

*grupo***Correos**



ANNUAL REPORT 2011

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Message from the Chairman

As explained in this report, 2011 was a very challenging year because of economic and postal environment. Having taken over as chairman of Correos in March 2012, I would like to take this opportunity to express my recognition and gratitude to my predecessors in this role, Alberto Lafuente Féliz and Ángel Agudo San Emeterio, who did their duty last year, for their dedication in driving the company forward in such a difficult time. I would also like to emphasise the important role played by our workers, who, through their work and commitment, have made a major contribution towards achieving the company's results.

The decrease in the postal activity, caused by the electronic substitution and the general economic situation, contributed to a drop of 1.3% in the revenues of the Correos Group. Despite this, we managed to end the year in profit, thanks to the considerable effort made in controlling costs.

The 2011 financial year was also the first in which the company operated in a fully liberalised market, although the development of competition in Spain that started decades ago had already been intensifying over recent years.

Faced with these challenges, the Correos Group adopted measures to increase operational efficiency, to develop new business areas and to maximise the profitability of its investments.

The automation of postal sorting, through which it is now possible to process 93% of mail mechanically, was extended to the sorting of parcel items through the introduction of two additional automated sorting machines.

These advances helped to increase resources allocated to delivery, which was also boosted by the use of new technologies such as mobile devices for the control of deliveries, geo-localization models to optimise transport and more sophisticated admission systems to improve information exchange and speed up processes.

The Group redoubled its efforts to adapt its product and service range and exploit existing synergies between its companies, in order to meet the varied demands of its customers by offering them the best options to manage their communications, commercial exchanges and document processes.

Although personal and professional relationships are becoming increasingly digitalised and less face-to-face, the delivery of goods continues to be a need, and one that is growing. The combination of the Correos *Paquetería 360º* range of services and of the urgent delivery solutions of Chronoexpres, which are now available at main post offices, allowed Correos to bring together the specialisation and complementary strengths of both networks in order to offer both the public and businesses the





most extensive delivery network, flexibility, quality and reliability.

The increase in online transactions, the expansion of e-commerce and unrelenting technological development are generating new needs regarding interoperability, security and the usability of services. The Group continued to expand its portfolio of electronic products by developing multi-channel platforms and designing tools for the integrated management of all the communications of its customers, such as the Electronic Post Box, the information exchange services provided by Nexea and the technological infrastructures provided by Correos Telecom.

The fall in mail volumes and its impact on revenues is a trend which, according to all forecasts, will continue over the coming years. Therefore, the company will focus its strategy on those market niches that will allow it to make the best use of the strengths provided by its network and workforce, to improve its positioning and guarantee greater competitiveness.

It will also work towards providing value to its customers by offering integrated, specialised solutions, to facilitate their foreign transactions through a comprehensive range of international services and to increase business opportunities for companies through direct marketing products

and versatile parcel services which are adapted to their supply chains and accompanied by the best possible advice.

In such a competitive market, the Correos Group wishes to stand out because of the quality and efficiency of its services, the convenience of its network, its innovative range of products and services and the customer service offered by its employees. It is the workers who are the visible face of the company and its link to customers, and year after year they demonstrate their professionalism and daily commitment. To them I would like to express my desire and my determination to ensure that each of our contributions will play a part in the success of our shared project.



Javier Cuesta Nuin



01

CORREOS GROUP

The Correos Group reached profit
before tax of 1.9 million euros.

*grupo***Correos**

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Milestones

Sociedad Estatal Correos y Telégrafos

Products and services

- ❑ Launch of the *Paquetería 360º* offer.
- ❑ The website www.correos.es received on average 3.7 million visits per month, 15.6% more than in 2010.

Operations

- ❑ Addition of two units of equipment for the automated sorting of parcels.
- ❑ Automated sorting of mail reached 93%.
- ❑ The deployment of 5,067 portable computer terminals (PDAs) in 592 distribution units, having introduced almost 20,000 devices in recent years.

Quality

- ❑ Reduction in complaints and claims by 8%.
- ❑ Increase in D+3 delivery quality to 96.7% according to the SPEX system.
- ❑ 45% of centres and offices have certificates in compliance with ISO 9001 and/or 14001 standards.

Employees

- ❑ Signing of the 3rd Collective Bargaining Agreement and the Correos Working and Employment Conditions Agreement.
- ❑ Introduction of the *Lidera* talent management programme.
- ❑ Revamp of the Virtual Campus for online training.
- ❑ Introduction of an intranet 2.0, which promotes participation and communication between employees.
- ❑ Reduction in sick leave by 20.5%.

Awards

- ❑ “Royal Order of Sporting Merit Gold Plaque” for the company’s contribution to sport and sponsorship of the ADO programme.
- ❑ “Top Company to Work For”, for the fifth consecutive year.
- ❑ The “Randstad 2011” award for labour relations.
- ❑ The “Dintel 2011” award for the “CLOUD Electronic Notification Implementation” Project, together with the State Tax Office and the Ministry of Territorial Policy and Public Administration.





Chronoexpres

- ❑ *Chrono 10* and *Chrono 14* services are offered in main Correos post offices.
- ❑ Launch of *ChronoPortugal* and *Chronológistic@* services.
- ❑ A new agency was opened in Alcalá de Guadaira (Seville).
- ❑ Addition of 2,200 portable computer terminals (PDAs) to operating centres and to the distribution network.

Nexea

- ❑ Correo Híbrido changed its brand name to Nexea.
- ❑ Launch of document management web platforms.
- ❑ Introduction of a new system for the automation of processes.
- ❑ A 6.4% increase in managed postal items.

Correos Telecom

- ❑ The formalisation of 16 contracts and the renewal of others for the sale of telecommunications infrastructures.
- ❑ 26 ITIL Fundamentals certificates and one ITIL Service Strategy certificate obtained in the management of information technology services.



Key data 2011



Correos Group	2010	2011
Net turnover (thousands of euros)	2,112,688	2,085,496
Result before tax (thousands of euros)	2,033	1,879
Investments (thousands of euros)	54,091	54,646
Employees (average staff)	63,363	60,770

Sociedad Estatal Correos y Telégrafos	2010	2011
Net turnover (thousands of euros)	1,969,743	1,946,100
Result before tax (thousands of euros)	-2,568	2,811
Real investments (thousands of euros)	48,390	44,500
Employees (average staff)	61,819	59,263
Postal items (millions)	4,414	4,065
Service points	9,762	9,617
Post offices	2,360	2,379
Rural services	7,402	7,238
Admission and processing centres	64	64
Vehicles	14,314	14,326

Chronoexpres	2010	2011
Net turnover (thousands of euros)	132,056	129,248
Result before tax (thousands of euros)	-7,847	-6,710
Investments (thousands of euros)	1,940	3,349
Employees (average staff)	1,309	1,269
Parcel items (millions)	23	23
Operating centres	54	53
Distribution and hauling routes	1,741	1,762

Nexea	2010	2011
Net turnover (thousands of euros)	13,547	13,916
Result before tax (thousands of euros)	8	-1,457
Investments (thousands of euros)	3,082	6,200
Employees (average staff)	186	180
Postal items (millions)	282	300
Printed items (millions)	419	401
Digitisation jobs (millions)	15	8
Operating centres	2	2

Correos Telecom	2010	2011
Net turnover (thousands of euros)	7,154	7,150
Result before tax (thousands of euros)	225	2,287
Investments (thousands of euros)	678	597
Employees (average staff)	49	58

Correos, a strong presence in Spain...

2,379 post offices: one of the most extensive networks in Spain

7,238 rural services and 38,268 ordinary and urgent delivery employees, who guarantee **100% coverage of the country**

59,263 employees, one of **Spain's largest employers**

798,000 kilometres covered every day, almost **20 times around the world**

...and worldwide

A member of **major global postal bodies and institutions**

Member of the **Kahala Post Group**, the **European Parcel Group** network and partner of international parcel operators

grupo**Correos**



Profile of the Correos Group

The Correos Group is a group of companies operating in the global communications sector. Sociedad Estatal Correos y Telégrafos, S.A. is the Parent Company of the Group and has a 100% holding in the subsidiaries Chronoexpres, S.A., Nexea Gestión Documental, S.A. and Correos Telecom, S.A.

Sociedad Estatal Correos y Telégrafos (hereinafter Correos) is a company that is entirely owned by the state. Correos is the main national postal operator and is responsible for the provision of the universal postal service in Spain, in accordance with the first additional provision of the *Ley 43/2010, de 30 de diciembre, del servicio postal universal, de los derechos de los usuarios y del mercado postal* (the Postal Act, of 30 December 2010). The agreements that it holds with various international networks

and organizations also ensure the company's global presence and coverage.

Chronoexpres was acquired in its entirety by Correos in 2003. Correos has had a holding of 50% in the parcel delivery company Chronopost since 1999, which in 2001 changed its name to Chronoexpres.

Correo Híbrido, a subsidiary created in 1999 for the global management of corporate communication flows, changed its name to Nexea Gestión Documental in 2011.

Correos Telecom has been the company responsible for the management of the Group's telecommunications network and other similar services since 1999.

grupoCorreos



Correos is the leading Spanish postal operator. Its range of services includes all manner of traditional and electronic postal solutions, as well as parcel, direct marketing and financial and telecommunications services aimed at meeting the diverse communication and business needs of its customers.

The company also attempts to successfully fulfil its public service mission as the operator in charge of providing a universal postal service, in accordance with quality, consistency, accessibility and affordability requirements.

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

The company has a comprehensive portfolio of services which adapts to meet the needs of the supply chain of its customers. Chronoexpres covers the whole of Spain through its own infrastructure network and offers access to global distribution networks through agreements with leading global companies.

Nexea is a subsidiary specialised in the global management and optimisation of corporate communication flows. It is also one of the leading companies in its sector.

Its range of services covers the entire production cycle of documents and also includes others such as digitisation, database maintenance, communications consulting and planning, consumables management, fulfilment options and the development of customised applications.

Correos Telecom is the company responsible for the management of the telecommunications network of the Correos Group, the marketing of telecommunications infrastructures and the provision of technological services.



Organisational chart

(As at 31 December 2011)

The Correos Group is made up of the Sociedad Estatal Correos y Telégrafos, and subsidiaries Chronoexpres, Nexea and Correos Telecom.

The Management Committee of the Correos Group has the overall responsibility for policymaking, development and coordination of all key issues between the various 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 each 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 department's action policies.

The administration and representation of Correos is the responsibility of its Governing Board. Likewise, the three subsidiaries have their own Governing Boards.



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Governing Boards

(As at 31 December 2011)

grupo **Correos**

Sociedad Estatal Correos y Telégrafos, S.A.

Chairman

Ángel Agudo San Emeterio

Board members

Marta Cobo Omella
Raquel de Diego Ruiz
José Luis Díez García
Mercedes Díez Sánchez
Antonio Fernández-Paniagua Díaz-Flores
Aquilino González Hernando
Fernando Irurzun Montoro
Cristina Latorre Sancho
Felipe Martínez Rico
Isabel Mena Marugán
Tomás Moreno Bueno
José Alberto Pérez Pérez
Eusebio Pérez Torres
Juan Miguel Sánchez García
Felipe Sivit Gañán
Tomás Suárez-Inclán González

Secretary

Jesús Moreno Vivas

Chronoexpres, S.A.

Chairman

Magín Blanco González

Board members

Benigna Cano Pinto
Marta Fernández Estellés
Luis Pérez Capitán
Manuel Rey González
Domingo Sebastián Bello

Secretary

Jesús Moreno Vivas

Vice-Secretary

José María Elías de Tejada Casanova



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Nexea Gestión Documental, S.A.

Chairwoman

Benigna Cano Pinto

Board members

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

Secretary

César Delgado López

Correos Telecom, S.A.

Chairman

Juan Jesús Torres Carbonell

Board members

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

Secretary

Juan Risquete Fernández



Economic context

In 2011 the growth in Gross Domestic Product in the Eurozone was 1.5%, while in Spain it was 0.7% (compared to -0.1% in 2010), thanks to the foreign sector, which partly offset the fall in domestic consumption and investment.

However, in the final quarter of the year there was a slowdown in growth due to the sovereign debt crisis in the majority of European countries and a greater reduction in domestic demand. This development has continued into the early months of 2012 with increased tension on the financial markets, which in Spain has added to the effects of a high unemployment rate, credit restrictions and cuts in order to reduce the public deficit.

Last year there was also a considerable increase in fuel prices and in general transport costs. The average oil price (Brent barrel) stood at 111 dollars, almost 40% higher than the average price in 2010. The rise was sharper in the first four months of 2011, at over 120 dollars per barrel in April.

Market trends

The four companies that make up the Correos Group conduct their business in very competitive and dynamic markets, constantly adapting to technological advances and changes in demand. There are various factors that to a greater or lesser degree are affecting the progress of these markets and that are therefore affecting the future business prospects of the Correos Group.

□ Regulation

The Spanish postal market has been liberalised since January 1 2011 with the entry into force of the Postal Act, of 30 December 2010.

The new legislation also appointed Correos as the operator responsible for the provision of the universal postal service for the next fifteen years, providing the same quality, regularity, affordability and accessibility requirements are met and keeping the same postal network access conditions.

□ Competition

Correos is now operating in full competition within the Spanish postal market, although there has been a broad positioning of domestic private companies and international public postal operators for decades, due to the

greater degree of historic liberalisation in the Spanish sector compared to other European countries.

These competitors, because they do not have universal service obligations, have mainly been active in the more profitable business segments which were already liberalised.

□ Universal postal service provision

The provision of the universal postal service requires maintenance of networks, infrastructures and resources to ensure regularity and coverage, regardless of economic profitability.

The gradual decrease of the population living in rural environments and greater geographical dispersion put greater pressure on providing an efficient service, as high distribution costs in these areas cannot be sufficiently offset by income from ever decreasing postal volumes.

According to data from the European Commission, Spain is also one of the countries with the lowest mail items per inhabitant ratio which contributes to high delivery costs.



❑ Economic development

The economic crisis has become a determining factor in recent years for business, causing a fall in demand, a trend towards lower cost products and a search for new ways to reduce costs. These factors have accentuated the decrease that has been taking place in recent years in the traditional postal business.

❑ Digital substitution

The expansion of electronic media is one of the main causes of the fall in postal volumes, generated both by individuals and by companies that increasingly opt to communicate with their customers digitally.

However, this technological development also offers growing business opportunities in the provision of electronic services and in the management of document processes.

❑ Cost cutting and outsourcing

In order to optimise their costs, companies are increasingly choosing to outsource their communication, document management, distribution and logistics processes, thereby increasing the potential for growth for companies specialising in these activities.

This also increases the need for comprehensive commercial solutions that

adapt to the production chains of customers in order to achieve greater efficiency in the use of their resources.

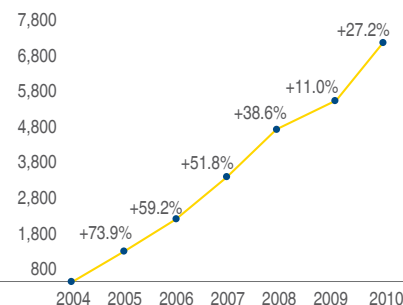
❑ The growth of e-commerce

E-commerce is one of the few activities that have continued to grow over recent years. Its expansion has led to an increase in B2C and, more and more, in C2C parcel volumes.

At the same time, it has generated new needs within the distribution field (extensive networks, new delivery and return options, flexible prices, end-to-end tracking, greater economic efficiency for sellers, etc.).

GROWTH IN THE E-COMMERCE SECTOR IN SPAIN

(millions of euros)



Compiled by Correos using data from the Telecommunications Market Commission



❑ The development of direct marketing

The economic situation has also influenced demand for direct marketing, especially in addressed items. However, these continue to be an important part of companies' advertising strategies due to their effectiveness and efficiency. As such, it is feasible that, as economic conditions improve, the investment in these types of products will increase in addition to digital advertising.

❑ Globalisation and international trade

The internationalisation of companies, the expansion of e-commerce and the growth in flows between Asia and Europa have caused an increase in international mail volumes. To meet this demand, postal operators and parcel delivery companies have entered into partnerships and have adapted their ranges of services in order to guarantee global coverage and satisfy the needs of their customers with lower prices.

❑ New consumer habits

Technological development, globalisation and the economic crisis have meant that society is changing its consumption patterns rapidly. Therefore, more than ever there is a demand for customer focus, operational flexibility, economic efficiency, greater innovation applied to services offered and multi-channel solutions that are customised and offer greater added value.



Results and investments

Correos Group

Correos Group ended the financial year with a net turnover of 2,085,496 thousand euros, 1.3% less than in 2010.

Profit before tax stood at 1,879 thousand euros, a drop of 7.6%. The consolidated result was 401 thousand euros, compared to 6,275 thousand euros recorded in the previous financial year.

The companies that make up the Correos Group allocated a total of 54,646 thousand euros for investment, 1.2% more than in 2010.

NET TURNOVER OF THE CORREOS GROUP

(thousands of euros)

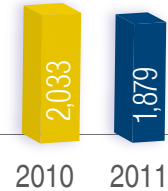
-1.3%



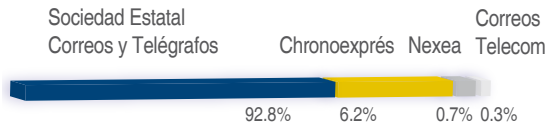
RESULT BEFORE TAX OF THE CORREOS GROUP

(thousands of euros)

-7.6%



PERCENTAGE OF CONTRIBUTION TO AGGREGATE TURNOVER OF THE CORREOS GROUP



Sociedad Estatal Correos y Telégrafos

Correos saw a net turnover of 1,946,100 thousand euros, a fall of 1.2%.

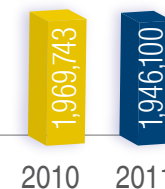
Result before tax stood at 2,811 thousand euros, offsetting the figure of -2,568 thousand euros from the previous financial year. Profit for the financial year was 1,057 thousand euros, a fall of 39.3%.

The company allocated 44,500 thousand euros to real investments (excluding financial investments), following criteria of strict need or profitability. In 2011, the entries allocated to new technology rose to 13,757 thousand euros, and those to automation rose to 4,794 thousand euros. Furthermore, 19,501 thousand euros were allocated to infrastructures and 2,575 thousand euros to transport.

