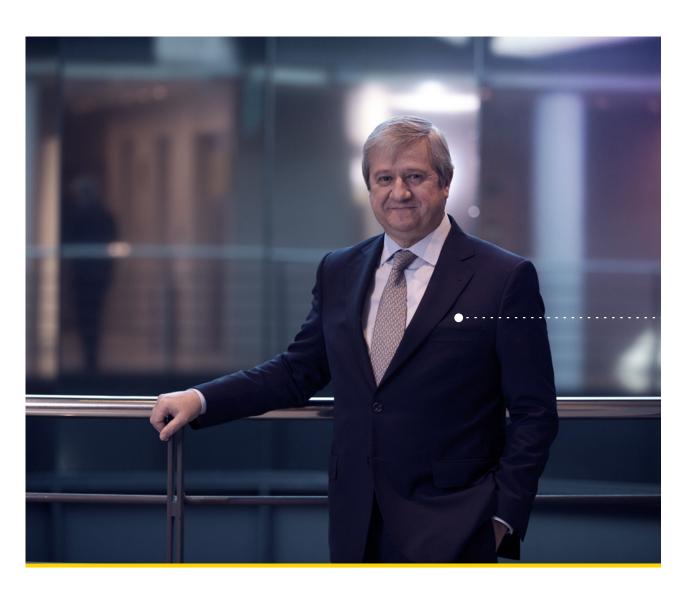


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Chairman's statement

In 2016, we celebrated a very special anniversary: Correos' 300 years of History. A long journey in which we have always been an essential service for the structuring and social cohesion of Spain and an engine for the economic development. This milestone has meant an impetus to renew our commitment to the Spanish society, whom we thank for trusting us during this time.

Our 300th anniversary coincided with the completion of Correos' 100-300-1,500 Action Plan, which has been our strategic roadmap for the past four years. Over that period, the competitiveness in markets in which Correos Group operates has intensely increased. New forms of digital identification and communication, such as the biometric signature, have become common. The expectations of e-commerce and, by extension, of parcel deliveries growths, have been fulfilled, and the volume may yet multiply in the next five years. Environmental awareness has also increased following the COP21 in Paris.





Chairman's statement

Within this context of dramatic changes, we have proven our ability to evolve and to anticipate customer needs, by implementing some innovative services and by building our company's future.

Correos is a recognised partner for the e-commerce industry thanks to our different service options for delivery and return, including new parcel services, such as 'Paq Today' to meet customer same-day delivery requests, new options for the 'Comandia' solution, in order to design web stores and to sell goods online and new channels such as 'Tu Correos' online shop website.

We have lived a transformation, clearly easy to see, across our new concept of post offices, 'Tu Correos', and their renewed customer service model, across the new automated sorting equipment and parcel delivery processes, as well as across the electric vehicles added in our fleet, to encourage the transition towards a low-carbon economy.

Our subsidiaries have also helped us to make

Correos Group be the best global provider of physical and digital communications and parcel services. Correos Express has developed an offer specifically adapted to cover all B2B and B2C segment requirements, by rolling out 'Paq Empresa14' and 'ePaq24' in 2016. Correos Nexea offers a multi-channel solution platform ensuring efficiency, security and integration of business mass communications. Correos Telecom uses the experience and capacity of the Group's telecommunication networks to provide some competitive advantages to companies in the technology sector.

The change in these four years is also evident in our corporate culture. Teamwork, proactivity and innovation are, today more than ever, signs of our identity. Good examples are the 'Innovation teams', groups of internal innovators coming up with ideas like 'HomePaq'. The greater degree of digitalization of our internal communication and customer service, the reorganization of our commercial force and the orientation to the customer's experience are other elements that have allowed us to





Chairman's statement

adapt better to the demands of today's society.

The promotion of stable, high-quality employment is also a priority brought to life through an employment consolidation process in 2016. These professionals will strengthen our centres and our delivery network, so highly valued by companies and private individuals and that allow us to be the most effective delivery company in the sector.

In line with the evolution of the Spanish economy and with the increase in international commercial traffic, in 2016 Correos experienced a rise in cross-border volumes. The inauguration of our second extraterritorial office of exchange in the Netherlands and the incorporation of new processing equipment in our international sorting centre in Madrid allowed us to support this growth in international activity.

Correos' commitment is to be the main promoter

of e-commerce for small and large companies, helping them to sell more, not only in Spain but also in the global market and at a very competitive price. A proof of this is the recent agreement with Alibaba group to develop a platform on its Tmall Global web (www.correostmall.es), which will help Spanish companies to access the Chinese market, also fostering Spanish exports.

In short, we are reinventing ourselves to offer our experience and our know-how to those companies that wish to face their digital transformation and to take their products to their potential customers, by opening markets both inside and outside Spain.

We are convinced that this is the way forward and that our future will depend on what we are able to do in the world of delivery, transportation and digital sales. I invite all those who make up Correos Group to lead the change day by day. We have been pioneers for 300 years and I am positive that

we will continue to be so in the next 300 years, thanks to the excellence in the service of our staff and our capacity to transform ourselves with the speed requested by the evolution of our society.

I should like to close this message by expressing my gratitude to our employees for everything we achieved last year, for their capacity to adapt to the new demands of our activities and for making the Correos Group's goals and values their own. Likewise, I should like to thank our customers for continuing to share their needs and for allowing us to work together to meet them.







Correos Group

The Correos Group comprises Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. and its subsidiaries, Correos Express Paquetería Urgente, S.A., S.M.E., Nexea Gestión Documental, S.A., S.M.E. and Correos Telecom, S.A., S.M.E., M.P. The four companies operate in the physical and digital communications and parcel markets.

















Correos Group



Correos, the parent company of Correos Group, is the main provider of physical and digital communications and parcel solutions in Spain. It is also the designated operator to provide the Universal Postal Service across Spain, under criteria of efficiency, quality and affordability.

Correos is one of Spain's leading companies by size, territorial presence and human capital. It also has innovative equipment and a global portfolio of products and services meeting the requirements of each customer, with the highest reliability, confidence and market experience.



Employees (FTE) 49,785





Automated postal and parcel processing centres 18



Service points 8,787



Post offices 2,395



Rural services



Delivery units



Special service units 100



Vehicles



Parcel automatic lockers 'HomePaq' and 'CityPaq' 1.321



Express

Correos Express is the express parcel company of Correos Group. It is committed to a business model based on its own agencies, providing with a high level of agility, security, flexibility in service and management quality.

Moreover, it has a wide portfolio of products and services designed to meet all customers' delivery needs with the latest technology to ensure optimal tracking of postal items.









Operating centres



O1 Correos Group

Ne×ea

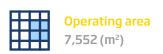
Correos Nexea is the Correos Group company devoted to offer customised solutions in document management for business mass communications to their customers.

Correos Nexea develops tailored technological solutions for documentation processes through a multichannel model for managing communications in all media and formats, guaranteeing maximum IT security, efficient delivery and document tracking features.









O1 Correos Group



Correos Telecom is the company responsible for managing the Correos Group's telecommunications network and for marketing the excess capacity of these infrastructures.

The company is also specialised in providing high capacity connectivity services, communications and telecommunications infrastructures, by adding value to its customers' activities, through flexibility and innovation.











Correos Group

Vision and values

The values that support the Correos Group's strategic vision and which are shared by all its professionals are:



1. Feel

Making the needs and priorities of the organisation our own, undertaking the challenges as a united and integrated team with enthusiasm and a positive attitude, while transmitting business philosophy and values.



4. Innovate

Evolving swiftly, anticipating changes both internally and in society. Showing a positive attitude, which will allow us to move forward and improve continuously towards a future of expansion, globalisation and success.



2. Lead

Being benchmark leaders, motivating and encouraging others to develop and achieve professional and personal success. Promoting a culture of acknowledgement, communicating with confidence, transparency and security.



5. Commitment to customers

Ensuring that our customers grow and develop through improving their experience, providing timely and suitable responses to their needs while developing a culture of excellence, based on honesty, sustainability and corporate social responsibility.



3. Achieve

Striving and taking risks to achieve competitive results, seizing opportunities and making successful decisions, all based on criteria of profitability, quality and efficiency. Anticipating events and envisage future scenarios that quarantee us sustained growth.

The strategic purpose of Correos Group is to be the best service provider of physical and digital communications and parcel services



Correos Group Assets

CORREOS GROUP	2015	2016
Revenue (thousands of euros)	1,765,715	1,761,145
Result before tax (thousands of euros)	(50,531)	(48,560)
Investments (thousands of euros)	75,934	86,034
Employees (FTE)	51,383	51,027
Diversity men/women (%)	51 / 49	50 / 50
Emissions (scope 1/2/3) (tCO ₂)	169,242	165,175
Energy consumption (Gj)	521,900	500,783
Proportion of energy consumption with certificate of renewable energy (%)	66	76



Highlights 2016

 Correos held many commemorative events to celebrate its 300 years of History.



SERVICES ADAPTED TO THE EVOLUTION OF SOCIETY

- A new express parcel service for businesses, 'Paq Today', put on the market, with same day collection and delivery.
- Launch of the 'Comandia Design' solution to create online stores, including a customised design and a whole implementation of the web commerce.
- Rolling out of 'Tu Correos' online portal for selling postal products, postal merchandising or tickets to events.
- Incorporation of Correos Express services
 'Paq Empresa14', for B2B parcels with
 delivery before 14:00 hours, and 'ePaq24', for

- e-commerce parcels and delivery to private individuals within 24 hours.
- Initial implementation of Correos Nexea's new multichannel platform for managing communications in multiple formats through any physical and/or digital channel.
- Installation of 'CityPaq' parcel lockers at new locations, such as service stations or public car parks.

 Opening of a new extraterritorial office of exchange in the Netherlands to support the growth of international activity.





Highlights 2016



COMMITMENT TO EMPLOYEES' DEVELOPMENT

- Promotion of stable and quality employment with the finalisation of the consolidation process for covering 1,606 job positions.
- Universalization of the access to the 'Connecta' corporate intranet through any kind of devices.
- Implementation of 'Clic' talent management project, with over 500 people joining the programme.



ENVIRONMENTAL AND SOCIAL COMMITMENT

- Acquisition of 125 new electric vehicles and 10% reduction in CO₂ emissions per postal item.
- 76% of certified renewable energy consumed.
- Deployment across Spain of the exhibition 'Entregados Hambre Cero' (Committed to Zero Hunger), organised in collaboration with the World Food Program.
- Participation of Correos' volunteers with the Food Bank, Cáritas and the Spanish Red Cross in the annual food collection.





Awards and recognitions

For innovation

- SIL-ICIL 2016 Award for the Best Innovation for 'HomePag'.
- Award for the Most innovative project of the year of the Postal Union for the Mediterranean for 'Comandia Express'.
- CIO DIRECTIONS 2016 Award in the 'Most Innovative Public Entity' category.
- MC Award in the category 'Impulse to e-commerce'.
- Second Control de Publicidad award in the 'Outdoor advertising' category for the 'HomePaq' and 'CityPaq' campaign.
- Award for the CEO of the Year in Customer Experience of the Association for Customer Experience Development to the Chairman of Correos.

For social responsibility and sustainability

- Fundación Corresponsables Award in the 'Administrations and public companies' category for the 'environmental impact calculator'.
- Recognition of Seguros Santalucía for the 'HomePaq' project as a proposal of proximity to citizens. The prize was donated to the AdELA Foundation (Spanish Association of Amyotrophic Lateral Sclerosis).
- Bronze Medal of the Royal Order of Sports
 Merit (Real Orden del Mérito Deportivo) to the
 Chairman of Correos for commitment to sport.
- Duque de Ahumada Award for Corporate
 Security 2016 to the 'Best Collaboration' with the Civil Guard.
- Capital Magazine Award 2016 for Correos' corporate social responsibility policy.

For employment policies

- Randstad Award 2016 for the most attractive company for employees in the logistics sector in Spain.
- TOP25 of companies in Spain committed to good practices in diversity and gender.
- Special mention in the XIV 'Entrepreneurs & Employment' Expansión Awards for innovation in human resources by the Correos Commercial School.
- Finalist in the Prevencionar España 2016 awards for its work in the field of preventing occupational risks and the promotion of health.
- Finalist in World Post & Parcel Awards, for the design and creation on new channels for internal communication.





The companies that make up Correos Group operate in the physical and digital communications and parcels markets; these are very competitive sectors that demand a continuous adaptation to the rapid changes in demand and technological evolution.

The Spanish postal market

Correos, the Group's parent company, has operated in the market in open competition since the liberalisation of the Spanish postal market in 2011. However, for decades private companies and international public postal operators have been taking positions in the most profitable business segments. The company is also the operator designated by Act 43/2010 to provide the Universal Postal Service in Spain.

Correos is a state-owned corporation financed through its revenues and receives no State aid. The compensation for provision of the Universal Postal Service derives from the financial burden assumed for providing this service throughout Spain under conditions of quality, accessibility and affordability, in accordance with postal regulations.

In 2016, Correos' revenue decreased slightly, in line with the decline in postal activity, although at a lower rate than the market as a whole, thanks to the growth in revenues in parcel and other business segments.





The intensification of the substitution effect

The expansion of digital communication alternatives (encouraged by e-Government, digital banking or electronic invoicing) is one of the main causes of the reduction of postal volumes. In 2016, this trend was maintained, although the decline was less than in previous years.

A survey conducted by the National Commission for Markets and Competition (CNMC) (Household Panel for the second half of 2016) shows that 71% of Spanish population do not usually receive private mail. The survey also concludes that the number of postal communications that private

individuals receive from companies is decreasing: 32% of Spaniards only receive electronic invoices or statements from their service providers.

Moreover, Public Administrations have intensified the use of digital communications after the entry into force of Act 39/2015 of 1 October on the Common Administrative Procedure of Public Administrations, which establishes the obligation of legal entities to use digital media and the right of citizens to receive electronic notifications and to carry out paperwork online.

However, this rapidly increasing use of technology is also generating business opportunities for Correos to provide digital services for companies,

private individuals and Administrations, as part of its diversification strategy.

Likewise, within this framework of coexistence between physical and digital communications, Correos Nexea has a multi-channel offering that allows companies to efficiently and safely manage their business mass communication flows, regardless of their format or entry and exit channel.





The evolution of the European sector

The European postal services market, especially the parcel services segment, is currently very dynamic, driven by the development of cross-border e-commerce and, to a lesser extent, by postal liberalisation and its different effects on each country's competitive environment.

In the face of these changes, the European regulatory framework is undergoing a transformation, and different interpretations are appearing on how the sector should be regulated to reconcile the defence of citizens' general interests with the need to boost the growth of expanding sectors such as e-commerce.

This context explains the proceedings opened by European Commission in recent years against a number of States on how they compensate national postal operators for providing the Universal Postal Service. In most cases, however, these proceedings have concluded by endorsing the States and their funding models as the best mechanisms for ensuring service quality. Moreover, in view of the decline in postal volumes caused by society's move towards digital services, some States have begun to raise the need for reforms to ensure the future sustainability of the Universal Postal Service. These initiatives might be geared towards aligning delivery requirements with society's current demands and towards defining a new, more appropriate funding model.



The parcel delivery market

During the first nine months of 2016, e-commerce in Spain grew by 19% according to data from the CNMC, continuing the trend of recent years. Moreover, in that same period, the percentage of Spaniards who made online purchases rose by two percentage points to 44%, according to Eurostat.

Despite this high rate of increase, e-commerce remains relatively immature, accounting for only 7.3% of total Spanish retail sales according to International Post Corporation, which indicates a high growth potential in the coming years, when compared to other European markets.

As online transactions increase and the demand for physical delivery of the purchased goods grows, competition levels also grow and parcel companies strive to offer faster, cheaper and more accessible services.

GROWTH OF THE E-COMMERCE SECTOR IN SPAIN



Source: Drawn up by Correos using data from CNMC



Technology and mobile connectivity have strongly affected the way consumers and businesses interact, particularly in the sale of goods and services. M-commerce (online purchase using a smartphone) is globally growing almost three times faster than traditional e-commerce. In Spain, 60% of users of this type of phone claim to have purchased a product or service through this device, according to a survey published in 2016 by Ditrendia.

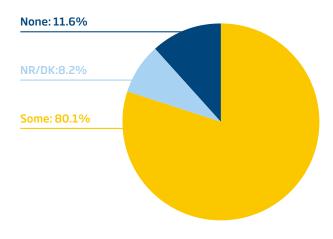
Mobile purchases mean the parcel sector must be prepared to allow the recipient to control the time and place of deliveries. As a result, automated parcel lockers available 24 hours a day are becoming more and more common, as are agreements with online shops to create collection points with extensive opening hours.

In this sense, Correos offers its customers the greatest coverage and most convenient service in the sector through its network of 2,395 post offices, its 1,321 parcel delivery devices ('HomePaq' and 'CityPaq') and its 6,392 rural services.

On the other hand, the growth of parcel deliveries to the final customer (B2C) is causing changes in the parcel companies' delivery models. The need to adapt to the availability of the recipients, as well as to their demand for updated and accurate information, mean part of the operational processes need modifying.

Connexion through tools that allow delivery staff to manage dynamic routes, generate instant SMS notifications or receive instructions in real time, are not optional values, but essential service components for competing effectively.

PERCENTAGE OF ONLINE PURCHASES INVOLVING THE RECEIPT OF A PARCEL



Universe: Persons who have made a purchase in the last six months.

Source: CNMC



Correos was one of the first operators to provide all of its delivery staff with smart mobile devices (PDA) –its subsidiary Correos Express also has them– which extend the range of mobile services offered. Moreover, Correos Express's technological options for increasing delivery effectiveness, such as the immediate location of the recipient or proactive incident-management, enable the company to improve customers' experience.

At the same time, companies in the sector are expanding their value chain, providing solutions that help SMEs increase their online sales volumes and deliveries. The growth of consumption in China is also causing companies to focus increasingly on their exports to the region, which is demanding specific services for cross-border parcels.





In this context, Correos and Correos Express have responded to these new needs of immediacy, convenience, innovation, internationalisation and adaptation to the needs of the customer with a global service offering that is designed to satisfy all communication and business needs of Spanish society.

In 2016, most of the operators in the parcel market maintained or increased their revenue thanks to the growth of the sector, driven by B2C deliveries (from companies to private individuals). However, this increase in revenues was limited by the downward pressure on prices, thus reducing these companies' potential profits.

Deliveries generated by e-commerce are expected to continue growing over the next few years. For this reason, Correos and Correos Express have opted to build robust and scalable business models that will allow them to grow sustainably in the coming years.





The telecommunications sector

In 2016, the telecommunications sector improved its growth prospects, after years of recession caused by the crisis. The evolution of the Spanish market was marked by an increase in revenues derived from broadband connectivity services, both fixed and mobile, and especially from those offering higher added value.

In the regulatory field, the European Commission proposed ambitious connectivity objectives for Europe that broaden those envisaged in

the European Digital Agenda. This will entail a major reform of the electronic communications regulatory framework, with measures to reduce deployment costs and support the development of networks that improve coverage in rural areas.

Both the improvement in the Spanish market and the changes envisaged in European regulation mean new business opportunities for Correos Telecom, whose commercial activity is based on providing telecommunications infrastructures to other operators.

The fibre optic network managed by the subsidiary covers urban areas of great interest for the deployment of next-generation mobile networks (4G) and the installations and locations of infrastructure in Correos buildings have excellent radio visibility, especially useful for the new mobile networks, radio-relays, DTT, WiFi, 4G/5G, etc. which other companies in the sector need to deploy.



