable value less the costs of or its value in use, whichever is higher. In order to determine the value in use, future cash flows are discounted at their current value, using before-tax discount rates that reflect the current market estimates of the temporary valuation of the funds and of the specific risks associated with the asset. For those assets that do not generate highly independent cash flows, the recoverable amount is determined for the cash-generating units to which the valued assets pertain.

Losses for depreciation are recognised for those assets or, as appropriate, for the cash-generating units comprising them, when their book value exceeds the corresponding recoverable amount. Losses for depreciation are recorded within the profit and loss account and are reverted, except where they originate from goodwill, if there have been changes in the estimates used in order to determine the recoverable amount. The reversal of a loss due to depreciation is recorded in the profit and loss account, with the restriction that the book value of the asset after the reversal cannot exceed the amount, net of amortisations, that would appear in the books had the aforementioned loss due to depreciation not been previously recognised.

(f) Financial assets

The financial assets of the Correos Group correspond to accounts receivable from clients, debtors, staff and government bodies, established deposits and guarantees, acquired capital instruments and cash and other equivalent liquid assets.

The Correos Group classifies its financial assets into the following categories for the purposes of evaluation:

- Loans and entries receivable: these include the financial assets which, not being negotiated in any organised asset market, have expected cash flows in a determined or determinable sum and for which it is estimated that the whole of the disbursement made by the Company can be recovered, except for reasons attributed to the solvency of the debtor. This category contains the loans for trade and non-trade operations, loans to staff, the debtor accounts with government bodies and the established deposits and guarantees.

- Financial assets available for sale: includes the acquired capital instruments.
- Cash and other equivalent liquid assets: see Note (i).

The financial assets to be realised in less than 12 months from the date of preparation of the consolidated balance sheet are classified as current, and those to be realised in a longer period are classified as non-current.

When they are initially recognised, financial assets are recorded at their reasonable value which, unless there is evidence to the contrary, is the price of the transaction plus the transaction costs that are directly attributable thereto.

Following the initial recognition, the Correos Group values its financial assets as set out below:

- The financial assets included in the category of “Loans and entries receivable” are valued at the amortised cost.
- The financial assets included in the category of “Financial assets available for sale” are valued at their cost, less, as appropriate, the accumulated amount of the valuation adjustments, if there is objective evidence of losses in their value.
- Cash and other equivalent liquid assets: see Note (i).

Notwithstanding the above, the loans for trade operations maturing in one year or less and which do not have a contractual interest rate are valued at their nominal value, both in the initial valuation and in the subsequent valuation, when the effect of not updating the cash flows is not significant.

In the case of the loans for trade operations having a contractual interest rate, the interest accrued is recorded in the consolidated profit and loss account, applying the effective interest rate method.

Correos Group cancels a financial asset, or a part of the same, when the contractual rights over the effective movements of the financial asset expire or are transferred. It is necessary for the risks and benefits inherent in their ownership to be substantially transferred. These circumstances are evaluated by comparing the exposure of Correos Group, before and after the transfer, to the variation in the amounts and in the scheduling of the net cash flows of the asset transferred.

(g) Depreciation of value of the financial assets

The book value of the financial assets is corrected by debiting the consolidated profit and loss account when there is objective evidence that a loss due to depreciation has taken place. In order to

determine the losses due to depreciation, Correos Group evaluates the possible losses of both the individual assets and the groups of assets with similar risk characteristics by the end of the financial year at the latest.

There is objective evidence of depreciation when non-payments, breaches, re-financings or possibilities of not recovering the cash flows have taken place, or there is delay in collecting payment.

For loans and other entries receivable, the amount of the losses due to depreciation is equal to the difference between their book value and the current value of the future cash flows estimated to be generated, discounting the effective interest rate at the time of their initial recognition.

The reversal of the depreciation of the loans and entries receivable is recognised as revenue in the consolidated profit and loss account and is limited to the book value of the financial asset that would have been recorded on the date of reversal, if the depreciation in value had not been recorded.

In the event of due debts from public clients, the depreciation of the debt is calculated using the amount obtained from applying the market interest rate to the due debt for the period of time passed since the debt became due, at the end of each financial year, where there is a contractual agreement not to apply interest for delays.

(h) Non-current assets held for sale

This item includes those assets whose book value will fundamentally be recovered through their sale, rather than through their continuous use, when the following requirements are met:

- where they are available for immediate sale in their current conditions, subject to the usual and habitual terms for their sale, and
- where they are highly likely to be sold.

The non-current assets maintained for sale are recorded as the lesser of the following two amounts: their book value or their reasonable value less the costs of sale. These assets are not amortised, and if necessary, the opportune valuation adjustments will be made in such a manner that the book value does not exceed the reasonable value less the costs of sale.

(i) Cash and other equivalent liquid assets

Cash and other equivalent liquid resources make up the cash and bank funds, and deposits and other financial assets that can be converted into cash and whose maturity, at time of their acquisition,

is no longer than three months, are not subject to a significant risk of change in value and that form part of the normal cash flow management policy of Correos Group.

(j) Stocks

The stocks are valued at the acquisition price determined by the weighted average cost method.

When the net realisable value of the stocks is lower than their acquisition price or at their production cost, the opportune valuation adjustments are made, with these being recognised as a cost in the consolidated profit and loss account.

(k) Provisions and contingent liabilities

Correos Group records provisions on the balance sheet when the Company currently has an obligation (whether due to a legal, contractual, implicit or tacit obligation) arising from past events, when that obligation can be reasonably estimated and when it is likely to involve a future outlay of resources for liquidation.

For those provisions made to meet the obligations without a set date of maturity, or with a maturity below or equal to one year and without a significant financial effect, no type of discount is applied. For all other obligations, the provisions are registered for the current value of the best possible estimate of the amount necessary to cancel the obligation or transfer it to a third party, registering the adjustments that arise due to updating the provision as a financial expense as it accrues, with the objective of reflecting the best current estimate of the corresponding liability at all times.

The Parent Company Directors consider contingent liabilities to be those obligations that may arise due to past events, and whose appearance is subject to whether or not future events occur, outside the control of the Parent Company.

(l) Financial liabilities

The financial liabilities of Correos Group correspond to the accounts payable to suppliers, trade creditors and creditors for fixed assets, deposits and guarantees and the accounts payable under other headings.

Correos Group classifies all of its financial liabilities into "Debits and entries payable".

The financial assets maturing less than 12 months from the date of the preparation of the consolidated balance sheet are classified as current, while those maturing afterwards are classified as non-current.

The financial liabilities are initially valued at their reasonable value which, unless there is evidence to the contrary, is the price of the transaction.

After the initial recognition, the financial liabilities are valued at their amortised cost. The accrued interest is recorded in the consolidated profit and loss account, applying the effective interest rate method.

Nevertheless, the debits for trade operations which mature in less than one year, do not have a contractual interest rate and whose amount is expected to be paid in the short-term, both in the initial valuation and in the subsequent valuation, are valued at their nominal value, since the effect of not updating the cash flows is not significant.

Correos Group cancels a financial liability when the obligation has expired.

(m) Foreign currency transactions

Monetary entries

Transactions in foreign currency are initially recorded at the exchange rate at the date of the transaction.

The monetary assets and liabilities denominated in foreign currency are converted at the exchange rate at the date of preparation of the consolidated balance sheet. Both positive and negative exchange rate differences that arise in this process, together with those that take place when said capital elements are liquidated, are recognised in the consolidated profit and loss account of the financial year in which they appear.

Non-monetary entries

The non-monetary entries valued at their historical cost are valued by applying the exchange rate at the date of the transaction.

(n) Income and expenses

Income and expenses are allocated on the basis of the actual movement of goods and services that they represent and regardless of the time at which the monetary or financial movement deriving from these takes place.

Revenue from sales and provision of services

The earnings from the sale of goods and the provision of services are valued at the reasonable value of its counterpart, received or to be received, deriving from the same, deducting the amount of the discount, the reduction in the price and other similar entries that the company may concede, together with the indirect taxes that are levied on the operations and which can be passed on to third parties. The interest incorporated into trade loans maturing no later than one year and not having a contractual interest rate is included as the higher value of the earnings, since the effect of not updating the cash flows is insignificant.

Income is recorded based on the economic fund of the operation and is recognised when each and every one of the following conditions is met:

- The amount of the revenue can be reliably valued.
- Correos Group is likely to receive the profits or economic returns derived from the transaction; and
- The costs incurred or to be incurred in the transaction can be valued reliably.

Income deriving from the postal services whose consideration is received by means of the sale of franking elements (stamps or similar) is recorded at the time at which it is sold regardless of the time of the actual provision of the service.

For all other postal services, as well as money orders and telegrams, revenues are recognised upon actual provision of the service, i.e., when the actual transaction occurs.

Income from interest

Income from interest is recognised using the effective interest rate method. When a receivable account suffers a loss due to depreciation in value, Correos Group reduces the book value to the recoverable amount, deducting the future estimated cash flows from the instrument's effective original interest, and continue applying the discount less income from interest. Income from interest on loans that have suffered losses due to depreciation in value is recognised using the effective interest rate method.

Compensation for dismissal

Under current labour regulations, Group companies are obliged to pay compensation to any employees under ordinary employment contracts who are dismissed, when the dismissal is due

to certain legally defined reasons. Therefore, compensation for dismissal is paid to employees as a result of the Group's decision to terminate their employment before the normal age of retirement or when the employee accepts a voluntary resignation in exchange for this compensation. The Group acknowledges this compensation when it has demonstrably committed to dismiss workers according to a detailed formal plan without the possibility to withdraw or to provide unemployment compensation as a result of an offer to encourage voluntary resignation. Any compensation that will not be paid within the 12 months following the balance sheet date is discounted from its current value.

(o) Liabilities for remunerations to staff

Pension supplements

During the financial year 2000, the Parent Company created a pension plan to supplement the employee benefits under public-sector social security and government pension schemes. This fixed-contribution pension plan is currently defined by Royal Legislative Decree 1/2002, of 29 November, which approves the consolidated text of the *Ley de Regulación de los Planes y Fondos de Pensiones* ('the Pensions Act') and by Royal Decree 304/2004, of 20 February, enacting the Pension Regulations and its subsequent amendments. The plan is open on a voluntary basis to active permanent employees under ordinary employment contracts, public employees in active service or special service, and temporary staff whose contract at the time of their application to join the scheme has been in force for at least two uninterrupted years.