NET TURNOVER OF SOCIEDAD ESTATAL CORREOS Y TELÉGRAFOS

(thousands of euros)

-1.2%



RESULT BEFORE TAX OF SOCIEDAD ESTATAL CORREOS Y TELÉGRAFOS

(thousands of euros)

+209.5%



Chronoexpres

Net turnover of Chronoexpres stood at 129,248 thousand euros, representing a 2.1% decrease compared to 2010.

Losses before tax were 6,710 thousand euros compared to losses of 7,847 thousand euros recorded the previous year.

During the financial year, the company invested 3,349 thousand euros in projects such as the acquisition of portable digital assistants (PDAs), the addition of a new agency in Alcalá de Guadaira (Seville) and the refurbishment of the logistics centres in Madrid and Barcelona.

NET TURNOVER OF CHRONOEXPRES

(thousands of euros)

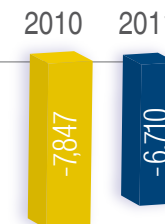
-2.1%



RESULT BEFORE TAX OF CHRONOEXPRES

(thousands of euros)

+14.5%



Nexea

In 2011, the net turnover of Nexea was 13,916 thousand euros, up by 2.7%.

Result before tax was -1,457 thousand euros, compared to 8 thousand euros recorded the previous year.

The company allocated 6,200 thousand euros to the building where Nexea has its headquarters and the acquisition of software.

NET TURNOVER OF NEXEA

(thousands of euros)

+2.7%



RESULT BEFORE TAX OF NEXEA

(thousands of euros)



Correos Telecom

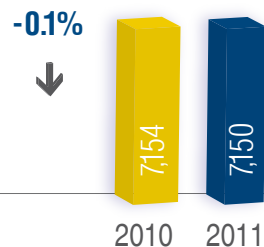
Correos Telecom saw a net turnover of 7,150 thousand euros, 0.1% less than the previous year.

Profit before tax stood at 2,287 thousand euros, an increase of 916.8%.

The company invested 597 thousand euros, the majority of which was allocated to improving the telecommunications network of the Correos Group, with the rest being used for the acquisition and renewal of computer applications.

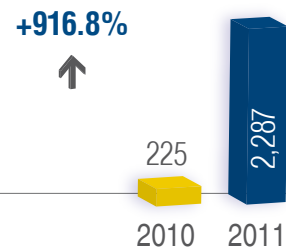
NET TURNOVER OF CORREOS TELECOM

(thousands of euros)



RESULT BEFORE TAX OF CORREOS TELECOM

(thousands of euros)



02

SOCIEDAD ESTATAL CORREOS Y TELÉGRAFOS

Correos is one of the leading Spanish companies in terms of size, coverage and human resources.

grupo **Correos**

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Sociedad Estatal Correos y Telégrafos

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Sociedad Estatal Correos y Telégrafos

2010

2011

Net turnover (thousands of euros)	1,969,743	1,946,100
Result before tax (thousands of euros)	-2,568	2,811
Real investments (thousands of euros)	48,390	44,500
Employees (average staff)	61,819	59,263
Postal items (millions)	4,414	4,065
Service points	9,762	9,617
Post offices	2,360	2,379
Rural services	7,402	7,238
Admission and processing centres	64	64
Vehicles	14,314	14,326

Correos is the market leader in the Spanish postal sector due to the excellence and reliability of its services and its broad range of products and services. With 59,263 employees, 9,617 service points, 64 operating centres and 14,326 vehicles, it is also one of the leading Spanish companies in terms of size, coverage and human resources.

The corporate purpose of the company is:

- ❑ The management of postal services.
- ❑ The provision of money orders and money transfer services.
- ❑ Receipt of applications, written submissions and notices which the public send to government bodies.
- ❑ The delivery of governmental and legal notifications.
- ❑ The provision of telegraph, telex and bureauxfax services and other activities related to telecommunications.
- ❑ The proposed issuing and sale of stamps, as well as the issuing of other payment systems for postal services.

- ❑ The provision of any other activity related to its corporate purpose that government bodies may order.
- ❑ The development of other complementary services for the execution of its corporate purpose.



Product and service range



Correos has a specialised portfolio of services to meet the specific communication and business needs of each customer segment. The company supplies, through one of the most extensive networks in the country, flexible and efficient postal solutions that can be added to the value chains of companies and can adapt to meet all needs.

As well as a comprehensive range of postal services, Correos also offers direct marketing products aimed at optimising companies' results in their advertising, recruitment and customer loyalty campaigns.

The parcel range of services is aimed at facilitating all types of personal and commercial exchanges by providing guaranteed quality and reliability at competitive prices.

The financial services of BanCorreos are characterised by a customised relationship that is adapted to match the profiles of Correos customers. These advantages are enhanced by the closeness and convenient opening hours of the network of offices that offer them.

The virtual post office offers a wide range of products for the digital environment, such as the Online bureaufax, Online telegram, Your stamp and the Electronic Post Box services.

The domestic range is complemented by international services, offering a wide range of delivery times and prices in order to meet the varying requirements of customers in their foreign transactions.

Correos product and service range

PRODUCTS AND SERVICES

- Postal communication solutions
- Parcel
- Electronic communication solutions
- Direct marketing
- Other postal products
- Financial services
- Convenience products

NETWORKS

- Post office network
- Sales network
- Correos online
- Admission and delivery network





New products and services

In order to meet the demand for integrated solutions, the Correos Group designed a new range of parcel services in 2011 called *Paquetería 360º*, which brings together the specialisation of Group companies and provides an extensive network, urgent delivery, flexibility and a wide range of delivery and return options.

Paquetería 360º is specially designed to meet the parcel delivery needs of each customer, through 6 options:

- ❑ *Paquetería e-commerce* (for e-commerce needs)
- ❑ *Paquetería pymes* (for SMEs)
- ❑ *Paquetería urgente* (urgent parcel delivery)
- ❑ *Paquetería Erasmus* (for university students abroad)
- ❑ *Paquetería Mi tierra* (for immigrant community)
- ❑ *Paquetería Exportación* (international parcel delivery)

➕ <http://paqueteria.correos.es>

This global portfolio brings together the advantages provided by the parcel products of Correos and its subsidiary Chronoexpres and the complementary nature of the logistics and sales networks of both companies. In order to do this, the company adds the advantages of *Postal Exprés* products (with new added values), *Postal 48/72* product (especially aimed at the growing e-commerce sector) and the urgent solutions offered by Chronoexpres.

Moreover, since 2011 the *Chrono 10* and *Chrono 14* services, which are distributed by Chronoexpres with urgent delivery, are offered in 625 post offices in the Correos network.

The Group thereby improves the existing synergies between its companies and offers an integrated delivery service, along with the related values of reliability, affordability and quality.

Correos also contributed to the development of e-commerce through the publication of the *1st National Social e-Commerce Study*, of which nearly 9,000 digital copies have been downloaded. The publication of this first study on the use of social networks by Spanish online shops was accompanied by the launch of a blog on e-commerce.

➕ <http://elblogdeecommerce.com>

Commercial measures

The new parcel services were advertised through campaigns in the traditional media and digital marketing activities, such as emails to customers and the creation of a dedicated space at www.correos.es.

Its promotion also included a street marketing campaign (which consisted of the placement of large-scale parcels in various Spanish locations), the organisation of a competition for the design of packaging options, various contests and discounts, as well as prize draws in different customer segments, such as university students, the immigrant community, SMEs and e-commerce companies.

The company also attended various national and international commercial events, where it presented its postal, parcel and direct marketing services to companies, SMEs and professionals and sponsored numerous sector-based meetings.

Sponsorships

- ❑ The “*Hoy es Marketing*” event, in several Spanish cities.
- ❑ The “*XIII Salón Internacional de la Logística y de la Manutención*” (13th International Logistics and Material Handling Exhibition) in Barcelona.
- ❑ The European Ecommerce Conference (EEC11) in Madrid.
- ❑ The “*Congreso Nacional de Pymes*” (SMEs National Congress) in Barcelona, Bilbao, Valencia, Madrid and Seville.
- ❑ The Expo E-commerce *España* 2011 and Club E-commerce fairs in Madrid.
- ❑ The Expomanagement 2011 fair in Madrid.

Online services

The virtual post office is the online commercial channel for accessing Correos products, covering the company’s full product range, including both traditional and electronic services.

The website www.correos.es allows customers to access a varied range of services such as mail, telegraph and bureaufax products, notifications and parcel solutions, along with services specifically created for digital communications.

These latter products include Your Stamp service, which allows customers to personalise their stamps by including images or logos to make their postal items stand out, and the Electronic Post Box, which provides companies and individuals with secure e-mail addresses that are unique and untransferable and include two platforms: Secure Electronic Mail and Electronic Notification Services.

+ <https://online.correos.es>

Features were added to the Electronic Notification Services last year, in accordance with the needs of new member customers and the requirements of the Spanish Tax Authority in its certified digital communications with companies.

In 2011 the virtual post office received an average of 3.7 million visits a month, 15.6% more than in 2010. The number of registered users reached 644,500, with 92,500 new customers subscribing.



Postal processes



Postal chain



Collection and admission

The postal process begins with the collection and admission of mail items. In order to do so, the company has 2,379 post offices, 6 mass admission centres and 57 mass admission units, 7,238 rural services (which include 726 auxiliary offices and 6,512 rural linkages) and over 33,000 post boxes which, all in all, allow access to services through an extensive network and during the longest opening hours.

Processing and sorting

The processing and sorting of mail takes place in various types of infrastructures located throughout the country, and is done both manually and through automated systems.

The introduction of automation technology for postal processing has allowed the company to increase the efficiency of processes, improve quality standards and improve the profitability of the provision of postal services.

In 2011, 93% of mail was processed automatically through the use of 43 sorting lines for standard mail, 14 for non-standard mail (flat) and 17 for mail from post boxes.

These sorting machines are located in 17 different automated processing centres and allow the company to achieve a similar level of automation than other leading European postal operators.

Therefore, delivery staff receive mail items already classified by delivery sections (in 73.1% of existing sections), thereby increasing their effective availability for delivery duties.

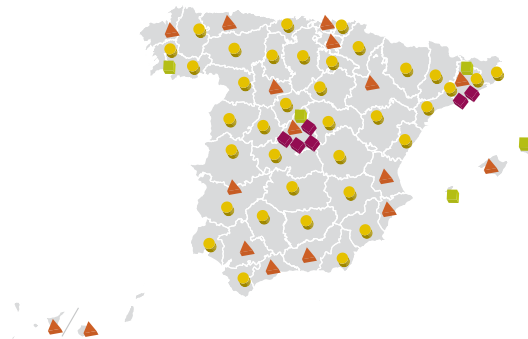




Automated processing lines	2010	2011
Standard mail	43	43
Non-standard mail (flat)	14	14
Post box mail	17	17
Parcel	-	3
Total	74	77

DISTRIBUTION OF THE 64 ADMISSION AND PROCESSING CENTRES

- ▲ 17 automated processing centres
- 36 postal processing centres
- 5 local processing centres
- ◆ 6 mass admission centres



Last year two new sorting machines were also added for the automated sorting of medium-sized parcels, which were installed in the mass admission centre in Barcelona and the automated processing centre in Seville. These lines were added to the existing one at the postal centre in Barajas, where improvements were also made.

Correos also acquired 18,261 pieces of logistics equipment for the containerization and movement of loads in the various centres.

Transport

In 2011, the transport network of the company was composed of 13,277 company vehicles (200 of them electric) and 1,049 managed by third parties. During the year, 1,185 cars, motorbikes and vans were added, which represented a renewal of 9.0% of the fleet.

14,326 VEHICLES



The company transported almost 8,000 tonnes of letters and parcels and covered 798,000 kilometres every day, which is almost 20 times around the world.

Punctuality on transport routes, which contributes to meeting final delivery targets, was 97.1% for incoming schedules at the centres and 99.1% for outgoing schedules.

Punctuality on transport routes	2010	2011
Arrivals	96.9%	97.1%
Departures	99.1%	99.1%

Distribution and delivery

Distribution and delivery was carried out through 1,804 delivery units, 100 special services units (for urgent deliveries) and 7,238 rural services, which were provided with 19,320 new pieces of delivery equipment last year.

The suitability of these human resources and materials for distribution needs was also verified by dimensioning studies conducted in 2,302 urban delivery sections and 1,022 rural services.

Distribution services	2010	2011
Delivery units	1,837	1,804
Special services units	100	100
Rural services	7,402	7,238

The company has a geographic information system (GIS) that contains all of the digital cartography used in daily transport and delivery activities.

Last year a new module was added to this application for the management of rural services, which enabled the evaluation of routes based on the workload per population centre, the linking routes and incidents on routes. This

information enabled the company to optimise the organisation of deliveries and customer service opening times, to reduce transport costs and polluting emissions and in general to improve the rural services.

Information about the traceability of deliveries that the mobile devices (PDAs) provide automatically when used by distribution staff was also added to the GIS. This enabled the analysis of the delivery routes for urgent products, thereby improving the fulfilment of delivery commitments.

Correos, as part of its cooperation with the CartoCiudad project, supplied the post codes in digital format for 50 cities on a quarterly basis for their use by the other partners in the programme. Also, as a founding partner of the Spanish Address Forum, the company contributed to its objective of setting up a standard address system within the scope of the European Commission INSPIRE initiative.



Multi-service post office

grupo **Correos**

Income from financial services at post offices grew by 26.1%

A

Post offices sell a wide range of postal, postal-related, philatelic, financial and telecommunications products, which make them multi-service distribution points.

This network is also one of the main channels for access to the universal postal service, both in terms of admission and delivery and therefore this extensive network is essential to ensure the accessibility standards.

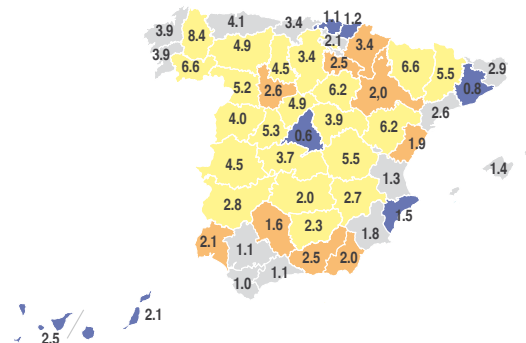
In 2011, the number of post offices grew to 2,379, maintaining its position as one of the networks with the largest nationwide coverage in Spain. Of this figure, one in four, 616 in total, had uninterrupted all-day opening hours, thereby providing the public and companies with more convenient access to the commercial range of Correos.

B

CORREOS SERVICE POINTS PER 10,000 INHABITANTS

DEMOGRAPHIC DENSITY

- Equal to or fewer than 50 inhabitants/km²
- Between 50 and 100 inhabitants/km²
- Between 100 and 250 inhabitants/km²
- Over 250 inhabitants/km²





Post office network business

The turnover generated through the post office channel showed a similar trend to the company's other income, being greatly affected by the general economic situation. In addition to the fall in postal business, there was a reduction in sales of postal-related and philatelic products of 2.6% and 19.3% respectively.

In contrast, income from banking services saw growth of 26.1%, while non-postal services rose by 4.1%.

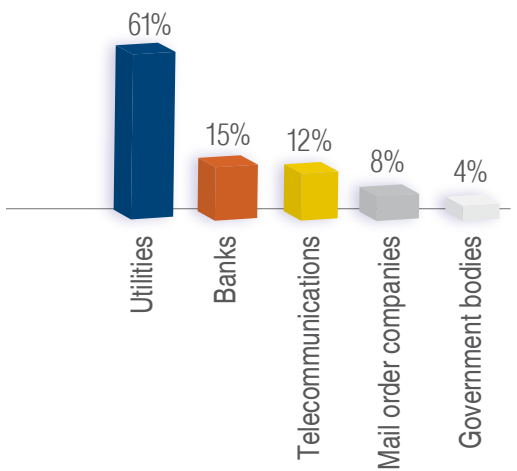
Income from the post office channel 2010/2011 (variation percentage)	
Postal-related products	-2.6%
Non-postal services	+4.1%
Financial services	+26.1%
Philatelic products	-19.3%
Other products	-4.4%

Non-postal and telecommunications services

Among the services offered by the post office network, one of the most popular is the payment of bills from utility providers, telecommunications companies and others.

Last year 14.8 million bills were processed, 2.7% more than in the previous year, which generated total income of 11.4 million euros, a rise of 6.6%. Continuous growth has been maintained in recent years in terms of registered companies and billing. Two new companies were added to this service in 2011.

COMPANIES ACCEPTING BILL PAYMENTS AT POST OFFICES, BY BUSINESS SECTOR



Correos also provides telecommunications solutions through agreements with other companies like El Corte Inglés. The network that they share, Correos Telecor, has 63 shops located in post offices that provide telephone products and services, Internet access and television and home security services.

Other available services in post offices include the sale of electronic Identity Card readers and TDT decoders and pre-paid telephone and Internet card top-ups.

BanCorreos

BanCorreos is the brand through which the financial services available at Correos post offices associated with Deutsche Bank are offered. This range is also accessible on the website www.bancorreos.es and via the customer service telephone number 902 337 338.

BanCorreos is committed to quality and has a service-centred approach, complementing the closeness and convenience of the post offices. Its commercial portfolio includes numerous saving and investment products, loans and insurance coverage that are adapted to meet the varied financial needs of the different customer segments of Correos.

Despite the economic situation and the performance of the financial markets, in 2011 there was growth of 10% in net production as a result of a competitive range of both credit and investment products and services. The income generated by this business at post offices grew by 26.1%.

+ www.bancorreos.es

Other financial services

As well as the different types of money orders, the company facilitates the electronic transfer of money, mainly between Latin America and Spain, through the International Financial System (IFS) network of the Universal Postal Union. This service guarantees delivery within 15 minutes at post offices from participating countries and offers one of the most competitive rates on the market.

This service is offered through agreements with postal operators in Chile, Uruguay, Morocco, Ecuador, the Dominican Republic, Portugal, Peru, Colombia and Cuba. In 2011, the addition of new participating countries contributed to an increase of 22.6% in the number of transactions and of 22.9% in amounts sent.

Correos also has an agreement with Western Union through which it offers the service Money in Minutes, which allows customers to send remittances to 200 countries and regions.