Market trends: opportunities and risks





RISKS

New consumer habits



- Growth of e-commerce
- Development of convenience networks and parcel lockers
- Increased demand for personalised communication
- Digitalisation of society
- Generalisation of the collaborative economy

Transformation of society



- Growth of the urban population
- Development of smart cities
- Ageing population
- Demand for social and proximity services

New available technologies



- Mobile connectivity and real-time geolocation
- Growth of the Internet of Things
- Robotisation of logistics processes
- Generalisation of the use of Big Data
- Autonomous vehicles
- Implementation of systems for secure payments (blockchain)

Environmental awareness



- Demand for environmentally sustainable products and services
- Traffic's limitations in city centres



Business model and value creation

CORREOS GROUP RESOURCES



51,027 employees, being one of the largest employers in Spain, with over 1.5 million hours of training per year



Investments of 86.0 million euros, mainly in infrastructure and new technologies



30 logistic centres and over 8,700 service points across Spain



About 16,400 own and outsource-hired vehicles, 276 of them electric



1,321 parcel automatic lockers 'HomePaq' and 'CityPaq'



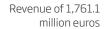
Over 1,000 volunteers in 'Solidarity Teams', contributing to social progress

Capillary network • Latest technologies • Commercial solutions for all communication and parcels needs • Innovation • Reliability and experience Efficiency in providing public service



Talent and pride of belonging • Energy efficiency and emissions reduction • Ethics and good governance • Extensive trajectory of collaboration with the tertiary sector • Business reputation • Quality and orientation to the customer experience

OVER 300 YEARS OF CONTRIBUTION TO SOCIETY





Over 3 billion deliveries to companies and private individuals



Driving e-commerce and foreign trade of Spanish companies



Contributing to the digital transformation of society



A 10% reduction in CO₂ emissions per postal item











In 2016, Correos Group culminated the 100-300-1,500 Action Plan, meeting a large part of the objectives set for greater diversification of activity, commercial effectiveness, optimisation of operations and innovation, all of them backed by the transformation of the organizational model.

The measures developed have supported the Group process of adaptation to the new needs derived from an increasing digitalised society.

ACHIEVEMENTS OF THE 100-300-1,500 ACTION PLAN

DIVERSIFICATION	COMMERCIAL EFFECTIVENESS	OPERATIONAL OPTIMISATION
Development of new business lines	Comprehensive solutions tailored to customer needs, with a multichannel approach, by enhancing the strengths of sales force and commercial tools.	Increased efficiency in our delivery networks and customer service and in administrative costs
Global parcel offer for all delivery-time needs and new delivery model. New 'Tu Correos' post offices with renewed product offering and sales and customer-service model. Digital services led by 'Comandia' or the 'Tu Correos' online portal. 'Correos Prepago' prepaid card.	New commercial and customer care model. Development of the Commercial School. New customer-service channels. Exponential growth of the activity and followers on social media. Introduction of the 'Más cerca' loyalty card in post offices. Correos Nexea multi-channel strategy. 'Correos Directo' direct marketing offer. New sales models for Correos Telecom telecommunication services.	Automation plan for parcel processing. Opening of the integrated logistics centre (CLI) in Barcelona. Simplification of the admission processes in post offices and centres. Adaptation of transport and delivery networks. New model of parcel delivery cart.



ORGANISATIONAL MODEL

INNOVATION

Transformation of corporate culture, giving priority to teamwork and adapting to change.

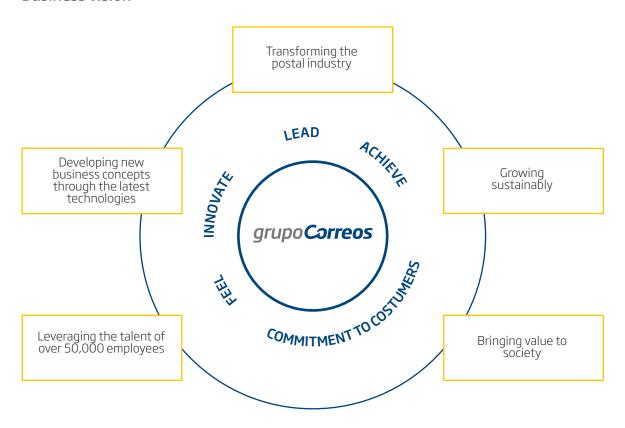
Solutions that anticipate new customer demands.

Retention of talent and professional development ('Clic' program, performance evaluation model, internship program). Training (e-learning, leadership programmes). Corporate volunteer programme 'Correos Solidaridad'. New communication channels for the active participation of employees in business projects. Increased customer orientation (definition of a new customer care model based on customer experience).

Implementation of ideas generated by the internal 'Innovation Teams': 'HomePaq'. Support for external innovation. Services for smart cities. New smart mobile devices (PDAs) for all delivery staff. 'Nexo' Platform of Correos Nexea. Correos Express services to ensure delivery: recipient immediate localisation of the recipient in case of absence, proactive incident-management and delivery time-slot prediction. Innovative philately products with new media and materials. First CO₂ neutral direct marketing campaign. Carbon footprint calculator to neutralise customer emissions.



Business vision



Adapting to change

The new challenges currently posed by the markets in which Correos Group operates, the need to adapt the product and service offerings, and the way in which the organisation approaches its customers and responds to their needs are the foundations on which the new business project has been based for the coming years.

Starting in 2017, the Group will begin implementing a new strategic plan, with a time horizon to 2021, which will enable it to meet its medium and long-term business objectives.

In this new strategic project, innovation will play an important role, which will enable the Group to diversify its activities and strengthen its growth in the new business lines. The Group will continue to focus on internal innovation, providing opportunities for its development and creating the necessary conditions for using the intellectual capital of its staff.



Objectives for 2017



Start of the new strategic plan until 2021 with new business lines to respond to the new challenges.



The introduction of a new fleet management system.



Expansion of services available through the Correos Nexea multi-channel platform.



Strengthening the Correos and Correos Express parcel processing capacity with new equipment and by expanding the operating space for sorting international volumes.



Completion of the employment consolidation process and development of the new call for the creation of quality employment.



Managing diversity as a competitive advantage.



Promotion of the new Correos store in the Alibaba group's Tmall Global platform for selling Spanish products in China.



Promotion and support to innovation through the CorreosLab space and the internal entrepreneurship programs.



Reduction of energy consumption in Correos buildings.



Increase the low-emission vehicle fleet.



Main associations to which Correos Group belongs

BUSINESS

CEOE

Corporate Excellence-Centre for Reputation Leadership

Círculo de Empresarios

Fundación Consejo España China

AED (Asociación Española de Directivos)-Spanish Association of Managers.

AESPLA (Asociación Española de Servicios de Prevención Laboral)-Spanish Association of Occupational Health and Safety, of which Correos is vice-chair.





European Union Postal Sector Dialogue Committee

Dircom (Asociación de Directivos de Comunicación)-Association of Communication Managers

Observatorio de Comunicación Interna (Observatory of Internal Communication), of the Instituto de Empresa, Atrevia and Capital Humano, and Foro de comunicación Interna (Internal Communication Forum) of Alcor consultants

DEC (Asociación para el Desarrollo de la Experiencia del Cliente)-Association for the Development of Customer Experience

AUTELSI (Asociación Española de Usuarios de Telecomunicaciones y de la Sociedad de la Información)-Spanish Telecommunications Users and Information Society Association

Ametic (Asociación de Empresas de Electrónica, Tecnologías de la Información, Telecomunicaciones y Contenidos Digitales)-Association of Electronics, Information Technologies, Telecommunications and Digital Contents Companies

Eurocloud España (association of companies offering their products and services using Cloud Computing technology)

@asLAN (ICT industry association)



Main associations to which Correos Group belongs

INTERNATIONAL

Universal Postal Union (UPU): Correos belongs to the Postal Operations Council, chairs the PPS*Clearing Group and co-chairs the Remuneration Integration Group. Correos is also a member of the Steering Committees of the Direct Marketing Development Forum and the post Group of the Council

International Post Corporation (IPC): Correos is a member of the Operations Committee, the Sacks and Trays Cooperative, the EMS Cooperative and collaborates in eCIP-INTERCONNET and in FoMbA (Future of mail by air)



Unión Postal de las Américas, España y Portugal (UPAEP)

PostEurop: Correos chairs the European Affairs Committee

E-Parcel Group, focused on parcel services, basically in Europe

Kahala Post Group, a trade alliance with the postal operators of Australia, China, Hong Kong, Japan, South Korea, Japan, United States, United Kingdom, France, Thailand and Canada

EuroMed, association of postal operators of Mediterranean countries

SOCIAL RESPONSIBILITY AND GOOD GOVERNANCE



'Business for a society free of gender violence' network of the Ministry of Health, Social Services and Equality

Spanish Global Compact Network

Institute of Internal Auditors

La Caixa 'Incorpora' (Incorporate) programme

Forética: Correos is a member of the Climate Change and Transparency, Good Governance and Integrity Cluster





Orientation to new needs

Goals achieved in 2016



Rolling out of the '*Tu Correos'* online portal for selling postal products, postal merchandising or tickets to events.



A new express parcel service for businesses, 'Paq Today', put on the market, with same day collection and delivery.



Incorporation of Correos Express 'ePaq24' and 'Paq Empresa14' services.





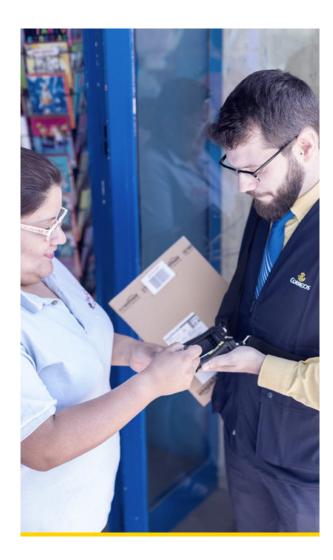
In an environment where demand for online products and international trade is growing rapidly, Correos Group has carried out several initiatives to promote and facilitate e-commerce among Spanish companies, providing solutions for all phases of its value chain: from creating online stores, to the logistics management and the final delivery to the recipient.

The products and services that the Group developed in 2016 are also aimed at satisfying online buyers' new demands, such as improving effective delivery on the first attempt, setting the day and time to receive the order when it is needed, and same day delivery.

Delivery on same day as purchase

'Paq Today', one of the new services created, is a parcel solution for business customers, with same day pick-up and delivery within the same province. This service provides two delivery attempts and full traceability, along with value-added features such as reimburse, electronic proof of delivery or delivery in a selected time slot.

Thus, Correos offers an urgent delivery service, adapted to the new requirements of e-commerce that complements its parcel solutions offering for this sector.





Parcels wait for the customer

One of Correos' purposes is to offer its customers maximum convenience in delivery. This is the goal of the network of 1,321 'HomePaq' and 'CityPaq' parcel automatic lockers, available at any time and in locations that are always close to the customer.

The 'HomePaq' devices enable customers to receive online purchases or send items without leaving the home or workplace, thus avoiding failed deliveries that significantly increase the logistics costs of a delivery and inconvenience the customer. Located in residents' communities, companies and other places, their use is becoming more general thanks to their accessibility.

The 'CityPaq' lockers are available at large influx points such as companies, service stations, metro and train stations and transport hubs.

Last year, Correos also reached commercial agreements with several companies to install 'CityPaq' devices in 1,500 service stations and over

150 public car parks, so that users can choose the most convenient location to collect their online purchases. They are also available as alternative delivery points for customers of major retail brands such as El Corte Inglés, Privalia or Carrefour.

Moreover, with the 'Entrega Directa' direct delivery option, if the online store does not use this product delivery system, the customer merely needs to state the terminal reference as the delivery address at the time of purchase.





Urgent services covering all needs

In 2016, Correos Express offered two new services for the B2B and B2C segments to meet the specific needs of these customers:

- 'Paq Empresa14', with guaranteed delivery before 14:00 on the next business day, for business to business parcels, from any origin and to any destination on the Peninsula.
- 'ePaq24', with next-day, door-to-door delivery especially designed for delivering online purchases to private individuals.

These new options are complemented with the Correos Express systems to improve the customer experience, such as the immediate location of the recipient in case of absence, delivery time-slot prediction, proactive incident-management or the 'Advanced Digital Signature'.

In this way, Correos Express offers a portfolio of services adapted to each delivery time-requirement ('Paq 10', 'Paq 14' and 'Paq 24') and to each type of recipient ('Paq Empresa14' and 'ePaq24').

The company also has a global logistics and storage solution for online stores, which includes

the reception and verification of merchandise from suppliers, as well as stock control and preparation of parcel items, with information in real-time. This service allows online sellers to transform their fixed logistics costs into variables, with the security offered by a company that is expert in the safe and efficient delivery of their products.

In addition, in 2016 Correos Express incorporated 'EquiPaq 24', a 24-hour luggage service for people who want to avoid travelling with their suitcases.

Correos also transfers the personal belongings, bicycles or backpacks of the pilgrims who are travelling on the *Camino de Santiago* (Way of St. James) to the place where they begin the route or back to their home, besides offering other services, available at

www.elcaminoconcorreos,com







Internet for SMEs

'Comandia' is Correos' global e-commerce solution with which companies can easily, quickly and securely design and manage their online store and market their products on the Internet. This platform provides customers with the best logistics network in the market for delivering their products, as well as Correos' know-how in marketing, design and stock management, in addition to the reputation of the Correos brand.

'Comandia' simplifies all phases of the e-commerce value chain through its two modalities: Shop (for creating online stores) and Express (for selling articles in large marketplaces). In 2016, it incorporated new tools, such as advice by phone, email or chat, free web courses and video tutorials given by professionals or a blog ♪ on e-commerce.

Another proposal created in 2016 was 'Comandia Showcase' that allows users to promote the products available in the Comandia stores through a space on Correos' web, making them visible to

the thousands of people who visit the site every day. Customers can also access the company's parcel delivery options through this channel.

Small companies also have 'Comandia Design', in which a team of designers creates a tailored online store suitable for any device (computer, smartphone or tablet).



More secure, convenient shopping

Physical or digital purchases are easier with the 'Correos Prepago' prepaid card, which has been in great demand since its launch in 2015. This product, marketed through www. correosprepago.es website and over 2,300 post offices, offers maximum security, as it is not linked to any bank account, thus limiting the risk to the prepaid amount. The card permits contactless payment, cash withdrawals at many post offices without maintenance fees.

In 2016, Correos also opened '*Tu Correos*', its own online store, which offers postal merchandising, books, stationery, music, video games, technological accessories, decoration items, educational toys or Unicef gifts. Customers receive the products purchased, free of charge, at their home, the nearest post office or any 'HomePaq' or 'CityPaq' device.

Through this website customers can also buy tickets for cinemas, museums and all kinds of

events, which can be printed or collected at one of the Correos post offices.

With 'Tu Correos', the company opens a new virtual space for commercializing the products that were available in the 'Tu Correos' post offices.





Agreements to promote e-commerce

Correos also promotes the development of e-commerce in Spain by taking part in meetings and business forums, and through collaboration agreements with leading companies in their sectors.

Last year, the company signed an agreement with the National Federation of Associations of Autonomous Workers (ATA) so that its members can access the Correos services for creating and managing virtual stores and for parcel deliveries at special prices.

Moreover, as Alibaba group's benchmark logistics operator for the Spanish market, Correos has developed specific logistics solutions to reduce delivery times and improve Spanish customers' experience when purchasing Chinese products using AliExpress, the Alibaba platform which connects Chinese sellers with the world, and for which Spain is the second largest customer globally.

Similarly, last year Correos organized, together with Alibaba and *ICEX España Exportación e Inversiones* (ICEX Spain Export and Investment), meetings in Madrid and Barcelona to advise

Spanish SMEs on how to boost their exports to China through the Tmall Global platform.

Correos will also act as a facilitator of Spanish foreign trade to China, with the opening, in 2017, of its own store in Tmall Global, so that small and medium enterprises can offer their products to 400 million Chinese online buyers, the world's largest market.

SOLUTIONS FOR E-COMMERCE

BUYING/SELLING



- · 'Comandia'
- 'Correos Prepago' prepayment card
- 'Tu Correos' online store
- Agreements with online sellers

DELIVERY



- Correos Group parcel services
- 'HomePaq' and 'CityPaq' parcel automatic lockers
- Technological applications for effective delivery

RETURNS





- Collection services
- Post offices network
- Reverse logistics services



Solutions for the telecommunications sector

Correos Group's presence in the digital services area is complemented by the offer of Correos Telecom. The subsidiary provides network services to other operators and companies in the telecommunications market, selling high-capacity connectivity solutions, cable-laying infrastructure and co-location for radio emissions (mobile network, radio, TDT, etc.).

The most in-demand services are the leasing of circuits, of linear infrastructure and of radioelectric sites, whose growth in 2016 contributed to the increase of the company's revenue.

In addition to the pay-per-use model, last year the interest of some operators was reactivated by the rental of conduit infrastructures and dark-fibre optics through long-term irrevocable rights of use (IRU).

Correos Telecom continued to renovate and deploy new fibre optic infrastructure for commercialization.

The company also expanded its coverage of Madrid's main neutral data centres and private data processing centres, offering large companies fibre optic channels and capacity circuits for data transmission and Internet access, to meet their demand for comprehensive services.



The replacement of postal communications by new digital channels is linked to a deep change in the habits of society, to which Correos Group responds with global communication solutions adapted to the new demands of multichannel capacity, immediacy and personalization of messages.

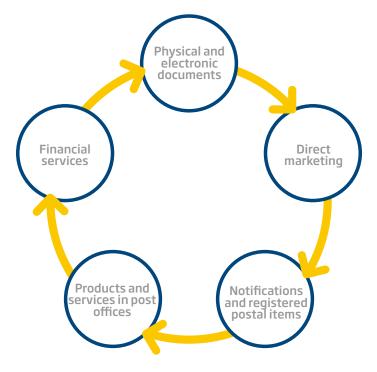
Effectiveness of promotional communications

In addition to a broad catalogue of services, Correos offers companies 'Correos Directo', a comprehensive direct marketing solution for optimum results in their information, new customer and loyalty campaigns.

In 2016, improvements were made to 'Correos Data' services (database rental), incorporating over 133 million new registers and 'Correos ADD' (address standardization), ensuring geo-referencing throughout the national territory.

In order to increase the effectiveness and control of advertising campaigns, the 'Publicorreo Óptimo' (delivery of standard format mailings) and 'Publicorreo Premium' (mailings with flexible size/weight or design) products incorporated the option of online tracking of the delivery, by postal code, town and/or province.

PHYSICAL AND DIGITAL COMMUNICATIONS ____





Multichannel communications solutions

The Correos Nexea subsidiary, with a wide portfolio of multichannel products, gives business comprehensive control over the physical and digital channels they use in their mass communications.

Correos Nexea offers comprehensive solutions, from documentation consulting to deposits for postal distribution or integration into digital environments. Correos Nexea's business offering is rounded off by services such as returns management, database maintenance, digitalization and data recording, digital storage and custody and fulfilment.

Since 2015, the company has commercialised 'Nexo', a unified platform for generating physical and digital documents, integrating them into an omni-channel management system. This tool allows companies to physically send transactional mail to their customers and, at the same time, to send by electronic channels large volumes of telegrams and burofaxes.