The Parent Company, pursuant to the "Rules of the Correos y Telégrafos Pension Plan", is obliged to make annual contributions or provisions for the benefit of the participants of the aforesaid scheme for a sum equivalent to 0.5% of the total employee pay in the financial year. In this respect, at 31 December 2010, the Parent Company had no commitment to the participants in the above scheme other than the sums effectively contributed from the date of the creation of the plan.

The global amount of contributions made by the Parent Company to a financial institution since 2000, when the pension fund was created, is 112,637 thousand euros. The amount designated and accrued in 2010 was 13,194 thousand euros (13,411 thousand euros in 2009), which exceeds 0.5% of total employee pay. The Company has no commitment aside from the sums already contributed at 31 December 2010.

Retirement bonuses

The various collective bargaining agreements applicable by geographical area in Chronoexpres, S.A. provide that employees taking voluntary early retirement from age 60 to 65 must be paid a length-

of-service bonus, which varies from various fixed sums to a set number of monthly payments if they have provided services to the company between 10 and 30 years (depending on the applicable collective bargaining agreement).

At 31 December 2010, Chronoexprés, S.A. had a policy contracted with an insurance company to meet the hypothetical liability that it could incur in meeting these long-service awards in the future, since this does not exist at present. The Parent Company Board of Directors believe that any additional liabilities not covered by the aforesaid policy that could arise from the guarantees given to the workers of its affiliate, should there be any, will not be in any way significant.

(p) Current and deferred tax

The tax on income from the financial year is calculated as the sum of the current tax, which results from the application of the relevant tax rate to the taxable base for the financial year, after applying the existing allowances and deductions, and from the variation of the assets and liabilities for deferred taxes recorded. This is recognised in the profit and loss account, except in those cases in which this tax is directly related to entries reflected explicitly in the net assets of Correos Group, in which case the tax is recognised, likewise, in the same item.

The assets and liabilities for current taxes are the estimated amounts payable or receivable from the government bodies, in accordance with the taxable rates in force at the date of the balance sheet, and including any other adjustment corresponding to previous financial years.

The tax on deferred earnings is calculated following the method of liabilities for all of the temporary differences between the tax base of the assets and liabilities and their book values in the consolidated annual accounts.

Correos Group recognises a liability for deferred tax for all temporary taxable differences, except when the liability for deferred tax derives from the initial recognition of goodwill or from an asset or a liability in a transaction which is not a combination of businesses and which did not affect either the book result or the tax result at the time of the transaction.

Correos Group acknowledges deferred tax assets for all of the deductible temporary differences, unused tax credits and negative taxable bases that are not applied, insofar as it is likely that the Group will have future tax gains which allow these applications to be used, except when the asset due to deferred taxes relating to the deductible temporary difference derives from the initial recognition of an asset or liability in a transaction which is not a combination of businesses and which did not affect either the book result or the tax result at the time of the transaction.

At the date of closing of each financial year, Correos Group evaluates the assets from recognised deferred taxes and those that have not been previously recognised. On the basis of this evaluation, Correos Group cancels the previously recognised assets if it is unlikely they will be recovered, and/or records any asset for deferred tax not previously recognised provided that it is likely that the Correos Group company that has generated them has tax gains that make its application possible.

The assets and liabilities for deferred taxes are valued at the anticipated tax rates at the time they are reversed, in accordance with the approved effective regulations, and according to the manner in which it can rationally be expected to recover or pay for the asset or liability for deferred tax. The adjustments of the values of the assets and liabilities for deferred taxes are allocated to the profit and loss account, except where the assets and liabilities for affected deferred taxes have been charged or paid directly to the net assets of Correos Group.

The assets and liabilities for deferred taxes are valued without taking into account the effect of the financial discount.

(q) Government contributions, donations and legacies

The capital contributions received by the Parent Company for the provision of the universal postal service are recorded in a specific entry for consolidated net assets once the relevant tax effect has been deducted, on the understanding that this complies and will comply with the requirements necessary for them to be considered non-refundable.

Non-refundable capital contributions are allocated to the consolidated profit and loss account during the period of time equivalent to the service life of the components of the fixed assets financed with said contributions, unless these assets are transferred, depreciate or are eliminated, in which case they are allocated to the consolidated profit and loss account, either totally or according to the theoretical amount of depreciation which the subsidised goods have undergone, at such time as this occurs. The allocation to the consolidated profit and loss account of the contributions used for the financing of land is deferred until the financial year in which their transfer and/or depreciation takes place.

The operating contributions received by the Parent Company for the provision of the universal postal service are recorded as income in the consolidated profit and loss account in the period in which they have been granted and/or recognised, independently of when they are charged.

As regards the capital subsidies and the deterioration of the subsidised assets, the valuation adjustments due to depreciation of the elements are considered irreversible insofar as they have been financed free of charge.

(r) Value-added tax

The non-deductible value added tax (hereinafter, VAT) forms part of the acquisition price of the investment assets, as well as the cost of the goods and services under transactions subject to value-added tax. Adjustments for non-deductible value-added tax borne as a result of the regularisation associated with the Parent Company's final pro rata determinations, including the regularisation of investment assets, do not alter the initial valuations of those assets. Therefore, any such effect is recorded in the consolidated profit and loss account.

Article 2 of the *Ley 23/2005 de 18 de noviembre, de Reformas en Materia Tributaria para el Impulso a la Productividad* (the Tax Incentives for Productivity Act, of 18 November 2005) changed the value-added tax rules applicable to the postal services provided by the Parent Company with effect from 1 January 2006. In particular, from 1 January 2006 the value-added tax exemption for postal services was limited to universal postal services reserved to the operator appointed to provide them, i.e., the Parent Company. This new scenario meant significantly increasing the deductible VAT of the Parent Company until that date. Therefore, the Company is filing restatements regarding investment assets within the legally prescribed deadlines. For each of the financial years, the total revenue from such restatements has been stated under the item "Taxes" in the heading "Other operating expenses" of the consolidated profit and loss account.

(6)

Intangible fixed assets

The breakdown and changes in the 2010 and 2009 financial years are as follows:

Financial year 2010				
	Balance at 01/01/2010	Additions	Disposals	Balance at 31/12/2010
Cost-				
Patents, licences and similar	344	-	-	344
Technical studies and papers	8,696	-	(8,696)	-
IT applications	181,328	10,683	(28,983)	163,028
Other intangible fixed assets	423	-	(2)	421
Total cost	190,791	10,683	(37,681)	163,793
Accumulated amortisation-				
Patents, licences and similar	(235)	(35)	-	(270)
Technical studies and papers	(8,696)	-	8,696	-
IT applications	(165,163)	(10,727)	29,012	(146,878)
Other intangible fixed assets	(118)	(14)	-	(132)
Total accumulated amortisation	(174,212)	(10,776)	37,708	(147,280)
Adjustments for depreciation-				
IT applications	(51)	-	25	(26)
Net value	16,528			16,487

The item "IT applications" records the amounts paid by Correos Group in order to acquire the ownership or the right of use of IT programs as well as the activation of updates for different software programs owned by the Group.

The main registrations seen during the financial year correspond to investments made by the Parent Company to acquire user licences and new IT programs, in addition to the updates to others, for sums of 4,917 thousand and 1,701 thousand euros respectively (and the investment registered for the same items during the 2009 financial year being 2,553 and 3,447 thousand euros).

Financial year 2009				
	Balance at 01/01/2009	Additions	Disposals	Balance at 31/12/2009
Cost-				
Patents, licences and similar	344	-	-	344
Technical studies and papers	8,696	-	-	8,696
IT applications	180,250	6,995	(5,917)	181,328
Other intangible fixed assets	423	-	-	423
Total cost	189,713	6,995	(5,917)	190,791
Accumulated amortisation-				
Patents, licences and similar	(201)	(34)	-	(235)
Technical studies and papers	(8,696)	-	-	(8,696)
IT applications	(153,389)	(14,292)	2,518	(165,163)
Other intangible fixed assets	(104)	(14)	-	(118)
Total accumulated amortisation	(162,390)	(14,340)	2,518	(174,212)
Adjustments for depreciation-				
Other intangible fixed assets	(2)	(51)	2	(51)
Net value	27,321			16,528

During the financial year the Parent Company cancelled intangible elements in the sum of 37,540 thousand euros (141 thousand euros in 2009).

During the financial year, the Parent Company spent 1,317 thousand euros (753 thousand euros in 2009) of the capital contribution granted by the State to provide the universal postal service on the acquisition of IT applications and updates to others (see Note (14) on Government contributions, donations and legacies received).

At 31 December 2010, the Parent Company held binding agreements for the acquisition of IT applications for the sum of 3,764 thousand euros (17,598 thousand euros in 2009). On that date there were no binding agreements of sale involving any intangible assets owned by Correos Group.

The cost of the wholly amortised items that formed part of the intangible fixed assets of Correos Group at 31 December 2010 amounts to 134,303 thousand euros (158,547 thousand euros in 2009).

(7)

Tangible fixed assets

The breakdown and changes in this section for the 2010 and 2009 financial years is as follows:

Financial year 2010					
	Balance at 01/01/2010	Recordings and provisions	Disposals	Transfers	Balance at 31/12/2010
Cost-					
Land	360,314	54	(1,860)	9,389	367,897
Built assets	1,323,449	9,127	(12,552)	43,720	1,363,744
Plants and other tangible fixed assets	731,386	21,626	(45,714)	2,429	709,727
Fixed assets in progress and advance payments	161,548	13,003	-	(54,172)	120,379
Total cost	2,576,697	43,810	(60,126)	1,366	2,561,747
Accumulated amortisation-					
Built assets	(291,615)	(34,405)	3,296	(332)	(323,056)
Plants and other tangible fixed assets	(430,391)	(69,024)	44,243	(1,553)	(456,725)
Total accumulated amortisation	(722,006)	(103,429)	47,539	(1,885)	(779,781)
Adjustments for depreciation-					
Land and built assets	(93,219)	(22,648)	10,647	5,863	(99,357)
Plants and other tangible fixed assets	(8,566)	-	3,686	-	(4,880)
Fixed assets in progress and advance payments	-	-	-	(5,863)	(5,863)
Total adjustments for depreciation	(101,785)	(22,648)	14,333	-	(110,100)
Net value	1,752,906				1,671,866

The most significant recordings made under the headings “Land”, “Built assets” and “Fixed assets in progress and advance payments” during the financial year correspond to the Parent Company, regarding the reform and adaptation of existing premises already owned by the same and investments made at different logistics centres for the processing and postal distribution for sums of 15,884 and 2,688 thousand euros respectively (55,219 and 9,469 thousand euros respectively during the 2009 financial year).