+ www.correos.es/contenido/03P-EnviarDinero/01-Giro/03P01-Giro.asp



Correos held the rotating presidency of the Kahala Post Group, international alliance for the promotion of urgent parcel services

A

National postal activity

In 2011, the variation in postal volumes, both nationally and internationally, was influenced by economic trends and the effect of competition, which worsened the reduction of postal business caused by electronic substitution.

Last year 4,064.9 million mail items were admitted (excluding inbound mail and postal volumes generated by electoral processes), 7.9% less than in 2010.

Postal volumes (millions)	2010	2011	Variation percentage
Ordinary mail	3,383.9	3,165.4	-6.5%
Notifications and registered products	198.7	181.8	-8.5%
Direct marketing	578.4	519.6	-10.2%
Parcel	15.5	14.6	-5.9%
Other postal products	237.1	183.4	-22.6%
Total	4,413.6	4,064.9	-7.9%

B

In the general, regional and local elections held last year, Correos cooperated by distributing census cards and campaign fliers, enabling postal voting and delivering postal ballots to polling stations, and by collecting copies of the results of each count to deliver them to the election committees.

In total, 70.5 million ordinary mail items were delivered (census cards), 284.1 million campaign flier items and 4.2 million urgent registered items (electoral documentation and postal voting).

The company also processed 7.3 million money orders, 8.5% less than in 2010, with a total sent amount of 763.7 million euros, as well as 6.1 million telegraph products, a fall of 10.0%.

International postal activity

In 2011, 222.9 million international mail items were admitted, 6.4% less than the previous year, both through the postal channel and direct injection (the channel through which international customers can access national products and rates).

Inbound mail fell by 8.6% and outbound mail by 3.8%. Over half of volumes came from or was sent to Europe, although the relative size of flows sent to Eastern Europe and sent from South-East Asia increased.





International products evolution 2010/2011 (variation percentage)	Inbound volumes	Outbound volumes
Mail	-8.6%	-3.8%
Parcel	+7.9%	-2.0%
Urgent products	+0.1%	-8.7%

Inbound parcel items grew by 7.9%, boosted in particular by higher volumes introduced through the direct injection channel, which grew by 22.1% due to an expansion in the customer portfolio. In contrast, outbound parcel volumes fell by 2.0%.

Urgent products (mainly *Postal Exprés Internacional*) remained stable (+0.1%) for inbound volumes and fell by 8.7% for outbound volumes.

International networks

Correos participates in several international networks that complement and expand its global coverage, such as the Kahala Post Group (KPG), an alliance of 10 postal operators from Asia, America and Europe for the promotion of urgent parcel services.

Last year the company held the rotating presidency of the group and hosted the annual meeting of its Executive Committee held in Barcelona. The market situation and future market trends were analysed in this meeting, with special emphasis on the development of solutions for international e-commerce.

The company is also a member of the European Parcel Group (EPG), an organisation that brings together operators from Europe and the United States for the development of urgent parcel services.

International relations

Correos is a member of leading multilateral postal organisations and institutions like the Universal Postal Union (UPU), the Postal Union of the Americas, Spain and Portugal (UPAEP), PostEurop (an association of European public postal operators) and the International Post Corporation (IPC) (an association of postal operators from Europe, North America and Asia-Pacific).

The company is part of the Management Board of PostEurop and will chair its International Affairs Committee until 2013, as well as actively participating in the European Affairs Committee.

As chairman of the Strategy Implementation Project Group of the Universal Postal Union, Correos organised the meeting of the Strategy Committee and of the Reform of the Union Project Group within the Governance Issues Committee in 2011 in Madrid to devise the organisation's future strategy.

Also, in its role as deputy chairman of the Development and Cooperation Committee of this same organisation, Correos led the work of the Ad hoc IPDP Support Group, which aim to help countries to devise a strategy for the reform of the postal sector, and of the Ad hoc Group on Evaluation, which analyses the impact of cooperation activities on global postal development.

Philatelic business

The philatelic business of the company includes the proposal for the issuing, distribution and marketing of stamps, along with the promotion of stamp collecting.

In 2011, 100 stamps, 4 pre-franked cards and 3 pre-stamped envelopes were put into circulation, 202 postmarks were authorised and 58 commemorative first day envelopes were created.

The publications *2011 Spanish and Andorran Stamps Book* and *The Spanish Football Team Annual* were also published and stamps and coins were put on sale to commemorate the Alhambra in Granada, in cooperation with the Spanish National Mint.

Some of the main issues of the year were those related to the *Civic Values* series or the issue to commemorate the World Youth Days held in Madrid.

Philatelic exhibitions and forums

As in previous years, the company organised the 2011 National Stamp Fair and the Philatelic Fair (Madrid) and took part in the leading events, like the “*Exfilna 2011*” National Philatelic Exhibition (Valladolid), “*Juvenia 2011*” (Santa Fe, Granada) and the thematic and regional philatelic exhibitions in Palencia, Torroella de Montgrí (Gerona) and Monzón (Huesca).

Correos continued to collaborate with the Spanish Federation of Philatelic Societies (FESOFI) in the organisation of educational exhibitions in schools (a total of 25 in 2011), and with the Royal Hispanic Academy of Philately in its educational work regarding postal history.

The Correos Postal and Telegraph Museum received 5,400 visitors during the year, including school groups, associations, professional groups and researchers. Exhibits from the postal, philatelic and telecommunications spheres from the 19th Century to the present day are preserved and displayed in its rooms. Its library and documentation centre house a collection of over 23,700 bibliographic items and documents.

➕ www.correos.es/museo/0500-default.asp



Innovation

**Correos added
5,067 portable
computer
terminals (PDAs)
to the distribution
network**



The intensive application of technology to operations has enabled greater control of postal processes, an increase in service quality standards and greater management efficiency. The information systems also provide crucial support in the development of new services in line with market needs.

Admission improvement

New features were introduced to the main technological platforms in 2011 to support the activities of the company.

One of these is the IRIS admission and sales system, which was adapted to match the new parcel sorting model and was integrated with the applications of the subsidiary Chronoexpres, for sale in post offices of its *Chrono 10* and *Chrono 14* services.

The introduction of the new version (OCA3) of the international mail management system was also completed.

Centres and post offices carrying out admission work were provided with over 2,300 thermal printers and 11 million labels in order to improve the identification of parcel items throughout the logistics chain and to improve the management of returns and redirections.

Digital machines were also installed for high-production franking in 19 mass admission units.

Last year, following a pilot study carried out with Nexea, a system was introduced for admission management, which facilitates the exchange of information and integration with the technological systems of intermediaries.

MAIN INFORMATION AND MANAGEMENT SYSTEMS

ADMISSION			TRANSPORT AND DISTRIBUTION			
IRIS	OCA	VIRTUAL POST OFFICE	SGIE	MARABU	GISC	PDA
Admission and sales system	International mail management system	Channel for online access to Correos services	Integrated registered mail management system	Post box collection control system	Correos geographic information system	Mobile devices for the management and tracking of registered items



Optimisation of processing and transport

The company has a quality control model via radio frequency identification technology (RFID), based on the use of tags, which are attached to mail items and identified at the time of their arrival and exit by the antennas and scanners located in postal installations.

This system, which in 2011 was applied to over 185,000 test letters, is used in 56 logistics centres throughout Spain and enables complete control of intermediate delivery times, allowing the company to improve overall delivery quality standards.

Control of deliveries

Around 21,300 employees of the ordinary and urgent delivery network use portable digital assistants (PDAs) every day for the tracking and control of registered items.

The third phase of this project began in 2011 with the addition of 5,067 additional terminals to 592 delivery units. In total, over 9,000 devices were acquired, of which 3,950 will be provided to distribution units and rural services in 2012.

This mobility plan, through which 20,000 mobile devices have been introduced since 2006, is one of the most extensive plans taken on by the company due both to the number of terminals and due to the number of employees equipped and the size of the investment.

The number of text messages to mobiles, sent to customers to inform them of delivery details, also rose from 844,000 in 2010 to 3.6 million in 2011.

Postal security

In 2011 Correos began its participation in the SAFEPOST project (an R&D&I initiative included in the European Union 7th Framework Programme for Research and Development), which aims to increase security standards in postal networks. Through this project, Correos will collaborate in the configuration of a shared information exchange structure between European postal operators and customs authorities.



Quality and customer service

grupo **Correos**

The number of complaints and claims decreased by 8%



The company aspires to excellence in all its services, which means that quality management is a global, multi-dimensional task that extends to customer service, operating processes and corporate management in general.

Delivery quality

The commitment to quality is also connected to the public service that Correos carries out. The company, as the operator responsible for providing the universal postal service, must comply with delivery times for the products that make up said service.

Postal regulations establish the obligation to deliver 93% of letters, 95% of money orders and 80% of postal parcels within 3 days (D+3). The regulating body carries out regular inspections to check that these quality targets are met.

SPEX system for the tracking of delivery quality

Correos carries out its own assessments of quality through the SPEX system, which monitors the entire postal process, from the admission of mail items to their final delivery through the cooperation of independent panellists.

The results obtained from this system in 2011 showed an improvement in the quality of ordinary letter delivery both in D+1 and in D+3, in the latter case exceeding the delivery objective of 93%.

D+3 DELIVERY QUALITY OF ORDINARY LETTERS

+0.6 p.p.



D+1 DELIVERY QUALITY OF ORDINARY LETTERS

+0.9 p.p.



Quality management system

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

Through process management, the post offices, centres and units of the company can identify their strong points and areas for improvement in order to design action plans.

At the close of the financial year, 2,316 post offices and centres, 45.7% of the total, had introduced corporate quality and/or environmental management systems in their daily operations.

	2010	2011
Post offices and centres with quality and/or environmental management systems	2,336	2,316
Percentage of total	45.3%	45.7%
Certified post offices and centres	2,292	2,274
Percentage of total	44.5%	44.8%

The improvements made to operating centres through the application of quality and environmental management systems have enabled Correos to renew the following certificates over the past year:

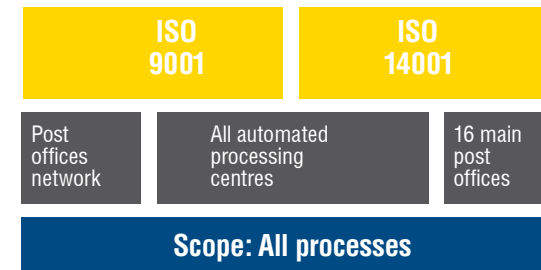
- ISO 9001, for all post office network processes and the 17 automated processing centres.
- ISO 14001, for all processes in the 17 automated processing centres and 16 main post offices.

In total, 2,274 postal facilities had certificates in compliance with the ISO 9001 and ISO 14001 standards. Also, after integrating the scopes of the ISO 9001 certificates of Correos and Chronoexpres, the first certification of the Correos Group was achieved in 2011.

Employees can access various tools for quality control and assessment through the company intranet system.

- The Process Website enables employees to access, manage and standardise process and procedures maps for the entire company.
- The Excellence League enables centres, post offices and units to consult the indicators that are used to evaluate their activity and know their degree of compliance with objectives. In 2011, the post office network achieved the highest score with a mark of 9.1 out of 10.

CERTIFIED FACILITIES



- The Quality Observatory offers information about the performance of the company in the operational, service and delivery times field.

Correos also promotes a culture of continuous improvement through various models that recognise the contribution of employees, such as awards for excellence, for best practices and for commitment to the environment, which are aimed at recognising and sharing the best initiatives within the organisation and promoting a culture of excellence, teamwork and operational efficiency and sustainability.

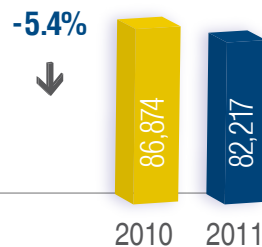


Customer service

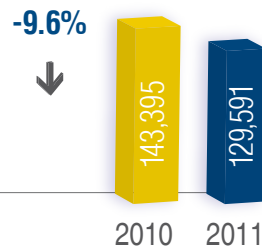
The company offers its customers several communication channels in order to be aware of their needs, respond to their requests and receive their suggestions.

- The complaints and claims system processed a total of 211,808 incidents, 8.0% less than in 2010. Claims fell by 9.6% and complaints by 5.4%. The number of complaints and claims per million mail items distributed also decreased to 52.1, 0.1% less than the previous year.
- The customer service helpline (902 197 197) received 1.5 million calls, which is an increase of 7.9%, with a noticeable rise in enquiries about the Electronic Notification Services.
- Through the website (www.correos.es) over 124,264 queries were dealt with, 106.2% more than during the previous year.
- The company profiles on Facebook and Twitter (@Correos) were the channels chosen by many clients to answer queries and report incidents. In the first year since its introduction, Correos has reached 5,552 friends on its Facebook page and 3,864 followers on Twitter.

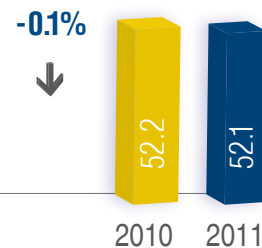
COMPLAINTS



CLAIMS



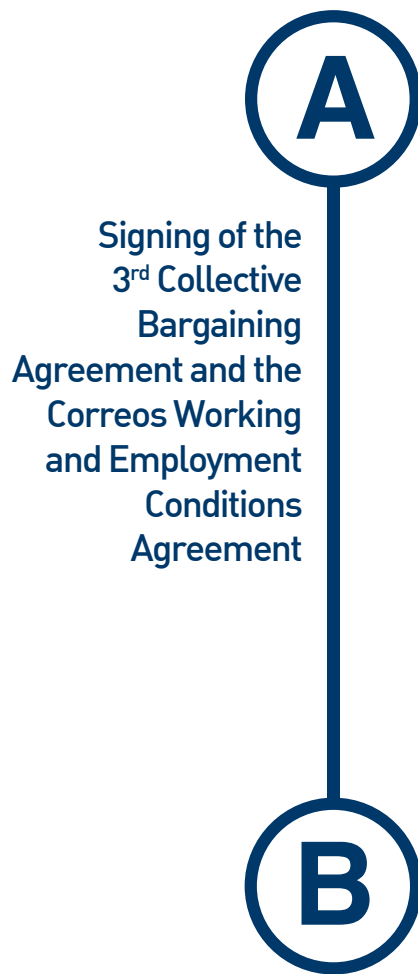
COMPLAINTS AND CLAIMS PER MILLION MAIL ITEMS



+ www.facebook.com/correos.es

+ <http://twitter.com/correos>

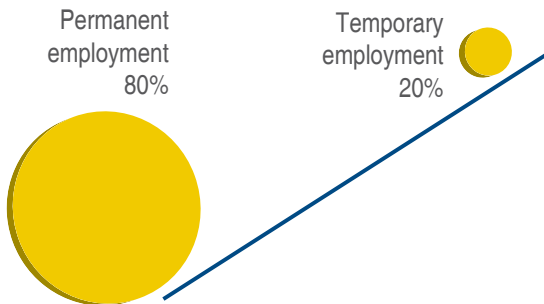




Correos is one of the largest companies in Spain by number of employees. The professionalism and customer-centred approach of its workers have also positioned the company as one of the most respected public services in recent years.

The employment policy of Correos promotes stable employment, professional development, integrated promotion of talent, health and safety at work, a good work-life balance, equality, along with a commitment to job satisfaction for its workers.

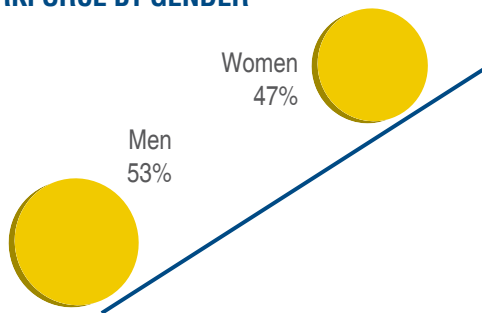
DISTRIBUTION OF THE WORKFORCE BY JOB TYPE



Distribution of the workforce

In 2011 the average staff of Correos comprised 59,263 employees. Permanent employment represented 80% of the total, compared to 79% reached in 2010. The proportion of men and women remained unchanged at 53% and 47% respectively. 62% of workers had an ordinary contract, while 38% were civil servants.

DISTRIBUTION OF THE WORKFORCE BY GENDER



3rd Collective Bargaining Agreement and Employment Agreement

The company signed the 3rd Collective Bargaining Agreement and the Correos Working and Employment Conditions Agreement in April, with the support of over 80% of trade union representation and valid until 2013. Both agreements include the commitment of the company to achieving an acceptable work-life balance, equality, prevention of harassment in the workplace and job security.

These instruments foster promotion and professional development, training that is better suited to each worker, improved

work organisation, a reduction in temporary contracts and an improvement in social action programmes.

Promotion and mobility

Last year most general recruitment needs were covered by internal promotion, through the execution of 835 processes in which 1,226 workers were selected.

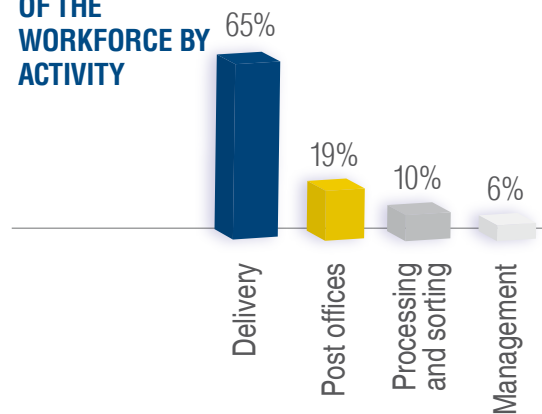
1,500 places were also offered for office managers and another 410 for the promotion of civil servants, a process that will be completed in 2012.

Over 400,000 people also participated in the setting up of job banks to meet employment cover estimates.

The online evaluation system enabled a more comprehensive evaluation of candidates by using scenarios that were closer to their employment context and thereby speeding up the selection processes.

In order to guarantee the right to professional mobility, for both civil servants and permanent staff, the permanent transfer system enabled the horizontal promotion of 1,127 employees. Of this number, 525 were permanent seasonal workers who became full-time permanent employees.