CORREOS NEXEA SERVICE OFFERING FOR SPECIFIC SECTORS



Public Administration

- Web platform for document management
- Comprehensive notification service
- Digitalization of proof-of-receipt documents
- Communications for tax management



Banking

- Web platform for document management
- Transaction information
- Integrated full-colour statement
- Information on investment funds
- Portfolio reports
- Checks
- Full-colour marketing campaigns
- Newsletter
- · Online banking



Utilities

- Web platform for document management
- Customer invoices
- Direct debits
- Internal reports
- Invoices
- Full-colour marketing campaigns
- Gift promotions
- Payrolls
- Loyalty card statements
- E-documents



Integrating with this solution allows them to design, generate, consult and safeguard communications (physical and electronic) in a single repository, choosing the most appropriate channel to address their customers.

In 2016, 'Nexo' was also adapted for integration with Notific@, the General Administration's Shared Notification Management Service. Using 'Nexo', the digital notifications are stored and safeguarded, together with the status file and the certification of proof of the electronic delivery, guaranteeing its complete traceability and providing a fully legally valid certification.

Moreover, in 2016, Correos Nexea began to implement its new multi-channel platform for generating and managing mass communications in multiple physical and digital formats (paper, emails, sms, web pages and notifications). This has been designed using a modular architecture that

can incorporate new channels, and it has advanced systems of control and supervision of the activity to achieve the highest levels of traceability, quality and availability in all postal and digital production processes.





Improved customer experience in the post offices

In 2016, the Correos' network comprised 2,395 post offices. In addition to being a fundamental channel for admission and delivery of postal and parcel products, the post offices commercialize other types of postal, philatelic, convenience, financial and telecommunication products and services that make them ideal places for meeting all the communication, business and even leisure needs of private individuals and companies.

The new contract-signing service allows companies to validate their contracts with their own customers through digital signature devices at any post office of Correos' network.

The post offices are also business generation centres for SMEs and freelancers, who have the 'Más cerca' loyalty card that offers them products and services tailored to their specific needs and promotions for their deliveries.

Since 2015, Correos has been implementing the new 'Tu Correos' post office model. This is an innovative format aimed at improving customers' experience and it is characterised by personalised advice, a more agile admission thanks to the digital tablets available to customers, and self-service sales, among other features. In 2016, this new sales and customer service model was operational in 239 post offices.

Among the most popular self-service products available are the national and international parcel services with flat rate, which offers various forms of prepaid packages, with a fixed price regardless of destination or weight, for all sizes or delivery needs.

In 2016, new merchandising articles (key chains, decoration accessories and telephones) and products for pilgrims in the post offices located on the Way of St. James (mini-first-aid kits, torches, knives, hats, backpacks) were also sold, as well as ticket sales for all types of events.

At the beginning of 2016, Correos finalised its agreement with Deutsche Bank for jointly providing banking services under the proprietary brand BanCorreos. A new agreement is expected to be signed with another bank in the coming months. Additionally, Correos offers solutions for transferring money, such as the money order, the international urgent money order, the 'Correos Prepago' prepayment card or Western Union's 'Money in minutes' service.





Philately, a reflection of the present

The philatelic offer promoted by Correos is increasingly innovative in its manufacture, materials, and in its subjects. Some of the year's most noticeable examples were:

- The stamp against school harassment printed on a mirrored surface, whose reflection depicted that each one of us is an important part of the solution.
- The stamp dedicated to the 75th anniversary of the fire in the city of Santander, made with a die that simulated the burning of the stamp.
- Envelopes made of metal (for the series dedicated to the State Industrial Engineers) or simulating a tree leaf (for the Europe 'Think Green' series.)

The most important philatelic series of the year was dedicated to the commemoration of Correos' 300th anniversary, which included a case with three miniature sheets in gold, silver and bronze, as well as a commemorative coin in chrome silver. In addition, a book was published with a selection of the 300 most important stamps of Spanish philately, which were also displayed in an exhibition during the Exfilna fair.

In addition, there were philatelic publications of collection such as the book 'XXI Centuries of Communication in Spain, History of Correos' or 'Spanish painting on stamps' and numismatic products such as 'Selection of commemorative coins', depicting the most significant events of 2016. Likewise, the philatelic documents dedicated to the Autonomous Communities or the Fourth Centenary of the death of Cervantes and Shakespeare were in great demand.





As part of the products marketed to companies, a folder with four stamps dedicated to painter Antonio López was put on sale in the Thyssen Museum, coinciding with the exhibition of the 'Spanish Realist Painters'.

Correos also inaugurated a new channel in the international portal WOPA (World Online Philatelic Agency), for the online sale of Spanish philatelic products and their postal distribution to any country, created a **blog** to communicate news of

the world of stamps in Spain and released the new website of the Correos Library, which provides online accessibility to its catalogue.

Moreover, Correos continued to support the dissemination of philately by participating in national fairs, such as the National Stamp Fair in Madrid or Exfilna, as well as in international ones (in the cities of Hamburg, Prague, Essen, London, Paris and Taiwan).

The company also promoted collecting among the younger generations through initiatives such as the new 'Da vida a tus sellos' (Bring your stamps to life) sponsorship campaign, which gained over 200 new customers, sponsored by family and friends, and the publication of a comic book, which was presented during school visits to the Postal and Telegraph Museum and in the philatelic exhibitions organized in schools throughout Spain by the Spanish Federation of Philatelic Societies (FESOFI), in which Correos also collaborates.





The application of the latest technologies to postal operations has given greater control of the processing and delivery processes, increased management efficiency and, finally, improved the reliability, speed and security of the deliveries.

The investments made by Correos in 2016 were mainly aimed at improving centres and service points, incorporating new technologies and acquiring automated sorting equipment and transport elements.

Correos' 18 automated processing centres located across the country mechanically sort 95% of mail. This means that, every day, the delivery units receive mail classified by post code or delivery sector, after eliminating almost all manual sorting tasks.

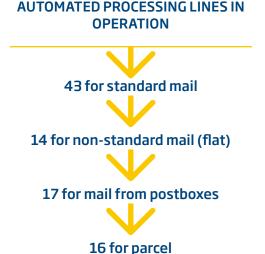
Moreover, since 2011, the company has been incorporating specific automated parcel processing equipment in its centres. This improves the management of these volumes and makes them more agile.

During the last year, Correos put into operation a new high-capacity sorting system, for small format parcels, in the mass admission centre 2 (CAM2) of Madrid. Capable of handling 8,000 parcel items per hour, this equipment significantly increased the volumes processed in these installations, separating the products according to the distribution circuits.

In 2016, the 18 automated processing centres modified their processes to handle at origin reverse logistics parcels (returns) and avoid their being classified exclusively in Madrid.

95% automation of the processing of postal items

In this way, the other centres process the customer returns in their area of influence, palletizing, labelling them and transferring the list of parcel items telematically. Thus, the load and information are consolidated in Madrid and it is only necessary to transfer parcels between vehicles for final delivery, freeing up handling capacity.





Actions to meet international demand

In recent years, international business has grown in importance, in line with the evolution of the Spanish economy and with the increase in international trade flows.

This has meant a steady increase in cross-border volumes, both inbound and outbound. Volumes from Europe and especially from China, mostly linked to e-commerce, have recently increased, especially in 2016. Similarly, the export of ordinary and urgent parcels, broke the downward trend of recent years.





Correos faced this increase in international volumes by incorporating various installations to international processing centres:

- The installation of a new automatic system for opening sacks and separating formats in the international processing centre of Madrid-Barajas. This makes processing the different products easier, streamlines customs handling and increases productivity.
- The adaptation of the parcel sorting equipment in the Barcelona integral logistics centre (CLI) to admit express inbound parcels (EPG).

Moreover, the company began operating a new centre, annexed to the international processing

centre of Madrid-Barajas, for managing international volumes with various formats (LC/AO), doubling their handling capacity. To this end, this infrastructure was equipped with six sets of equipment for preparing inbound items using voice recognition. Likewise, the resources in these facilities were adapted during the last Christmas season to guarantee the timely delivery of the enormous international inbound volumes which is concentrated during those weeks.

Following the opening of an extraterritorial office of exchange in the United Kingdom in 2015, the company opened a new office in the Netherlands last year (with two locations in the towns of Weesp and Lijnden), offering local customers the Correos' international services for its outbound exchanges to Spain and the rest of the world.



Distribution model for the new market reality

Correos is implementing a new delivery system to respond efficiently to market developments and new customer needs, adapting networks to the decline in postal communications and the increase in parcel deliveries.

The company began integrating its ordinary and urgent distribution networks. Thus, the urgent delivery employees only handle the delivery of large parcels, while small parcels are sent to the ordinary delivery units. This increases the overall parcel-delivery capacity, taking advantage of the synergies between the two networks. Moreover, during the Christmas campaign, the number of special service units (urgent delivery) in Madrid was increased to meet the greater demand during this period.

These actions were completed by a greater deployment of the new delivery cart, which now total almost 9,000 units. Their format facilitates

transport and delivery of parcels and they are more ergonomic for employees.

Furthermore, the entry into force of Act 39/2015 on delivery of notifications, which established the need to make a second attempt of delivery in the evening and at least 3 hours after the first one, meant the delivery network had to be adapted. To this end, the workforce was reinforced and a new afternoon shift was introduced, which, based on the ordinary distribution units, allowed to cover the entire national territory, in accordance with the new legal requirements.

2016
12,467
880
13,347





Urban and rural delivery employees have 26,081 smart mobile devices (PDA), with which they manage deliveries remotely and provide an increasing number of services.

In 2016, the new home collection solutions and deliveries by time slots were integrated, managing deliveries and collections by telephone with the recipient using these devices.

Likewise, the smart mobile devices were adapted for delivery in the 'HomePaq' and 'CityPaq' lockers for direct delivery option, with the space in the device being automatically reserved and offering the option of operating by means of bar code.





Innovation in Correos Group companies to increase activity

In order to cover the strong growth of parcel volumes driven by the expansion of e-commerce, in 2016 Correos Express enabled a new facility at its Coslada (Madrid) centre, increasing its operational capacity in Madrid. Moreover, the company increased the operating surface of its centres in Oviedo, Toledo, San Sebastian, Ibiza and Granada.

Correos Express also incorporated improvements in the smart mobile devices (PDA) software used by its delivery employees, to make calculating routes easier and to reduce the delivery allocation times. In total, Correos Express invested 5.7 million of euros in developing these actions.

Correos Nexea allocated 0.9 million of euros to acquire folding and enveloping machinery, renewing computer equipment and computer licenses and expanding its hosting infrastructure.

The subsidiary also upgraded the enveloping system software to incorporate optical reading of inserts and envelopes, incorporated improvements in the service security with a greater control over process quality, and externalized digitalization to focus its activity on digital channels management.

Correos Telecom also invested 1.1 million of euros, mainly to improve the Correos Group's network and manage projects such as the technological endowment of the CorreosLab innovation space, inaugurated in 2017.

Additionally, Correos Telecom supported the development of the following technological projects of the Group:

- The deployment of IP telephony in all Correos' centres.
- The implementation of geolocation fleet management in 97% of Correos vehicles.
- The implementation of the extraterritorial office of exchange in the Netherlands.
- The installation of new technological equipment in post offices (visual content manager on screens, WiFi access or selfservice machines).
- The expansion of the bandwidth management infrastructure of the Group's communications network.
- The implementation of the Workplace Energy Efficiency Project software.



In 2016, Correos implemented a new customer care quality model based on customer experience, founded on three pillars:

- Listen and measure: Using specific measurement systems and operational indicators to evaluate this experience, weighing the importance of the various moments of the relationship between Correos and its customers.
- Action: Selecting the most appropriate initiatives to improve this experience.
- Medium and long term transformation to increase customer-orientation.

This new model involves deepening the customerorientation culture, identifying areas for improvement and planning the necessary training, business and strategic actions.

In addition to the annual satisfaction index survey, one of the methodologies used by Correos to evaluate its customers' experience is the recommendation index, which allows to learn the extent to which they would be willing to recommend the company and its services. This index is calculated by finding the difference between the promoters (those who give values between 9 and 10) and the detractors (whose evaluation is between 0 and 6).

In 2016, this evaluation was addressed to customers with contracts and the proportion of prescribers increased to 31.5%. The work of

commercial managers continued to be valued very positively, maintaining a recommendation index of over 27%.

Group subsidiaries also regularly monitor customer satisfaction. Thus, Correos Nexea's customers valued their service with 4.0 points out of 5, being the most highly appreciated aspects the commercial attention and the resolution of complaints concerning billing.





Digital channels closer to customers

Correos Group offers its customers specialised attention through various channels, such as the sales, after-sales and post office network, the telephone channel, corporate web and social media.

During 2016, the Correos website was completely renewed, with a more dynamic design, adapted to mobile devices, making it easier for different customers to find the most appropriate solutions to their needs.

This transformation made it possible to focus more closely on digital services, including new business lines, and a segmentation of content more closely linked to improving the customer experience.

The improvements resulted in a year-on-year increase of 11% in web traffic, which is at over one million registered users. Similarly, it was achieved an 87% improvement in the quality perceived by the customer.

In line with the increase in total traffic, requests for information through the web grew 37%, while telephone inquiries rose 29%. Likewise, Correos' activity on social media registered a 29% increase in the number of followers, thanks largely to the growth of Instagram and YouTube profiles.





FOLLOWERS ON SOCIAL MEDIA	2015	2016	VARIATION
Facebook	80,547	94,426	17.2%
Twitter	23,116	31,943	38.2%
Linkedin	7,916	10,204	28.9%
Instagram	1,392	3,435	146.8%
YouTube	736	1,154	56.8%
@CorreosAtiende	-	4,351	-
Google+	987	1,140	15.5%
TOTAL	113,707	146,653	29.0%

Responding to this trend, the company opened a specific customer-service channel on Twitter, @ CorreosAtiende, which answers users' questions immediately, with a personal service focused on their specific needs.



Correos followers on social media grew by 29%, reaching 146-653



Likewise, two new corporate profiles were generated on Facebook: 300 *Buzones Mágicos*, (Magic Post Boxes), linked to Correos' 300th anniversary and with a community of 12,364 followers at the end of 2016, and *El Camino Con Correos* (The Way with Correos), with 5,333 followers and with all the information and postal services related to the Way of St. James.

In this last sub-profile a photo contest was held to compile the best images and a special edition of pre-franked postcards using the images of the winning and finalist photos was issued.

In early 2016, the company also launched the website www.elcaminoconcorreos.com, which includes recommendations and useful data to enrich the pilgrim's experience along the different routes of the Way of St. James.

In this portal, Correos' employees give their advice on the possible doubts of the traveller on what to visit, eat or enjoy at each stage of the Way. Likewise, they are offered a meeting place where they can share stories through the *Postales del* Camino (Postcards of the Way) blog and a space where they can create a group album, sending or uploading the photos to any social media with the hashtag #elcaminoconcorreos.

As a benchmark in the e-commerce sector, the , **El blog de e-Commerce** was also updated last year with a new structure and content hierarchy.





Promotion of integral quality

Correos Group has a quality control system based on UNE- EN ISO 9001, which allows the company to apply the continuous improvement cycle to all activities and scopes of the organization.

Within this system, the League of Excellence is the tool used for evaluating the performance of the Correos operating units, offering them information about their fulfilment of the objectives and their contribution to improving the quality of the service and achieving the Company's objectives.

On the other hand, since 2014, the company has applied the LEAN continuous improvement system, a methodology based on people, achieving the highest efficiency in all processes and providing maximum value to customers, eliminating anything superfluous. Last year, this methodology, implemented in 28 operating units, allowed an improvement in productivity equivalent to 58,400 annual work hours.

In 2016 Correos renewed its UNE- EN ISO 9001 certification for 2,191 post offices, 18 automated processing centres, the Madrid mass admission centre 2 (CAM2), the integrated logistics centre in Barcelona (CLI), the postal processing centre and international processing centre in Madrid-Barajas, as well as for customer service.

In addition, the Madrid-Barajas international exchange office once again obtained the International Post Corporation's certificate of excellence, valid for three years, for its good performance in managing and processing priority international items.



On the other hand, Correos Express and Correos Nexea renewed the certificates of all their centres according to the new version of standard UNE-EN ISO 9001. Correos Nexea also renewed the UNE-EN ISO 27001 certifications in management of information security for their information systems and PCI-DSS (Payment Card Industry Data Security Standard).

Similarly, Correos Telecom certified its procedures in accordance with standard UNE-EN ISO 9001. The subsidiary has also adapted its processes to the PMP certification (Project Management Professional) and ITIL (Information Technology Infrastructure Library) methodology for quality management of information technology.





Goals achieved in 2016







Development of the employment consolidation process for covering **1,606 job positions**.

Universalization of the access to the 'Conecta' intranet through any kind of devices.

Implementation of 'Clic', talent management project, with over 500 people joining the programme.





Correos is one of the largest companies in Spain by number of employees. The workforce of the parent company comprises 49,785 employees (FTE), of whom 28% are civil servants and 72% are workers under ordinary employment contracts. In total, the companies of the Correos Group employ 51,027 people.

AVERAGE STAFF (FTE)	2015	2016
Correos	50,153	49,785
Correos Express	1,040	1,036
Correos Nexea	142	159
Correos Telecom	49	48

CORREOS STAFF BY ACTIVITY



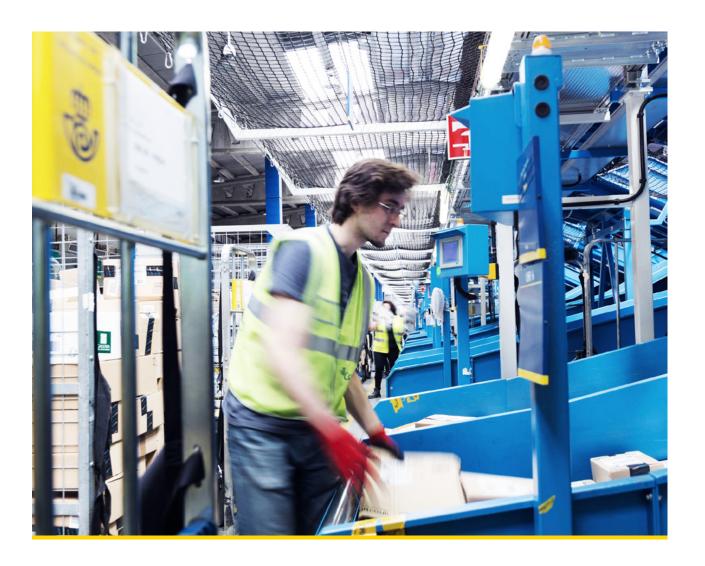


Creation of stable, quality employment

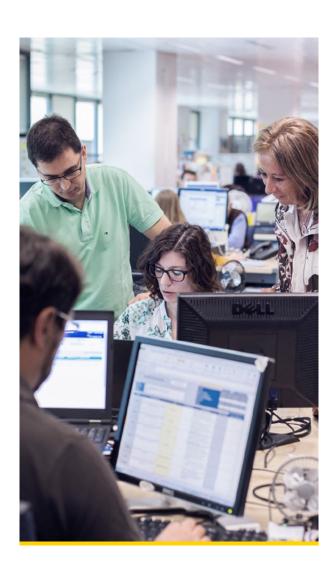
With the aim of reducing temporary employment and promoting stable, quality jobs, Correos began an employment consolidation process at the end of 2015 to cover 1,606 fixed workforce positions in logistical and urban and rural delivery tasks.