Financial year 2009					
	Balance at 01/01/2009	Recordings and provisions	Disposals	Transfers	Balance at 31/12/2009
Cost-					
Land	339,848	355	(1,230)	21,341	360,314
Built assets	1,227,205	27,961	(9,741)	78,024	1,323,449
Plants and other tangible fixed assets	731,845	43,555	(48,253)	4,239	731,386
Fixed assets in progress and advance payments	224,570	40,582	-	(103,604)	161,548
Total cost	2,523,468	112,453	(59,224)	-	2,576,697
Accumulated amortisation-					
Built assets	(258,767)	(34,467)	1,619	-	(291,615)
Plants and other tangible fixed assets	(402,962)	(74,895)	47,466	-	(430,391)
Total accumulated amortisation	(661,729)	(109,362)	49,085	-	(722,006)
Adjustments for depreciation-					
Land and built assets	(48,877)	(48,323)	3,981	-	(93,219)
Plants and other tangible fixed assets	(15,922)	(128)	7,484	-	(8,566)
Total adjustments for depreciation	(64,799)	(48,451)	11,465	-	(101,785)
Net value	1,796,940				1,752,906

The heading “Plants and other tangible fixed assets” includes the investments made in plants carried out at the properties used by the Group (whether or not it owns them), together with the investments made in machinery, IT equipment, transport elements and furnishings. The most important recordings made under this heading during the financial year correspond to the purchase by the Parent Company of furniture, transport elements and machinery for sums of 4,561, 4,265 and

3,478 thousand euros respectively (the largest investments made by the Parent Company during the 2009 financial year were those registered for the acquisition of machinery, furniture and equipment for information processing for sums of 18,197, 7,863 and 7,606 thousand euros respectively).

During the financial year, the Parent Company spent 5,683 thousand euros (13,867 thousand euros in 2009) of the capital contribution granted by the State to provide the universal postal service on the acquisition of different elements of tangible fixed assets (see Note (14) on Government contributions, donations and legacies received).

The Parent Company has cancelled all the assets associated with the building returned to the shareholder (see Note 13) for 8,288 thousand euros and an accumulated amortization of 2,181 thousand euros. The difference between the value that remains to be amortized and the transaction price of the transaction (30,065 thousand euros) has been recorded against results.

The Parent Company recorded the disposal of rates, licences and projects in progress which had been activated in the past and that are linked to works that have been cancelled; their purchase price was 788 thousand euros (2,401 thousand euros in the 2009 financial year).

Of the total sum for disposals of tangible fixed assets, 40,793 thousand euros correspond to material elements that were disposed of by the Parent Company since they were wholly amortised, mainly computer equipment, machinery, furniture and technical facilities (the Parent Company disposed of wholly amortised material elements in the amount of 44,287 thousand euros during the 2009 financial year).

As mentioned in Note 4.e) of these annual accounts the Parent-Company, in the light of the stipulations of Order EHA/733/2010, of 25 March, which approved accounting aspects for public companies operating in certain circumstances, the depreciation of the assets included under the heading tangible fixed assets was recorded as per the value in use, as stipulated in the abovementioned Order. In this regard, the Parent Company compared the book value of the assets with their recoverable amount by using the value in use method, determined with reference to their depreciated replacement cost.

The depreciated replacement cost was calculated using the sum of the following components, and then compared with the book values so as to identify the recorded depreciation:

- Market studies and valuations of the components of the assets as regards land and overall construction, undertaken by independent experts using different methods including the comparison method, the cost method and the residual value method, in addition to statistical studies on real estate market behaviour.
- Capitalised cost of the reforms applied to buildings, reduced by the accumulated amortisation, in order to reflect the use already made of the asset.
- Cost of the indirect expenses for the acquisitions and renovations.

Based on the depreciated replacement cost, calculated using the method explained above, with the net book value of the assessed assets, a depreciation of 16,178 thousand euros has been confirmed, which in turn has been recorded in the consolidated profit and loss account for 2010.

The Parent Company registered a depreciation of 4,080 thousand euros, corresponding to the book value of buildings located on plots of land that are not owned by the Parent Company and which it plans to vacate.

On the other hand, during the 2010 financial year the Parent Company made provisions of 1,782 thousand euros for adaptations and renovations to provisional premises (4,783 thousand euros in 2009). Likewise 1,257 thousand euros (1,455 thousand euros in 2009) were reverted due to disposals of assets associated with provisional premises that have been vacated and 2,188 thousand euros (1,299 thousand euros in 2009) for determining that the use of certain premises is no longer provisional.

The Parent Company directly registered against its profits disposals of adjustments for the depreciation of built assets for a value of 6,043 thousand euros, according to the revision of the plan for integral renovations of buildings pertaining to the Parent Company.

The Parent Company entered disposals for a value of 3,557 thousand euros under the heading "Adjustments for depreciation of technical plants". These correspond to the reduction of the costs of dismantling the telecommunications network (2,006 thousand euros) and the revision of the amount depreciated with respect to the book value of the telecommunications network assets at the close of 2010 financial year (1,551 thousand euros).

As at 31 December 2010, the Parent Company had signed contracts to purchase tangible fixed assets worth 55,320 thousand euros (60,358 thousand euros in the 2009 financial year). At the close of the financial year, the Company has no final commitments involving sale of assets of significant net book value.

The cost of the wholly amortised items that formed part of the tangible fixed assets of Correos Group at 31 December 2010 amounts to 231,627 thousand euros (207,636 thousand euros at 31 December 2009).

The net book value of the dwellings, premises and plots of land making up the tangible fixed assets of the Parent Company not involved in the operation amounts to 39,995 thousand euros (32,558 thousand euros as of 31 December 2009), and their acquisition cost was 49,560 thousand euros (40,140 thousand euros at 31 December 2009).

Correos Group has insurance policies in place to cover those risks that could affect most of its tangible fixed assets.

(8)

Property investments

The breakdown and changes in the 2010 and 2009 financial years are as follows:

	Balance at 01/01/2009	Recordings and provisions	Balance at 31/12/2009	Recordings and provisions	Transfers	Balance at 31/12/2010
Cost-						
Land	1,968	-	1,968	-	(339)	1,629
Built assets	6,484	-	6,484	1	(545)	5,940
Total cost	8,452	-	8,452	1	(884)	7,569
Accumulated amortisation-						
Built assets	(995)	(136)	(1,131)	(124)	219	(1,036)
Net book value	7,457		7,321			6,533

The property investments correspond to premises that the Parent Company has leased to third parties. The income from these contracts recorded in the consolidated profit and loss account has amounted to 512 thousand euros in the 2010 financial year (495 thousand euros in the 2009 financial year).

The costs associated with property investments fundamentally correspond to those relating to their annual amortization and maintenance costs. The latter reached 145 thousand euros during the financial year (195 thousand euros during the previous financial year). All of these expenses were recorded in the consolidated profit and loss account based on the accrual principle.

There are no restrictions on property investments or on the collection of the income deriving from these or from the resources obtained from their transfer or disposal by other means, apart from those mentioned in Note (1) of these annual accounts under "Company activity".

There are no contractual obligations for the acquisition, construction or development of property investments or for repairs, maintenance or improvements.

The Company has insurance policies in place to cover those risks that could affect most of its property investments.

The future minimum charges that cannot be cancelled for the operating leasing agreements associated with the property investments of the Group are broken down in the following table:

	Financial year 2010	Financial year 2009
Up to one year	523	270
Between one and five years	714	148
More than five years	-	-
	1,237	418

(9)

Non-current assets held for sale

Correos Group has classified the land and built assets it owns which were for sale at 31 December 2010 and 2009 as non-current assets held for sale. These assets, mostly dwellings and an industrial warehouse, were included in de-investment plans approved by the competent bodies and, at that date, effective actions were being carried out to sell them.

(10)

Stocks

The composition of this item at 31 December 2010 and 2009 is as follows:

	Balance at 31/12/2010	Balance at 31/12/2009
Stocks valued at cost-		
Stamps in the possession of third parties	2,669	3,166
Stamps at company offices and warehouses	3,091	4,285
Collectors' stamps	735	627
Other stocks	1,036	1,050
	7,531	9,128
Valuation adjustments for depreciation	(5,538)	(2,217)
	1,993	6,911

The movement of the valuation adjustments for depreciation of stocks during the 2010 and 2009 financial years is as follows:

	Valuation adjustments		
	Stamps	Other	Total
Balance at 1 January 2009	3,822	61	3,883
Valuation adjustments for depreciation	1,428	-	1,428
Reversal of valuation adjustments	-	(34)	(34)
Application against cost of stocks	(3,060)	-	(3,060)
Balance at 31 December 2009	2,190	27	2,217
Valuation adjustments for depreciation	4,170	-	4,170
Reversal of valuation adjustments	-	(5)	(5)
Application against cost of stocks	(844)	-	(844)
Balance at 31 December 2010	5,516	22	5,538

Correos Group has registered valuation adjustments for depreciation of stamps for a value of 5,516 thousand euros (2,190 thousand euros in 2009) in cases in which it was estimated that its net realisable value was lower than its book value.

Periodically, the Parent Company destroys those stocks of stamps whose age and/or the reason for their issue make their use impossible. For that reason, completely depreciated stamps worth 844 thousand euros were destroyed over the financial year (3,060 thousand euros in 2009).