**DISTRIBUTION
OF THE
WORKFORCE BY
ACTIVITY**





Management of talent

The objective of the *Lidera* programme is to identify and encourage talent in the organisation in order to satisfy the needs of staff qualified to fill management positions and to improve promotion mechanisms.

Last year over 800 workers participated in the skills evaluation and professional career process, which was followed by specific training programmes. Employees selected will gradually take up these positions.

The introduction of a new performance assessment system also began in 2011 in order to foster the management of talented staff, improve training and achieve greater orientation of workers towards the achievement of company objectives. This will be progressively applied to various professional groups within the company.

Training

The annual training plan included the provision of 304 courses, with an increase of 41.6% in the number of participants, which amounted to 122,498 people. In total, 1.6 million training hours were given, that is, 27 hours per worker.

The majority of these training actions dealt with questions relating to operations, products,

business processes, banking activity and occupational risk prevention. Those attending rated their quality at a score of over 8 out of 10.

Nearly 15,000 employees also participated in the “*Juntos, Todos Vendemos*” (Together, We Can All Sell) programme, in order to improve sales training and orientation, for the accreditation of customer service positions in post offices.

Training	Online	Other methods*	Total
Courses	71	233	304
Attendees	51,331	71,167	122,498
Training hours	1,025,929	577,183	1,603,112

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

The recruitment programme for new employees, which has been operated very successfully for many years in Madrid, was also extended to the other postal areas of the company structure.

New Virtual Campus and company intranet

The e-learning platform Correos Virtual Campus was used by 41.9% of the workers that took part in the training actions last year, representing 64.0% of the total hours given.

The new version, which was introduced in 2011, included additional training contents and a design which simplifies browsing.

A new intranet version 2.0 was also introduced, including a platform that is more accessible, versatile and customisable, which promotes participation and communication by employees.

Equality Plan

Correos continued to make progress in terms of equality with the preparation of an Equality Plan. This instrument contains a set of measures designed to achieve a working organisation that promotes equality, extending the minimum requirements established by legislation in some cases, especially regarding sick leave, maternity leave, lactation breaks and family care.

Anti-harassment protocol

In 2011, the company designed a specific protocol for the detection and correction of harassment situations in any of its manifestations: sexual, psychological or workplace harassment. This includes a legal definition of prohibited behaviour, resolution procedures and the corrective disciplinary resources.

Health and safety in the workplace

Throughout the year the company held over 18,000 preventive medical examinations for employees who requested them and for groups of employees with a higher risk, and carried out over 4,000 vaccinations during the campaign against seasonal flu.

609 risk assessments were also carried out at centres and over 370 emergency plans were introduced and another 700 were reviewed.

This, together with over 200,000 hours of training given in the prevention of risks in the workplace contributed to reducing accident levels by 22.1%. During this period, there were no fatal or very serious accidents, thus the number of serious accidents fell by 35.7% and minor accidents by 22.0%. Sick leave also fell by 20.5%.

Pension plan and social action

Correos supplements its employees' pension provision with a pension plan which, in 2011, included 40,740 registered members and received funds of 12.9 million euros. At the end of the financial year, the fund's total assets stood at 175.4 million euros, of which 125.6 million were paid in by the company.

Pension plan	2010	2011
Participants	40,649	40,740
Correos' contribution (millions of euros)	13.2	12.9
Fund assets (millions of euros)	165.2	175.4



03

Chronoexpres launched the products *ChronoPortugal* and *Chronolístico*.

CHRONOEXPRES

grupo **Correos**

Chronoexpres

grupo **Correos**

Chronoexpres	2010	2011
Net turnover (thousands of euros)	132,056	129,248
Result before tax (thousands of euros)	-7,847	-6,710
Investments (thousands of euros)	1,940	3,349
Employees (average staff)	1,309	1,269
Parcel items (millions)	23	23
Operating centres	54	53
Distribution and hauling routes	1,741	1,762

Chronoexpres is the Correos Group's subsidiary specialising in the urgent national and international transportation of documents and parcels. The company has a services portfolio aimed at providing an integrated solution to customers throughout the supply chain.

Chronoexpres provides door to door services with a network made up of 53 centres, over 108,000 square metres of warehouses, 1,762 distribution and hauling routes and 1,269 employees.

Product and service range

The range of Chronoexpres includes parcel services with guaranteed next-day delivery, such as *Chrono 10* (before 10 am), *Chrono 14* (before 2 pm) and *Chrono 24* (within 24 hours).

The company also offers personalised solutions such as *Multichrono* (which includes handling or installation), bank mailbag services and other services adapted to meet the needs of various corporate sectors, such as the optical sector in which Chronoexpres is the main transport operator.



Last year, Chronoexpres signed commercial agreements with several organisations in the optical and audiological sectors, such as the Spanish Federation of Optical Associations, the General Council of the College of Opticians and Optometrists and the Optician and Optometrist Association.

International alliances

The company provides international services through alliances with the largest European and worldwide operators, such as FedEx, GLS and Transporta-Go Express.



Chronoexpres reached an agreement with Transporta-Go Express in 2011 to establish a joint distribution range for urgent deliveries to any destination on the Iberian Peninsula. In this way, the company extended its B2B and B2C range of parcel products, particularly in terms of the e-commerce sector, offering competitive prices and a presence throughout the Peninsula.

Chronoexpres product and service range

Services with guaranteed delivery time

Chrono 10
Chrono 14
Chrono 24

Personalised solutions

Multichrono
Chronologística
Chronovalija

International services

ChronoPortugal
Estándar
Exprés

Pre-paid services

Chronoprepago 3 kg.
Chronoprepago 5 kg.

+ www.chronoexpres.com/web/chronoexpres/chronoportugal

+ www.chronoexpres.com/web/chronoexpres/chronologistica

New products and services

In 2011, Chronoexpres began offering its *Chrono 10* and *Chrono 14* services in the main Correos post offices, complementing the global range of the Correos Group for individuals and SMEs.

The company also added two new services:

- *ChronoPortugal*, for sending documentation and parcels to Portugal, with next working day delivery and collection from all main cities. This option, the result of an alliance with Transporta-Go Express, includes Saturday deliveries and the management of payment on delivery.
- *Chronologística*, an integrated solution for the supply chain of customers, which includes everything from the storage, handling and preparation of mail items to the management of returns, including specialised customer service, online tracking, a comprehensive logistics infrastructure and extensive technological support. The company thereby provides its customers with personalised services to enable the outsourcing of processes and cost savings.

Business processes

The operational model of Chronoexpres is based on a network of its own agencies, which offers maximum availability and speed in order to meet the business needs of its customers.

Last year the company opened a new agency in Alcalá de Guadaira (Seville), with an area of 3,494 square metres, which provides services along 63 distribution routes and has 52 employees. The logistics centres in Coslada (Madrid) and Sant Boi de Llobregat (Barcelona) were also adapted so that they can offer integrated logistics solutions.

In order to improve its operational synergies with the Correos Group, Chronoexpres took over the management of customs postal procedures at the Correos centre at Barajas airport (Madrid).

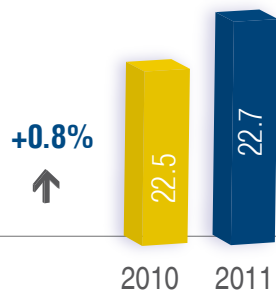
Other actions to improve integration were the addition of the new image of the Group to the vehicles of the subsidiary, the movement of its technological infrastructures to Correos' main data processing centre and the transfer of its management to Correos Telecom, which allowed it to reduce costs and increase security.

Activity

The volumes managed by Chronoexpres in 2011 rose by 0.8%, reaching 22.7 million parcel items, figures which were influenced by the negative state of the Spanish parcel market.

CHRONOEXPRES PARCEL VOLUMES

(millions)



Innovation

The main technological projects unrolled by the company last year included:

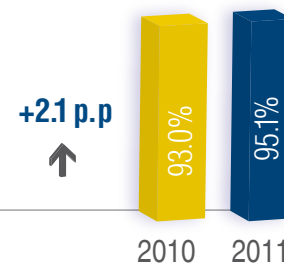
- The introduction of the "SISLOG" Warehouse Management System in the new logistics facilities, in order to develop the integrated processes required to offer the new *Chronológica@* service.
- The adoption of the data warehouse "MicroStrategy" tool in order to improve management.

- The integration of its main computer systems with those of Transporta-Go Express and with the Correos applications for customs management at its Barajas airport centre (Madrid).
- The collaboration with the Institute for Packaging, Transport and Logistics Technology (ITENE) on the "City Model" project, aimed at promoting environmental sustainability.
- The design of a new company website in order to add new commercial features.
- The acquisition of 2,200 portable computer terminals (PDAs), which were provided to the delivery fleet and to operating centres. The addition of new options for the management of parcels in real time, online notification of incidents and the geo-positioning of vehicles.

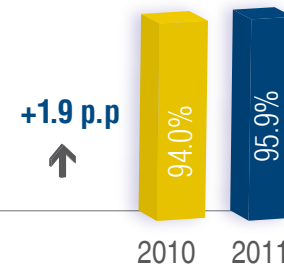
Delivery quality

In 2011, Chronoexpres improved the quality delivery indices of its main services *Chrono 10*, *Chrono 14* and *Chrono 24*. The results achieved were over 95% in all cases.

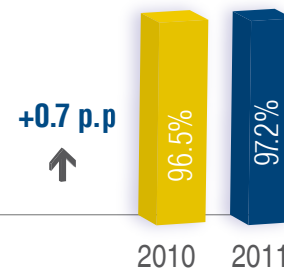
DELIVERY QUALITY OF CHRONO 10



DELIVERY QUALITY OF CHRONO 14



DELIVERY QUALITY OF CHRONO 24



Certifications

The subsidiary renewed the ISO 9001 certificate awarded to its quality management system. Last year, Group Correos also obtained its first certification, after integrating the scopes of the ISO 9001 certificates of Correos and Chronoexpres.

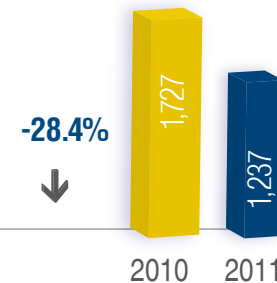
Customer service

The company has various procedures to assess the degree to which its services meet customer requirements.

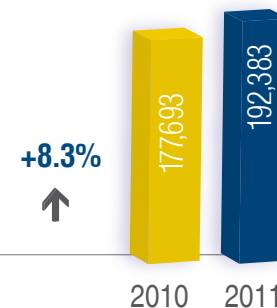
- ❑ The customer service helpline (902 111 021) received 1.9 million calls, 0.6% more than in 2010.
- ❑ The website (www.chronoexpres.com).
- ❑ The claims and complaints system, which dealt with 193,620 incidents. The number of complaints fell by 28.4% and the number of claims rose by 8.3%.
- ❑ The customer satisfaction survey in which customers gave Chronoexpres a score of 7 out of 10. The most valued aspects were the customer service provided by delivery staff and the collection service.

grupo **Correos**

COMPLAINTS



CLAIMS





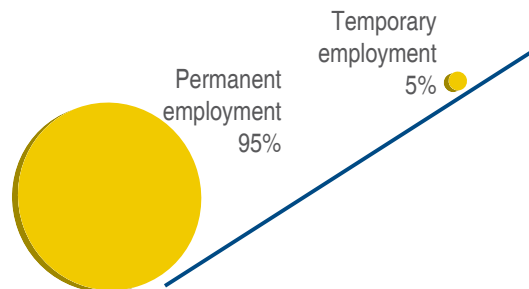
Employees

The average workforce of Chronoexpres in 2011 was composed of 1,269 workers. Permanent employment represented 95% of the total. The proportion of men and women was 72% and 28% respectively.

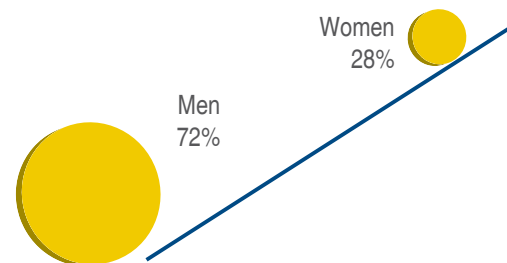
Last year the company gave 5,090 hours of training. Integration into the Correos e-learning platform also allowed 150 employees in various locations to participate in training actions regarding the prevention of risks in the workplace.

Access was also granted to the Chronoexpres workforce to the Correos intranet and to the internal magazine *Abrecartas*, thereby helping to improve internal communications mechanisms.

DISTRIBUTION OF THE WORKFORCE BY JOB TYPE



DISTRIBUTION OF THE WORKFORCE BY GENDER



04

NEXEA

Nexea handled 300.2 million postal items, 6.4% more than in 2010.

grupo**Correos**

Nexea



grupo **Correos**

At the beginning of 2011, Correo Híbrido, the Correos Group subsidiary specialising in global management and the optimisation of mass corporate communication flows, changed its brand to Nexea.

Nexea is one of the three leading companies in the market, with over 140 customers from all business sectors. Its two production and warehouse centres, located in Madrid and Barcelona, have a combined surface area of 7,000 square metres. Both facilities are equipped with the latest technology in printing equipment and management software, as well as the most advanced physical and logistical security systems.

Product and service range

Nexea offers the integrated management of mass communications for its customers, including all the production phases of their documents: processing information, consultancy and design, printing, sorting and delivery to Correos facilities for their distribution.

The company also offers other services such as database management, digitisation and recording, automation and management of returns, storage and digital preservation, fulfilment options, management of consumables

Nexea	2010	2011
Net turnover (thousands of euros)	13,547	13,916
Result before tax (thousands of euros)	8	-1,457
Investments (thousands of euros)	3,082	6,200
Employees (average staff)	186	180
Postal items (millions)	282	300
Printed items (millions)	419	401
Digitisation jobs (millions)	15	8
Operating centres	2	2



and stock, operational back-up service, development of customised applications, preparation of electronic documents in various formats and integration into web environments.

New products and services

Since last year, Nexea has offered creation of online platforms for document management, which are totally personalised according to the needs of each customer, for the realisation of mass communication campaigns.

This service is provided via a multi-channel, multi-directional application for information exchange and document publication, which guarantees maximum availability, traceability and secure remote access for various users. This is a user-friendly tool that is scalable and easy to install through a SaaS (software as a service) schema.

The office network of a large bank was one of the first to introduce this platform for its marketing actions. New commercial contracts were also signed in 2011 for the integrated management of communications with other companies in the financial sector.

 www.nexea.es

Nexea product and service range

Integrated mass communication solutions



- ☐ Document consultancy and design
- ☐ Document management
- ☐ Printing and placing into envelopes
- ☐ Sorting and delivery
- ☐ Processing of returns
- ☐ Electronic services
- ☐ Management of consumables

Business processes

In 2011, the company introduced a new automated process management system, based on the Business Process Management (BPM) application, in order to obtain greater control, optimise management, improve feedback and increase efficiency.

Activity

In 2011 Nexea handled 300.2 million postal items, an increase of 6.4%. Printed items and digitisation jobs fell by 4.5% and 47.8% respectively.

Activity (millions)	2010	2011
Postal items	282.3	300.2
Printed items	419.4	400.6
Digitisation jobs	14.6	7.6



Quality control

Nexea has a quality management system based on the European EFQM model, which allows the company to apply the continuous improvement cycle to all of its activities.

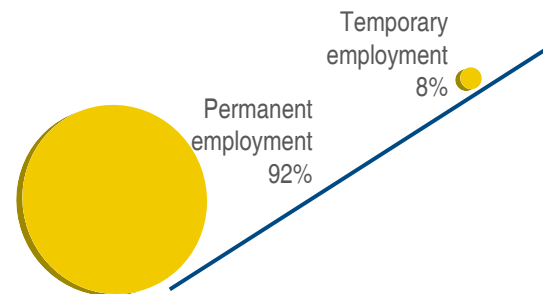
In order to obtain the certification of its processes through the ISO 9001 and ISO 14001 standards in 2012, the company introduced new improvements to its corporate management systems.

Employees

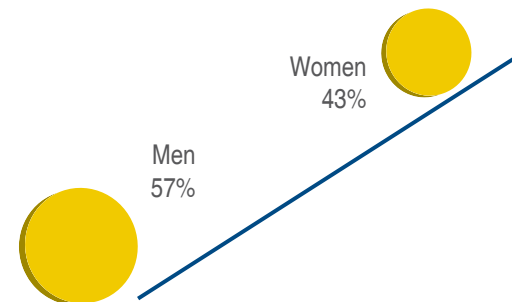
In 2011 Nexea had an average workforce of 180 employees. Permanent employment represented 92% of the total. The distribution between men and women remained at 57% and 43% respectively.

Last year the subsidiary carried out training actions, mainly regarding computer applications and languages, offering a total of 1,263 training hours.

DISTRIBUTION OF THE WORKFORCE BY JOB TYPE



DISTRIBUTION OF THE WORKFORCE BY GENDER



05

CORREOS TELECOM

Correos Telecom signed 16 new contracts for the sale of telecommunications infrastructures.

*grupo***Correos**

Correos Telecom



Correos Telecom	2010	2011
Net turnover (thousands of euros)	7,154	7,150
Result before tax (thousands of euros)	225	2,287
Investments (thousands of euros)	678	597
Employees (average staff)	49	58

Correos Telecom is the Correos Group company specialising in the management of its telecommunications network, the provision of technological services and the sale of the excess capacity of its telecommunications infrastructures.

Product and service range

The subsidiary offers technological solutions that adapt to meet the specific needs of the customer, with an approach based on technological, operational and service excellence.

The product and service range of the company includes two types of services: information technology (IT) activities for the Correos Group and provisions within the field of telecommunications infrastructures.

IT Services for the Correos Group

- ❑ The operation of IT infrastructures in order to guarantee the service quality of the communications spectrum within the fields of telephony, data, computer and storage security, both in operating and in data processes centres.
- ❑ The architecture of IT infrastructures, through technical consultations about the design, suitability and development of IT services.