Over 124,000 applications were processed and about 62,000 candidates took the selection test on November 27, 2016. Selected candidates will join the company in June 2017.

Also, in December 2016, a new process was made to cover 2,345 permanent operational positions. This will be rolled out throughout 2017, in accordance with the provisions of Act 48/2015, General State Budget for 2016, on permanent contracts in State-owned trading companies.







Adaptation to the evolution of the business

Changes in the demand for postal services and greater efficiency requirement have seen employment levels in Correos gradually adapt to activity levels, always ensuring that the company fulfils its role as designated operator to provide the Universal Postal Service.

This adaptation is mostly carried out by not replacing people in positions which are not essential for conducting the business who are retiring or transferring to the General State Administration.

However, in 2016, staff was reduced less than in previous years, as a result of the labour needs arising from the increase in parcel volumes and the application, from October 1, of Act 39/2015 on delivery of notifications.

This new regulation required the establishment of a second delivery attempt during the evening and forced a modification of the delivery operating processes, which meant strengthening the workforce of the affected units. This entailed the hiring of near 7,000 part-time people in the last quarter of the year, an increase of 392 employees (in annual full-time equivalent terms).

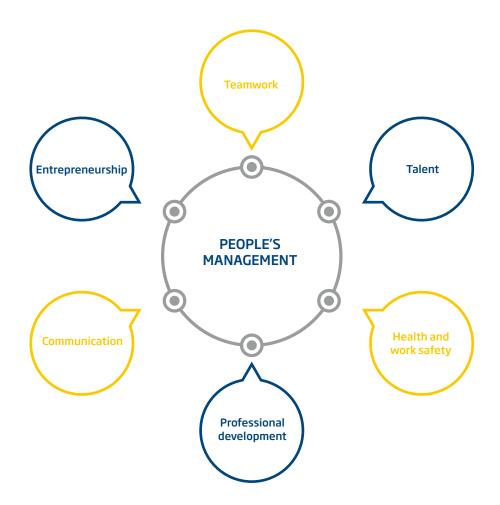


Talent management

Empowering our talent

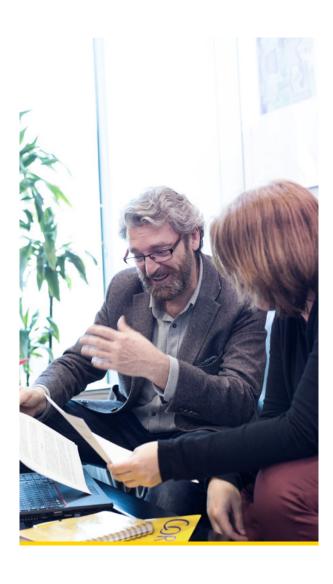
In 2015, Correos began to develop a new talent management programme whose objective is to identify, evaluate and develop our people. This ensures that we can cover the key positions needed to respond to new strategic lines.

In mid-2016, the second phase of the 'Clic' programme was developed, incorporating a first group of 526 employees selected for their potential, motivation and ability to cover key positions in the future. Different tests and interviews were carried out to identify their strengths and areas for improvement in order to subsequently design professional development plans tailored to business needs.





Talent management



Facilitate career advancement

Correos has a policy of career opportunities that prioritizes covering positions through internal promotion. Last year, 13,391 employees took part in the selection process, in which 965 internal candidates were chosen:

- 542 to assume new roles and/or responsibilities.
- 423 to provisionally perform post office and delivery management functions.

During 2016, the permanent transfer system was executed as a continuous process to meet the mobility expectations of the professionals who demand jobs in post offices, delivery units and processing centres. In total, three processes were completed, allowing the transfer and promotion of 1,254 people.

Incorporate young talent

Correos has collaboration agreements with 22 universities and business schools to accept students who take internship programs in various corporate departments. Within this work experience programme, 54 students from several universities and the SEPI Foundation joined the company during 2016.

The company also has a University-Company relationship framework, whereby INEFC students contributed to the development of the 'Crea Salud' (Create Health) project for occupational health and safety.

In order to help students' integration into the work environment, Correos established a collaboration agreement with two specialized employment portals. Through this cooperation the company gets the profiles it needs and it is also easier to coordinate agreements with the different Spanish universities.



Talent management

Promote excellent performance

Performance evaluation makes selection, promotion, training and professional development plans more effective, as well as helping evaluate individual performance and its alignment with corporate objectives. This translates into an improvement of the Group's competitiveness.

Correos' performance evaluation system was expanded in 2016 to cover 1,556 employees, 3.2% of the workforce, including all executives, technicians and middle managers.

The Group's subsidiaries also have a performance evaluation model applied at executive and middle-management level in Correos Express (13% of total employees) and Correos Nexea (3.1%), and to the entire staff in Correos Telecom, owing to its specific goal-oriented work model.





Diversity and equality

For effective equality

As a pioneer in female labour integration and a leading company in the effective equality of opportunities for men and women, Correos has an explicit commitment to gender equality. In 2016, for the first time, the number of women in the workforce surpassed that of men, although there are almost equal numbers of both genders.

50.2%



49.8%

The company has an Equality Plan and a Protocol against occupational or moral sexual harassment, whose purpose is to prevent, identify and resolve situations that may arise in this area.

In the D 2017 Variable Report, Correos was acknowledged as one of the 25 leading Spanish companies in gender diversity. It is also one of the founding companies of the Generation and Talent Observatory for research and training in generational diversity.

The company also promotes equal opportunities for people with disabilities. To that end, the company has goods and services procurement contracts with foundations, special employment

centres and occupational centres to promote the development and integration into the workplace of people with disabilities. It also collaborates with La Caixa's *Incorpora* (Incorporate) programme to employ people with disabilities.

Correos Telecom also participates in the work experience programme developed by the Down Syndrome Foundation.



Diversity and equality

Committed against gender violence

For years, Correos has been part of the 'Business for a society free of gender violence' network, an initiative created in 2012 to raise awareness in society and promote the insertion of victims. That is why, on November 25, when the international day against violence against women was held, employees again wore badges supporting the 'Hay Salida' (There's a way out) campaign, which were also distributed to customers in numerous post offices.

Our internal regulations also include specific policies for supporting and protecting victims and are aimed at establishing proper treatment and integration. The most important are: a reduction in working hours; special consideration in the evaluation of absenteeism of the victim; leave due to domestic violence; guarantee of transfer of centre or location through rapid and efficient management; and protection of the right to confidentiality.

Social action programmes

Correos has a social assistance programme for all its permanent staff, aimed at promoting and encouraging the well-being of employees in their social-work environment. In 2016, 12,484 grants were awarded to staff members and their families for health treatments, university studies or child education, care for children with disabilities or death. Permanent staff may also receive advances and interest-free loans.

The company also offers a web discount platform, through which workers and their families can access offers on leisure, culture, health, sports equipment and consumer goods. By the end of 2016 this platform had about 25,000 users.





Diversity and equality

Favour work reconciliation

Correos take into account a number of measures to promote the reconciliation of family, personal and professional life, applicable to all staff. Working hours and shifts, or fostering online training and virtual learning, also help staff members make the working day compatible with their personal and family needs.

In some cases, the reconciliation measures contained in the company's internal regulations also extend the provisions of current legislation, such as:

- Three years' unpaid leave to care for relatives instead of two.
- The increase in the reduction of the working day for breastfeeding was extended from nine to twelve months and from half an hour to an hour.

- Leave of absence of three to five business days for hospitalization, death, accident or serious illness of a relative of first degree of consanguinity or affinity.
- Up to one month of unpaid leave for the death of a partner or children.
- Reduction of the working day to care for a child with cancer, without age limit or of a relative of first degree of consanguinity or affinity for very serious illness.

- Parental leave of up to ten calendar days.
- Voluntary leave of absence for personal reasons without a maximum time limit.

Correos Nexea and Correos Telecom have also established measures to favour the work-life balance of employees who require this because of their particular family situation, with flexible working hours and a teleworking model in which the employee is responsible for managing and completing his/her projects in a timely fashion.

MACNI

DATEDAUTY OF MATERALTY LEAVING BY CENTER

PATERNITY OR MATERNITY LEAVING BY GENDER	WOMEN		I ^v II	EIN
	2015	2016	2015	2016
Correos	286	261	74	79
Correos Express	14	14	28	26
Correos Nexea	1	7	0	2
Correos Telecom	0	2	3	1

MONTEN



Digital transformation

Training for new demands

The Correos Group's annual training plan focused on responding to the needs of the company and its employees to move towards greater digitalization and innovation, as well as to market new products adapted to market demands.

During 2016, Correos conducted 421 training activities with 217,836 participants, in which innovative techniques such as gamification and mobile learning were fostered. The level of student satisfaction with the training reached a score of 8.0 out of 10.

The training offered included new projects and services, such as the renewed customer service model in '*Tu Correos'* post offices; the qualification of staff incorporated to deliver notifications; operational and regulatory training and the Lean methodology for processes' efficiency. More than 32,000 staff members also received training in prevention of occupational hazards and over 10,000 in ethical commitment.

With more than 1,200 participants, the Comercial School added a greater number of online programs to drive change management linked to digitization. Moreover, it incorporated a new training itinerary for sales managers and training in skills and sales techniques as well as new after-sales processes.

The challenge in transforming the company involves converting managers of operating units into people managers, not just process managers. This is why the *'Liderazgo transformador'* (Transformational Leadership) project expanded its scope, to 2,462 middle managers, who were trained in personal skills.





Digital transformation

Correos is committed to a 70:20:10 learning model, combined with the different training modalities (face-to-face, on-the-job and online), so all staff members have easier access to knowledge, wherever they work.

In 2016, a pilot test was conducted for learning through mobile devices (PDAs) used by the delivery employees in their daily activity, which was very highly valued by the participants.

In the individual training area, the 'Soy digital' (I am digital) programme was designed for self-development and growth in digital competencies, with employees creating their own individual learning environments, while evaluating and comparing their progress. This programme is part of the e-learning offer, which in 2016 accounted for 68% of the total training given, and is conducted through the Virtual Campus. This space also features informal learning and ongoing and collaborative training, such as small training pills or tutorials in video format.

TRAINING HOURS BY EMPLOYEE	WOMEN	MEN
Correos	33.2	30.3
Correos Express	17.6	26.7
Correos Nexea	5.7	6.3
Correos Telecom	22.6	23.8

During the year, Correos Express carried out 79 training actions aimed at improving processes and personal skills in the commercial, quality, environment and financial management areas.

Correos Nexea and Correos Telecom conducted 16 and 17 training programmes, respectively, on topics as diverse as leadership, prevention of occupational hazards, information security or skills to promote innovation and boost quality-level improvement.



Digital transformation

Universal and multi-device access to the intranet

Business transformation is closely linked to digitization, which we promote not only through training but also through internal communication, an essential tool for stimulating the staff involvement and proactivity the new market challenges require.

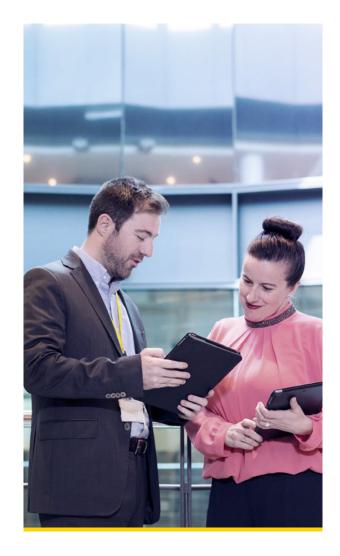
In 2016, access to the corporate intranet 'Conecta' was universalized, enabling access from outside the Correos' network (extranet). Thus, employees can access the portal and its contents from anywhere and from any kind of devices (computer, tablet or smartphone), regardless of whether these are company devices.

Thus, the nearly 37,000 staff members who do not work with computer equipment and/or whose work involves mobility, such as delivery or sorting centres employees, can find information, documents of interest, news, benefits for their daily work and their personal and work life, and

also offer their opinion on the contents and evaluate them, as the other workers do.

'Conecta' was also redesigned with a new interface, with changes to the names of some of the channels and the way of presenting the contents. The level of personalization was improved, allowing each employee, according to his or her profile, to add links, contacts and applications. The collaborative options of the previous version were also expanded, such as content evaluation and forums.

During the year, 'Conecta' received over 24.2 million visits and the 'Colabora' (Collaborate) channel hosted 545 active working groups.





Digital transformation

Improvement to the internal communication channels

In 2016 Correos conducted an audit on the internal communication channels and contents. This allowed to discover how operative they were, so we could offer employees the most interesting information at any given time through the most effective, convenient and accessible channel.

The internal communication tools available to Correos employees include:

- The 'Conecta' intranet/extranet
- Internal information memos.
- Monthly meetings of employee groups with the Chairman
- Monthly human resources newsletter
- Interviews with staff members from different groups in the '¿Quién es quién?' (Who's who?) digital space

- Correos Group Employees magazine, 'Abrecartas'
- Opinion surveys
- Mass emails
- News on payrolls and campaign inserts
- Workshops
- Visits to centres
- Sending of SMS
- Sending of personalised letters

Group subsidiaries also have suggestion boxes and other channels, such as periodic meetings with managers, internal newsletters, or emails, to communicate and receive their employees' contributions.

Correos also promotes innovation and the contribution of its staff members to continuous

improvement through various annual participation programmes, such as the 'National Award for Excellence', the 'Environmental Commitment Award', the 'Artemisa Award' for the best commercial management and the 'Atenea Award' for people and their best practices, which incorporated the renewal seal and the Diversity category as a new additions compared to previous editions. These awards are presented at the annual employee recognition day.

Correos Group maintains an ongoing dialogue with employee representatives. The various areas of dialogue and working conditions are regulated both by each company's collective agreements and by the general agreement of civil servants of Correos, applicable to practically the entire workforce.



Occupational health and safety

Prevention of occupational hazards

Correos continued to advance in the prevention of occupational hazards through initiatives aimed at protecting employees' health from an integral perspective, covering all aspects related to their physical, psychological and social well-being. Some of these initiatives were:

- 15,511 preventive medical examinations among the staff.
- Risk assessments in 522 centres, production of 62 studies on specific risks and the execution of 897 emergency or selfprotection plans.
- 137,397 hours of training in occupational health and safety, with 32,400 participants.
- 44,894 health and safety sheets provided to 18,585 workers, with specific information on risks and preventive measures for each position and workplace.

- Extension and improvement of periodic information provided to workers on good habits and measures to improve their health.
- Design of an informative campaign and national awareness on road safety.

 Development of the action plan for centres with high accident rates in 267 work units with high accident and absenteeism rates.







Occupational health and safety

Management of absenteeism and accidents

In the area of prevention of occupational accidents, the most outstanding fact is the reduction in the number of accidents involving sick leave which decreased in Correos by 2.1%. This represents an overall drop of 3.44% in the accident index (number of accidents in relation to the total workforce).

This improvement consolidates the company's downward trend in accidents in recent years, in contrast to national accident figures. Thus, the statistical report on occupational accidents published by the Ministry of Employment and Social Security with accident data from 2016 reveals that accidents with sick leave in Spain increased by 5.0%. The accident data

corresponding to the same area of activity (CNAE) registered an increase of 7.8% in the same year.

The evolution of the accident rate in the subsidiary Correos Telecom is also noteworthy; in 2016 it reached a 0 accident with sick leave rate.

OCCUPATIONAL ACCIDENT BY GENDER	CORR	REOS	CORREOS	EXPRESS	CORREOS	S NEXEA	CORREOS	TELECOM
	WOMEN	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN	MEN
Accidents with sick leave	1,915	1,632	8	33	1	5	0	0
Minor accidents	1,909	1,627	8	33	1	5	0	0
Serious accidents	5	5	0	0	0	0	0	0
Very serious accidents	0	0	0	0	0	0	0	0
Deaths	1*	0	0	0	0	0	0	0

^{*}Natural death in the workplace



Occupational health and safety

Healthy company

Correos' 'Empresa saludable' (Healthy Company) Programme, is a comprehensive programme promoting a multidisciplinary approach to those lifestyle habits that contribute to improving workers' health. As part of this initiative, several awareness campaigns were carried out. One of them was the psychological action project on 'Resiliencia' (Resilience), to confront adverse

work situations and contribute to good work atmosphere and involvement.

Moreover, the 'Reduction of cardiovascular risk' campaign, to promote healthy practices that reduce these factors, included a pilot plan, carried out during six months in the province of Alicante with 147 participants. At its conclusion, 81% of participants said that they had noticed an improvement in their health and that the

programme met their expectations. Once the results obtained have been studied, the methodology will be extended to other provinces during 2017.

Also part of the Healthy Company program, the 'Crea Salud' (Create Health) project focuses on avoiding injuries and relapses, through the advice of specialized experts on exercise habits and healthy postures to prevent injuries.

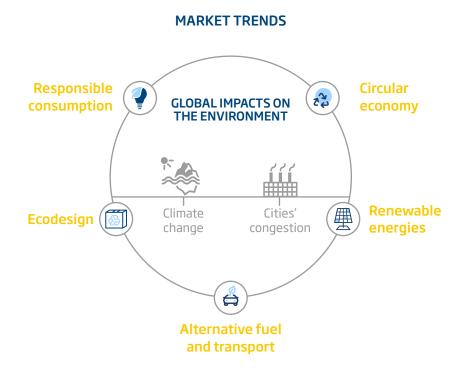






For many years, environmental sustainability has been one of the Correos Group's main strategic commitments, since climate change is a medium and long-term business risk. Aware of the ecological footprint generated by its activity, the Group develops policies aimed at mitigating most of its environmental impacts, including:

- CO₂ emissions, PM10 particles, sulphur oxides (SOx) and nitrogen oxides (NOx).
- Electricity consumption.
- Generation of hazardous and non-hazardous waste.
- Consumption of materials such as plastic, paper and printing media.
- Water consumption.
- Noise generation.





Correos' objectives

The main actions taken by Correos in this area are contained in the 2014-2020 General Sustainability Plan, which defines the measurements, indicators, management mechanisms and objectives for each of the three priority lines of action identified: energy efficiency, reduction of emissions and waste management



Reduce energy consumption on our premises by 25% by 2020 compared to 2009.



Ensure that emissions per item do not increase by more than 2% in 2020 compared to 2013. This objective also takes into account the increase in parcels, which means higher emissions per unit.



Improvement of waste management with centralised processes in the main work centres.





The environmental objectives achieved in 2016 in these three priority lines of action included:

1. Energy efficiency



- Implementation of the Workplace Energy Efficiency Project that supposed a saving of 43% in electrical consumption by computer equipment.
- Development of Desafío ECO (Correos' Eco Challenge) to promote efficient driving.

2. Reduction of emissions



- Up to 76% increase in the proportion of certified 100% renewable energy consumed.
- 10% reduction in CO₂ emissions per item.
- Acquisition of 125 new 100% electric vehicles.
- Revalidation of the silver level according to the IPC EMMS programme, corresponding to an emission management level over 75%.
- Agreements with municipalities for sustainable postal delivery in urban environments.
- Launch of the POSTLowCIT project for a cleaner last mile delivery.