(11)

Current financial assets

The composition of Correos Group short-term financial assets as of 31 December 2010 and 2009, excluding cash and other equivalent liquid assets described in Note (12) below is as follows:

	Balance at 31/12/2010	Balance at 31/12/2009
Trade debtors and other accounts receivable:		
Clients by sales and provision of services	388,324	371,568
Other debtors	15,937	15,451
Staff	13,984	9,142
Government bodies (Note 18)	3,936	106,606
	422,181	502,767
Short-term financial investments:		
Deposits and guarantees	8,180	8,578

11.1. Trade debtors and other accounts receivable

The headings “Clients by sales and provision of services” and “Other debtors” include 65,576 thousand euros in fees to be collected by the Parent Company from third-country postal operators for the provision of postal and telegram services (which stood at 58,642 thousand euros as of 31 December 2009).

The “Staff” heading contains the amounts delivered to different employees as advance payroll payments in accordance with a specific plan designed by the Parent Company and that are still pending recovery at the close of the financial year.

According to a communication sent to the Parent Company by the Directorate General of the Treasury and Financial Policy, the Treasury will adjust the issue of funds to Public Institutions according to their effective liquidity requirements and will withhold them if the recipients, based on their monthly treasury forecasts, have their liquidity requirements covered. The Parent Company estimates that these funds will not be issued in the short term, and has therefore classified the outstanding balance at the close of the 2010 financial year corresponding to the capital and operating contributions as long-term (173,364 thousand euros; see Notes 11.3.1), (14) and 17.c)).

Likewise, the headings “Clients by sales and provision of services” and “Other debtors” are shown net of valuation adjustments for depreciation, with the movement taking place during the 2010 and 2009 financial years being as follows:

Valuation adjustments			
	Clients	Debtors	Total
Balance at 1 January 2009	12,952	2,951	15,903
Valuation adjustments for depreciation	7,354	-	7,354
Reversals of valuation adjustments	(2,853)	(1,622)	(4,475)
Balance at 31 December 2009	17,453	1,329	18,782
Valuation adjustments for depreciation	3,959	936	4,895
Reversals of valuation adjustments	(3,913)	-	(3,913)
Balance at 31 December 2010	17,499	2,265	19,764

In addition, under the item “Losses, depreciation and variation in provisions for trade operations” of the consolidated profit and loss account, Correos Group recorded an expense of 263 thousand euros due to a direct cancellation of defaulting debts (having registered an expense of 780 thousand euros for this same item during the 2009 financial year).

11.2. Short-term financial investments

The short-term “Deposits and guarantees” item mostly records court bonds with various labour courts for actions brought by the employees and former employees of the Parent Company.

11.3. Information about the nature and the level of risk from financial instruments

The risk management policies of the Parent Company are laid down by the Management Committee, after having been approved by the Directors. On the basis of these policies, a set of procedures and controls was established to make it possible to identify, measure and manage risks deriving from the financial instruments, which expose the Company to credit, market and liquidity risks:

11.3.1. Credit risks

A credit risk occurs due to the possible loss caused by a breach of the contractual obligations of the Parent Company’s counterparts, that is, due to the possibility of not recovering the financial assets for the sum recorded in the set period.

The maximum exposure to credit risk of Correos Group at 31 December 2010 and 2009 is as follows:

	Parent Company		Rest of Group companies		Correos Group total	
	Balance at 31/12/2010	Balance at 31/12/2009	Balance at 31/12/2010	Balance at 31/12/2009	Balance at 31/12/2010	Balance at 31/12/2009
Long term financial investments	155,106	277	805	789	155,911	1,066
Clients by sales and provision of services	353,388	338,608	34,936	32,962	388,324	371,568
Other debtors	15,613	15,393	324	58	15,937	15,451
Short-term financial investments	8,152	8,553	28	25	8,180	8,578
Short-term deposits	60,000	-	-	-	60,000	-
Banks and lending institutions	140,981	243,137	2,440	2,125	143,421	245,262
	733,240	605,968	38,533	35,959	771,773	641,927

As explained in Note 11.1), the Parent Company has categorised the outstanding balance at the close of the 2010 financial year corresponding to capital and operating contributions as long-term. Long-term financial investments are shown net of valuation adjustments for depreciation, and the itemised list at 31 December 2010 and 2009 is as follows:

	Balance at 31/12/2010	Balance at 31/12/2009
Long-term debts by government bodies (Note 18)	173,364	-
Other financial investments	1,097	1,066
	174,461	1,066
Valuation adjustments for depreciation	(18,550)	-
Long term financial investments	155,911	1,066

The Parent Company has entered in the profit and loss account for the 2010 financial year a depreciation of 18,550 thousand euros corresponding to the financial cost incurred due to the deferred collection of capital and operating contributions, the balance of which amounted to 173,364 thousand euros at the close of the 2010 financial year. The type of discount applied is equivalent to that obtained by the Company if it purchased Public Debt (see Note 11.1)).

The different companies in the Correos Group perform a solvency analysis for each of their clients. These analyses are used for conceding or denying contracts with postponed payment to clients. The authorisations for the signing of these contracts are classified according to the amount of the loan.

The breakdown of the concentration of credit risks per counterpart under the “Clients by sales and provision of services” and “Other debtors” sections of Correos Group at 31 December 2010 and 2009 is as follows:

Financial year 2010				
	Parent Company		Rest of companies	
	Number of clients	Thousands of euros	Number of clients	Thousands of euros
Clients:				
With balance greater than 1,000 thousand euros	34	132,325	2	4,280
With balance between 500 and 1,000 thousand euros	49	34,898	5	3,582
With balance below 500 thousand euros	17,094	128,670	5,480	27,074
	17,177	295,893	5,487	34,936
Debtors	-	4,443	14	325
Foreign postal operators	180	65,576	-	-
Other financial assets	-	3,088	-	-
		369,000		35,261
Financial year 2009				
	Parent Company		Rest of companies	
	Number of clients	Thousands of euros	Number of clients	Thousands of euros
Clients:				
With balance greater than 1,000 thousand euros	39	126,163	1,493	29,262
With balance between 500 and 1,000 thousand euros	43	29,431	630	1,067
With balance below 500 thousand euros	17,430	131,999	3,001	2,631
	17,512	287,593	5,124	32,960
Debtors	-	4,304	27	58
Foreign postal operators	180	58,642	-	-
Other financial assets	-	3,462	-	-
		354,001		33,018

At 31 December 2010 and 2009, the breakdown of the “Clients” and “Foreign postal operators” belonging to Correos Group companies by debt seniority was as follows:

	Financial year 2010			Financial year 2009		
	Parent Company		Rest of Group companies	Parent Company		Rest of Group companies
	Clients	Foreign postal operators	Clients	Clients	Foreign postal operators	Clients
Not due	143,438	22,867	30,937	141,739	20,284	28,693
Due, non-doubtful:						
- Less than 30 days	63,767	653	2,017	66,130	1,214	2,456
- Between 30 and 60 days	32,989	314	593	33,036	1,372	478
- Between 60 and 90 days	9,090	452	259	9,704	180	350
- Between 90 and 120 days	7,609	375	629	7,687	344	340
- Over 120 days	38,999	26,388	501	29,297	21,850	645
Provisional payments	-	14,528	-	-	13,398	-
	295,893	65,576	34,936	287,593	58,642	32,962
Doubtful clients	12,415	1,641	3,213	11,740	2,611	2,595
Adjustments for depreciation	(12,415)	(1,641)	(3,213)	(11,740)	(2,611)	(2,595)
	295,893	65,576	34,936	287,593	58,642	32,962

Receivables to be paid by clients of the Parent Company outstanding for more than 120 days and not considered bad debt in the sum of 38,999 thousand euros (29,297 thousand euros in 2009) correspond to receivables from public institutions.

The provisional payments correspond to sums paid by the Parent Company to other foreign operators for the provision of their postal services prior to definitive settlement.

Additionally, the Parent Company has streamlined the cash flow surpluses during the financial year, either by purchasing auctioned State Debt for periods of up to 3 months, or by purchasing one day repurchase agreements, all in accordance with “Regulations on the relationship with state companies

held by the Directorate General for State Assets. The second section of this document establishes that all fund investment operations in assets made by this type of company must be public debt, unless express authorisation is granted by that Directorate.

11.3.2. Market risk

The market risk occurs due to the possible loss caused by variations in the reasonable value or future cash flows of a financial instrument due to changes in market prices. The market risk includes the interest rate risk, exchange rate risk and other price risks.

Interest rate risks

The interest risk takes place due to the possible loss caused by variations in the reasonable value or in future cash flows of a financial instrument due to changes in market interest rates.

Given that practically all financial assets of Correos Group mature in less than twelve months, the exposure of these to interest rate risks is not significant.

Exchange rate risks

An exchange rate risk occurs due to the possible loss caused by variations in the reasonable value. The exposure of Correos Group to the risk of exchange rate fluctuations is due primarily to sales made in currencies other than the functional currency. These balances are derived from the services rendered to and by foreign postal operators and from the provision of the international money order service.

In this regard, the Parent Company's exposure to this risk largely corresponds to the accounts receivable and payable deriving from international mail. Given that the net value of these balances as of 31 December 2010 stood at 9,228 thousand euros payable (15,862 thousand as of 31 December 2009), the Parent Company's Directors do not consider this risk significant.

11.3.3. Liquidity risks

A liquidity risk occurs due to the possibility of Correos Group not having liquid funds or access to liquid funds available, in a sufficient amount and at the right cost, to meet its payment obligations at all times. The objective of the Group is to maintain the necessary liquid availability.

The list of the short-term financial assets and liabilities of the Group at 31 December 2010 and 2009, and as the difference, its ability to meet its payment obligations in the short-term, are as follows:

	Balance at 31/12/2010	Balance at 31/12/2009
Short-term financial assets:		
Clients by sales and provision of services	388,324	371,568
Other debtors	15,937	15,451
Financial investments	8,180	8,578
Cash and other liquid resources	244,126	285,322
Short-term financial liabilities:		
Short-term debts	(36,366)	(64,826)
Trade creditors and other accounts payable	(417,067)	(387,110)
Difference	203,134	228,983

(12)

Cash and other equivalent liquid assets

The composition of this item at 31 December 2010 and 2009 is as follows:

	Balance at 31/12/2010	Balance at 31/12/2009
Cash	40,705	40,060
Banks and lending institutions	143,128	245,168
Short-term deposits	60,000	-
Accrued interest not due	293	94
	244,126	285,322

(13)

Equity

The list of movements of Correos Group equity is shown in the statement of changes in the consolidated net assets, which is an integral part of the consolidated annual accounts.