Correos Telecom product and service range

Management of the Correos Group telecommunications network

- ❑ Operation of IT infrastructures
- ❑ Architecture of IT infrastructures
- ❑ IT project leadership
- ❑ Telecommunications cost management

Marketing of telecommunications infrastructures

- ❑ Line infrastructures
- ❑ Dark optical fibre
- ❑ Sites
- ❑ Data circuit





- ❑ IT project leadership, giving assistance in their management, planning and execution.
- ❑ Management and support for the Correos telex service (since its migration to IP technology in 2009).
- ❑ Telecommunications cost management service through the analysis of contracts, inventory and the consumption of telecommunication services for more efficient control over expenditure.

Activities within the field of telecommunications infrastructures

- ❑ Integrated management of the network, including the maintenance, operation and marketing of the network within the fields of telephony, data, security and storage.
- ❑ Marketing of the surplus capacity of the network via the leasing of:
 - Line infrastructures (ducts and posting).
 - Dark optical fibre.
 - Sites for the installation of radio links, antennas and communications equipment.
 - WDM data circuit.

The company signed 16 new contracts to supply these types of services, both with government bodies and with leading companies in their respective sectors. It also renewed contracts with two of its main clients in the public sector.

Marketed infrastructures	2010	2011
Conduits (kilometres)	1,520	1,516
Gallery lines and others (kilometres)	183	183
Overhead lines (kilometres)	1,457	1,400
Optical fibre (kilometres)	1,386	1,392
Other cables (kilometres)	874	846
Circuits	105	97
Urban sites	133	132
Rural sites	92	92

+ www.correostelem.com.es/soluciones/infraestructuras/default.aspx

Business processes

With regard to the management of the Correos Group network, the subsidiary collaborated on some of its technological projects, such as:

- ❑ The extension and migration of the Electronic Post Box service.
- ❑ The transfer of technological infrastructures from Chronoexpres to the main Correos data processing centre and the integration of the technical assistance service.
- ❑ The design of the connectivity in Correos centres in order to add the new parcel sorting and security scan systems.
- ❑ The definition of the global segmentation plan for data communication networks in Correos centres.
- ❑ The introduction of 900 access points for the PDAs project for the delivery staff of Correos.
- ❑ The provision of mobile devices (PDAs) to Chronoexpres drivers and the standardisation of support procedures within the Group.
- ❑ The development of applications for the main mobile telephone platforms.

In terms of infrastructure management, the company participated in programmes such as the energy efficiency plan for Correos Group buildings, whose objective is to reduce electricity consumption by 20% by 2016.

The company also ensured the maintenance of the Correos telecommunications network through the compliance with quality indicators (96.4%). It also achieved optimum standards of proactivity in the management of incidents, which was above 95%, both in operating centres and data processing centres.

Management of the Correos network	2010	2011
Centres	2,861	2,862
Data circuits	3,592	3,592
Voice circuits	4,934	4,889
Telephone lines	8,571	8,215
Data hardware	7,080	8,083
Switchboards	127	121

Management of the Chronoexpres network*

	2011
Centres	55
Data circuits	157
Voice circuits	354
Mobile telephony	2,357
Computer servers	430
Switchboards	6

* Correos Telecom has been in charge of the management since 2011

Activity

The turnover for the sale of telecommunications assets stood at 4,122 thousand euros, a reduction of 7.3%.

Certifications

Last year the employees of Correos Telecom obtained 26 ITIL Fundamentals certifications and one ITIL Service Strategy certificate under this scheme for the standardisation of IT management services.



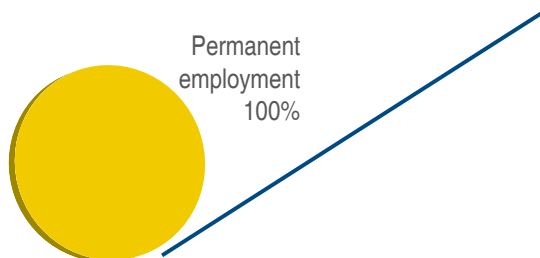


Customer service

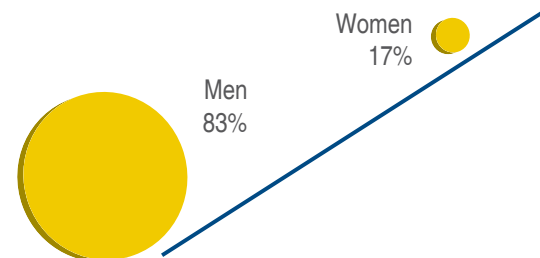
The company has various procedures to assess the suitability of services and customer service and to detect incidents and identify areas for improvement.

- ❑ Telephone and Internet channels.
- ❑ Regular sales visits.
- ❑ Annual customer satisfaction surveys. In 2011, the overall result of these surveys was 8.3 out of 10, with flexibility and fulfilment of delivery times and commitments being the aspects that achieved the highest scores.
- ❑ The technical measurements of the degree of availability and proactivity, in accordance with the service standards agreements signed with each customer within the infrastructure marketing area. The company also has a specific monitoring system for the circuit leasing system that allows it to manage incidents in a proactive manner.

DISTRIBUTION OF THE WORKFORCE BY JOB TYPE



DISTRIBUTION OF THE WORKFORCE BY GENDER



Employees

Last year the average workforce of Correos Telecom was composed of 58 workers, of which 100% had a permanent contract. The proportion of men and women was 83% and 17% respectively.

The company gave 5,167 hours of training, with its main focus being technical and management skills. The quality and suitability of these courses was rated 8.5 out of 10 by the people who attended.

Correos Telecom began a training plan for project management based on acquisition of customer and results-oriented skills and negotiation and communication techniques. The leadership programme for executive positions and middle managers was mainly focused on the development of people management skills.

The subsidiary also has a recruitment programme for new workers, who are assigned a mentor to facilitate their integration and knowledge about the company. The development of the company intranet also helped to improve internal information flows.

06

CONSOLIDATED ANNUAL ACCOUNTS

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. (single shareholder company)

We have audited the annual accounts of Sociedad Estatal Correos y Telégrafos, S.A. (single shareholder company) (the Parent Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2011, 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 2011 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. (single shareholder company) and its subsidiaries as at 31 December 2011, 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 2011 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 2011 consolidated annual accounts. We have verified that the accounting information contained in the management report corresponds to that given in the 2011 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. (single shareholder company) and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Rafael García Anguita
Board Member – Accounts Auditor

29 March 2012



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R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número 50242 - CIF: B-79 051290



Consolidated balance sheet at 31 December 2011 and 2010

(Expressed in thousands of euros)

grupo **Correos**



ASSETS	Notes	Balance at 31/12/2011	Balance at 31/12/2010
NON-CURRENT ASSETS		1,850,486	1,887,618
Intangible fixed assets	6	13,453	16,487
Patents, licences, trademarks and similar		40	74
IT applications		13,137	16,124
Other intangible fixed assets		276	289
Tangible fixed assets	7	1,605,632	1,671,866
Land and built assets		1,322,500	1,309,228
Plants and other tangible fixed assets		211,533	248,122
Fixed assets in progress and advance payments		71,599	114,516
Property investments	8	5,568	6,533
Long-term financial investments		190,892	155,911
Deferred tax assets	18	34,941	36,821
CURRENT ASSETS		619,033	677,317
Non-current assets held for sale	9	841	538
Stock	10	1,782	1,993
Trade debtors and other accounts receivable	11	459,803	422,181
Clients for sales and provision of services		418,181	388,324
Other debtors		18,530	15,937
Staff		15,176	13,984
Current tax assets		7,781	3,757
Other credits with government bodies		135	179
Short-term financial investments	11	9,242	8,180
Short-term accruals		399	299
Cash and other equivalent liquid resources	11, 12	146,967	244,126
TOTAL ASSETS		2,469,520	2,564,935



[CONTINUES]

Consolidated balance sheet at 31 December 2011 and 2010

(Expressed in thousands of euros)

grupo **Correos**



	Notes	Balance at 31/12/2011	Balance at 31/12/2010
NET ASSETS AND LIABILITIES			
NET ASSETS		1,800,223	1,825,126
Equity	13	1,470,420	1,470,023
Capital		611,521	611,521
Share premium account		250,938	250,938
Reserves		598,252	598,530
Reserves in consolidated companies		9,308	4,779
Losses from previous years		-	(2,020)
Profit for the year attributable to Parent Company		401	6,275
Government contributions, donations and legacies received	14	329,803	355,103
NON-CURRENT LIABILITIES		222,511	283,379
Long-term provisions	15	80,844	128,349
Long-term debts		1,044	2,160
Creditors for financial leasing		880	2,059
Other financial liabilities		164	101
Deferred tax liabilities	18	140,230	152,363
Long-term accruals		393	507
CURRENT LIABILITIES		446,786	456,430
Short-term provisions	15	1,135	2,708
Short-term debts	16	33,471	36,366
Trade creditors and other accounts payable	16	407,229	417,067
Suppliers		4,106	3,327
Other creditors		272,534	270,024
Staff		34,511	59,539
Other debts with government bodies		68,132	56,447
Customer advances		27,946	27,730
Short-term accruals		4,951	289
TOTAL NET ASSETS AND LIABILITIES		2,469,520	2,564,935

Consolidated profit and loss account for the financial years ending 31 December 2011 and 2010

(Expressed in thousands of euros)

grupo **Correos**



CONTINUED OPERATIONS	Notes	Financial year 2011	Financial year 2010
Net turnover	17-a)	2,085,496	2,112,688
Activities carried out by the company		136	-
Procurement		(15,495)	(19,683)
Consumption of merchandise	17-b)	(14,285)	(15,518)
Depreciation of merchandise, raw materials and other provisions	10	(1,210)	(4,165)
Other operating revenue		51,241	73,447
Income from accessory and ordinary activities		8,664	4,651
Operating contributions included in result of financial year	17-c)	42,577	68,796
Staff costs		(1,562,153)	(1,592,912)
Wages, salaries and similar remuneration		(1,302,859)	(1,342,146)
Social security contributions	17-d)	(249,772)	(241,941)
Other expenses		(9,522)	(8,825)
Other operating expenses		(489,930)	(523,271)
External services	17-e)	(463,622)	(478,908)
Taxes	17-f)	(24,409)	(4,986)
Losses, depreciation and variation of provisions for commercial operations		5,415	(19,795)
Other expenses from ordinary activities		(7,314)	(19,582)
Amortisation of fixed assets	6,7,8	(105,940)	(114,329)
Allocation of government contributions in the form of non-financial and other fixed assets	14	36,270	52,457
Excess provisions	15	626	159
Depreciation of and result for disposal of fixed assets	17-g)	(10,052)	7,012
Depreciation and losses		(9,903)	(13,931)
Results for disposals and others		(149)	20,943
Other results		(14)	(130)



	Notes	Financial year 2011	Financial year 2010
OPERATING RESULT		(9,815)	(4,562)
Financial income	17-h)	7,501	2,425
From negotiable securities and other financial instruments:			
From third parties		7,501	2,425
Financial expenses	17-h)	(542)	(694)
For debts with third parties		(216)	(311)
For updating provisions		(326)	(383)
Exchange differences		4,735	4,864
FINANCIAL RESULT		11,694	6,595
RESULT BEFORE TAXES		1,879	2,033
Income tax	18	(1,478)	4,242
CONSOLIDATED RESULT FOR THE FINANCIAL YEAR		401	6,275

Consolidated cash flow statement for the financial years ending 31 December 2011 and 2010

(Expressed in thousands of euros)

grupo **Correos**



	Notes	Financial year 2011	Financial year 2010
OPERATING ACTIVITIES			
Result for the financial year before taxes		1,879	2,033
Adjustments to the result			
Amortisation of fixed assets	6,7,8	105,940	114,329
Valuation adjustments for depreciation	7,10,11	5,782	37,825
Provisions variation		9,113	34,172
Allocation of capital contributions	14	(36,270)	(52,457)
Recognition of operating contributions	17-c)	(42,077)	(68,201)
Results for removals and disposals of fixed assets		149	(21,161)
Financial income	17-h)	(7,501)	(2,425)
Financial expenses	17-h)	542	694
Exchange differences		(816)	(1,219)
Other income and expenses		157	585
Changes in the current capital			
Decrease/(increase) in stock		(999)	753
Increase in trade debtors and other accounts receivable		(30,300)	(16,553)
Decrease in other current assets		(19,053)	38,250
Decrease/(increase) in creditors and other accounts payable		-	116
Increase/(decrease) in other current liabilities		(2,890)	(12,473)
Other non-current assets and liabilities (+/-)		(42,568)	(7,440)
Other cash flow from the operating activities			
Interest payments		(189)	(282)
Interest charges		7,240	1,606
Payments for income tax		4,306	(8,548)
Other collections		-	442
TOTAL CASH FLOWS FROM THE OPERATING ACTIVITIES		(47,555)	40,046

INVESTMENT ACTIVITIES

Payments for investments			
Intangible fixed assets		(7,077)	(13,640)
Tangible fixed assets		(42,681)	(68,483)
Other financial assets		(40)	(8)
Charges for withdrawal of investment			
Tangible fixed assets		194	885
Other financial assets	11	-	4
TOTAL CASH FLOWS FROM INVESTMENT ACTIVITIES		(49,604)	(81,242)
TOTAL CASH FLOW FROM FINANCE ACTIVITIES		-	-
NET DECREASE IN CASH OR EQUIVALENTS		(97,159)	(41,196)

Cash and other equivalent liquid resources at the start of the financial year	244,126	285,322
Cash and other equivalent liquid resources at the end of the financial year	146,967	244,126



Statement of changes in the consolidated net assets for the financial years ending 31 December 2011 and 2010

(Expressed in thousands of euros)

grupoCorreos



A) Statement of recognised income and expenses:

	Notes	Financial year 2011	Financial year 2010
Consolidated result for the financial year		401	6,275
Income and expenses directly attributed to consolidated net assets:	14		
Government contributions, donations and legacies received		57	7,094
Tax effect		-	(2,100)
		57	4,994
Transfers to consolidated profit and loss account:	14		
Government contributions, donations and legacies received:			
- due to amortisation		(32,100)	(36,909)
- due to adjustments for depreciation		(2,903)	(13,045)
- due to disposals		(1,962)	(2,388)
Tax effect		11,608	15,702
		(25,357)	(36,640)
TOTAL RECOGNISED CONSOLIDATED INCOME AND EXPENSES		(24,899)	(25,371)



[CONTINUES]

Statement of changes in the consolidated net assets for the financial years ending 31 December 2011 and 2010

(Expressed in thousands of euros)

grupo **Correos**



B) Total statement of changes to consolidated net assets:

	Capital	Share premium account	Reserves held by the Parent Company		Other reserves	Reserves in consolidated companies	Results at previous financial years	Consolidated result for the financial year	Government, contributions donations and legacies received	TOTAL
			Legal reserve	Voluntary, Articles of Association reserves						
BALANCE START OF 2010 FINANCIAL YEAR	611,521	281,003	74,825	523,705	160,341	(160,394)	-	2,962	386,749	1,880,712
Total recognized consolidated income and expenses	-	-	-	-	-	-	-	6,275	(31,646)	(25,371)
Operations with the sole shareholder:										
- Decrease in share premium account	-	(30,065)	-	-	-	-	-	-	-	(30,065)
Other variations in the consolidated net assets:	-	-	-	-	9,940	(5,108)	(2,020)	(2,962)	-	(150)
Final balance 2010 financial year/										
BALANCE START OF 2011 FINANCIAL YEAR	611,521	250,938	74,825	523,705	170,281	(165,502)	(2,020)	6,275	355,103	1,825,126
Total recognized consolidated income and expenses	-	-	-	-	-	-	-	401	(25,300)	(24,899)
Operations with the sole shareholder:										
- Capital increase costs	-	-	-	-	-	(4)	-	-	-	(4)
Other variations in the consolidated net assets:	-	-	174	(452)	12,216	(7,683)	2,020	(6,275)	-	-
BALANCE END OF 2011 FINANCIAL YEAR	611,521	250,938	74,999	523,253	182,497	(173,189)	-	401	329,803	1,800,223

Consolidated annual accounts report for the financial year ending 31 December 2011



(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, de 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). The Company is governed by the *Ley de Sociedades de Capital* (the Capital 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 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 29 June 2001, the

day of registration with the *Registro Mercantil* (the Spanish Trade Register) of the public deed of incorporation of the Company, dated 3 July 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 the *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), and thereafter the *Ley 43/2010, de 30 de diciembre, del servicio postal universal, de los derechos de los usuarios y del mercado postal* (the Postal Act, of 30 December 2010).

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. The 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 Parent Company fall within the remit of the universal postal service and are regulated by the Postal Act, of 30 December 2010. It sets out that these services will be provided in accordance with the Universal Postal Service Provision Plan. This Act fundamentally regulates the collection, admission,

distribution and delivery conditions for the universal postal service that may be demanded of the designated operator, as well as the cost and financing of the universal postal service obligations, the prices and other rate conditions for postal services.

On 8 October 2007, the *Ley 23/2007, de 8 de octubre, de creación de la Comisión Nacional del Sector Postal* (the Postal Services Regulator Act) created the new Spanish Postal Services Regulator (hereinafter, CNSP). The main objective of this regulatory body 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.

In order to maintain the universal postal service, the Postal Act provides for a finance fund that will be managed by the CNSP 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 the Postal Act 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 CNSP.

Similarly, the Postal Act 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 sign a standard contract for access to the postal network, with the postal operators; this contract will have been previously approved by the CNSP, and Correos must also report to the latter any other non-standard contracts. The CNSP 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 CNSP.



Article 48 of the Postal Act 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.

The CNSP's Resolution of 27 July 2011, publishing Circular 1/2011, determines that, on a temporary basis and until the provisions contained therein are fulfilled, operator access to the postal network, as foreseen in article 45 of the Postal Act, will be regulated as per the regime established in Royal Decree 1298/2006, of 10 November, regulating access to the public postal network and determining the conflict resolution procedure among postal operators and the conditions contained in the Resolution of 23 April 2007, from the Undersecretary of Public Works Ministry (*Subsecretaría de Fomento*), approving the provisional reference conditions for access to the public postal network, developing the prior Royal Decree, which does not counter the Postal Act, and the content of the instruction.

Pursuant to article 2 of its 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 send to government bodies, subject to applicable laws and regulations.
- ❑ To serve government and court notices in accordance with applicable laws and regulations.
- ❑ To provide telegraph, telex and bureau fax 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 has signed collaboration agreements with various Central Government Ministries to provide postal and telegraph services within its corporate purpose.