3. Waste management



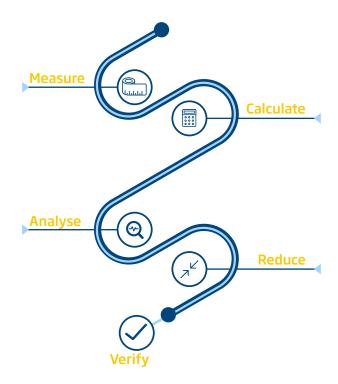
- Removal and correct management of 3.7 tons of waste from the main postal warehouses.
- Implementation of the centralised paper waste management project.



Impacts management

The monitoring of environmental risks and opportunities, the controlling of the reduction projects and the annual prioritization of actions are carried out through an environmental management system based on standard UNE-EN ISO 14001.

This system tracks global indicators, such as waste generation, CO₂ emissions, paper, water or office consumables, among others. These data are supplemented with information on polluting emissions provided by the CORINAIR methodology (reference guide prepared by the European Environment Agency to calculate emissions of NOx and SOx particles from delivery vehicles).



In 2016, Correos made the transition and adaptation of its environmental management system to the requirements established by the new version of standard UNE-EN ISO 14001.

The scope of the certifications obtained during the year covers the processes of 18 automated processing centres, 16 main post offices, mass admission centre 2 in Madrid (CAM2), the Madrid-Barajas international processing centre (CTI), and the Barcelona integrated logistics centre (CLI).

Correos Nexea also obtained the certification of its environmental management system according to standard UNE-EN ISO 14001 for its two operating centres. Correos Express renewed its environmental certifications of the Transport Centres in Madrid (Madrid CTM), Coslada (Madrid CTC) and Barcelona.



Energy efficiency in the operations

The achievement of emission reduction targets is mainly based on the implementation of the Energy Efficiency Plan, which aims to diminish the company's energy consumption by 25% between 2009 and 2020. The plan's measures for 2016 included:

- Optimization of contracted power in buildings.
- Buying capacitor banks to compensate for reactive power.
- Implementation of a Workplace Energy Efficiency Project.
- Application of Plan 100 to reduce the impact and energy costs of buildings consuming most electricity and gas.
- The extension to around 3,300 buildings of our centre-by-centre energy consumption reports, available to all employees through the 'Conecta' corporate intranet.

The Workplace Energy Efficiency Project involved the deployment of software that analyses

the situation of the various connected sets of equipment in a network and puts computers, monitors and printers on standby after a period of inactivity. In addition to extending the useful life of such equipment, this measure allowed to reduce energy consumption of 17,600 sets of equipment by up to 43%.

Similarly, a program was started for building a new type of post office with criteria that minimizes energy consumption. The first of these establishments, located in the town of Argamasilla de Alba (Ciudad Real), is expected to be operational by the end of 2017.





Energy efficiency in the operations

Correos Nexea reduced electricity consumption by installing a centralised compressed air system, which replaced the individual compressors of each enveloping machine, thus avoiding overheating the work centre which reduces the use of air conditioning systems. Moreover, some of the sites marketed by Correos Telecom use solar energy as the only source of electricity.

ENERGY CONSUMPTION (GJ)	2015	2016
Electricity	512,736	491,823
Natural gas	69,770	68,911
Gasoil	51,524	55,650
Automotive diesel	334,382	329,730
Petrol	51,849	51,615
Carbon, butane and propane	594	333

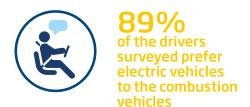
Consumption is calculated from the billing amount and the certificates that guarantee renewable origin



In 2016, the Correos' electric fleet was expanded by the addition of 125 new electric vehicles (25 vans and 100 motorcycles). In total, the company owns 276 electric means of transport of several types, especially used in urban environments and historical centres, where the circulation of traditional combustion vehicles is restricted.

The incorporation of vehicles using alternative fuels is also reinforced by acquiring clean energy. In this way, all work centres that operate using an electric vehicles, also use 100% renewable energy, thus obtaining totally emission-free deliveries.

In fact, during 2016, the amount of 100% renewable energy with guarantee of origin certificate reached 76% of the total consumption. Moreover, the integral logistics centre of Barcelona (CLI) became the first zero emissions' centre, using 100% renewable and biomass electricity for its heating and hot water systems.



At the same time, Correos and the municipality of Valladolid initiated a new sustainable postal delivery project using electric vehicles. Similarly, Correos Express reached agreements with cities like Málaga or Madrid to perform deliveries using electric bicycles and motorcycles in their urban districts. In addition to reducing emissions, this makes delivery more agile in highly congested areas.



Barcelona integrated logistics centre (CLI), Correos' first

emissions
building

The company worked on the ECOSTARS Europe project, which aims to create an environmental quality system for vehicle fleets that circulate in European cities as a way to promote energy efficiency and environmental sustainability in freight and passenger transport. The methodology provided by this initiative was used to carry out the energy audit of Correos and Correos Express' land vehicles.



Correos also leads the POSTLowCIT project, which is subsidised by the European Commission under the 'Connecting Europe Facility', because of its innovative nature. The purpose of this program is to carry out postal deliveries with low emission and noise levels, which will ensure the connection between the last mile and long distance through an optimized transport system.

In addition to using vehicles with alternative fuels, the company encourages several initiatives to promote sustainable transport among its employees.

For the third year, the company took part in the Drivers' Challenge programme, organized by International Post Corporation at the Spa Francorchamps circuit (Belgium).

To select the team of employees to participate in this competition, the company organized its first <code>Desafío Eco</code> (Eco Challenge), a race in which the most efficient drivers of each zone took part and which assessed their driving ability and the proper maintenance of the vehicles. This initiative was attended by sportswoman Laia Sanz and with

the support of the Correos Chair to design the evaluation model.

Correos also took part in several events such as the Madrid Electric Vehicle Fair and the Electric Atmosphere Exhibition (part of Madrid Mobility Week), where it presented its 'zero emissions' fleet and its commitment to using 'Greener vehicles for a less grey world'.





Less emissions in more dynamic environments

During 2016, Correos managed to reduce its total CO₂ emissions to the atmosphere, with a significant reduction of 41% in indirect or scope 2 emissions. This contributed to cutting total emissions per item by 10%.

CORREOS' GREENHOUSE GAS EMISSIONS (tCO ₂)	2015	2016
Direct (Scope 1)	39,763	38,301
Indirect (Scope 2)	17,183	10,079
Other indirect emissions (Scope 3)	112,296	116,795
Emissions per item (g CO ₂ /item)	19.4	17.4
OTHER ATMOSPHERIC EMISSIONS (Kg)	2015	2016
SOx	128	129
NOx	48,551	58,244
Particles	4,116	5,050

 CO_2 emissions are calculated by the GHC Protocol and verified according to ISO 14064. All other emissions are calculated using the CORINAIR methodology based on invoiced consumption.





In addition to reduce environmental impact, the company compensates for its emissions. For this reason, once again the annual employee recognition day was a carbon neutral event, since all the CO₂ emissions generated by organizing the act (travel, lighting, sound, etc.) were compensated by acquiring carbon credits in the voluntary emission market associated to a Peruvian Amazon conservation project, fighting against both climate change and poverty.

Correos not only attempts to neutralise its environmental footprint, but also helps its customers do the same, offering sustainable products, which incorporate a 'green' value into the supply chain.

To do so, since 2014 Correos has a carbon footprint calculator, a tool capable of identifying the routes with the greatest impact, evaluating how adopting certain measures affects the emissions of the whole network and making tailored calculations for customers interested in measuring their environmental impacts.

Through the 'Línea Verde' (Green Line) programme, Correos sells envelopes, boxes and packaging using non-polluting inks, 100% recyclable paper and cardboard. Part of its cost is used to finance reforestation projects around Spain.

In 2016, as part of the Forest Landscape Restoration Programme carried out by WWF Spain, areas damaged by the 2012 forest fire in Andilla (Castellón) were recovered, and 4,800 seedlings were planted, covering about 8 hectares.

As part of this programme, volunteers from Correos took part, together with WWF technicians, in a day of tree planting in the Southeast Regional Park (Madrid).



Responsible waste management

Although waste generation is one of the company's smallest impacts, the activity of the large number of offices, administrative buildings and logistics centres owned by Correos means they dispose of over 400 tons of waste paper every year.

For this reason, in 2016 we started a pilot project in Zaragoza to validate a waste paper management model by concentrating on a single logistics centre, as well as contracting an authorized waste manager to for the removal, destruction and purchase of the waste. This initiative also improves the management of other

types of waste (mainly cardboard, pallets and shrink wrap).

Moreover, progress was made on identifying and quantifying hazardous and non-hazardous waste located in Correos' main warehouses. This allowed for the removal and proper management of approximately 3.7 tons of waste segregated through managers.

In 2016, Correos obtained authorization to transport non-hazardous waste using its own fleet, according to the requirements of the reverse-logistics activity provided to national and international customers.

Because of the nature of its activities, Correos only consumes water for human use, cleaning and air conditioning. Therefore, it is not a material risk in assessing environmental impact. Nonetheless, the company monitors global consumption and apply savings guidelines. This has led to the automated processing centre at Vitoria being accredited with the OSO-Ondo certificate granted by AMVISA (Aguas Municipales de Vitoria-Gasteiz, S.A.) for the efficient use of water.

TOTAL WATER WITHDRAWAL BY SOURCE (m³)	2015	2016
Obtained from the public network	297,413	315,699

Water consumption is calculated based on the amount invoiced.



Contribution to social awareness

Correos promotes the adoption of sustainable practices among its employees through measures such as:

- The annual call for the 'Environmental Commitment Award', open for the first time to all Correos buildings. In 2016, 65 buildings entered, 30% more than the previous year.
- Guides to energy savings and efficiency were distributed and posters with recommendations on promoting energy efficiency were hung in buildings.
- The publication in the internal communication channels of an informative infographic, on the occasion of the World Energy Efficiency Day, which was also published on the company's social media profiles.



Correos also contributes to the awareness of society by participating in initiatives such as WWF's 'Earth Hour', a day dedicated to drawing attention to the reduction of pollutant emissions. Correos symbolically shut down its offices, centres and buildings and spread the campaign through internal and external communication channels (intranet, web and corporate profiles on Facebook and Twitter).



Contribution to social awareness

Environmental commitments voluntarily acquired by Correos



The company is registered in the Register of Carbon Footprints, Offsetting and Carbon Dioxide Absorption Projects of the Ministry of Agriculture and Fishery, Food and Environment. This register encourages organisations to measure and reduce their carbon footprint, and promotes projects that improve their ability to combat climate change.



Carbon Disclosure Project (CDP) draws up the performance indexes in managing climatic change, evaluating companies' performance and reporting on this issue .In 2016, Correos reached the category B in this reporting framework on greenhouse gas emissions.



Since 2008, Correos, along with 24 other postal operators, has taken part in the Environmental Measurement and Monitoring System programme (EMMS) of the International Post Corporation, which aims to quantify and reduce the postal sector's CO2 emissions. Within the EMMS evaluation scheme, in 2016 Correos achieved the silver level, corresponding to managing over 75% emissions.



The commitment to reduce emissions in the postal sector (corresponding to IPC's EMMS programme) has been the first of the sector's objectives to be recognized by this initiative, aimed at setting objectives that help prevent global warming by more than 2°C in the year 2100.



In 2015, the company signed a commitment to adapt its environmental reporting models to the standards of this international consortium.

AEDIVE

Correos has been a partner of AEDIVE since 2016 (business association for the development and promotion of electric vehicles).



In 2016, the company joined the Forética Climate Change Cluster, a meeting point for entrepreneurship in leadership, knowledge, exchange and environmental dialogue.





300 years with the Spanish society

Goals achieved in 2016



Correos held many commemorative events to celebrate its **300 years** of history.



Correos and the World Food Program organized the **'Committed to Zero Hunger'** exhibition across Spain.



Correos' volunteers worked with the Food Bank, Cáritas and the Spanish Red Cross to collect food.





300 years with the Spanish society

On July 8th, 2016, Correos celebrated its 300 years alongside Spanish society. Three centuries during which it has contributed to economic and social progress and led innovation in communications.

This anniversary year was full of commemorative events and milestones. Firstly, a website on the anniversary, a brochure and a <u>video</u> about the history and the transformation of the company were created. Similarly, a logo with the slogan 'Changing Along With You' was designed and published on the <u>www.correos.es</u> website (which receives over 75 million annual visits), the corporate intranet (over 24 million visits a year), social media profiles and other publications of the company.

Correos shared this anniversary with society through other actions such as:

- The 'Making history for 300 years' exhibition in the main post office in Madrid and in the corporate training centre, as well as the travelling exhibitions in over one hundred post offices across the company's seven territorial regions.
- The second edition of the <u>Correos Film</u>
 <u>Festival</u> , held under the slogan '300 years of innovation and communication', attended by over 2,200 people. Over 300 short films were submitted to the competition.
- A special ONCE draw (February 2) was held and National Lottery tickets (July 9) with the commemorative logo were issued.

- Collaboration and participation in the 5th Carrera Solidaria de la Fundación Manantial (Manantial Foundation Solidarity Race), for the integration of people with mental illness.
- The 300 magic mailboxes contest, which combined historical tradition with new technologies. Through a geo-location and augmented reality-based application, people were invited to find 300 'magic' mailboxes, using the clues provided on social media and the contest website, to win points and prizes.
- The publication of 12 stories, one for each month of the year, on the 'Historias de la historia' (Stories of the history) blog, with more than one million fans on Facebook.



Our professionals, supportive volunteers

'Correos Solidaridad' is the company's corporate volunteer programme in which over 1,000 staff members from all over Spain take part in Solidarity Teams. It aims to unite our workers' enthusiasm to devote part of their free time to social activities with the company's contribution of means, management and coordination, according to the experience in solidarity projects.

For the fourth consecutive year, 170 volunteers collaborated in the Great Collection by the Spanish Federation of Food Banks (FESBAL) in all provinces, collecting 22 tons of non-perishable food. Correos also handled the transport of the donated material and the distribution of boxes to the participating municipalities. The employees also assisted by receiving food on behalf of Cáritas and the Spanish Red Cross.

The 'Solidarity Teams' also took part in sporting events for social purposes such as:

- The 19th Anti-Hunger Race, organized by the NGO Action against Hunger to raise awareness and help fund projects in 45 countries.
- The 4th edition of the Solidarity Race 'Familia en marcha' (Family on the Move), promoted by El Norte de Castilla and the Athletics Federation of Castilla y León, whose objective was to raise funds for the Spanish Red Cross to support programmes for children at risk of social exclusion.
- The solidarity handball match for the fight against cancer, organized by the Royal Spanish Handball Federation and the Cris Foundation.





Our professionals, supportive volunteers

Moreover, our volunteers took part in collecting toys for the NGO Oxfam Intermon in the post offices of Zaragoza; the campaign 'No child without a toy' in Córdoba and Huelva offices; the 38th 'Correos reparte sonrisas' (Correos delivers smiles) parties; the 6th edition of Give & Gain Day 2016; as well as in the planting of trees in the 'bosques de Correos' (Correos' forests) initiative.

Other activities carried out through the volunteer programme included:

- The collection of over 2,000 letters to the Three Wise Men of children admitted to over 35 hospitals, reception centres and disability care associations, to be delivered to the 'Royal Postman'.
- Participation in 72 cavalcades and parades before the Three Wise Men Day in several Spanish cities delivering 35,000 backpacks.





Solidarity for a better world

Child protection

Most of the social programmes Correos is involved in, both its own and in collaboration with various organizations, is aimed at children. The company considers fundamental the protection of children and the promotion of opportunities for their future development.

Since 1999, Correos has worked with the *Payasos sin Fronteras* (Clowns without Borders) association on *'Correos reparte sonrisas'* (Correos delivers smiles) project. Its goal is to contribute

to the quality of life of hospitalized children or children undergoing long-term treatment, as well as other groups of children needing psychological reinforcement because of their special situation of helplessness.

In this edition 38 parties were held, benefiting 2,600 children and adults living in situations of great vulnerability. Members of Clowns without Borders also gave two play and educational workshops on expression techniques to 38 volunteers.

Likewise, letters were also exchanged between schoolchildren and hospitalized children, using letter paper and envelopes designed by Correos and which were distributed free of charge among the schools taking part in this project.



2,600 children and adults enjoyed the 'Correos delivers smiles' parties

CENTRES THAT BENEFITED FROM THE CORREOS DELIVERS SMILES PARTIES

Hospitals	5
Educational centres	20
Shelters	3
Immigration centre	1
Prisions	4
Juvenile centres	5



Solidarity for a better world

As every year, during the Christmas holidays, the company helped to keep children's enthusiasm in this moment of the year through initiatives such as:

- The installation of 855 special mailboxes so that all children could post their letters to the Three Wise Men, with the additional option of sending the letter over the Internet.
- The opening of the *Departamento de envíos extraordinarios* (Department of Extraordinary Deliveries), in the main post office in Madrid, where the children could enjoy a magical journey, which ended with them sending their letters to Santa Claus and the Three Wise Men in the Correos' Wishes Dome. Its digital version had over 15,000 visits and received over 1,600 letters from different places in Spain.

Post offices also become spaces open to solidarity throughout the year, offering products from various associations and NGOs to finance projects aimed at helping children. Some of the most effective campaigns were:

- The sale of solidarity bookmarkers for the 'Help them to return to school. Fill their packs with hope!' campaign by the Fundación Mensajeros de la Paz (Messengers of Peace Foundation), to help purchase school material for children from families in financial difficulty.
- The sale of 84,091 pens in the 'Un juguete, una ilusión' (One toy, one dream) initiative of the Fundación Crecer Jugando (Grow Playing Foundation) and National Radio of Spain This made it possible to distribute toys to children from Spanish families in difficult situations, to homes in 21 other countries in Latin America, Africa and the Middle East, as well as to create children's play centres.
- The sale of 1.2 million tickets in the Extraordinary Christmas Draw and the Spanish Red Cross Gold Draw. Also over 6,600 gift cards were sold to fund the 'El juguete educativo' (The educational toy) campaign.
- The sale of Christmas postcards and gifts through the post office network and the 'Tu Correos' portal for UNICEF, an organization that Correos has been supporting for over 40 years.





Solidarity for a better world

In favour of the most vulnerable

Correos works with foundations and special employment centres as well as occupational centres to promote the development of people with disabilities through ordinary work that is consistent with each individual's abilities. Some of them are the Carmen Pardo-Valcarce Foundation ACIDH (Catalan Association for Human Integration and Development), the Madrid Down's syndrome Foundation, PRODIS Foundation or 'Dales la Palabra' (Let them speak) Foundation.

To this end, over 524 computers and mobile phones were donated to projects of organizations, foundations and associations working in areas such as international cooperation and the integration of people with disabilities and groups at risk of social exclusion.

Correos also participates in the project of Fundación Migrar (Migrate Foundation) belonging to the Spanish Red Cross, to promote the social, employment and cultural integration of immigrants, taking advantage of the potential offered by new information technologies. Through its website (migrar.org) it provides online training and access to job offers to over 120,000 users every year.

In order to help the victims of the earthquake of 2016 on the north coast of Ecuador, Correos offered free giros money orders and discounts on the international parcel shipments to this country.



Promoting art, culture and sport

Correos is convinced that art is another form of solidarity and support for the most sensitive groups in society.

The 'Correos con el Arte' (Correos with Art) initiative aims to bring art to citizens who visit post offices every day, as well as to promote artists, giving them a space to exhibit their works.