According to the proposal for distribution of the consolidated profit for financial year 2008 presented by the Directors of the Parent Company, dated 6 July 2009, the Parent Company paid its Sole Shareholder a dividend for the sum of 38,966 thousand euros.

a) Registered capital

The share capital of the Parent Company is represented by 611,521 shares with a nominal value of 1,000 euros each. The same policy and economic rights apply to all shares, and they are wholly subscribed and paid in by the Central Government, through the Directorate General for State Assets.

b) Share premium account

The share premium account, created at the time of incorporation of the Parent Company, is subject to the same restrictions and may be used for the same purposes as the Company's voluntary reserves, including conversion to share capital.

At the Parent Company's General Meeting of 26 May 2010 it was agreed to refund the sole shareholder the sum of 30,065 thousand euros, called the share premium, from the unrestrictive reserves, establishing the payment as payment in kind for all the limited common areas of the building located on Avenida de Andalucía number 1, in the City of Málaga, which is property of the Parent Company. This agreement was formalised by an award deed on 22 December 2010. The share premium of the Parent Company on 31 December 2010 amounts to 250,938 thousand euros (281,003 thousand euros in 2009).

c) Legal reserve

Pursuant to Article 274 of the Consolidated Text of the Companies Act, enacted by Legislative Royal Decree 1/2010, dated 2 July, a figure equal to 10% of the profit for the financial year must be allocated to the legal reserve until it matches a minimum of 20% of the share capital.

The legal reserve can only be used to increase the share capital in the part of its balance that exceeds the previously increased capital by 10%. Except for the purpose mentioned above, and as long as 20% of the share capital is not exceeded, this reserve will only be used to offset losses, provided that there are no other sufficient reserves available for this purpose.

d) Other reserves

Under the Parent Company's Articles of Association, the Company must allocate 20% of profits for the year to reserves required by the Articles of Association. As at 31 December 2010, these reserves may be disposed of freely as decided by the Governing Board of the Parent Company pursuant to article 36 of its Articles of Association. At 31 December 2010, the reserves held because of requirements in the Articles of Association totalled 163,627 thousand euros; the value of the voluntary reserves stood at 360,078 thousand euros.

e) Other reserves belonging to the Parent Company

This item reflects the reserves generated by certain consolidation adjustments in the past for 170,281 thousand euros, and particularly the elimination of the provision for amortisation of financial investments and accumulated amortisations of consolidation goodwill, resulting from the acquisition of 100% of Chronoexpres, S.A.

f) Reserves at consolidated companies

The breakdown as at 31 December 2010 and 2009 is as follows:

	Balance at 01/01/2009	Result 2008	Other	Balance at 31/12/2009	Result 2009	Other	Balance at 31/12/2010
Correos Telecom, S.A.	2,172	113	-	2,285	355	(150)	2,490
Correo Híbrido, S.A.	858	222	-	1,080	(654)	-	426
Chronoexpres, S.A.	(164,689)	1,000	(70)	(163,759)	(4,659)	-	(168,418)
	(161,659)	1,335	(70)	(160,394)	(4,958)	(150)	(165,502)

g) Consolidated results of Correos Group

The Correos Group's consolidated profits for the 2010 and 2009 financial years are as follows:

Financial year 2010			
	Individual results	Consolidation adjustments	Consolidated results
Correos y Telégrafos, S.A.	1,742	12,216	13,958
Correos Telecom, S.A.	158	-	158
Correo Híbrido, S.A.	6	-	6
Chronoexpres, S.A.	(7,847)	-	(7,847)
	(5,941)	12,216	6,275

Financial year 2009			
	Individual results	Consolidation adjustments	Consolidated results
Correos y Telégrafos, S.A.	(2,020)	9,940	7,920
Correos Telecom, S.A.	355	-	355
Correo Híbrido, S.A.	(654)	-	(654)
Chronoexpres, S.A.	(4,659)	-	(4,659)
	(6,978)	9,940	2,962

(14)

Government contributions, donations and legacies received

The Parent Company annually receives a capital contribution included in the Spanish National Budget, used to finance part of its acquisitions of assets.

At 31 December 2010, the Parent Company had 20,462 thousand euros outstanding for collection from the total capital contributions granted in the 2009 and 2010 Spanish National Budget (the amount outstanding for collection at 31 December 2009 for the same item, but referring to the 2008 financial year, was 13,462 thousand euros). The Parent Company meets the requirements associated with the granting of capital contributions and the requirements for entitlement to such subsidies.

The itemised list of transactions for capital contributions granted to the Parent Company for this purpose in the 2010 and 2009 financial years is as follows:

Thousands of euros		
Financial year 2009	Initial balance at 1 January 2009	419,045
	Contribution collected	1,158
	2009 contribution pending collection (Note 18)	13,462
	Total contributions granted/awarded	14,620
	Tax effect	(4,386)
	Allocation to the profit and loss account:	
	- due to amortisation	(45,275)
	- due to adjustments for depreciation	(15,483)
	Tax effect	18,228
	Final balance at 31 December 2009	386,749
Financial year 2010	Contribution collected	-
	2010 contribution pending collection (Note 18)	7,000
	Total contributions granted/awarded	7,000
	Tax effect	(2,100)
	Allocation to the profit and loss account:	
	- due to amortisation	(36,906)
	- due to adjustments for depreciation	(13,045)
	- due to disposals	(2,388)
	Tax effect	15,702
	Final balance at 31 December 2010	355,012
Capital contributions pending collection		20,462

The Parent Company entered a depreciation of 18,550 thousand euros (see Note 11.3.1)) in the profit and loss account for the 2010 financial year. This corresponds to the financial cost incurred due to the deferred collection of capital and operating contributions, the balance of which at the close of the 2010 financial year amounted to 20,462 and 152,902 thousand euros, respectively.

The 2011 Spanish National Budget does not consider granting the Parent Company any capital contributions during the upcoming financial year.

(15)

Long-term and short-term provisions

The provisions for the financial year, amounting to 37,612 thousand euros, have been charged to the consolidated profit and loss account according to their type (29,128 thousand euros in 2009).

The origin of these charges lies in court decisions that have been unfavourable for Correos Group during the financial year 2010 and which have involved the effective payment of certain amounts and charging the relevant provisions to the consolidated profit and loss account, depending on the nature of the action.

The provisions for the financial year, amounting to 3,651 thousand euros, have been charged to the consolidated profit and loss account according to their type.

Provision for claims from the staff

The balance of this provision at 31 December 2010 records the estimated sums to be paid for claims and court actions in labour-law proceedings against the Parent Company.

Provision for court actions

The balance of this provision at 31 December 2010 chiefly reflects the estimated payable amounts from the penalty proceedings in the *Tribunal de Defensa de la Competencia* (Competition Court) against the Parent Company, against which the latter has appealed, and the estimated amounts to handle possible claims for damages that may be caused by unfavourable sentences in the area of competition.

The breakdown and changes in long-term and short-term provisions for the 2010 and 2009 financial years are as follows:

	Long-term provisions					Short-term provisions
	Provision for taxes	Provision for claims from the staff	Provision for court actions	Other provisions	Total	
Balance at 1 January 2009	922	38,891	38,997	1,915	80,725	320
Provisions	567	20,950	6,730	360	28,607	521
Applications / payments	(187)	(1,489)	-	(131)	(1,807)	(591)
Reversals / excesses	-	(1,205)	(1,164)	(160)	(2,529)	-
Reclassifications	(369)	-	369	-	-	-
Balance at 31 December 2009	933	57,147	44,932	1,984	104,996	250
Provisions	1,857	16,688	13,588	2,437	34,570	3,042
Applications / payments	(11)	(2,065)	(5,284)	(206)	(7,566)	(584)
Reversals / excesses	(297)	(2,389)	(965)	-	(3,651)	-
Reclassifications	-	-	-	-	-	-
Balance at 31 December 2010	2,482	69,381	52,271	4,215	128,349	2,708

(16)

Financial liabilities

The composition of Correos Group' short-term financial liabilities at 31 December 2010 and 2009 is as follows:

	Balance at 31/12/2010	Balance at 31/12/2009
Short-term debts:		
Creditors for fixed assets	16,192	44,250
Money order deposits	11,439	12,966
Deposits and guarantees	6,938	5,507
Creditors for financial leasing	1,545	1,628
Other short-term debts	252	475
Total short-term debts	36,366	64,826
Trade creditors and other accounts payable:		
Suppliers	3,327	4,147
Other creditors	270,024	268,930
Staff (accrued wages and salaries)	59,539	41,774
Other debts with government bodies (Note 18)	56,447	48,923
Customer advances	27,730	23,336
Total trade creditors and other accounts payable	417,067	387,110

"Money order deposits" include money orders accepted prior to 31 December 2010 and pending payment by the Parent Company to their recipients at that date.

The heading "Other creditors" includes the amounts charged by the Parent Company for third parties and the sum of the provision for volume discounts for the sums of 51,347 and 25,772 thousand euros respectively (the amounts recorded for these items at 31 December 2009 stood at 44,987 and 23,652 thousand euros).

Likewise, the headings "Other creditors" and "Customer advances" include 74,804 thousand euros whose origin lies in the Parent Company's pending payments to different third-country postal operators for postal and telegraphic services received (74,504 thousand euros at 31 December 2009).

Balances pending payment to Group suppliers representing a deferral greater than the maximum legal term established by Law 15/2010 of 5 July amount to 29,877 thousand euros. In addition, under the provisions of the second transitory regulation of Resolution of 29 of December 2010 by the ICAC (the Spanish Accounting and Account Auditing Institute), no comparative information is filed for this data, and the annual accounts are understood to be initial accounts for these purposes only, insofar as the uniformity principle and the comparability requirement are concerned.