The Company is a single shareholder company according to article 12 of the Capital Companies Act, approved by Legislative Royal Decree 1/2010 of 2 July, and 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 2010, both individual and consolidated, were drawn up by the Governing Board of Correos on 31 December 2011, approved by its sole shareholder on 26 May 2011, and subsequently filed at Madrid's Trade 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 2011 were the following:

NAME OF THE COMPANY	MAIN ACTIVITY	COMPANY DOMICILE
Correos Telecom, S.A.	Management of the Company's telecommunication network	c/ Conde de Peñalver, 19 (Madrid)
Nexea Gestión Documental, 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 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 Parent Company, providing telecommunication services, mediating, promoting and selling surplus capacity belonging to the Parent Company's telecommunications network and providing postal service-related telecommunication services.

Nexea Gestión Documental, 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 postal services. Hybrid refers to postal services which allow the client to send documentation to Nexea Gestión Documental, 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 2011 and 2010, before standardisation and/or consolidation adjustments, is as follows:

	Financial year 2011			Financial year 2010		
	Chronoexpres S.A.	Correos Telecom S.A.	Nexea G.D. S.A.	Chronoexpres S.A.	Correos Telecom S.A.	Nexea G.D. S.A.
Net book value	4,483	1,503	6,674	1,193	1,503	1,022
- Direct shareholding (%)	100%	100%	100%	100%	100%	100%
Share capital	65	1,503	974	64	1,503	974
Share premium account	75,485	-	5,700	65,486	-	48
Legal reserve	-	300	128	-	294	127
Other reserves	(560)	2,345	(60)	(560)	2,193	(56)
Results from previous financial years	(63,796)	-	(468)	(55,949)	-	(472)
Result for the financial year	(6,710)	1,597	(1,020)	(7,847)	158	5
Government contributions	114	-	-	91	-	-
Total net assets	4,598	5,745	5,254	1,285	4,148	626
Operating result	(6,970)	2,275	(1,151)	(8,130)	245	326



On 25 October 2011, 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 nominal ordinary shares worth 1,000 euros and a share premium of 9,999,000 euros. This increase, made public on 27 October 2011, was fully subscribed and paid out by the Parent Company by compensating part of a due, cash and demandable credit that the Parent Company held against its subsidiary on the aforementioned date.

On 23 November 2011, as the sole shareholder in Nexea Gestión Documental, S.A., the Parent Company agreed to a capital increase with outlay by investment in kind. That operation was completed by issuing a nominative ordinary share worth 60.11 euros and a share premium of 5,651,486.12 euros. The increase was made public on 24 November 2011 and was fully subscribed and paid out by the Parent Company by contribution of the industrial building where the subsidiary has its registered address. The transaction's amount corresponds to the amount stated in the report of 26 October 2011 by the independent expert with professional competence, designed by the Trade Registrar corresponding to the registered address, as per article 67 of the LSC (Capital Companies Act).

(3) Basis for presenting the consolidated annual accounts

When preparing these consolidated annual accounts, the Parent Company's Directors applied the accounting regulations included in the new 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 "Regulations for the Preparation of Consolidated Annual Accounts", in addition to all other commercial legislation in force on 31 December 2011. In particular:

- ❑ The annual accounts for the Parent Company are consolidated with those of all of its subsidiaries (see note (2)) using the full consolidation method. The Parent Company holds all voting rights in all the consolidated companies.
- ❑ Where subsidiaries have followed significantly different accounting or valuation principles from those of the Parent Company, adjustments have been made as needed to present the consolidated annual accounts 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.
- ❑ The Inter-Group balances, transactions and cash flow 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 2011 are covered by the item "Reserves in consolidated companies" on the consolidated balance sheet.

As regards the depreciation of the assets registered under the "Tangible fixed assets" heading, since the 2009 financial year the Parent Company has applied 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 Commercial 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 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 accounts 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 11, in order 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 accounts 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 accounts, 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 accounts.

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

→ Leasing obligations – Correos Group as lessee

The Correos Group has signed leasing contracts in order to undertake 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 Directors, at 31 December 2011 there are no contingencies other than those recorded in these consolidated annual accounts which could represent significant liabilities for the Parent Company and/or its dependent companies in the event of an inspection.

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

→ Deferred tax assets

The recognition of the deferred tax assets is performed on the basis of the future estimates made by the Fiscal Group relating to the probability of it having future tax gains or

when there are deferred liability amounts to compensate 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 this report on "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 the calculation of future cash flows and assuming hypotheses relating 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 Consolidated Annual Accounts", the Parent Company Directors have included quantitative information corresponding to the previous financial year in this report.

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



(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	1,057
Legal reserve	74,999
Reserves required by Articles of Association	163,976
Voluntary reserves	366,339
Total	606,371
Application proposal:	
To legal reserve	75,105
To reserves required by Articles of Association	164,187
To voluntary reserves	367,079
Total	606,371

Limitations on the distribution of results and dividends

Pursuant to article 274 of the Capital 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 accounts, pursuant to the terms set out in the Spanish Generally Accepted Accounting Practices approved by Royal Decree 1514/2007 and the amendments 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 amortisation methods and periods 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 to them the lesser of either their book value or the amount that can be recovered.

The expansion, modernisation and improvement costs for material intangible goods are incorporated into the asset as an increased goods value where they increase its capacity, productivity or extend its useful life, and so long as it is possible to establish or estimate the book value of the items removed from the inventory through replacement.

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 asset or assigned in use, at the cost of said investments and amortised during an estimated service life of 20 years.

Investments made in 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 owned by the Parent Company and 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

The Correos Group classifies 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 lease of the minimum agreed payments, with a financial liability being recorded for the same sum. The payments for the lease are distributed between the financial costs and the reduction of the liability. 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 revenue from the lease.

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

Assets not generating cash flow

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 and do 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 of 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 prevail. Should such signs exist, and in any event for any intangible asset with an unlimited service life, if any, the value of these assets that can be recovered is estimated.

The value that can be recovered is either the reasonable value less the sale costs or its value in use, whichever is higher. In order to determine the value in use, the future cash flow is discounted at its 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 flow, the recoverable amount is determined for the cash-generating units to which the valued assets pertain.



The 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. The 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 reversion 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 reversion 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 their valuation:

- ❑ Loans and entries receivable: these include the financial assets which, not being negotiated in any organised asset market, have expected

cash flow in a determined or determinable sum and for which it is estimated that all of the outlay 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 constituted 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, minus, 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 flow is not significant.

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

The 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 flow of the transferred asset.

(g) Value depreciation 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, the 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 flow 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 reversion 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 reversion, if the depreciation in value had not been recorded.

In the event of due debts from public clients, the depreciation of the debt is entered for 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:

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

The non-current assets held for sale are recorded as the lesser of the following two amounts: Their book value or their reasonable value minus 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 minus 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 the 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) Stock

The stock is valued at the acquisition price determined by the weighted average cost method.

When the net realisable value of the stock is lower than its acquisition price or its 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

The Correos Group records provisions on its 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 its settlement.

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

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

The financial liabilities 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 updating the cash flows is not significant.

The 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 on 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 asset elements are liquidated, are recognised in the consolidated profit and loss account of the financial year in which they appear.

(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 continues 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, the Group is obliged to pay compensation to the employees with whom, under certain conditions, it terminates their labour relationship. Therefore, compensation for dismissal is paid to employees as a result of the Group's decision to terminate their employment contract 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 at its current value.

(o) Liabilities for remunerations to staff

Pension supplements

During the 2000 financial year, 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 their 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 current contract at the time of their application to join the scheme has been in force for at least two uninterrupted years.

As at 31 December 2011, the Parent Company had no additional 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 125,556 thousand euros. The amount designated and paid in 2011 was 12,912 thousand euros (13,194 thousand euros in 2010), which exceeds 0.5% of total employee pay. The Company has no commitment aside from the sums already contributed as at 31 December 2011.



Retirement bonuses

The various collective bargaining agreements in force by geographic areas and applicable to the investee company 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 for between 10 and 30 years (depending on the applicable collective bargaining agreement).

As at 31 December 2011, Chronoexpres, 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 Directors believe that any additional liabilities not covered by the aforesaid policy that could arise from the guarantees given to the workers of its subsidiary, should there be any, will not be in any way significant.

(p) Current and deferred taxes

From the 2011 financial year, the Parent Company pays taxes under the consolidated fiscal regime as the Fiscal Group's Parent Company, with Fiscal Group number 38/11.

The tax on profits of the financial year (see note (18)) is calculated as the sum of the current

tax, which results from the application of the relevant rate of taxation on the taxable base of the financial year, after applying the existing allowances and deductions, and of 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 the 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 by the Fiscal Group 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.

The Parent Company 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.

The Parent Company 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 Fiscal Group will have future tax gains which allow these assets 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, the Fiscal Group evaluates the assets from recognised deferred taxes and those that have not been previously recognised. On the basis of this evaluation, the Parent Company 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 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 contributions 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.

Article 22.2 of Postal Act, of 30 December 2010, establishes, with effect from 1 January 2011, that the operator designated by the State to provide the universal postal service is exempt from paying tax on its universal postal service activities, with the exception of Corporation Tax. As regards the value added tax, the application of this legislative change has resulted in an increased

in the number of services considered exempt from VAT, whereas the regulations applicable until 31 December 2010 limited exemptions to the scope of the postal services reserved to said operator. As a result of decreasing the proportion of services subject to and not exempt from VAT out of the total number of services provided by the Parent Company, there has been a significant reduction in the pro rata VAT deduction and, thus, an increase in the non-deductable VAT paid for acquisition of investment assets and goods and services subject to VAT. In this regard, in the 2011 financial year there has been a reappraisal of the expenses yielded in the heading "Taxes" within "Other operating costs" in the profits and losses account.





(6) Intangible fixed assets

The detail and movements under this heading during the 2011 and 2010 financial years is as follows:

	Financial year 2011				
	Balance at 01/01/2011	Additions	Disposals	Transfers	Balance at 31/12/2011
Cost-					
Patents, licences and similar	344	-	-	-	344
Technical studies and papers	-	-	-	-	-
IT applications	163,028	5,638	(258)	(6)	168,402
Other intangible fixed assets	421	-	-	-	421
Total cost	163,793	5,638	(258)	(6)	169,167
Accumulated amortisation-					
Patents, licences and similar	(270)	(34)	-	-	(304)
Technical studies and papers	-	-	-	-	-
IT applications	(146,878)	(8,644)	258	-	(155,264)
Other intangible fixed assets	(132)	(13)	-	-	(145)
Total accumulated amortisation	(147,280)	(8,691)	258	-	(155,713)
Adjustments for depreciation-					
IT applications	(26)	-	25	-	(1)
Net value	16,487				13,453



The item "IT applications" records the amounts paid by the Correos Group in order to acquire the ownership of or the right of use 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 2,979 thousand euros and

1,167 thousand euros respectively (the investment registered for the same items during the 2010 financial year being 4,917 thousand euros and 1,701 thousand euros).

Financial year 2010

	Balance at 01/01/2010	Additions	Disposals	Transfers	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



During the financial year the Parent Company cancelled intangible elements wholly amortised in the sum of 258 thousand euros (37,540 thousand euros in 2010).

The cost of the wholly amortised items that formed part of the intangible fixed assets of the Correos Group as at 31 December 2011 amounts to 144,423 thousand euros (134,303 thousand euros in 2010).

At 31 December 2011, the Parent Company had binding agreements for the acquisition of IT applications for the sum of 29,905 thousand euros (3,764 thousand euros in 2010). On that date there were no binding agreements of sale involving any intangible assets owned by the Correos Group.

(7) Tangible fixed assets

The detail and movement under this heading during the 2011 and 2010 financial years was as follows:

	Financial year 2011				
	Balance at 01/01/2011	Recordings and provisions	Disposals	Transfers	Balance at 31/12/2011
Cost-					
Land	367,897	-	(55)	3,378	371,220
Built assets	1,363,744	10,441	(9,925)	30,190	1,394,450
Plants and other tangible fixed assets	709,727	22,644	(27,976)	3,519	707,914
Fixed assets in progress and advance payments	120,379	10,272	-	(36,401)	94,250
Total cost	2,561,747	43,357	(37,956)	686	2,567,834
Accumulated amortisation-					
Built assets	(323,056)	(34,091)	2,849	(197)	(354,495)
Plants and other tangible fixed assets	(456,725)	(63,053)	26,563	-	(493,215)
Total accumulated amortisation	(779,781)	(97,144)	29,412	(197)	(847,710)
Adjustments for depreciation-					
Land and built assets	(99,357)	(11,397)	5,746	16,333	(88,675)
Plants and other tangible fixed assets	(4,880)	(208)	1,392	530	(3,166)
Fixed assets in progress and advance payments	(5,863)	-	-	(16,788)	(22,651)
Total adjustments for depreciation	(110,100)	(11,605)	7,138	75	(114,492)
Net value	1,671,866				1,605,632



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, and refer to the reform and adaptation of existing premises and to the investments made at different logistics centres for the postal processing and distribution for sums of 12,720 and 1,219 thousand euros respectively (15,884 and 2,688 thousand euros respectively during the 2010 financial year).

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 IT equipment, machinery and furniture for sums of 7,703, 3,738 and 3,047 thousand euros respectively (the largest investments made by the Parent Company during the 2010 financial year were those registered for the acquisition of IT equipment, machinery and furniture for sums of 1,176, 3,478 and 4,561 thousand euros respectively).

	Financial year 2010				Balance at 31/12/2010
	Balance at 01/01/2010	Recordings and provisions	Disposals	Transfers	
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	2,576,697
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



Of the total sum for disposals of tangible fixed assets, 20,982 thousand euros correspond to fully amortised elements that were disposed of by the Parent Company, mainly IT equipment, machinery, furniture and technical facilities (the Parent Company disposed of wholly amortised material elements in the amount of 40,793 thousand euros during the 2010 financial year).

As mentioned in note 4.e) of this report, 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, which has been compared with the book values so as to identify the recorded depreciation:

- ▣ Obtaining 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.

By comparing the depreciated replacement cost, calculated using the method explained above, with the net book value of the assessed assets, a depreciation of 7,927 thousand euros has been confirmed, which in turn has been recorded in the consolidated profit and loss account for 2011.

On the other hand, during the 2011 financial year the Parent Company made provisions of 366 thousand euros for adaptations and renovations to provisional premises (1,782 thousand euros in 2010). Likewise 1,970 thousand euros (1,257 thousand euros in 2010) were reverted due to disposals of assets associated with provisional premises that have been vacated and 1,050 thousand euros (2,188 thousand euros in 2010) due to the

consideration that the use of certain premises is no longer provisional. The Parent Company recorded reversions worth 1,441 thousand euros due to the completion of building renovation works included in the plan for integral renovations of buildings pertaining to the Company. Equally, it applied 389 thousand euros against cancellation of projects. These had been activated in the past and are linked to works that have been cancelled (the cancellation of taxes, licenses and projects assets totalled 788 thousand euros in the 2010 financial year).

Under the heading "Adjustments for depreciation of technical plants" the Parent Company entered disposals worth 1,189 thousand euros, corresponding to disposals of assets in the telecommunications network (856 thousand euros) and the review of the network dismantling cost (333 thousand euros, of which 262 thousand euros corresponded to dismantling services provided in 2011).

As at 31 December 2011, the Parent Company had signed contracts to purchase tangible fixed assets worth 63,793 thousand euros (55,320 thousand euros in the 2010 financial year). At the close of the financial year, the Company has no firm commitments involving sale of assets with a significant net book value.



The cost of the wholly amortised items that formed part of the intangible fixed assets of the Correos Group as at 31 December 2011 amounts to 273,354 thousand euros (231,627 thousand euros as at 31 December 2010).

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 43,144 thousand euros (39,995 thousand euros as of 31 December 2010), and their acquisition cost was 57,681 thousand euros (49,560 thousand euros at 31 December 2010).

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

(8) Property investments

The detail of movements in the 2011 and 2010 financial years is as follows:

	Balance at 01/01/2010		Recordings and provisions	Transfers	Balance at 31/12/2010	Recordings and provisions	Transfers	Balance at 31/12/2011
Cost-								
Land	1,968	-	(339)		1,629	-	(262)	1,367
Built assets	6,484	1	(545)		5,940	-	(831)	5,109
Total cost	8,452	1	(884)		7,569	-	(1,093)	6,476
Accumulated amortisation-								
Built assets	(1,131)	(124)	219		(1,036)	(105)	308	(833)
Adjustments for depreciation-								
Land and built assets	-	-	-		-	-	(75)	(75)
Net book value	7,321				6,533			5,568



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 amounted to 498 thousand euros in the 2011 financial year (512 thousand euros in the 2010 financial year).

The costs associated with property investments fundamentally correspond to those relating to their annual amortization and maintenance costs. The latter reached 134 thousand euros during the financial year (145 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 this report 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 2011	Financial year 2010
Up to one year	405	523
Between one and five years	951	714
More than five years	-	-
	1,356	1,237

(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 2011 and 2010 as non-current assets held for sale. These assets, mostly dwellings and an industrial warehouse, were included in disinvestment plans approved by the competent bodies and, at that date, effective actions were being carried out to sell them.



(10) Stock

The composition of this item at 31 December 2011 and 2010 is as follows:

	Balance at 31/12/2011	Balance at 31/12/2010
Stock valued at cost-		
Stamps in the possession of third parties	1,743	2,669
Stamps at company offices and warehouses	2,489	3,091
Collectors' stamps	816	735
Other stock	1,076	1,036
	6,124	7,531
Valuation adjustments for depreciation	(4,342)	(5,538)
	1,782	1,993

The movement of the valuation adjustments for depreciation of stock during the 2011 and 2010 financial years is as follows:

	Valuation adjustments		
	Stamps	Other	Total
Balance at 01 January 2010	2,190	27	2,217
Valuation adjustments for depreciation	4,170	-	4,170
Reversion of valuation adjustments	-	(5)	(5)
Application against cost of stocks	(844)	-	(844)
Balance at 31 December 2010	5,516	22	5,538
Valuation adjustments for depreciation	2,613	-	2,613
Reversion of valuation adjustments	(1,395)	(8)	(1,403)
Application against cost of stocks	(2,406)	-	(2,406)
Balance at 31 December 2011	4,328	14	4,342



Correos Group has registered valuation adjustments for depreciation of stamps for a value of 4,328 thousand euros (5,516 thousand euros in 2010) 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 2,406 thousand euros were destroyed over the financial year (844 thousand euros in 2010).