Within this framework, the painting exhibition 'Montesol & adELA, *Pintando para una causa'* (Montesol & adELA, Painting for a Cause) organized in cooperation with and in benefit of adELA *Asociación Española de Esclerosis Lateral Amiotrófica* (Spanish Association of Amyotrophic Lateral Sclerosis), brought together about 50 works in the main post office in Cibeles, Madrid.

Collaboration with the United Nations World Food Program (WFP) was seen in a travelling photographic exhibition, 'Entregados Hambre Cero' (Committed to Zero Hunger), which began in 2015 and visited 16 post offices to disseminate the work carried out by both organizations.

The theme of the 140 photographs that composed the exhibition was centred on four aspects:

- Strength of Correos' and WFP's logistics capacity at the service of people
- Leadership in telecommunications services
- Commitment to sustainability
- Gender equality

The Spanish Red Cross and the Spanish Federation of Food Banks (FESBAL), with whom Correos maintains a close relationship in other programmes, also provided pictures of their work.

Similarly, the various issues of stamps in 2016 spread social values; one of the most outstanding was the mini-sheet of six stamps, representing a soup of letters printed in thermochromic ink. When a finger touches the stamp, values of solidarity with the sick people, with the disabled or the elderly become visible.

Also, as part of the 'Civic values in school' philatelic series, stamps and postmarks were issued to raise awareness of migration and the fight against bullying.

Correos shared and helped spread the values of fellowship, effort and improvement inherent in sport, by supporting the Spanish Olympic Team, through the ADO and ADOP programmes which prepared Spanish athletes for the 2016 Rio de Janeiro Games. In 2016 Correos once again sponsored the Spanish men's and women's handball teams.





Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. is a limited company under public ownership. Its sole shareholder is the Sociedad Estatal de Participaciones Industriales (SEPI), under the Ministry of Finance and Public Administration.

Correos is the parent company of Correos Group and has a 100% holding in the subsidiaries Correos Express Paquetería Urgente, S.A., S.M.E.; Nexea Gestión Documental, S.A., S.M.E. and Correos Telecom, S.A., S.M.E., M.P.

In accordance with the requirements of Act 40/2015, the various companies that make up the Correos Group adopted the name of *Sociedad Mercantil Estatal* (Stated-owned trading company) (S.M.E.) and *Medio Propio* (Own Government instrument) (M.P.) in early 2017.





Correos' governing bodies

Correos' governing bodies are the General Meeting of Shareholders and the Governing Board.

The company's administration is overseen by the Governing Board, its Chairman and the Executive Committee, whose responsibilities are specified in its Articles of Association.

Chairman of the Governing Board

The Chairman of the Governing Board is also the Executive Chairman of Correos and of all of its governing bodies. This person is responsible for management and administration functions, for representing management bodies and for executing the resolutions that they adopt.

Governing Board

Composed of a minimum of 12 and maximum of 15 members, who serve for a maximum period of five years, with the possibility of reelection, and whose appointment or removal corresponds to the General Meeting of Shareholders. Generally, the Governing Board meets monthly to oversee the management of the company.

Executive Committee

The Executive Committee consists of the Chairman and four members of the Governing Board. It may exercise each and every one of the powers of the Governing Board, except for those that, by law, cannot be delegated.

The Audit and Control Committee is a body which depends on the Board and which consists of three of its members, without executive functions. It is responsible for informing and advising the Board on economic and financial matters and on risk control and internal auditing.

GOVERNING BOARD

General Meeting of Shareholders Governing Board Chairman of the Governing Board Executive Committee Audit and Control Committee



Correos' Governing Board

The composition of the Governing Board of Sociedad Estatal Correos y Telégrafos, S.A., S.M.F. as at 31 December 2016 was as follows:

Francisco Javier Cuesta Nuin Chief Executive Officer

David Benito Astudillo Independent External Director

Ana Bosch Jiménez Independent External Director

Luis de Burgos Buil Independent External Director

Carmen Castaño Laorden Independent External Director

Eloísa Contín Trillo-Figueroa Independent External Director

Rafael García Monteys Independent External Director Luis Gonzaga Serrano de Toledo Independent External Director

Aquilino González Hernando Independent External Director

Juan Luis Nieto Fernández Independent External Director

José Ángel Partearroyo Martín Proprietary Director

Alberto Requena Navarro Independent External Director

Mercedes Rodríguez Arranz Independent External Director

Marta Vega Velasco Independent External Director

Álvaro Botella Pedraza Secretary not member of the Board The members of the Governing Board of Correos receive only the allowances approved by the General Meeting in the circumstances established by Royal Decree 462/2002 regarding compensations due to service and by current legislation for public bodies and trading companies in force at the time. In accordance with Act 5/2006, of 10 April, the allowances of the senior management directors are paid into the Public Treasury. The Chairman does not receive attendance fees.

The Regulations of the Governing Board of Correos, in force since 2013 and revised in 2015, are an additional commitment to applying best practices and standards of good governance to the functioning of this body.



Corporate bodies of Correos Group's subsidiaries

The corporate bodies of the Group's subsidiaries are:

General Meeting of Shareholders

Governing Board

The Governing Board consists of a maximum of 12 and a minimum of 6 members in the case of Correos Express, and a maximum of 8 and a minimum of 4 members in the cases of Correos Nexea and Correos Telecom. The process for appointing directors, chosen from the members of the Correos and SEPI Group management team, assesses the training and experience required in order to form part of the Group's governing bodies. The directors do not receive attendance fees.

Since 2013, the subsidiaries of the Group have their own Audit and Control Committees,

Governing Boards of Correos Group's subsidiaries

The composition of the respective Governing Boards as at 31 December 2016 is as follows:

Correos Express Paquetería Urgente, S.A., S.M.E.

Magín Blanco González Chairman

Alberto Alonso Poza

Lourdes Fernández de la Riva Gozálvez

Óscar Medina Martín

Jesús Moreno Vivas

Manuel Rey González

Domingo Sebastián Bello

Álvaro Botella Pedraza Secretary not member of the Board

Nexea Gestión Documental, S.A., S.M.E.

Óscar Medina Martín Chairman

Alberto Alonso Poza

Gregorio Cuñado Ausín

Lourdes Fernández de la Riva Gozálvez

Jaime Sanz García

Álvaro Botella Pedraza Secretary not member of the Board

Correos Telecom, S.A., S.M.E., M.P.

Jaime Sanz García Chairman

Alberto Alonso Poza

Óscar Medina Martín

Álvaro Botella Pedraza

Juan Risquete Fernández Secretary not member of the Board



	GOVERNING BOARD MEETINGS	AUDIT AND CONTROL COMMITTEE MEETINGS
Correos	12	5
Correos Express	12	2
Correos Nexea	12	3
Correos Telecom	11	2

ORGANIZATIONAL CHART OF THE CORREOS GROUP





Management Committee

The Management Committee of Correos Group is an internal collegiate body that aids the Chairman in his ordinary duties, policy-making, development and coordination of all key issues between the various units and subsidiaries.

Made up of the Chairman of Correos and its managers and by the general managers of Correos Express and Correos Nexea, it meets weekly at the request of the Chairman. The **members of the Management Committee** to not receive a specific remuneration for attendance.





Ethics and good governance

Correos Group promotes ethically responsible corporate actions. To this end, the Group employs procedures designed to promote good governance and internal control, in order to prevent, detect and, if necessary, eradicate corrupt practices or those contrary to professional integrity.

The Company prepares its **corporate governance** report in accordance with the principles set out in Royal Decree 1373/2009.

These principles include integrating the public business sector into the framework of the market economy, without prejudice to the peculiarities of the public sector; adopting a management model based on the promotion of efficiency through the establishment of standards of good practice and codes of conduct, and applying the general principle of transparency in the management of public companies.

Transparency in management

Each Group company has created a transparency portal on its website that periodically publishes information on the company's business activity, its financial and economic management, contracting procedures or legal and organisational framework.

Each portal also has various access channels through which citizens can send their requests for public information under the provisions of Act 19/2013 on transparency, access to public information and good governance.

Correos 📐

Correos Express

Correos Nexea

Correos Telecom

Compliance and commitment to ethics

Since 2014, Correos Group has operated a Criminal Risk Prevention Programme. It includes the **General Code of Conduct** which contains the reference values that govern the actions of all employees. This document is available on the intranet and on the corporate websites for reference by all stakeholders.

The Group also has a Compliance Committee, a collegial body whose main function is to evaluate and report biannually to Correos' Governing Board through the Audit and Control Committee on content and results of the resolutions issued.

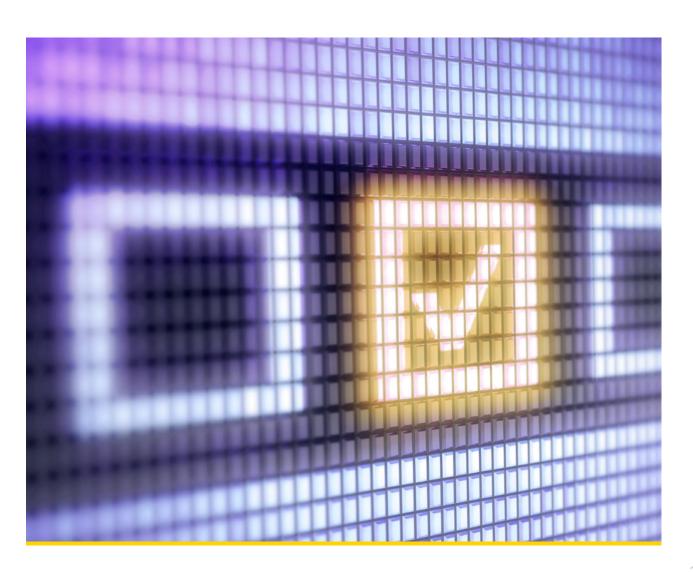


Ethics and good governance

The Committee also has a **communication and complaint channel**, to facilitate compliance with the objectives of the Code of Conduct. In 2016, 73 communications, 18 consultations and 10 complaints were received and analysed through this channel, proceeding as established in its Operating Regulations.

Similarly, the Compliance Committee promoted training on fair competition regulations in Group companies in order to detect possible risks of infringement and to incorporate behavioural guidelines.

Correos' commitment to excellence in its service and to sustainability is also specifically stated in the **declaration** signed by the Chairman with the stakeholders (customers, employees and society in general). This document can be viewed at all post offices and on the corporate website.





Risk management

Correos Group's risk analysis and management system is based on several action protocols that are aimed at identifying, managing, preventing and guaranteeing an adequate response if any risks arise.

Among the most relevant risks, the Group riskmap identifies market, operational, employment, environmental, reputational, legal, tax or financial risks, as described in the Management report of the consolidated annual accounts.

Security in operating processes

Correos has a security operating centre, which receives signals and/or images from over 135,000 devices installed throughout the territory. This centre continuously monitors over 2,600 workplaces to guarantee employee and customer security; this reduced the number of incidents by 20% during the previous year.

Similarly, it regularly uses scanners to inspect correspondence. As a result, 927 postal items

with allegedly criminal content were detected and delivered to the competent authorities.

Correos works closely with several bodies, the State security forces and law-enforcement agencies, such as the Spanish National Police Corps through the Blue Network, the Spanish Civil Guard through the *Coopera Portal* or the Postal security group of the Universal Postal Union.

In 2016, 42 communications were sent to the Spanish National Police Corps and 5 to the Spanish Civil Guard in relation to possible crimes related to false documentation, fraud and collection or remittance of money through post offices.

Lastly, Correos is authorised to admit and transport certain dangerous goods as airmail under the terms laid out in Order FOM/456/2014.

Internal audit procedures

The companies of Correos Group are subject to the control of the General State Intervention Board and the Court of Auditors. Through internal audits, compliance with the principles of good governance during ordinary activities and company management is also checked to reduce risks related to achieving the Group's corporate objectives.

Last year, three audits were carried out on the management of the movable and immovable assets of Correos and Correos Nexea's customers, as well as four regulatory compliance audits relating to the application of Order HAP/1741/2015, on compensation for per diems, travel and similar for the senior management and directors of the state public sector, and the procurement regulations of Correos Group's companies.

In addition, five audit programmes specific to the zones of Correos and Correos Express were carried out, as well as others on critical business processes, bulk admission units,



Risk management



pre-registered operations in the virtual post office and management of incidents concerning Correos Express parcel items. The recommendations formulated in the audit reports issued during 2015 were also monitored.

Finally, 1,319 economic-accounting audits were carried out at post offices, processing centres and delivery units and of the Quality Management System.

The outcome of these actions is regularly reported to the Audit and Control Committee and the management team.

With regards to the obligations under Act 10/2010, of 28 April, on the prevention of money laundering and the financing of terrorism and its relevant Regulations, the prevention of money laundering area is annually audited and the due diligence measures applied throughout the post office network are continuously monitored. Moreover, 30,517 Group's employees were trained in this subject.



Responsible supply chain

Owing to the nature of the activities they carry out, the Group's companies collaborate with a large number of suppliers in different sectors, in all phases of the supply chain. The Group's contractual activity is subject to the principles of publicity, competition, transparency, equality and non-discrimination.

In 2016, Correos awarded contracts for a net amount of 430 million of euros, of which 70 million corresponded to investment and 360 million to general expenses. These contracts were undertaken by 7,690 suppliers (374 for investment and 7,316 for expenses), the majority of these at a national level.

In the case of subsidiaries, tenders are related mainly to their corporate purposes; therefore, Correos Express contracted about 1,553 suppliers, mostly for transport; Correos Nexea, with 165 paper, envelope and equipment maintenance services suppliers; Correos Telecom, with 103 companies that operate and maintain telecommunications assets or supply equipment.

Contract framework

The Group contracting regulatory framework consists of:

- Royal Legislative Decree 3/2011, of 14 November, on Public Sector Contracts.
- Act 31/2007, of 30 October, on contracting procedures in the water, energy, transport and postal services sectors.
- Internal Instructions of Procurement. (Link to Contractor Profile)

The Investment Committee is the body that reports, approves and submits to the Governing Board, where applicable, the contracts provided for in Internal Instructions of Procurement and in the rules governing the system of authorisation and supervision of acts and operations of the SEPI Group.

The Group announces the tenders and awards of its contracts, according to their amount, in the Contractor Profile, on the Public Sector

Procurement Platform, in the Official State Gazette and in the Official Gazette of the European Union.

All parties interested in taking part in the contract procedures must guarantee compliance with the principles of the United Nations Global Compact, including matters related to human rights, the elimination of all forms of forced labour, the eradication of child labour and freedom of association and collective bargaining.

Due to its geographical scope of action and the nature of its suppliers, Correos Group considers that none of them presents a significant risk of breaching these principles.

Also, in the technical specifications, the incorporation of social, environmental, safety and occupational health criteria is given special importance. Similarly, successful bidders for contracts must understand and accept the principles contained in the General Code of Conduct of Correos Group.



Correos, designated operator to provide the Universal Postal Service

The Spanish postal market was fully liberalised on 1 January 2011, following the entry into force of Act 43/2010, of 30 December, which transposes the Directive 2008/6/EC in Spanish law for the full implementation of the internal market of postal services. However, some activities had been open to competition for decades, unlike in other European countries.

By virtue of Act 43/2010, Correos became the designated operator to provide the Universal Postal Service in Spain for a period of 15 years from its effective date.

The postal law also govern the conditions for collection, admission, distribution and delivery required of the designated operator to be able to provide the Universal Postal Service under a public service regime, as well as the cost and financing mechanisms of these obligations, the

prices and other cost conditions of the postal services. However, both the provision plan and its regulatory contract, as well as a new postal regulation, are pending of approval.

Furthermore, Correos and Correos Express operate on the parcel market, and are thus subject to legislation which applies to the land transport of goods sector. Correos Telecom's activity is regulated by Act 9/2014, of 9 May, on General Telecommunications.





Correos, designated operator to provide the Universal Postal Service

Postal regulation

Since 2013, the regulatory functions of the postal sector fall on the *Comisión Nacional de los Mercados y la Competencia* (National Commission of Markets and Competition (CNMC)) and on the Public Works

Ministry. The CNMC also governs the parcel services and telecommunications markets in which the Group's subsidiaries operate.

Services included and performance requirements

The Universal Postal Service comprises the collection, admission, sorting, transport, distribution and delivery of ordinary letters and postcards of up to 2 kg and of postal packages, with or without commercial value, of up to 20 kg, to national or international destinations, as well as the provision of certified and declared value services complementary to said postal items.

It also includes domestic and cross-border postal items, direct marketing, books, catalogues, periodicals and any other whose circulation is not prohibited, under the aforementioned procedures. Prices of postal services provided under the public service obligations must be affordable, transparent and non-discriminatory and be fixed by taking into account the actual costs of the service. The CNMC oversees that these rates are in accordance with these principles.

Act 43/2010 states that the designated operator should conduct analytical accounting and keep separate accounts to ascertain the cost of providing the various services that are part, or not, of the Universal Postal Service, for purposes of determining the net cost of public service obligations.

Correos presents its analytical accounting and the calculation of the net cost of each financial year to the CNMC for verification and subsequent compensation. The CNMC publishes the results of the various audits carried out of the analytical accounting on its website.

The net cost presented annually by Correos has not been audited since 2011. Until such net cost is determined, the amounts entered in the State Budgets are on account of a subsequent settlement.





Correos, designated operator to provide the Universal Postal Service

Delivery quality

The regulations also establish delivery quality requirements for the products that make up the Universal Postal Service. For ordinary letters it sets a goal of 93% of postal items delivered in 3 days (D+3) and 99% in 5 days (D+5). In 2016, Correos delivered 93.2% of letters in D+3 and 98.1% in D+5.

Correos regularly assesses the levels of compliance with these objectives and any possible areas of improvement using the SPEX quality monitoring system, which monitors the entire process from deposit until delivery to the recipient, using external panelists.

This measurement model is audited by the regulatory body in accordance with UNE-EN 13850 'Postal services. Quality of Services. Measurement of the transit time of end-to-end services for single piece priority mail and first class mail' to assess compliance with delivery quality.







Independent auditor's report of the consolidated annual accounts



To the Single Shareholder of Sociedad Estatal Correos y Telégrafos, S.A, State-Owned Trading Company (formerly known as Sociedad Estatal Correos y Telégrafos, S.A.U.):

Report on the consolidated annual accounts

We have audited the attached consolidated annual accounts of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. and its subsidiaries, including the consolidated balance sheet at 31 December 2016, the consolidated income statement, the statement of total changes in the consolidated equity, the consolidated cash flow statement and the consolidated management report for the financial year ending on the aforementioned date.

The Directors' responsibility for the consolidated annual accounts

The Parent Company's Directors are responsible for the drafting of the attached consolidated annual accounts and must ensure that they represent an accurate image of the assets, financial condition and consolidated results of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. and its subsidiaries, in accordance with the regulatory framework on financial information applicable to the Group in Spain, which is identified in note 3 of the attached report. They are also responsible for conducting such internal control as they deem necessary to ensure that the consolidated accounts are free of any material inaccuracies due to fraud or error.

The auditor's responsibility

Our responsibility is to issue an opinion on the attached consolidated annual accounts based on our audit. We have conducted our audit in accordance with the applicable audit regulations in Spain. These regulations require us to meet a number of criteria in terms of ethics, that we plan and carry out the audit in such a manner as to be reasonably certain that the consolidated annual accounts are free of any material inaccuracies.