(17)

Income and expenses

a) Net turnover

The distribution of Correos Group turnover corresponding to its ordinary activities by activity category, as well as by geographical markets, for the 2010 and 2009 financial years is as follows:

	Financial year 2010	Financial year 2009
Segmentation of activities by category-		
Revenues for postal and telegraphic services	2,022,812	2,100,904
Revenues from provision of services to third parties and provision of banking services	19,939	16,194
Revenues from money transfer	27,987	28,479
Sale of philatelic products	20,216	29,042
Other	21,734	12,371
Total	2,112,688	2,186,990
Segmentation by geographical markets-		
National	2,112,688	2,186,990
Total	2,112,688	2,186,990

The heading "Provision of postal and telegraphic services" is shown net of the figure for volume discounts granted by Correos Group to its clients during the financial year in the sum of 27,443 thousand euros (this figure was equivalent to 23,221 thousand euros in the 2009 financial year).

b) Consumption of merchandise

The breakdown of the heading "Consumption of merchandise" in the attached consolidated profit and loss account during the 2010 and 2009 financial years is as follows:

	Financial year 2010	Financial year 2009
National purchases of merchandise:		
Stamps and other franking devices	7,018	10,519
Other products	7,747	7,767
Changes in stock	753	(1,402)
Consumption of merchandise	15,518	16,884

c) Operating contributions

The Parent Company accrued operating contributions during the financial year to pay for the deficit associated with provision of the universal postal service and for the training of its employees in the sums of 68,201 thousand and 545 thousand euros, respectively (having accrued sums of 60,601 thousand and 533 thousand euros, respectively, for the same items during the previous financial year).

Financial year 2009	Operating contributions outstanding at 1 January 2009	3,084
	Contribution collected	(3,084)
	Operating contributions 2009	60,601
	Operating contributions deficit 2006 and 2007	24,100
	Operating contributions outstanding at 31 December 2009	84,701
Financial year 2010	Contribution collected	-
	Operating contributions 2010	68,201
	Operating contributions outstanding at 31 December 2010	152,902

The Parent Company entered a depreciation of 18,550 thousand euros (see Note 11.3.1)) in the profit and loss account for the 2010 financial year. This corresponds to the financial cost incurred

due to the deferred collection of capital and operating contributions, the balance of which at the close of the 2010 financial year amounted to 20,462 and 152,902 thousand euros, respectively.

The 2011 Spanish National Budget considers granting the Parent Company 42,077 thousand euros as an operating contribution associated with providing the universal postal service during the upcoming financial year.

d) Social security contributions

The breakdown of the heading "Social security contributions" for the financial years ending at 31 December 2010 and 2009 is as follows:

	Financial year 2010	Financial year 2009
Contributions to pension plans	13,216	13,433
Other social security contributions	228,725	227,923
	241,941	241,356

"Contribution to pension fund" is the Company's contribution accrued during the financial year by virtue of the Correos y Telégrafos Pension Plan of 26 September 2000 (see Note 5-o)).

e) External services

The breakdown of the heading "External Services" for the financial years ending at 31 December 2010 and 2009 is as follows:

	Financial year 2010	Financial year 2009
Leases	41,149	42,274
Repairs, preservation and maintenance	68,897	72,511
Independent professional services	44,683	54,410
Transport expenses	165,509	168,915
Advertising, marketing and public relations	4,694	3,351
Supplies	38,331	42,721
International mail expenses	50,679	50,584
Other expenses	64,966	65,728
	478,908	500,494

The future minimum payments that cannot be cancelled originating in operating lease contracts signed by different companies in Correos Group are broken down in the following table:

	Financial year 2010	Financial year 2009
Up to one year	25,090	24,184
Between one and five years	23,144	29,332
More than five years	28,568	31,969
	76,802	85,485

“Independent professional services” includes 7,834 thousand euros corresponding to the cost accrued for partner entities’ fees (11,320 thousand euros in 2009). These entities are retained by the Parent Company under contract to promote, transmit, market and reinforce postal services on behalf of the Company, and to conduct collection, processing, franking, sorting and transport of postal items for deposit at Company facilities. Likewise, this heading includes 19,454 thousand euros in security expenses (22,949 thousand euros in 2009).

“International mail expenses” includes the costs that the postal operators from different countries invoice to the Parent Company for the provision of postal and telegraphic services whose recipients reside in those countries.

f) Taxes

The heading “Taxes” records the effect of the restatement of the pro rata figure determined for investment assets at the Parent Company (see Note 5-r)). This restatement involved recording a lower expense – higher income – during the financial year, in the sum of 2,852 thousand euros (lower expenses in the amount of 6,693 thousand euros in the previous year).

g) Depreciation of and result for disposal of fixed assets

The breakdown of the heading for the financial years ending at 31 December 2010 and 2009 is as follows:

Financial year 2010

Tangible fixed assets

	Intangible fixed assets	Land and built assets	Other fixed assets	Plants	Property investments	Total
Adjustments for depreciation:						
Provisions	-	22,953	-	-	-	22,953
Reversals	(25)	(6,863)	(29)	(2,105)	-	(9,022)
Reclassifications		(5,386)	-	-	5,386	-
	(25)	10,704	(29)	(2,105)	5,386	13,931
Profits from disposals and other profits:						
Profits	-	(23,237)	-	-	-	(23,237)
Losses	20	1,430	710	134	-	2,294
	20	(21,807)	710	134	-	(20,943)

Financial year 2009

Tangible fixed assets

	Intangible fixed assets	Land and built assets	Other fixed assets	Plants	Property investments	Total
Adjustments for depreciation:						
Provisions	50	48,323	128	-	-	48,501
Reversals	(2)	(1,694)	(163)	(5,483)	-	(7,342)
	48	46,629	(35)	(5,483)	-	41,159
Profits from disposals and other profits:						
Profits	-	(174)	(243)	(29)	-	(446)
Losses	3,399	4,578	-	539	-	8,516
	3,399	4,404	(243)	510	-	8,070

h) Financial income and expenses

The breakdown of this heading for the 2010 and 2009 financial years is as follows:

	Financial year 2010	Financial year 2009
Financial income-		
Third-party interest:		
- Short-term deposits	318	2,856
- Other financial income	2,107	2,112
	2,425	4,968
Financial expenses-		
Other financial expenses	311	578
Updating provisions	383	814
	694	1,392

The amount of the revenue accrued by the Parent Company originating in fixed term deposits carried out during the financial year is recorded in "Short-term deposits".

(18)

Tax situation

The detail of the balances maintained by the Group with government bodies at 31 December 2010 and 2009 is as follows:

	Balance at 31/12/2010	Balance at 31/12/2009
Non-current assets-		
Deferred tax assets	36,821	25,634
Long-term debts from government bodies (Note 11.3.1)	173,364	-
Valuation adjustments for depreciation (Note 11.3.1)	(18,550)	-
Total non-current assets with government bodies	191,635	25,634
Current assets-		
Current tax assets	3,757	8,207
Capital and operating contributions pending collection	-	98,163
Other	179	236
Total current assets with government bodies	3,936	106,606
	(Note 11)	(Note 11)
Non-current liabilities-		
Deferred tax liabilities	152,363	166,975
Current liabilities-		
IRPF (personal income tax)	21,567	19,003
Value-added tax - VAT	6,865	1,745
Social Security	22,633	21,558
MUFACE (public employee mutual society) and liability fees	3,804	4,106
Customs	628	1,508
Other	950	1,003
	56,447	48,923
Total current liabilities with government bodies	56,447	48,923
	(Note 16)	(Note 16)

The Corporation Tax is calculated using the book result, obtained by applying generally accepted accounting principles which do not necessarily have to coincide with the fiscally determined taxable base.

As permitted by the twenty-eighth temporary provision of the Legislative Royal Decree 4/2004, of 5 March, whereby the consolidated text of the Corporation Tax Act, added by Law 4/2008, of 23 December, was ratified, the Parent Company of Correos Group has opted to integrate the tax effect of the charges and payments made against reserves deriving from the application of the Spanish GAAP to the taxable base corresponding to each one of the first three tax periods initiated at 1 January 2008, the date of the conversion to the Spanish GAAP.

The breakdown of the assets and liabilities for deferred tax is as follows:

	Financial year 2010	Financial year 2009
Temporary differences:		
Provision for risks and charges	16,070	12,199
Provisions related to staff	9,159	4,489
Provisions related to fixed assets	3,114	4,047
Portfolio provision	4,097	-
Excess of amortisation of fixed assets	3,875	4,369
Other	506	530
Deferred tax assets	36,821	25,634
Temporary differences:		
Tax effect of the capital contributions	152,148	165,749
Deferred tax effect from conversion to the GAAP	-	1,009
Other	215	217
Deferred tax liabilities	152,363	166,975

The movement of assets due to temporary differences in the Corporate Tax during the 2010 and 2009 financial years is as follows:

Financial year 2010						
	Balance at 01/01/2010	Additions	Restatements	Other adjustments	Reversal	Balance at 31/12/2010
Temporary differences	85,443	42,815	4,537	-	(10,059)	122,736
Tax effect:						
Temporary differences	25,312	12,810	1,361	-	(2,980)	36,503
Credits for losses to be compensated	323	34	-	-	(38)	319
	25,635	12,844	1,361	-	(3,018)	36,822

Financial year 2009						
	Balance at 01/01/2009	Additions	Restatements	Other adjustments	Reversal	Balance at 31/12/2009
Temporary differences	60,305	31,105	1,896	-	(7,863)	85,443
Tax effect:						
Temporary differences	18,050	9,010	569	-	(2,317)	25,312
Credits for losses to be compensated	42	323	-	-	(42)	323
	18,092	9,333	569	-	(2,359)	25,634

The effective aggregate tax expense and the aggregated Corporation Tax expense are calculated as follows:

	Financial year 2010	Financial year 2009
	Consolidated profit and loss account	Consolidated profit and loss account
Consolidated result before tax	2,033	(384)
Consolidation adjustments	(12,216)	(9,940)
Aggregate results before tax	(10,183)	(10,324)
Breakdown of aggregate results before tax:		
- Accounting basis	(2,336)	(4,730)
- Capitalised accounting basis (losses)		(935)
- Non-taxable accounting basis	(7,847)	(4,659)
	(10,183)	(10,324)
Applicable tax rate	30%	30%
Theoretical tax charge	(701)	(1,419)
Tax credit	-	(281)
Non-calculable income	(2,890)	(278)
Non-deductible expenses	2,524	89
Deductions	(3,121)	(1,386)
Effective aggregated taxable (income)/expense	(4,188)	(3,275)
Breakdown effective aggregate taxable expense:		
- Current taxes	5,649	3,713
- Tax credit	(35)	(281)
- Deferred taxes	(9,802)	(6,707)
Total effective aggregate taxable expense:	(4,188)	(3,275)
Adjusted estimated Corporation Tax	(54)	(71)
Aggregate Corporate Tax expense	(4,242)	(3,346)