(11) Current financial assets

The composition of the Correos Group short-term financial assets as of 31 December 2011 and 2010, excluding cash and other equivalent liquid assets described in note (12) below, is as follows:

	Balance at 31/12/2011	Balance at 31/12/2010
Trade debtors and other accounts receivable:		
Clients for sales and provision of services	418,181	388,324
Other debtors	18,530	15,937
Staff	15,176	13,984
Government bodies (Note 18)	7,916	3,936
	459,803	422,181
Short-term financial investments:		
Deposits and guarantees	9,242	8,180

11.1.) Trade debtors and other accounts receivable

The headings "Clients for sales and provision of service" and "Other debtors" include 75,637 thousand euros in fees to be collected by the Parent Company from third-country postal operators for the provision of postal and telegraph services (which stood at 65,576 thousand euros as at 31 December 2010).

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 dated 10 March 2009 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 considers that, in the short-term, the Treasury will not release the funds for capital and operating contributions pending as of 31 December 2011 (see notes 11.3.1), (14) and 17.c)). It has therefore classified



the outstanding balance as long-term (205,452 thousand euros in 2011, standing at 173,364 thousand euros as at 31 December 2010).

Likewise, the headings "Clients for sales and provision of services" and "Other debtors" are shown net of valuation adjustments for depreciation, with the movement taking place during the 2011 and 2010 financial years being as follows:

In addition, under the item "Losses, depreciation and variation in provisions for trade operations" of the consolidated profit and loss account, the Correos Group recorded an expense of 293 thousand euros due to a direct cancellation of defaulting debts (having registered an expense of 263 thousand euros for this same item during the 2010 financial year).

	Valuation adjustments		
	Clients	Debtors	Total
Balance at 01 January 2010	17,453	1,329	18,782
Valuation adjustments for depreciation	3,959	936	4,895
Reversions of valuation adjustments	(3,913)	-	(3,913)
Balance at 31 December 2010	17,499	2,265	19,764
Valuation adjustments for depreciation	4,322	240	4,562
Reversions of valuation adjustments	(6,745)	(723)	(7,468)
Balance at 31 December 2011	15,076	1,782	16,858

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 have been 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 the Correos Group at 31 December 2011 and 2010 is as follows:

	Parent Company		Rest of the Group companies		Total Correos Group	
	Balance at 31/12/2011	Balance at 31/12/2010	Balance at 31/12/2011	Balance at 31/12/2010	Balance at 31/12/2011	Balance at 31/12/2010
Long term financial investments	189,933	155,106	959	805	190,892	155,911
Clients for sales and provision of services	382,723	353,388	35,458	34,936	418,181	388,324
Other debtors	17,887	15,613	643	324	18,530	15,937
Short-term financial investments	9,174	8,152	68	28	9,242	8,180
Short-term deposits	-	60,000	-	-	-	60,000
Banks and lending institutions	103,188	140,981	1,866	2,440	105,054	143,421
	702,905	733,240	38,994	38,533	741,899	771,773

As explained in note 11.1), the Parent Company has categorised the outstanding balance at the close of the 2011 financial year corresponding to capital contributions and operating subsidies as long-term. Long-term financial investments are shown net of valuation adjustments for depreciation, and the itemised list as at 31 December 2011 and 2010 are as follows:

	Balance at 31/12/2011	Balance at 31/12/2010
Long-term debts by government bodies (Note 18)	205,452	173,364
Other financial investments	1,200	1,097
	206,652	174,461
Valuation adjustments for depreciation	(15,760)	(18,550)
Long term financial investments	190,892	155,911



For the 2011 financial year, the Parent Company has entered a valuation adjustment reversion of 2,790 thousand euros in the profit and loss account (it provided 18,550 thousand euros in the 2010 financial year). This correction is for the update of the financial cost at the close of the 2011 financial year incurred by the Parent Company for the postponement of receipt of capital contributions and operating subsidies. 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 for sales and provision of services" and "Other debtors" sections of Correos Group at 31 December 2011 and 2010 is as follows:

Financial year 2011				
	Parent Company		Rest of companies	
	Number	Thousands of euros	Number	Thousands of euros
Clients and debtors:				
With balance greater than 1,000 thousand euros	48	161,662	-	-
With balance between 500 and 1,000 thousand euros	37	25,413	1	934
With balance below 500 thousand euros	17,976	128,295	5,705	35,167
	18.061	315,370	5,706	36,101
Foreign postal operators	210	75,637	-	-
Other financial assets	-	9,603	-	-
		400,610		36,101

Financial year 2010				
	Parent Company		Rest of companies	
	Number	Thousands of euros	Number	Thousands of euros
Clients and debtors:				
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
Foreign postal operators	180	65,576	-	-
Other financial assets	-	7,532	14	324
		369,001		35,260

At 31 December 2011 and 2010, the breakdown of the "Clients" and "Foreign postal operators" of the Correos Group companies by debt seniority was as follows:

	Financial year 2011			Financial year 2010		
	Parent Company		Rest of group companies	Parent Company		Rest of group companies
	Clients	Foreign postal operators		Clients	Foreign postal operators	
Not due	153,484	32,555	29,204	143,439	22,867	30,937
Due, non-doubtful:						
Less than 30 days	56,859	2,297	3,830	63,767	653	2,017
Between 30 and 60 days	27,723	96	692	32,989	314	593
Between 60 and 90 days	14,598	73	607	9,090	452	259
Between 90 and 120 days	5,200	57	345	7,609	375	629
Over 120 days	57,506	24,943	1,423	38,999	26,387	501
Provisional payments	-	15,616	-	-	14,528	-
	315,370	75,637	36,101	295,893	65,576	34,936
Doubtful clients	9,804	1,589	3,349	12,415	1,641	3,213
Adjustments for depreciation	(9,804)	(1,589)	(3,349)	(12,415)	(1,641)	(3,213)
	315,370	75,637	36,101	295,893	65,576	34,936





The receivables from clients of the Parent Company outstanding for more than 120 days and not considered bad debt in the sum of 57,506 thousand euros (38,999 thousand euros in 2010) mainly 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 turned a profit from the cash flow surpluses during the financial year, either by purchasing auctioned State Debt for periods below one year, or by purchasing repurchase agreements for up to three months, 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 General.

11.3.2) Market risks

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 exchange rate risk in interest rates 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 2011 stood at 2,705 thousand euros payable (9,228 thousand as at 31 December 2010), 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 2011 and 2010, and, as the difference, its ability to meet its payment obligations in the short-term, are as follows:



	Balance at 31/12/2011	Balance at 31/12/2010
Short-term financial assets:		
Clients for sales and provision of services	418,181	388,324
Other debtors	18,530	15,937
Financial investments	9,242	8,180
Cash and other liquid resources	146,967	244,126
Short-term financial liabilities:		
Short-term debts	(33,471)	(36,366)
Trade creditors and other accounts payable	(407,229)	(417,067)
Difference	152,220	203,134

(12) Cash and other equivalent liquid assets

The composition of this item as at 31 December 2011 and 2010 is as follows:

	Balance at 31/12/2011	Balance at 31/12/2010
Cash	41,913	40,705
Banks and lending institutions	104,803	143,128
Short-term deposits	-	60,000
Accrued interest not due	251	293
	146,967	244,126

(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 report.

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 to 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 of all the limited common areas of the building located on Avenida de Andalucía number 1, in the city of Malaga, which is a property owned by the Parent Company. This agreement was formalised by an award deed on 22 December 2010.

The Parent Company's share premium was 250,938 thousand euros at 31 December 2011 and 2010.



c) Reserves

Pursuant to article 274 of the Consolidated Text of the Capital 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 10% of the capital already increased. Except for the purpose mentioned above, and until it exceeds 20% of the share capital, this reserve will only be used to offset losses, provided that there are no other sufficient reserves available for this purpose.

Under the Parent Company's Articles of Association, the Company must allocate 20% of the profits from each year to constitute the reserves required by the Articles of Association. As at 31 December 2011, these reserves may be freely disposed of as decided by the Governing Board of the Parent Company pursuant to competences attributed to it under article 36 of its Articles of Association. As at 31 December 2011, the reserves held because of requirements in the Articles of Association totalled 163,976 thousand euros; the value of the voluntary reserves stood at 359,277 thousand euros.

This heading also includes the Parent Company's "Other reserves", reflecting the reserves generated by certain consolidation adjustments in the past for 182,497 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.

d) Reserves in consolidated companies

The breakdown as at 31 December 2011 and 2010 is as follows:

	Balance at 01/01/2010	Result 2009	Other	Balance at 31/12/2010	Result 2010	Other	Balance at 31/12/2011
Correos Telecom, S.A.	2,285	355	(150)	2,490	158	-	2,648
Nexea Gestión Documental, S.A.	1,080	(654)	-	426	6	(4)	428
Chronoexpres, S.A.	(163,759)	(4,659)	-	(168,418)	(7,847)	-	(176,265)
	(160,394)	(4,958)	(150)	(165,502)	(7,683)	(4)	(173,189)



e) Consolidated results of the Correos Group

The Correos Group's consolidated profits for the 2011 and 2010 financial years are as follows:

Financial year 2011			
	Individual results	Consolidation adjustments	Consolidated results
Sociedad Estatal Correos y Telégrafos, S.A.	1,057	5,477	6,534
Correos Telecom, S.A.	1,597	-	1,597
Nexea Gestión Documental, S.A.	(1,020)	-	(1,020)
Chronoexpres, S.A.	(6,710)	-	(6,710)
	(5,076)	5,477	401
Financial year 2010			
	Individual results	Consolidation adjustments	Consolidated results
Sociedad Estatal Correos y Telégrafos, S.A.	1,742	12,216	13,958
Correos Telecom, S.A.	158	-	158
Nexea Gestión Documental, S.A.	6	-	6
Chronoexpres, S.A.	(7,847)	-	(7,847)
	(5,941)	12,216	6,275

(14) Government contributions, donations and legacies received

At 31 December 2011, the Parent Company is awaiting payment of 10,473 thousand euros of capital contributions awarded in the Spanish National Budgets of 2009 and 2010 (the amount awaiting payment as at 31 December 2010 under this category was 20,462 thousand euros). The Parent Company received 9,260 thousand euros in the 2011 financial year, corresponding to part of the capital contribution awarded in the 2009 financial year.

At the close of the 2011 financial year, the amount outstanding for capital and operating contributions stood at 205,452 thousand euros, of which 10,473 thousand euros were for capital contributions and 194,979 euros for operating contributions (see notes 11.1), 11.3.1) and 17.c.)).

The itemised list of movements of the capital contributions granted to the Parent Company for this purpose in the 2010 and 2011 financial years is as follows:

Financial year 2010

Initial balance at 01 January 2010	386,749
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

Financial year 2011

Total contributions granted/awarded	-
Tax effect	-
Allocation to the profit and loss account:	
- due to amortisation	(32,062)
- due to adjustments for depreciation	(1,934)
- due to disposals	(4,697)
Tax effect	11,608
Final balance at 31 December 2011	327,927



The Parent Company meets the requirements associated with the granting of capital contributions and the requirements for entitlement to such subsidies.

(15) Long-term and short-term provisions

The provisions for the financial year, amounting to 22,533 thousand euros, have been charged to the consolidated profit and loss account according to their type (37,612 thousand euros in 2010).

The origin of these charges lies in court decisions that have been unfavourable for Correos Group during the financial year 2011 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 reversions for the financial year, amounting to 9,640 thousand euros, have been charged to the consolidated profit and loss account according to their type (3,651 thousand euros in 2010).

Provision for claims from the staff

The balance of this provision as at 31 December 2011 records the estimated sums to be paid for claims and court actions in labour-law proceedings against the Correos Group.

Provision for court actions

The balance of this provision as at 31 December 2011 chiefly reflects the estimated payable amounts as regards the penalty proceedings in the *Tribunal de Defensa de la Competencia* (Competition Court) against the Parent Company, and against which the latter has appealed, and the estimated amounts to handle possible claims for damages that may be caused by unfavourable judgements.

The itemised list of long-term and short-term provisions for the 2011 and 2010 financial years was 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 01 January 2010	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)
Reversions / excesses	(297)	(2,389)	(965)	-	(3,651)	-
Balance at 31 December 2010	2,482	69,381	52,271	4,215	128,349	2,708
Provisions	1,471	7,112	13,636	267	22,486	47
Applications / payments	-	(51,162)	(9,494)	(180)	(60,837)	(1,134)
Reversions / excesses	(179)	(1,589)	(6,784)	(602)	(9,154)	(486)
Balance at 31 December 2011	3,774	23,742	49,629	3,700	80,844	1,135



(16) Financial liabilities

The composition of the Correos Group' short-term financial liabilities as at 31 December 2011 and 2010 are as follows:

	Balance at 31/12/2011	Balance at 31/12/2010
Short-term debts:		
Creditors for fixed assets	14,394	16,192
Money order deposits	9,662	11,439
Deposits and guarantees	7,255	6,938
Creditors for financial leasing	1,633	1,545
Other short-term debts	527	252
Total short-term debts	33,471	36,366
Trade creditors and other accounts payable:		
Suppliers	4,106	3,327
Other creditors	272,534	270,024
Staff (accrued wages and salaries)	34,511	59,539
Other debts with government bodies (Note 18)	68,132	56,447
Customer advances	27,946	27,730
Total trade creditors and other accounts payable	407,229	417,067

"Money order deposits" include money orders accepted prior to 31 December 2011 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 55,500 and 24,272 thousand euros respectively (the amounts recorded for these items at 31 December 2010 stood at 51,347 and 25,772 thousand euros).

Likewise, the headings "Other creditors" and "Customer advances" include 78,343 thousand euros whose origin lies in the Parent Company's pending payments to different third-country postal operators for postal and telegraph services received from them (74,804 thousand euros as at 31 December 2010).

Details of payments for trade operations carried out by the Group during the financial year and pending payment at the close of the year as regards the maximum legal deadlines foreseen in the Law 15/2010 are as follows:



	2011		2010	
	Thousands of euros	%	Thousands of euros	%
Payments during the financial year within the legal maximum deadline	532,857	98%	564,146	100%
Rest	9,943	2%	1,918	-
Total payments during the financial year	542,800	100%	566,064	100%
Average timeframe for late payments	7		23	
Pending balance of payments exceeding the legal maximum at the close of the year	912		1,334	

(17) Income and expenses

a) Net turnover

The distribution of the Correos Group's turnover corresponding to its ordinary activities by activity category, as well as by geographical markets, for the 2011 and 2010 financial years is as follows:

The heading "Provision of postal, telegraph and parcel services" is shown net of the figure for volume discounts granted by the Correos Group to its clients during the financial year in the sum of 24,873 thousand euros (this figure was equivalent to 27,443 thousand euros in the 2010 financial year).

	Financial year 2011	Financial year 2010
Segmentation of activities by category-		
Revenues for postal and telegraph services	1,998,874	2,022,812
Income from provision of services to third parties and provision of banking services	25,253	19,939
Revenues from money transfer	26,413	27,987
Sale of philatelic products	18,894	20,216
Other	16,062	21,734
Total	2,085,496	2,112,688
Segmentation by geographical markets-		
National	2,085,496	2,112,688
Total	2,085,496	2,112,688



Consumption of merchandise

The breakdown of the heading "Consumption of merchandise" in the attached consolidated profit and loss account during the 2011 and 2010 financial years is as follows:

	Financial year 2011	Financial year 2010
National purchases of merchandise:		
Stamps and other franking devices	6,807	7,018
Other products	8,477	7,747
Changes in stock	(999)	753
Consumption of merchandise	14.285	15.518

b) Operating contributions

The Parent Company accrued operating contributions during the financial year to cover the deficit from providing the universal postal service, worth 42,077 thousand euros (in financial year 2010 it received 68,201 thousand euros for this purpose).

Financial year 2010

Operating contributions outstanding at 01 January 2010	84,701
Contribution collected	-
Operating contributions 2010	68,201

Operating contributions outstanding at 31 December 2010	152,902
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Financial year 2011

Contribution collected	-
Operating contributions 2011	42,077

Operating contributions outstanding at 31 December 2011	194,979
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The Parent Company accrued operational contributions during the financial year for staff training worth 473 thousand euros (in financial year 2010 it received 545 thousand euros for this purpose).

The Parent Company is awaiting payment for capital and operational contributions at the close of the 2011 financial year stood at 205,452 thousand euros (see note 11.1), 11.3.1) and (14)).

c) Social security contributions

The breakdown of the heading "Social security contributions" for the financial years ending at 31 December 2011 and 2010 is as follows:

	Financial year 2011	Financial year 2010
Contribution to pension plans	12,935	13,216
Other social security contributions	236,837	228,725
	249,772	241,941

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



d) External services

The breakdown of the heading "External services" for the financial years ending at 31 December 2011 and 2010 is as follows:

	Financial year 2011	Financial year 2010
Leases	39,076	41,149
Repairs, preservation and maintenance	66,759	68,897
Independent professional services	43,486	44,683
Transport expenses	159,240	165,509
Advertising, marketing and public relations	9,951	4,694
Supplies	39,925	38,331
International mail expenses	48,344	50,679
Other expenses	56,841	64,966
	463,622	478,908

The future minimum payments that cannot be cancelled deriving from the operating lease contracts signed by different companies in the Correos Group are itemised in the following table:

	Financial year 2011	Financial year 2010
Up to one year	24,968	25,090
Between one and five years	15,931	23,144
More than five years	42,012	28,568
	82,911	76,802

"Independent professional services" includes 7,927 thousand euros corresponding to the cost accrued for partner entities' fees (7,834 thousand euros in 2010). 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 18,880 thousand euros in security expenses at the Parent Company (19,454 thousand euros in 2010).

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

e) Taxes

Under the heading "Taxes" the Parent Company records the effect of the restatement of the pro rata figure determined for investment assets (see note 4-r)). This restatement involved recording an expense during the financial year for a sum of 3,089 thousand euros (lower expenses, 2,852 thousand euros, in the previous year).