An audit requires the application of procedures to obtain audit evidence on the amounts and the

information set out in the consolidated annual accounts. The procedures selected depend on the auditor's judgement, including assessing the risks of material inaccuracies, due to fraud or error, in the consolidated annual accounts. When making this risk assessment, the auditor takes account of relevant internal control for the preparation by the Parent Company's Directors of the consolidated annual accounts, in order to design appropriate audit procedures based on the circumstances and not to express an opinion on the effectiveness of the company's internal control. An audit also includes an assessment of the suitability of the accounting policies used and whether the accounting estimates made by the management are reasonable. It also includes an assessment of how the consolidated annual accounts have been presented as a whole.

It is our opinion that the audit evidence we have obtained is sufficient and suitable for us to form an opinion as auditors.



Independent auditor's report of the consolidated annual accounts

Opinion

In our opinion, the attached consolidated annual accounts express, in all of their significant aspects, an accurate image of the consolidated assets and consolidated financial position of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. and its subsidiaries at 31 December 2016, and of its consolidated results and consolidated cash flow for the financial year ending on the aforementioned date, in accordance with the applicable regulatory framework on financial information and, in particular, pursuant to the accounting principles and criteria set out therein.

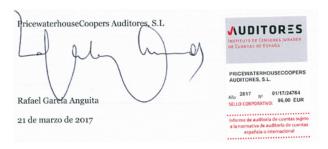
Report on other legal and regulatory requirements

The attached 2016 consolidated management report contains the explanations that the Directors consider relevant regarding the position of Sociedad Estatal Correos y Telégrafos, S.A.U., S.M.E. and those of its subsidiaries, the development of their businesses and other issues. It does not form an integral part of the 2016 consolidated annual accounts. We have verified that the accounting information contained in the consolidated management report corresponds to that given in the 2016 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., S.M.E. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.,

Rafael García Anguita

21 March 2017



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R M. Madrid, page 87,250-1, sheet 75, volume 9,267, book 8,054, section 3 Recorded in the R.O.A.C. under number 50242 - Tax ID No.: B-79 031290



ASSETS	NOTES	BALANCE AT 31/12/2016	BALANCE AT 31/12/2015
NON-CURRENT ASSETS		1,464,774	1,461,742
Intangible assets	6	35,640	37,934
Computer software		35,429	37,682
Other intangible fixed assets		211	252
Property, plant and equipment	7	1,392,420	1,394,389
Land and buildings		1,213,260	1,226,716
Technical installations and other items		159,895	144,403
Under construction and advances		19,265	23,270
Investments property	8	13,210	9,965
Non-current investments	11	5,761	3,716
Loans to third-parties		4,499	2,499
Other financial assets		1,262	1,217
Deferred tax assets	18	17,743	15,738
CURRENT ASSETS		795,387	872,551
Non-current assets held for sale	9	17,293	19,056
Inventories	10	5,008	2,775
Trade and other receivables	11	640,375	671,027
Clients from sales and provision of services		349,281	352,455
Clients, group companies and associates	20	61	53
Other debtors		278,747	286,883



ASSETS	NOTES	BALANCE AT 31/12/2016	BALANCE AT 31/12/2015
Debts, group companies and associates	20	4,209	21,908
Staff		7,658	9,365
Other receivables from government bodies	18	419	363
Current investments	11	4,064	5,361
Prepayments current assets		660	656
Cash and cash equivalents	11,12	127,987	173,676
TOTAL ASSETS		2,260,161	2,334,293



EQUITY AND LIABILITIES	NOTES	BALANCE AT 31/12/2016	BALANCE AT 31/12/2015
EQUITY		1,772,491	1,827,054
Equity	13	1,504,654	1,547,832
Capital		611,521	611,521
Share premium		250,938	250,938
Reserves		683,342	717,124
Legal reserve		100,070	100,070
Statutory reserves		214,119	214,119
Voluntary reserves		369,153	402,935
Reserves in consolidated companies		2,031	2,347
Result for the year attributable to Parent Company	4	(43,178)	(34,098)
Subsidies, donations and bequests received	14	267,837	279,222
NON-CURRENT LIABILITIES		128,245	129,950
Non-current provisions	15	30,477	35,707
Non-current debts		8,421	986
Deferred tax liabilities	18	88,698	92,716
Non-current accruals		649	541
CURRENT LIABILITIES		359,425	377,289
Current provisions	15	1,843	1,150
Current debts	11,16	19,914	22,609
Current debts with group companies and associates	11, 16, 20	492	478
Trade and other payables	11,16	336,458	350,655



EQUITY AND LIABILITIES	NOTES	BALANCE AT 31/12/2016	BALANCE AT 31/12/2015
Suppliers		1,453	1,706
Suppliers, group companies and associates	16, 20	-	3
Other payables		192,428	178,298
Staff		17,938	64,779
Other debts with government bodies	18	51,713	59,505
Advances from customers		72,926	46,364
Current accruals		718	2,397
TOTAL EQUITY AND LIABILITIES		2,260,161	2,334,293



Consolidated income statement for the financial year ended 31 December 2016

CONTINUING OPERATIONS	NOTES	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015	
Revenue	17-a)	1,761,145	1,765,715	
Work carried out by the company		-	1,031	
Supplies		(237,788)	(214,003)	
Merchandise used	17-b)	(12,013)	(11,300)	
Impairment of merchandise, raw materials and other supplies	10	120	(1,524)	
Work carried out by other companies	17-b)	(225,895)	(201,179)	
Other operating income		184,003	183,249	
Non-trading and other operating income		3,948	2,935	
Compensation for provision of the UPS	17-c)	180,000	180,000	
Operating subsidies included in result of financial year	17-c)	55	314	
Staff costs	17-d)	(1,386,233)	(1,442,527)	
Salaries and wages		(1,125,786)	(1,134,184)	
Social security contributions		(251,860)	(240,714)	
Other expenses		(8,587)	(9,080)	
Extra pay December 2012		-	(58,549)	
Other operating expenses		(304,658)	(289,533)	
External services	17-e)	(285,982)	(280,179)	
Taxes	17-f)	(11,361)	(9,866)	
Losses, impairment and change in trade provisions		(1,838)	(860)	
Other operating expenses		(5,477)	1,372	



Consolidated income statement for the financial year ended 31 December 2016

financial and other capital subsidies 5 s on provisions 1 irment and loss/gain on disposal of fixed assets 1 pairment and losses esult from disposals and others r results ATING RESULT Incial income 1 and other capital subsidies 1 and other c	7, 8 (90,365) 4 15,584 5 -	(85,960) 20,492 207
irment and loss/gain on disposal of fixed assets 17 npairment and losses esult from disposals and others r results ATING RESULT ncial income 17	5 -	
irment and loss/gain on disposal of fixed assets apairment and losses esult from disposals and others r results ATING RESULT acial income 17		207
npairment and losses esult from disposals and others r results ATING RESULT ncial income	-) 4 004	LU/
esult from disposals and others r results ATING RESULT Incial income	-g) 4,001	3,137
r results ATING RESULT ncial income 17	4,535	3,539
ATING RESULT ncial income 17	(534)	(402)
ncial income 17	(57)	(48)
	(54,368)	(58,240)
	-h) 846	1,332
om negotiable securities and other financial instruments:		
om group companies	97	269
om third-parties	749	1,063
ncial expenses 17	-h) (214)	(63)
ue to debts with third-parties	(214)	(63)
ange-rate differences	5,176	6,440
NCIAL RESULT	5,808	7,709
LT BEFORE TAX	(48,560)	(50,531)
ne tax 1	8 5,382	16,433
OLIDATED RESULT FOR THE FINANCIAL YEAR		



Consolidated cash flows statement for the financial year ended 31 December 2016

OPERATING ACTIVITIES	NOTES	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Result for the financial year before taxes		(48,560)	(50,531)
Adjustments to the result			
Amortisation of fixed assets	6, 7, 8	90,365	85,960
Valuation adjustments due to impairment	7, 10, 11	(4,656)	(2,558)
Change in provisions		(193)	(3,417)
Allocation of capital subsidies	14	(15,584)	(20,492)
Acknowledgement of compensation for provision of the UPS	17-c)	(180,000)	(180,000)
Operating subsidies included in result of financial year	17-c)	(55)	(314)
Result of removals and disposal of fixed assets		534	402
Financial income	17-h)	(846)	(1,332)
Financial expenses	17-h)	214	63
Exchange-rate differences		(5,176)	(6,440)
Other income and expenses		(4)	164
hanges in current capital			
Inventories		(2,112)	(1,078)
Trade and other receivables		194,372	358,415
Other current assets		785	53
Trade and other payables		(12,406)	29,177
Other current liabilities		(8,472)	863
Other non-current assets and liabilities (+/-)		2,784	(8,881)



Consolidated cash flows statement for the financial year ended 31 December 2016

OPERATING ACTIVITIES	NOTES	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Other operating activities cash flows			
Interest payments		(194)	(43)
Interest charges		794	1,362
Payments for income tax		21,212	(79,638)
TOTAL CASH FLOWS FROM THE OPERATING ACTIVITIES		32,802	121,735

INVESTMENT ACTIVITIES	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Payments for investments		
Intangible assets	(21,636)	(22,906)
Property, plant and equipment	(62,332)	(49,173)
Proceeds from disposals		
Property, plant and equipment	3,825	1,246
Non-current assets held for sale	1,340	2,531
TOTAL CASH FLOWS FROM INVESTMENT ACTIVITIES	(78,803)	(68,302)



Consolidated cash flows statement for the financial year ended 31 December 2016

FINANCING ACTIVITIES	NOTES	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Charges and payments for equity instruments			
Subsidies, donations and bequests received		312	-
Payment of dividends and other remuneration from equity instruments			
Dividends		-	(100,823)
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		312	(100,823)
NET DECREASE IN CASH OR EQUIVALENTS		(45,689)	(47,390)
Cash and cash equivalents at the start of the financial year	12	173,676	221,066
Cash and cash equivalents at the end of the financial year	12	127,987	173,676



Statement of total changes in the consolidated equity for the financial year ended 31 December 2016

Expressed in thousands of euros

A) Statement of recognised income and expenses for the financial year ended 31 December 2016

	NOTES	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Consolidated result for the financial year		(43,178)	(34,098)
Income and expenses directly attributed to consolidated equity:	14		
Subsidies, donations and bequests received		312	-
Tax effect		-	(133)
		312	(133)
Amounts transferred to the consolidated income statement:	14		
Subsidies, donations and bequests received:			
- due to amortisation		(13,422)	(15,836)
- due to adjustments for impairment		(1,781)	(551)
- due to disposals		(381)	(4,105)
Tax effect		3,887	5,727
		(11,697)	(14,765)
TOTAL CONSOLIDATED RECOGNISED INCOME AND EXPENSES		(54,563)	(48,996)



Statement of total changes in the consolidated equity for the financial year ended 31 December 2016

Expressed in thousands of euros

B) Statement of total changes in the consolidated equity for the financial year ended 31 December 2016

RESERVES HELD BY THE PARENT COMPANY

	Capital	Share Premium	Legal reserve	Voluntary statutory reserves	Other reserves	Reserves in consolidated companies	Consolidated result for the financial year	Subsidies, donations and legacies received	TOTAL
BALANCE START OF 2015 FINANCIAL YEAR	611,521	250,938	79,905	536,782	207,559	(197,843)	193,891	294,120	1,976,873
Total recognised consolidated income and expenses	-	-	-	-	-	-	(34,098)	(14,898)	(48,996)
Operations with partners or owners:									
Distribution of dividends	-	-	-	-	-	-	(100,823)	-	(100,823)
Other variations in the consolidated									
Equity	-	-	20,165	80,272	(3,583)	(3,786)	(93,068)	-	-
BALANCE START OF 2016 FINANCIAL YEAR	611,521	250,938	100,070	617,054	203,976	(201,629)	(34,098)	279,222	1,827,054
Total recognised consolidated income and expenses	-	-	-	-	-	-	(43,178)	(11,385)	(54,563)
Operations with partners or owners:									
Distribution of dividends	-	-	-	-	-	-	-	-	-
Other variations in the consolidated									
Equity	-	-	-	(33,782)	2,733	(3,049)	34,098	-	-
BALANCE END OF 2016 FINANCIAL YEAR	611,521	250,938	100,070	583,272	206,709	(204,678)	(43,178)	267,837	1,772,491



Expressed in thousands of euros

1. Activities of the Parent Company

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 Ley General Presupuestaria [the Budget Act] enacted by Royal Decree 1091/1988, dated 23 September, and additional item twelve of 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 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 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 3 July 2001, the day of registration with the Companies Registry of the public deed of incorporation of the Company, dated 29 June 2001. From that day, the Company took over all the functions carried out by the former Entity and was subrogated to the status of authorised operator for the provision of the Universal Postal Service (hereinafter UPS) attributed to the latter in additional provision one of Ley 24/1998, de 13 de julio, del Servicio Postal Universal y de Liberalización de los Servicios Postales [the Universal Postal Service and the Liberalisation of Postal Services Act, dated 13 July 1998], and subsequently for a period of 15 years under Ley 43/2010, de 30 de diciembre, del Servicio Postal Universal, de los derechos de los usuarios y del mercado postal [the Universal Postal Services, Users' Rights and the Postal Market Act, dated 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 section four of the aforementioned Act, Nonetheless, the Central Government, through the Dirección General del Patrimonio del Estado (Directorate General of 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 of 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.

Under article 58.7 of the Tax, Administrative and Social Measures Act, civil servants who were actively employed by the former Entity at the time of registration of the public deed of incorporation of the Company became employees



Expressed in thousands of euros

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 governed 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 aforementioned Tax, Administrative and Social Measures Act, any worker contracted by the Company from the date of the start of its activity shall be engaged under an ordinary employment contract.

Some of the services provided by the Parent Company fall within the remit of the UPS and are regulated by the Universal Postal Service, Users' Rights and the Postal Market Act, dated 30 December 2010 [the Postal Act]. It sets out that these services will be provided in accordance with the Universal Postal Service Provision Plan and the

contract regulating the Universal Postal Service (on the date of these annual accounts both have not been approved yet). This Act fundamentally regulates the collection, admission, distribution and delivery conditions for the UPS that may be demanded of the designated operator, as well as the cost and financing of the UPS obligations, the prices and other rate conditions for postal services.

Ley 3/2013, de 5 de junio, de creación de la Comisión Nacional de los Mercados y la Competencia [Act 3/2013, of 5 June, on the Creation of the National Markets and Competition Commission, hereinafter CNMC] explicitly repealed Ley 23/2007, de 8 de octubre, de creación de la Comisión Nacional del Sector Postal [Act 23/2007, of 8 October, on the Creation of the National Commission for the Postal Sector] and the creation of a single regulator centralising all functions regarding the correct function of the markets and sectors supervised by the *Comisión* Nacional de Energía [National Commission for Energy], the Comisión del Mercado de *Telecomunicaciones* [Telecommunications Market Commission], the Comisión Nacional

de la Competencia [National Commission for Competition], the Comité de Regulación Ferroviaria [Rail Regulation Committee], the Comisión Nacional del Sector Postal [National Commission for the Postal Sector], the Comisión de Regulación Económica Aeroportuaria [Airport Economic Regulation Commission] and the Consejo Estatal de Medios Audiovisuales [State Audiovisual Media Council]. Pursuant to Act 3/2013, the CNMC supervises and ensures the correct functioning of the postal market, in particular as regards the following functions:

- Ensure that the UPS is respected, in compliance with postal regulations and open competition in the sector;
- Verify the analytical accountancy of the designated operator and the net cost of the UPS and determine the size of the unfair financial burden caused by providing the UPS, in accordance with the Postal Act.
- Manage the UPS finance fund and the public services financed by it, in accordance with the Postal Act.



Expressed in thousands of euros

- Supervise and ensure the application of the current regulations on access to the network and other postal infrastructure and services, in accordance with the Postal Act.
- Control and measure the conditions in which the UPS is provided, in accordance with the Postal Act.
- Issue the report foreseen in Act 43/2010, of 30 December, to monitor the conditions in which the UPS is provided.

The Directorate for Transport and the Postal Sector is the body responsible for investigating CNMC dossiers on postal matters.

In order to maintain the UPS, Act 43/2010 provides a finance fund that will be managed by the CNMC with the purpose of compensating the postal operator for the net cost of its UPS obligations.

Pursuant to the Postal Act 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 administrative licences.

Article 26 of the Postal Act establishes the designated operator's (Correos) obligation to keep analytical accounts that make it possible to separate accounts for each service and product of the UPS and any other services and products that are not part of it. In accordance with the Postal Act, the postal operator will submit for validation a calculation of the net cost of each financial year.

Similarly, the Postal Act guarantees access to the postal network for postal operators once they have been granted an individual administrative licence according to the principles of transparency, proportionality and non-discrimination. The Postal Act also regulates the resolution of conflicts among postal operators, under the principles of fair hearing, audi alteram partem and equality of the parties.

The designated operator will have to prepare a standard contract for access to the postal network which must previously be approved by the CNMC. The CNMC must also be informed of any contracts not subject to the standard contract. Operators with individual administrative licences will be able to negotiate terms that differ from the one established in the standard contract with the designated operator. The CNMC will set the conditions for access to the postal network if the negotiations among the individual administrative licence holders and the designated operator do not lead to signing a contract.

According to the Postal Act, the Commission will be responsible for checking 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, and for verifying that the rates do not increase the financing needs of the UPS and the unjust deductible financial burden for the service provider.

The temporary provision of the Postal Act sets out that the terms for the provision of the Universal Postal Service and its financing are governed by the previous regulations,



Expressed in thousands of euros

which were in force before these, until the Universal Postal Service Provision Plan and its regulating contract is approved.

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, operators access to the postal network, as foreseen in article 45 of Act 43/2010. 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 Subsecretaría de Fomento (Undersecretariat of Public Works), approving the provisional reference conditions for access to the public postal network, implementing the previous Royal Decree, where they are not contrary to 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 financial services relating to postal services, money order services and money transfers;
- 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 telegram, teleprinter and bureaufax services and undertake other activities and services relating to telecommunications.
- To propose stamps to be issued, issue all other forms of payment for postal services, and sell and distribute its products and issues;
- To provide, on a mandatory basis, such services relating to its purpose as government bodies may order.

 To carry out 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.

Since June 2012 Correos has been part of the group of companies called Grupo SEPI of which SEPI, a public law entity, is the parent company. SEPI is domiciled in Calle Velázquez no. 134 in Madrid, and is the sole shareholder. which means that the Company has a singleshareholder status pursuant to the provisions in article 12 of Royal Decree 1/2010, of 2 July, which approves the amended text of the Ley de Sociedades de Capital [the Capital Companies Act]. Pursuant to the provisions in article 136.4 of the Ley 47/2003, de 20 de noviembre, de la Ley General Presupuestaria [the Budget Act, dated 20 November 2003], SEPI is not obliged to submit its consolidated annual accounts at the Companies Registry, as it is not a trading company.

The Company is the parent company of Correos Group. The annual accounts of the Company



Expressed in thousands of euros

corresponding to the financial year ended 31 December 2015, both individual and consolidated, were drawn up by the Governing Board of Correos on 15 March 2016, approved by the Sole Shareholder of the Parent Company on 16 June 2016. The annual accounts are filed at Madrid's Companies Registry.