The calculated Corporate Tax pending payment and collection at 31 December 2010 and 2009 is as follows:

	Financial year 2010		Financial year 2009	
	Current tax debt	Current tax credit	Current tax debt	Current tax credit
Aggregate current tax	5,649		3,713	-
Tax withholdings and prepayments	(9,220)		(10,916)	-
Saldo con las Administraciones Públicas	(3,571)	-	(7,203)	-

The reconciliation of the consolidated book result with the taxable base for income tax at 31 December 2010:

Profit and loss account				
	Financial year 2010			Financial year 2009
	Increases	Decreases	Total	Total
Consolidated result	-	-	2,033	(384)
Consolidation adjustments	-	-	(12,216)	(9,940)
Permanent differences:				
- of each company	8,443	(9,630)	(1,187)	(613)
Temporary differences:				
- of each company				
- Arising in the year	46,199	(147)	46,052	30,983
- Arising in previous years	178	(12,679)	(12,501)	(10,132)
Taxable base (tax result)			22,181	9,914

Under article 42 of the Law 43/1995, of 27 December, introduced in the Law 24/2001, of 27 December, regarding tax reductions due to reinvestment of profits on the transfer of tangible fixed assets, the Parent Company has acquired a duty to reinvest the full amount of the profits from operating the building mentioned in Note 13 (30,065 thousand euros) within the period of the previous year and the three years following transfer of the assets. During the 2010 financial year, the Parent Company has fully met its reinvestment commitment. The revenues benefiting from said deduction amount to 22,077 thousand euros.

Current laws and regulations establish that taxes may not be deemed finally settled until filed tax statements have been inspected by the tax authorities or a statute of limitations of four years elapses. At 31 December 2010, the companies that make up Correos Group have all taxes applicable since 1 January 2006 pending inspection by the tax authorities. The Company's Board of Directors does not expect significant additional liabilities to emerge as a result of any inspection procedures.

Under the *Ley del Impuesto sobre Sociedades* (the Corporation Tax Act), if a taxable base is found to be negative, its amount may be offset within the fifteen financial years following the year of the loss; the amount of the offset may be distributed as the taxpayer sees fit. The offset must be effected upon filing a Corporation Tax statement, and is subject to the tax authorities' power of verification. As at 31 December 2010, Group companies had the following losses from previous years to offset against future taxable profits:

Data at 31/12/2010		
Maximum offset financial year	Chronoexpres, S.A.	Correo Híbrido, S.A.
2011	813	-
2012	1,820	-
2013	1,367	-
2014	2,426	-
2015	1,801	-
2016	11,138	-
2017	19,350	-
2018	52,569	-
2019	38,670	-
2020	22,011	-
2021	11,179	83
2022	9,769	135
2023	1,474	-
2024	6,134	947
2025	6,933	115
	187,454	1,280

The tax credits corresponding to the negative taxable bases of Correo Híbrido, S.A., which are recorded in the attached consolidated balance sheet for 31 December 2010, amount to approximately 384 thousand euros (349 thousand euros at 31 December 2009).

(19)

Other information

a) Number of employees

The breakdown of the Group's average staff by number of employees during the 2010 and 2009 financial year was as follows:

	Financial year 2010	Financial year 2009
Management Committee	25	24
Rest of workforce:		
- Civil servants	25,091	27,379
- Employees under ordinary contracts	38,285	38,378
	63,401	65,781

At 31 December 2010 and 2009, the workforce of Correos Group broken down by job categories and gender was as follows:

	Data at 31/12/2010			Data at 31/12/2009		
	Men	Women	Total	Men	Women	Total staff
Management Committee	19	6	25	21	3	24
Rest of workforce:						
- Civil servants	17,557	6,546	24,103	19,189	7,209	26,398
- Employees under ordinary contracts	15,084	21,557	36,641	14,936	21,553	36,489
	32,660	28,109	60,769	34,146	28,765	62,911

The average workforce of the Group with disabilities of 33% or more during the 2009 and 2010 financial years was the following:

	Financial year 2010	Financial year 2009
Civil servants	507	522
Employees under ordinary contracts	231	203
	738	725

b) Commitments and contingencies

At 31 December 2010, the guarantees provided on behalf of Correos Group by various banks amounted to 41,322 thousand euros (40,244 thousand euros at 31 December 2009). The Directors of the Parent Company believe that any additional liabilities that may arise from the guarantees provided to third parties will not be in any way significant.

c) Fees for accounts auditors and group and associated companies

The amounts billed to companies in Correos Group, or pending billing, by PricewaterhouseCoopers Auditores, S.L., and its associated companies are itemised below. These amounts are for professional services over the financial year:

	Financial year 2010	Financial year 2009
For auditing services	193	187
For other services	5	376
Total	198	563

(20)

Segment results

Correos Group' segment results for financial years 2010 and 2009 are the following:

Financial year 2010				
	Postal and telegraphic	Other segments	Adjustment portfolio	Total
Net turnover	1,969,743	142,945	-	2,112,688
Procurement	(16,927)	(2,756)	-	(19,683)
Operating contributions	68,746	50	-	68,796
Staff costs	(1,544,987)	(47,925)	-	(1,592,912)
Other results	(479,143)	(99,929)	12,216	(566,856)
Result before tax	(2,568)	(7,615)	12,216	2,033

Financial year 2009				
	Postal and telegraphic	Other segments	Adjustment portfolio	Total
Net turnover	2,043,701	143,289	-	2,186,990
Procurement	(16,105)	(2,173)	-	(18,278)
Operating contributions	85,234	97	-	85,331
Staff costs	(1,598,387)	(47,668)	-	(1,646,055)
Other results	(519,673)	(98,639)	9,940	(608,372)
Result before tax	(5,230)	(5,094)	9,940	(384)

(21)

Directors and Management Committee of the Parent Company

The members of the Governing Board and the Management Committee of the Parent Company are the only people responsible for the planning, management and control of the activities of the Parent Company. Likewise, they are the only ones who can exercise significant control or influence on decisions regarding finances or operations.

The members of the Governing Board and the Management Committee of the Parent Company did not participate, either directly or indirectly, in unusual and/or relevant transactions with Correos Group companies during the 2010 financial year.

21.1. Remunerations and other benefits to Directors and to members of the Management Committee of the Parent Company during the financial year

Pay accrued for all items during the 2010 financial year by members of the Parent Company's Governing Board and Management Committee totalled 2,433 thousand euros (1,856 thousand euros in 2009), 229 thousand euros of which correspond to allowances for support to the Governing Board (232 thousand euros in 2009); the rest was paid as salaries and/or other pay items (including compensation).

At 31 December 2010, no member of the Parent Company's Governing Board or Management Committee maintained balances receivable or payable with the same. Nor did the Company have obligations contracted with them concerning pensions and/or life insurance.

Other information relating to the Governing Board

Article 229.2 of the *Ley de Sociedades de Capital* (the Companies Act), requires Board members to inform the Parent Company of any shares they hold in other companies with the same, similar or complementary types of activity as the Parent Company's corporate objective, in addition to the role and functions that they play in said companies and whether they are employed or not in the same, a

similar or complementary activity as the corporate objective. No members of the Parent Company's Governing Board have been found to be in a situation of direct or indirect conflict with the interests of the Parent Company (Article 229.1 of the Companies Act).

The members of the Parent Company's Governing Board do not own shares, hold offices or perform functions in companies whose objects are identical, similar or complementary to the objects of the Parent Company, according to their written disclosures.

On the date of writing of these annual accounts, the Governing Board of the Parent Company was made up of 12 men and 5 women.

(22)

Environmental information

As at 31 December 2010, there were no significant assets given over to environmental protection and improvement, nor have any significant expenses of that nature been incurred during the year. Likewise, during the financial year ending at 31 December 2010, no environmental contributions were received.

The Parent Company Directors take the view that no contingencies exist in connection with environmental protection and improvement, and therefore do not think it necessary to allocate any environmental items to the provision for risks and charges as at 31 December 2010.

(23)

Subsequent events

A very significant law entered into force on 1 January 2011: *Ley 43/2010, de 30 de diciembre, del servicio postal universal, de los derechos de los usuarios y del mercado postal* (Law 43/2010, of 30 December, regarding the universal postal service, users' rights and the postal market. This fact does not change the economic/financial and asset situation of the Parent Company on 31 December 2010.

Law 43/2010 mainly regulates the conditions for providing the universal postal service which are required of the appointed operator and the financing of the obligations of the universal postal service,

prices and other conditions for the rates of the postal services, as well as operators' access to the postal network and resolution of conflicts between them.

The main aspects clarified by the new regulatory framework, which will have an effect on part of the services provided by the Company, are the following:

- Definition of the scope of the universal postal service.
- Liberalisation of the postal market. Disappearance of the services reserved for the operator charged with providing the universal postal service (Correos).
- System for financing the net cost of the obligations of the universal postal service.
- Price of postal services.
- The National Commission for the Postal Sector and its supervisory function.

In order to maintain the universal postal service, Law 43/2010 provides for a finance fund that will be managed by the National Commission for the Postal Sector with the purpose of compensating the postal operator for the net cost of the obligations of the universal postal service. The main sources of financing for the fund will be the budget assigned by the Central Government in its National Budget, the annual postal contribution of the postal operator and the bearers of individual licences, and fees for granting individual licences.

As a result, article 26 of Law 43/2010 establishes the aforementioned operator's obligation to keep a duly audited analytical accounting system, with separate accounts for each service and product of the universal postal service and any other services and products that are not part of the universal postal service. The postal operator will submit the calculation of the net cost of each financial year for validation by the National Commission for the Postal Sector .

Similarly, Law 43/2010 guarantees access to the postal network for postal operators once they have been granted an individual licence according to the principles of transparency, proportionality and non-discrimination. The appointed operator, Correos, will underwrite a standard contract for access to the postal network, with the postal operators; this contract will have been previously approved by the National Commission for the Postal Sector, and Correos must also report to the latter any other non-standard contracts. The Commission will be responsible for verifying that the rates established in the contracts meet the principles of transparency and non-discrimination and that they cover the costs incurred by the owner of the network. The price of the postal services provided as public-service obligations will be authorised by the National Commission for the Postal Sector.