This heading also includes the restatement of deductible VAT because of the reduction over the 2011 financial year of the proportion of services subject and not exempt out of the total services provided by the Company, involving a significant change to the pro rata. The above represented expenditure of 11,961 thousand euros in the 2011 financial year (see note 4-r)).



f) Depreciation of and result for disposal of fixed assets

The breakdown of this heading for the financial years ending at 31 December 2011 and 2010 is as follows:

Financial year 2011						
Tangible fixex assets						
	Intangible fixed assets	Land and built assets	Other fixed assets	Plants	Property investments	Total
Adjustments for depreciation:						
Provisions	-	11,397	170	-	-	11,567
Reversions	(25)	(1,565)	(3)	(71)	-	(1,664)
Reclassifications	-	-	-	-	-	-
	(25)	9,832	167	(71)	-	9,903
Profits from disposals and other profits:						
Profits	-	(1,062)	(62)	-	-	(1,124)
Losses	-	915	316	42	-	1,273
	-	(147)	254	42	-	149

Financial year 2010						
Tangible fixex assets						
	Intangible fixed assets	Land and built assets	Other fixed assets	Plants	Property investments	Total
Adjustments for depreciation:						
Provisions	-	22,953	-	-	-	22,953
Reversions	(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)



g) Financial income and expenses

The breakdown of this heading for the 2011 and 2010 financial years is as follows:

	Financial year 2011	Financial year 2010
Financial income-		
Third-party interest:		
Short-term deposits	1,961	318
Other financial income	5,540	2,107
	7,501	2,425
Financial expenses-		
Other financial expenses	216	311
Updating provisions	326	383
	542	694

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 held by the Group with government bodies as at 31 December 2011 and 2010 is as follows:

	Balance at 31/12/2011	Balance at 31/12/2010
Non-current assets-		
Deferred tax assets	34,941	36,821
Long-term debts by government bodies (Note 11.3.1)	205,452	173,364
Valuation adjustments for depreciation (Note 11.3.1)	(15,760)	(18,550)
Total non-current assets with government bodies	224,633	191,635
Current assets-		
Current tax assets	7,781	3,757
Other	135	179
Total current assets with government bodies	7,916	3,936
	(Note 11)	(Note 11)
Non-current liabilities-		
Deferred tax liabilities	140,230	152,363
Current liabilities-		
Personal Income Tax – [IRPF in Spanish]	24,164	21,567
Value added tax - VAT	17,654	6,865
Social Security	21,975	22,633
MUFACE (public employee mutual society) and liability fees	3,411	3,804
Other	928	1,578
Total current liabilities with government bodies	68,132	56,447
	(Note 16)	(Note 16)

From the 2011 financial year, the Parent Company pays tax under the consolidated fiscal regime as the Parent Company of the Fiscal Group. A notice was sent to the Spanish Tax Authority in December 2010 informing it of this agreement for all of the Group's companies.

Correspondingly, the Spanish Tax Authority assigned the Fiscal Group number 38/11 under the provisions of article 48.2 of the Companies Regulation, approved by Royal Decree 1777/2004, of 30 July. The Fiscal Group is composed as follows:

Fiscal Group	
Sociedad Estatal Correos y Telégrafos, S.A.	Parent Company
Correos Telecom, S.A.	Subsidiary Company
Nexea Gestión Documental, S.A.	Subsidiary Company
Chronoexpres, S.A.	Subsidiary Company

The Fiscal Group's taxable base is calculated by adding the individual tax bases of its component companies. Notwithstanding the above, all of the Group's companies present their individual tax returns, which will be calculated as if they were companies paying tax under the general regime.

The Corporation Tax of each company of the Group is calculated using the financial or accounting result, obtained by applying the generally accepted accounting principles. These do not necessarily have to coincide with the fiscal result which is considered as the 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 the Correos Group has opted to integrate the tax effect of the charges and payments made against reserves deriving from the application of the New Spanish GAAP in parts that are equal 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 integration of said fiscal effect was completed in the 2010 financial year and therefore no adjustment was made for this purpose in 2011.

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

	Financial year 2011	Financial year 2010
Temporary differences:		
Provision for risks and charges	3,638	16,070
Provisions related to staff	3,116	9,159
Provisions related to fixed assets	1,728	3,114
Portfolio provision	6,110	4,097
Excess of amortisation of fixed assets	4,036	3,875
Other	224	122
	18,852	36,437
Credits for negative tax bases	16,088	384
Deferred tax assets	34,941	36,821
Temporary differences:		
Tax effect of the capital contributions	140,012	152,148
Deferred tax effect from conversion to the GAAP	-	-
Other temporary adjustments	218	215
Deferred tax liabilities	140,230	152,363





The movement of assets due to temporary differences in the Corporation Tax during the 2011 and 2010 financial years is as follows:

Financial year 2011						
	Balance at 01/01/2011	Additions	Restatements	Other adjustments	Reversion	Balance at 31/12/2011
Temporary differences	122,736	85,360	534	-	(90,901)	117,729
Tax effect:						
Temporary differences	36,503	9,526	160	-	(27,263)	18,926
Credits for losses to be compensated	319	15,696	-	-	-	16,015
	36,822	25,222	160	-	(27,263)	34,941
Financial year 2010						
	Balance at 01/01/2010	Additions	Restatements	Other adjustments	Reversion	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



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

Consolidated profit and loss account		
	Financial year 2011	Financial year 2010
Consolidated result before taxes	1,879	2,033
Consolidation adjustments	(4,949)	(12,216)
Aggregate results before taxes	(3,070)	(10,183)
Breakdown of aggregate results before taxes:		
- Accounting basis	5,098	(2,336)
- Capitalised accounting basis (losses)	(1,458)	-
- Non-taxable accounting basis	(6,710)	(7,847)
	(3,070)	(10,183)
Applicable tax rate	30%	30%
Theoretical tax charge	1,529	(701)
Tax credit	(437)	-
Non-calculable income	(1,491)	(2,890)
Non-deductible expenses	2,348	2,524
Deductions	(433)	(3,121)
Effective aggregated taxable (income)/expense	1,516	(4,188)
Breakdown effective aggregate taxable expense:		
Current taxes	(15,269)	5,649
Tax credit	(433)	(35)
Deferred taxes	17,218	(9,802)
Total effective aggregate taxable expense	1,516	(4,188)
Adjusted estimated Corporation Tax	(38)	(54)
Aggregate Corporate Tax Expense	1,478	(4,242)

The calculated Corporation Tax pending payment and collection as at 31 December 2011 and 2010 is as follows:

	Financial year 2011		Financial year 2010	
	Current tax debtor	Current tax creditor	Current tax debtor	Current tax creditor
Aggregate current tax	(15,269)	-	5,649	-
Tax withholdings and prepayments	(4,684)	-	(9,220)	-



The conciliation of the consolidated book result with the taxable base for income tax as at 31 December 2011:

	Profit and loss account			
	Financial year 2011			Financial year 2010
	Increases	Decreases	Total	Total
Consolidated result	-	-	1,880	2,033
Consolidation adjustments	-	-	(4,949)	(12,216)
Permanent differences:				
- of each company	7,851	(3,207)	4,644	(1,187)
Temporary differences:				
- of each company				
- Arising in the year	25,093	(163)	24,930	46,052
- Arising in previous years	152	(94,513)	(94,361)	(12,501)
-of consolidation adjustments				
- Arising in the year	7,426	-	7,426	-
- Arising in previous years	-	-	-	-
Taxable base (tax result)			(60,430)	22,181

Under article 42 of the Law 43/1995, of 27 December, introduced by 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 transfer of said tangible fixed assets, within the period of the previous year and the three years following the date of transfer of the assets. During the 2011 financial year, the Company has fully met its reinvestment commitment. The revenues benefiting from said deduction amount to 62 thousand euros (22,077 thousand euros in the 2010 financial year).

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. As at 31 December 2011, the companies that make up the Correos Group have all taxes applicable since 01 January 2007 pending inspection by the tax authorities. The Company's Directors does not expect significant additional liabilities to emerge as a result of any inspection procedures.

Under the Corporation Tax Act, if a taxable base is found to be negative under the regulations applicable to the taxable base, its amount may be offset within the fifteen financial years



immediately following the year of the loss; the amount of the offset may be distributed as the taxpayer sees fit. The offset must be made upon filing the Corporation Tax return, and is subject to the tax authorities' power of verification.

The negative tax bases prior to the creation of the Fiscal Group, generated in the 2010 financial year and before, may be subject to compensation against future taxable bases generated by the Fiscal Group, subject to the limit of the individual taxable base of the company that generated them. The negative taxable base generated by the Fiscal Group during the 2011 financial year may be offset within the fifteen financial years immediately afterwards, if it is positive in light of the applicable regulations to determine the Group's taxable base.

As at 31 December 2011, Group companies had the following negative taxable bases to offset against future fiscal benefits:

Data at 31/12/2011			
Maximum offset financial year	S.E. Correos y Telégrafos S.A.	Chronoexpres, S.A.	Nexea G.D., S.A.
Previous 2010			
2011	-	813	-
2012	-	1,820	-
2013	-	1,367	-
2014	-	2,426	-
2015	-	1,801	-
2016	-	11,138	-
2017	-	19,350	-
2018	-	52,569	83
2019	-	38,670	135
2020	-	22,011	-
2021	-	11,179	-
2022	-	9,769	-
2023	-	1,474	-
2024	-	6,134	947
2025	-	6,933	115
	-	187,454	1,280
2011			
2026	15,512	9,533	1,466
	15,512	9,533	1,466
	15,512	196,987	2,746

(19) Other information

a) Number of employees

The breakdown of the Group's average workforce, by number of employees, during the 2011 and 2010 financial year was as follows:

	Financial year 2011	Financial year 2010
Management Committee	22	25
Rest of workforce:		
Civil servants	22,717	25,091
Employees under ordinary contracts	38,045	38,285
	60,784	63,401



As at 31 December 2011 and 2010, the number of employees of the Correos Group broken down by job categories and gender was as follows:

	Data at 31/12/2011			Data at 31/12/2010		
	Men	Women	Total staff	Men	Women	Total staff
Management Committee	17	5	22	19	6	25
Rest of workforce:						
Civil servants	15,698	5,891	21,589	17,557	6,546	24,103
Employees under ordinary contracts	15,066	21,493	36,559	15,084	21,557	36,641
	30,781	27,389	58,170	32,660	28,109	60,769

The average workforce of the Group with disabilities of 33% or more during the 2011 and 2010 financial years was the following:

	Financial year 2011	Financial year 2010
Civil servants	488	507
Employees under ordinary contracts	286	231
	774	738

b) Commitments and contingencies

As at 31 December 2011, the guarantees provided by different financial institutions to the Correos Group amounted to 32,681 thousand euros (41,322 thousand euros as at 31 December 2010). 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 its group and associated companies

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

	Financial year 2011	Financial year 2010
For auditing services	196	193
For other services	6	5
Total	202	198



(20) Segment results

The Correos Group' segment results for the 2011 and 2010 financial years are the following:

Financial year 2011				
	Postal and telegraph	Other segments	Portfolio adjustment	Total
Net turnover	1,946,100	139,396	-	2,085,496
Procurement	(12,158)	(3,337)	-	(15,495)
Operating contributions	42,550	27	-	42,577
Staff costs	(1,514,903)	(47,250)	-	(1,562,153)
Other results	(458,778)	(96,614)	6,710	(548,546)
Result before taxes	2,811	(7,778)	6,710	1,879
Financial year 2010				
	Postal and telegraph	Other segments	Portfolio adjustment	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 taxes	(2,568)	(7,615)	12,216	2,033

(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 its 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 2011 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

The remuneration accrued under all concepts during the 2011 financial year by members of the Parent Company's Governing Board and Management Committee totalled 1,650 thousand euros (2,433 thousand in 2010), 224 thousand euros of which correspond to

allowances for attending the Governing Board (229 thousand euros in 2010); the rest was paid as salaries and/or other remuneration concepts (including compensation).

As at 31 December 2011, no member of the Parent Company's Governing Board or Management Committee had receivable or payable balances with the Parent Company. Nor did the Company have obligations contracted with them concerning pensions and/or life insurance.

Other information regarding the Governing Board

Article 229.2 of the Capital Companies Act, requires the 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 offices and functions that they perform in said companies and whether they are employed or otherwise in the same, 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 Capital Companies Act).

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

On the date of writing these annual accounts, the Parent Company's Governing Board was made up of 13 men and 2 women.

(22) Environmental information

As at 31 December 2011, there were no significant assets given over to environmental protection and improvement, nor have any significant expenses of that nature been incurred during the financial year. Likewise, during the financial year ending as at 31 December 2011, no environmental subsidies were received.

The Parent Company's Directors take the view that no contingencies exist in relation to 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 2011.



(23) Subsequent events

On 24 March 2012, the Order HAP/583/2012, of 20 March, was published in the BOE (Official State Gazette) publicising the Decision of the Council of Ministers of 16 March 2012, approving the Plan for the restructuring and rationalisation of public companies and foundations. This fact does not change the economic/financial and asset situation of the Parent Company as at 31 December 2011.

Amongst other measures, it was agreed to change the ownership of Sociedad Estatal Correos y Telégrafos, S.A., and all of the shares held by the Central Government and representing one hundred percent of the share capital in the Sociedad Estatal Correos y Telégrafos, S.A. were transferred to SEPI (*Entidad de Derecho Público Sociedad Estatal de Participaciones Industriales*), a public law entity, in accordance with the provisions of article 168.1 of the *Ley 33/2002, de 3 de noviembre, del Patrimonio de las Administraciones Públicas* (the Assets of Public Authorities Act, dated 3 November 2002).

Management report -Financial year 2011-



1. Business evolution and future risks

At the close of the 2011 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 2011 and foreseeable further reductions in 2012.

European competition saw a change with the liberalisation of the market on 1 January 2011. In Spain, liberalisation had been approved with the publication of Law 43/2010, of 30 December, on the universal postal service, user rights and the postal market. The most important changes introduced by this Law are that the market shall become fully liberalised and that it appoints the Parent Company as the operator to provide the universal postal service for the next 15 years.

As a result of this important milestone, the Correos Group has designed a new business plan for the 2011-2014 period. Its most noteworthy strategies deal with revenue. 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 provider of the physical and electronic communications between companies, individuals and the Central Government thanks to its high quality postal, parcel and direct marketing services and its integral products, services and solutions adapted to different customer segments, thereby achieving financial sustainability. All of the above in a culture of corporate social responsibility and playing the role of a 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 for another two years), while in turn maintaining the most significant provisions of the previous regulations, above all those referring to the universal service obligations.

Two of the most debated issues throughout the entire process of preparing the Third Postal Directive are 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 has been the disappearance of the reserve, a mechanism which had generally been used to guarantee a quality, affordable and accessible service. On the other hand, the new operators are focusing their business towards the most profitable segments, leaving the less productive ones to those responsible for providing the universal service. Both factors have a potentially negative effect on the revenue 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 law, 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 performed during 2012.

Fully liberalised market

The process for the liberalisation of the postal market that has led to the approval of the new Postal Law has also intensified the presence of new competitors in the Spanish market in recent years. This increasing competition has taken 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 partially acquired companies operating in Spain in the parcel, transport and postal services sectors.

It is also worth noting within the regulations on competition, the part regarding regulating access to the postal network. This regulation was first introduced by Royal Decree in 2006, and was then incorporated into the new Postal Law 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 as alternatives to traditional mail. Our business will depend on the proper management of technological uncertainty, perhaps 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 light of the above, the Correos Group continues to intensify its diversification initiatives and improve operating efficiency to become less dependent on its traditional postal activity. This is one of the most important aspects of the new business plan drawn up for 2011-2014.

Forecast effect on the Parent Company's 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 is a strong correlation between economic growth and mail volume behaviour. However, over recent years, growth in mail volumes at the Parent Company 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 3 years we have therefore been facing a change in behaviour as regards mail volumes, the area from which the Parent Company receives the most income,

and we require new references to determine future mail volumes, especially as regards the traditional and extremely mature mail market.

However, as well as this estimation, which mainly reflects the new behaviour brought about by technological substitution, we should also factor in the effects of liberalisation and the corresponding 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 the Parent Company as the operator which will provide the universal postal service for the next 15 years.

The feature which distinguishes the Parent Company from its present and future competitors is precisely its duty as the operator providing the

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 the Parent Company 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 the Parent Company and creating a situation that will be difficult to solve over the short-term.

The market therefore continues to face an evolving, changing form of provision of the universal postal service which crucially influences the public operator. Beginning in 2011, the Parent Company operates 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 entails not only an intense innovation and diversification effort,



but also makes it necessary to undertake an overall restructuring of costs in the search for greater operating efficiency.

2. Quality

Quality, as per internal monitoring of the time that passes from the deposit at the network access point to the date of delivery to the addressee, in accordance with the formula D+n, in which D represents the date of deposit and n the number of working days that passes from that date until the delivery to the addressee, gave the following results:

- ❑ 96.66% of letters are delivered in D+3, the statutory obligation being 93%.
- ❑ 81.14% of parcels are delivered within D+3, the statutory obligation being 80%.
- ❑ 96.85% of money orders are delivered within D+3, the statutory obligation being 95%.

3. Other topics

The Parent Company holds no treasury shares in its portfolio, nor has it performed operations with derivative financial products during the 2011 financial year.

Declaration of the Governing Board

Consolidated annual accounts and Management report for the financial year ending 31 December 2011 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 attached Consolidated annual accounts report corresponding to the financial year ending **31 December 2011**, 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 29 March 2012**. In accordance with current provisions, the Governing Board sign and give their conformity with all the abovementioned documents.

Madrid, 29 March 2012

Francisco Javier Cuesta Nuín

Pablo Arellano Pardo

José Luis Díez García

Aquilino González Hernando

Fernando Irurzun Montoro

Juan Luis Nieto Fernández

Eusebio Pérez Torres

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Elena Luengo García

Mariano Muñoz Carpena

Juan Miguel Sánchez García





ANNUAL REPORT 2011

This annual report has been prepared solely in a digital format and is available, along with previous annual reports at: www.correos.es/comun/informacionCorporativa/1007-MemoriaAnual.asp.

If there are any discrepancies, the information included in the Spanish version of the annual report shall take precedence.

Editing: Sociedad Estatal Correos y Telégrafos, S. A.

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