Article 48 of Law 43/2010 and article 16 of Law 23/2007, of 8 October, regulate conflict resolution between postal operators under the principles of fair hearing, audi alteram partem and equality of the parties.

Management report-Financial year 2010-

1. Business evolution and future risks

At the close of the 2010 financial year, the Parent Company, Sociedad Estatal Correos y Telégrafos, S.A., holds 100% of all its subsidiaries.

The European postal sector, and the Spanish sector in particular, are in the midst of a process of change and transformation. This sector has reached a high level of maturity, both within Spain and Europe and across the globe, displaying, over the course of the financial year, a structural decrease in postal volumes driven by electronic substitution. Moreover, the economic recession beginning in late 2008 is having a situational impact on the volume of mail. This is accelerating the trend of electronic substitution, in addition to causing decreased mail volumes in 2010 and foreseeable further reductions in 2011.

European competition will see a change with the liberalisation of the market on 1 January 2011. In Spain, liberalisation has been approved with the publication of Law 43/2010, of 30 December, on the universal postal service, users' rights and the postal market. The most important changes introduced by this Law are that the market shall become completely deregulated and that it appoints Correos as the operator to provide universal postal service for the next 15 years. The total deregulation changes the scenario and will no doubt have an effect on Correos' future market share.

As a result of this important milestone, Correos has designed a new business plan for the 2011-2014 period, and its most noteworthy strategies deal with revenues. This business plan establishes three basic strategies: positioning in the identified relevant markets, orientation toward the client based on knowledge of the segments and definition of solutions for each segment to cover its needs, management integrity and the continuous improvement of processes.

On the basis of these strategies, the mission/vision of Correos Group is the following:

"To become a facilitator of the physical and electronic mail items between companies, individuals and the Central Government thanks to our high quality postal, parcel and direct marketing services and our integral products, services, and solutions adapted to the different segments of clients, thus achieving financial sustainability. All of this in a culture of corporate social responsibility and its role within public service."

The most important aspects of the postal market are essentially:

Regulation

The EU postal reform initiated over fifteen years ago has sought the harmonised undertaking of the internal market for postal services by means of a progressive reduction in monopolies and the guarantee of a universal postal service that addresses the needs of citizens and businesses.

The most significant development of the Directive 2008/6/EC was setting a definitive date for the disappearance of the special or exclusive rights no later than 31 December 2010 (except in eleven countries that could postpone the step by two years), while in turn maintaining the most significant provisions of the appropriate regulations, above all those referring to the obligations of a universal service.

Two of the most debated issues throughout the entire process of preparing the Third Postal Directive were guaranteeing the provision of a universal postal service and its funding.

Likewise, this could have an effect on the level of quality and on national price uniformity. The reason is that costs are different depending on the delivery and distribution densities of the various regions, or according to the specific activity of the universal service that is being provided. Serving a large urban centre, for example, is not the same as serving a rural area, nor is transporting mail items the same as distributing them. The latter activity represents over 50% of the total cost of the postal process.

With regard to the second question of interest, funding the universal postal service, it should be pointed out that one of the most immediate effects of the application of the new Postal Act for operators which until now have been universal postal service suppliers (hereinafter known as national operators) is the disappearance of the reserve. This is a mechanism which, in general terms, has been used in order to guarantee a quality service that is affordable and accessible. On the other hand, it is foreseeable that new operators will only focus their business on the most profitable segments, leaving the less productive ones to those responsible for the providing the universal service. At the outset, both factors will have a potentially negative effect on the income base of national operators.

In this respect, during the process of the preparation of the Third Postal Directive a group of countries requested that properly defined, long-term and proven measures be established to compensate for the costs of the obligation, as well as to guarantee present and future investments, and to ensure business viability and employment. This is a fundamentally important issue given the trend of decreasing volumes seen since late 2008, requiring significant attention to be paid to this issue. In the new Postal Act, this aspect must be developed by establishing a plan for the provision of a universal service, which has not yet been developed. This regulation is expected to be developed over 2011.

Fully deregulated market

The process for the deregulation of the postal market that has led to the approval of the new Postal Act has also intensified the presence of new competitors in the Spanish market in recent years. In Spain competition has developed increasingly, taking the form of widespread consolidation amongst competing firms and, in particular, the entry of the main international operators into

the Spanish postal market. In recent years the major European postal operators have wholly or partly acquired companies operating in Spain in the parcel delivery, transport and postal services sectors.

It is also worth noting within the regulations on competition, the part regarding access to the postal network. This regulation was first introduced by Royal Decree in 2006, and was then incorporated in the new Postal Act under the same conditions. The purpose of this section of the regulations is to establish reference conditions for postal operators to have access to the public operator's postal network.

Technological progress of operators and customers

Technological progress leads primarily to the emergence and penetration of electronic systems posited as replacements of or alternatives to traditional mail. Our business will depend on the proper management of technological uncertainty, through adapting to the new technological environment. On first analysis, however, it appears more likely, and is proving to be the case, that mail volume will fall away due to postal services being replaced by electronic services. The effect will be felt more intensely in the future, with increased penetration of the Internet through better technological support, better access quality, lower prices and generational replacement, as it will lead to a net decrease in the volume of mail items, which could be exacerbated by the overall economic situation.

We must also consider cost-saving initiatives for clients, caused by their processes becoming more sophisticated and the austerity plans implemented as a response to the economic recession. This increasing sophistication involves not only new communication technologies, but also better management of postal expenditure using a range of technological tools – better databases, messages bundled in fewer postal items, electronic invoicing, etc. All this makes for fewer postal items to meet customers' communication needs.

In the face of this, to become less dependent on its traditional postal business, Correos continues to intensify its diversification initiatives and improve operating efficiency. This is one of the most important aspects of the new business plan drawn up for 2011-2014.

Forecast effect on Correos' future volumes

Until the 1990s, the growth of mail volumes (Correos' traditional market) was closely tied to economic growth. This assertion is confirmed by a wide range of studies, including those conducted by the Universal Postal Union. In periods of stability with no emergence of new technologies, there was a strong correlation between economic growth and mail volume behaviour. However, over recent years, growth in mail volumes has been slowing continuously, becoming significantly negative since the 2009 financial year. This was accelerated by the

economic crisis and the effect of replacing physical communications with electronic formats. In the last two years we have therefore been facing a change in behaviour as regards mail volumes, the area from which Correos receives the most income, and we require new references to determine future mail volumes, especially as regards the traditional and extremely mature mail market.

This estimate mainly reflects the new behaviour brought about by technological substitution; we should also factor in the effects of liberalisation and the concomitant increase in competitors.

Operator responsible for the provision of the universal postal service

The universal postal service is the set of postal services of a specified quality provided permanently –regularity– at all points of national territory –universality– at affordable prices. The obligation to regularly reach all points within the national territory requires the existence of facilities, points of access and products that are often unprofitable in business terms, but necessary from a public-service perspective. The new Postal Act appointed Correos as the operator which will provide universal postal service for the next 15 years.

The feature which distinguishes Correos from its present and future competitors is precisely its duty as the operator providing universal postal service with increasing obligations, as opposed to its competitors' freedom of action. These obligations, in a situation of decline in the traditional market, as discussed above, represents a short-term threat as it requires Correos to maintain a fixed-cost structure, unlike other operators who can vary their structure, adapting to changes in the market. Furthermore, the greater flexibility enjoyed by other operators allows them to focus on advancing in profitable markets, leaving the least profitable areas to Correos and creating a situation that will be difficult to solve over the short-term.

The market therefore faces an evolving, changing form of provision of universal postal service which will crucially influence the public postal operator. Beginning in 2011, Correos will operate on terms of open competition with other operators in a transforming industry which must accommodate new technologies and bring in new processes to encourage accessibility, adapt to changes in service and market demand and tailor its offering to users' emerging needs and to new social habits and demographic environments. This will entail not only an intense innovation and diversification effort, but will also make it necessary to undertake an overall restructuring of costs in the search for greater operating efficiency.

2. Quality

According to internal monitoring of delivery times, as measured from postmarking to the first delivery round, quality parameters were as follows:

-
- 96.1% of letters are delivered within 3 days, the statutory obligation being 93%.
 - 91.7% of parcels are delivered within 3 days, the statutory obligation being 80%.
 - 99.2% of money orders are delivered within 3 days, the statutory obligation being 95%.

Other topics

The Company does not hold treasury shares, has had no R&D expenditure and has not concluded transactions with financial derivatives in 2010.

*grupo***Correos**



Declaration of the Governing Board

Consolidated annual accounts and Management report for the financial year ending 31 December 2010 of Sociedad Estatal Correos y Telégrafos, S.A.

The preceding consolidated annual accounts of Sociedad Estatal Correos y Telégrafos, S.A., which comprise the Consolidated balance sheet, the Consolidated profit and loss account, the Consolidated cash flow statement, the Statement of changes in the consolidated net assets and the Consolidated annual accounts report corresponding to the financial year ending 31 December 2010, together with the Management report corresponding to the same year, were submitted for approval by the Governing Board of Sociedad Estatal Correos y Telégrafos, S.A. on 31 March 2011. In accordance with current provisions, the Governing Board sign and give their conformity with all the abovementioned documents.

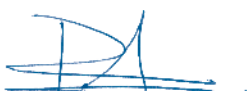
Madrid, 31 March 2011



Alberto Lafuente Félez



Marta Cobo Omella



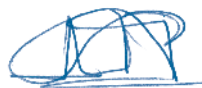
Raquel de Diego Ruiz



José Luis Díez García



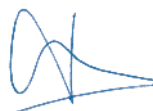
Mercedes Díez Sánchez



Antonio Fernández-Paniagua Díaz-Flores



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Cristina Latorre Sancho



Felipe Martínez Rico



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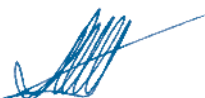
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Correos Group Annual Report 2010

The Annual Report is published each year in printed and electronic formats.

The printed version was produced using FSC paper.

The electronic version can be viewed at www.correos.es, where previous Annual Reports and other relevant information are also available.

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