2. Structure of the Correos y Telégrafos Group

The Parent Company's subsidiaries that comprise the Correos y Telégrafos Group (hereinafter, the Group or Correos Group) falling within the scope of consolidation as at 31 December 2016 are the following:

Correos Express Paquetería Urgente, S.A., which has its registered address at Avenida de Europa, 8 in Coslada (Madrid), provides goods delivery services, auxiliary and complementary courier activities and collection, sorting and delivery of goods and parcels. The main activity of Correos Express Paquetería Urgente, S.A. is the transport of corporate documents and small parcels, both nationally and internationally.

On 21 May 2014, Correos Express Paquetería Urgente S.A. agreed to change the company's name from Chronoexprés S.A. to Correos Express Paquetería Urgente S.A., a decision which was executed in a public deed on 27 May 2014.

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

NAME OF THE COMPANY	MAIN ACTIVITY	REGISTERED ADDRESS
Correos Telecom, S.A.	Management of the Parent Company's telecommunications network	C/ Conde de Peñalver, 19 (Madrid)
Nexea Gestión Documental, S.A.	Hybrid mail services	C/ Rejas, 9 (Madrid)
Correos Express Paquetería Urgente, S.A.	Transport services for documents and small parcels	



Expressed in thousands of euros

Nexea Gestión Documental, S.A. has its registered address at Calle Rejas, 9 in Madrid and its corporate purpose, 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 Parent Company's admission centres for delivery to addressees.

All subsidiaries close their financial year on 31 December.

The statements corresponding to 31 December 2016 and 2015 for the equity instruments of the Parent Company held by Correos Group, before the standardisation and/or consolidation adjustments, are as follows:

	FINANCIAL YEAR 2016		FINANCIAL YEAR 2015			
	Correos Express P.U., S.A.	Correos Telecom, S.A.	Nexea G.D., S.A.	Correos Express P.U., S.A.	Correos Telecom, S.A.	Nexea G.D., S.A.
NET BOOK VALUE	906	1,503	-	-	1,503	-
-Direct shareholding (%)	100%	100%	100%	100%	100%	100%
Share capital	66	1,503	974	66	1,503	974
Share premium	6,415	-	-	6,415	-	-
Legal reserve	-	300	128	-	300	128
Other reserves	(560)	3,942	(60)	(560)	3,942	(60)
Results of previous financial years	(6,017)	-	(2,172)	(4,167)	-	(974)
Result of the financial year	991	1,513	(1,155)	(1,850)	1,223	(1,198)
TOTAL NET EQUITY	895	7,258	(2,285)	(96)	6,968	(1,130)
OPERATING RESULT	587	2,022	(1,283)	(4,369)	1,725	(1,375)



Expressed in thousands of euros

3. Basis of presentation of 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 (GAP) approved by Royal Decree 1514/2007 and the modifications to them arising from Royal Decree 1159/2010 which approved the criteria applicable when preparing Consolidated Annual Accounts, and Royal Decree 602/2016, in addition to all other commercial legislation in force on 31 December 2016. Specifically:

- 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 materially 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 flows between Correos Group companies have been eliminated in the consolidation process. Similarly, all results from internal operations are eliminated and deferred until performed for third parties which are not part of the Group.
- The variations in reserves belonging to different subsidiaries between their respective dates of coming under the control of the Parent Company or of first consolidation and 31 December 2016 are covered by the item

'Reserves in consolidated companies' on the consolidated balance sheet.

As regards the impairment of the assets registered under the 'Property, plant and equipment' 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. The Order is mandatory on the member bodies of the public business sector at 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 Board of Directors in order to be submitted



Expressed in thousands of euros

for approval by its Sole Shareholder. The Parent Company Directors believe that they will be approved with no modifications.

a) Fair presentation

These consolidated annual accounts have been prepared on the basis of the accounting records of the companies that make up Correos Group, and in accordance with the legal regulations on accounting in force at 31 December 2016, in order to provide a fair presentation of the assets, financial situation and results of the Group. The consolidated cash flows 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 judgements, 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 accounts.

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 through 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 the period of review and future periods, if the review affects both of these.

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

The <u>main judgements</u> relating to future events and other sources of uncertain estimates on the date on which the consolidated annual accounts were drawn up are as follows:

Leasing obligations - Correos Group as lessee

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, 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.



Expressed in thousands of euros

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 assets, thereby recognising these contracts as operating leases.

Taxation

As set out in current legislation, taxes may not be deemed definitively settled until the filed tax statements have been inspected by the tax authorities or the statute of limitations has passed. In the opinion of the Parent Company's Board of Directors, at 31 December 2016 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 subsidiaries in the event of an audit.

The <u>principal assumptions and estimates</u> relating to future events and other uncertain

sources of estimates on 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 made on the basis of the future estimates made by the Group Companies relating to the probability of future taxable gains being available or the existence of deferred liability amounts to fund them during the same periods of time.

Provisions

Correos Group recognises provisions for risks, in accordance with the accounting policy stated in note (5-k) of this report on 'Provisions and contingencies liabilities'. Correos Group makes judgements 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.

Impairment of non-financial assets

In general terms, Correos Group analyses on a yearly basis whether there are indicators for impairment 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 impairment tests when there is evidence of said impairment.

Calculation of fair values, values in use, present values and values that can be recovered

The calculation of fair values, values in use, present 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 them, also bearing in mind the expected time the respective debt will be collected. 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.



Expressed in thousands of euros

c) Comparison of information

As indicated in the fourth Section of the 'Criteria applicable 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.

International mail expenditure, which was included in the 'External services' section of the 2015 financial year, under 'Other operating expenses', is included from the 2016 financial year onwards in the 'Work carried out by other companies' section. 43,961 thousand euros from the 2015 financial year have been reclassified in these annual accounts in order to make the annual accounts comparable.

4. Application of the results of the Parent Company

The proposed use of profit for 2016 put forth by the Directors of the Parent Company and pending approval by the Sole Shareholder, as well as the proposal approved for the 2015 financial year, is as follows:

	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Result for the financial year	(51,537)	(33,702)
Distribution base:		
Voluntary reserves	(51,537)	(33,702)
TOTAL	(51,537)	(33,702)

On 16 June 2016, the Parent Company's Sole Shareholder approved the proposed use of the profits from the 2015 financial year. Limitations on the distribution of results and dividends

Pursuant to Article 274 of the *Ley de Sociedades de Capital* (Capital Companies Act) approved by Royal Legislative 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 reaches 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 income statement in the event that other reserves are not available.



Expressed in thousands of euros

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

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 Decrees 1159/2010 and 602/2016, are as follows:

a) Intangible assets

Intangible 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 impairment. 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 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.

Computer software and other intangible assets

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 computer software maintenance costs are recognised in expenses when they are incurred.

Patents, licences and similar

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



Expressed in thousands of euros

b) Property, plant and equipment

Property, plant and equipment are valued at their acquisition cost or contribution value to the Parent Company by the former Entity (see Note (1) on Parent Company), reduced by the accumulated amortisation and, as appropriate, by the accumulated amount of the recognised valuation adjustments for impairment. Indirect taxes on property, plant and equipment are included in the purchase price when they cannot be recovered directly from the Tax Authorities.

Property, plant and equipment are depreciated from the time at which they are made available for commissioning and are depreciated 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 constructions	35 - 75
Plant and machinery	3 - 33
Other installation, equipment and furniture	5 - 20
Information processing equipment	3-8
Motor vehicles	6 - 10
Other property, plant and equipment	3 - 11

Likewise, should there be signs of impairment, Correos Group evaluates the need to make valuation adjustments to the elements that form part of its property, plant and equipment, with the aim of consistently allocating to them the lesser of either their book value or their recoverable amount.

The expansion, modernisation and improvement costs for property, plant and equipment are incorporated into the asset as an increased value of the good 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 property, plant and equipment that do not improve utility or lengthen lifetime are entered in the income statement at the time of accrual.

The investments made by Correos Group in property owned by third parties that meet the requirements to be considered as operating leases are valued, provided that these are not separated from the leased or assigned asset in use, at the cost of said investments and amortised during an estimated service life of between 10 and 20 years.

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

c) Investments property

Investment property comprise land and buildings 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



Expressed in thousands of euros

accumulated amortisation and any impairment loss. The amortisation of property investments is calculated following the straight-line method, according to the estimated service life of the different elements, which is 35-75 years.

d) Operating and financial leases

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 liability reduction. For these purposes, the same amortisation, impairment and cancellation criteria are applied as to all other assets of this nature.

Payments for operating leases are recorded as expenses in the consolidated income statement 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 income statement 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) Impairment of non-current, non-financial assets

Assets not generating cash flows

The Parent Company's main activity is the provision of a general interest public service, the Universal Postal Service, in exchange for which it receives a price that complies with the principles established in law. In this way, the vast majority of the property comprising the Parent Company's property, plant and equipment and intangible 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/733/2010, of 25 March, approving accounting aspects of public companies operating under certain circumstances, the Parent Company determines the impairment of its property, plant and equipment and



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intangible assets with reference to the depreciated replacement cost of each asset.

Remaining assets

Should there be signs of impairment, the book value of the non-current, non-financial assets of 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 flows is discounted at its present value, using before-tax discount rates that reflect the current market estimates of the temporary valuation of the funds and of the specific risks associated with the asset. For those assets that do not generate highly independent cash flows, the recoverable amount is determined

for the cash-generating units to which the valued assets pertain.

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

f) Financial assets

The financial assets of Correos Group correspond to accounts receivable from clients, debtors,

staff and government bodies, established deposits and guarantees, acquired capital instruments and cash and cash equivalent.

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 operative market, have expected cash flow in a determined or determinable sum and for which it is estimated that the whole 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 nontrade operations, loans to staff, the debtor accounts with government bodies and the established deposits and quarantees.
- Cash and other equivalent liquid assets: see Note 5 (i).

The financial assets to be realised in less than 12 months from the date of preparation of the



Expressed in thousands of euros

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, <u>Correos Group</u> 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.
- Cash and cash equivalents: see Note 5 (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.

If the loans for trade operations have a contractual interest rate, the interest accrued is recorded in the consolidated income statement, applying the effective interest rate method.

Correos Group cancels a financial asset, or a part thereof, when the contractual rights over the cash flows 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) Impairment of financial assets

The book value of the financial assets is corrected by debiting the consolidated income statement when there is objective evidence that an impairment loss has occurred. In order to determine impairment losses, 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 impairment when non-payments, breaches, re-financings or possibilities of not recovering the cash flows have taken place, or there is delay in collecting payment.

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

The reversal of the impairment of the loans and entries receivable is recognised as income in the consolidated income statement and is limited to the book value of the financial asset that would have been recorded on the date of reversal, if the impairment had not been recorded.

In the event of due debts from public clients, the impairment of the debt is entered for the amount obtained from applying the market interest rate



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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.
- That they are highly likely to be sold.

Non-current assets held for sale are recorded as the lesser of the following two amounts: their book value or their fair 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 cash equivalents

Cash and cash equivalents 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 flows management policy of Correos Group.

j) Inventories

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

When the net realisable value of the inventory 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 income statement.

k) Provisions and contingent liabilities

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



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events occur, outside the control of the Parent Company. Said contingent liabilities are not subject to book recording, with details and an explanation of said liabilities included in the note (23) on contingent liabilities.,

I) Financial liabilities

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

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

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.

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

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

Nevertheless, the debits for trade operations which mature in less than one year and that 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.

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 on the date of the transaction.

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 capital elements are liquidated, are recognised in the consolidated income statement of the financial year in which they appear.

n) Income and expenses

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

Revenue from sales and provision of services

Revenue from the sale of goods and the provision of services is valued at the reasonable value of the balancing entry, received or to be received, deriving from the same, minus: the amount of the discount, the reduction in the price and other similar entries



Expressed in thousands of euros

that the company may grant, together with indirect taxes 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.

Revenue 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.

Revenue resulting 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 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.

Interest income

Interest income is recognised using the effective interest rate method. When a receivable account suffers an impairment loss, 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 as less income from interest. Interest income on loans that have suffered impairment losses is recognised using the effective interest rate method.

o) Liabilities for remunerations to staff

Pension supplements

During the 2000 financial year, the Parent Company created a pension plan to supplement employee benefits under public-sector social security and government pension plans. This fixed-contribution pension plan for the sponsor is governed by the provisions in Royal Legislative Decree 1/2002, of 29 November, enacting the amended text of the Ley de Regulación de los Planes y Fondos de Pensiones [the Pension Act] and Royal Decree 304/2004, of 20 February, enacting the Pension Regulations and its subsequent amendments.

Based on the provisions in article two of the Royal Decree 20/2011, of 30 December, on urgent measures of a budgetary, taxation and financial nature in order to correct the public deficit, the Parent Company suspended contributions to the Pension Plan of the Employees of Correos y Telégrafos during the 2012 financial year and has not made any contributions since then.

As of 31 December 2016, the Parent Company had no additional commitment to the participants in the above scheme other than



Expressed in thousands of euros

the sums effectively contributed from the date of the creation of the plan. The total amount of the contributions made by the Parent Company since the 2000 financial year, when the fund was created, is 125,556 thousand euros.

Compensation for dismissal

Under employment legislation, the Group is obliged to pay compensation to those 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.

Retirement bonuses

The various collective bargaining agreements in force by geographical areas and applicable to the investee company Correos Express Paquetería Urgente, S.A. provide that employees taking voluntary early retirement from age 60 to 65 must be paid a length-ofservice 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).

p) Current and deferred taxes

The cost of (income from) the tax on earnings of the financial year is calculated with 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 from the

variation of the assets and liabilities for deferred taxes recorded. This is recognised in the income statement, except in those cases in which this tax is directly related to entries reflected explicitly in the net assets of Correos Group, in which case the tax is recognised, likewise, in the same item.

Since January 2011 Correos Group has paid in the special regime of fiscal consolidation. The number of the Fiscal Group is no. 38/11 and the parent company was Sociedad Estatal Correos y Telégrafos, S.A.

Due to the integration of Correos Group in the Sociedad Estatal de Participaciones Industriales (SEPI) in June 2012, the Fiscal Group No. 38/11 was dissolved and the companies of this group were integrated in the Consolidated Fiscal Group with the number 9/86 effective for the 2012 financial year.

For the purposes of Corporation Tax, the Companies of Correos Group are part of Consolidated Fiscal Group 9/86, made up of SEPI and its companies based in Spain where its direct



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or indirect stake is greater than 75% and it has the majority of voting rights, in line with the provisions in article 58 of the *Ley 27/2014*, *del Impuesto sobre Sociedades* [Corporation Tax Act].

The assets and liabilities for current taxes are the estimated amounts payable or receivable from government bodies, in accordance with the taxable rates in force on the date of the balance sheet. They are registered under the balance sheet heading 'Debts, group companies and associates' and 'Current debts with group companies and associates' respectively, as the entity having to pay is the parent company of the Consolidated Fiscal group, i.e. SEPI.

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

Correos Group always recognises the corresponding liabilities from deferred tax when they arise. Correos Group recognises the assets for deferred tax for all of the deductible temporary differences, unused tax credits and negative taxable bases that are not applied, insofar that it is likely that the Group Company that has generated them has future tax gains that make the application of these assets possible.

With regard to the negative tax amounts generated by the Group Companies before they became part of the consolidated fiscal group no. 9/86, recorded in the item 'deferred tax liabilities', their recoverability is evaluated annually to determine future tax profits in the maximum compensation term as set out in the effective regulations. In this sense and regardless of the consolidated taxation, the Parent Company of the consolidated fiscal group to which the companies of Correos Group belong allows compensation of the negative tax amounts generated before their incorporation in the Group no. 9/86.

The assets and liabilities for deferred taxes are valued at the anticipated tax rates at the time they are reversed, in accordance with the

approved effective regulations, and according to the manner in which it can rationally be expected to recover or pay for the asset or liability for deferred tax. The adjustments of the values of the assets and liabilities for deferred taxes are allocated to the consolidated income statement, except insofar as the assets and liabilities for deferred taxes affected have been charged or paid directly to the net assets.

In any case, the negative tax amounts generated by the Correos Group companies starting from their incorporation in the consolidated fiscal group 9/86 have been acquired by SEPI at a rate of 28% until financial year 2015 and from financial year 2016 will be acquired at a rate of 25%.

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



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q) Government contributions, donations, bequestss and compensations received for costs derived from providing the UPS

Government contributions, donations, legacies and compensations received by the Parent Company for the provision of the UPS for the acquisition of certain items, 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 compensations received by the Parent Company, up to the 2010 financial year, as capital contributions to offset the costs derived from provision of the UPS are allocated to the consolidated income statement 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, impaired or are eliminated, in which case they are allocated to the consolidated income statement, either totally or according to the theoretical

percentage of the impairment of the assets covered by the contributions, at such time as this occurs. The allocation to the consolidated income statement of the compensations used for the financing of land is deferred until the financial year in which their transfer or impairment takes place.

The compensations to offset the costs derived from provision of the UPS are allocated by the Parent Company as revenue in the income statement in the examination period, regardless of their actual collection.

It is possible that if the CNMC resolution on the calculation of the net cost of the UPS in the financial years 2011, 2012, 2013, 2014, 2015 and 2016 differs from the amounts assigned in the National Budget there could be a positive or negative impact on the amounts recorded. Any such final impact cannot be calculated until the new Service Plan, to be developed by the Spanish Government, comes into force, which will establish the methodology and concepts to calculate the net cost.

As regards the considerations received, up

to 2010, by the Parent Company as capital contributions for the costs derived from provision of the UPS and the impairment of the associated assets, the valuation adjustments due to impairment of the elements are considered irreversible insofar as they have been financed free of charge.

r) Transactions with related parties

Transactions with related parties are recognised according to the valuation rules detailed above.

s) Value Added Tax

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 capital goods, do not alter the initial valuations of those goods. Therefore, any such effect is recorded in the consolidated income statement.



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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, dated 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 designated 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 income statement.

Article 22.2 of the Postal Act 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 Value Added Tax, the application of this legislative change has resulted in an increase 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 was a significant reduction in the pro rata VAT deduction and, thus, an increase in the non-deductible VAT paid for acquisition of capital goods and goods and services subject to VAT.



Expressed in thousands of euros

6. Intangible assets

The detail of activity in the 2016 and 2015 financial years is as follows:

	Balance at 01/01/2016	Additions	Disposals	Transfers	Balance at 31/12/2016
Cost-					
Patents, licences and similar	344	-	-	-	344
Computer software	226,739	16,661	(617)	-	242,783
Other intangible assets	502	-	-	-	502
TOTAL COST	227,585	16,661	(617)	-	243,629
Accumulated amortisation-					
Patents, licences and similar	(344)	-	-	-	(344)
Computer software	(189,057)	(18,914)	617	-	(207,354)
Other intangible assets	(250)	(41)	-	-	(291)
TOTAL ACCUMULATED AMORTISATION	(189,651)	(18,955)	617	-	(207,989)
NET VALUE	37,934				35,640



Expressed in thousands of euros

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

The registrations seen during the financial year correspond in the main 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 13,901 thousand euros (with the investment registered during the 2015 financial year being 22,552 thousand euros).

The cost of the wholly amortised items that formed part of the intangible fixed assets of Correos Group at 31 December 2016 amounts to 181,566 thousand euros (168,904 thousand euros in 2015).

At 31 December 2016, the Parent Company held binding agreements for the acquisition of computer software and evolutionary enhancements to IT systems for the sum of 10,134 thousand euros (14,041 thousand euros in 2015). On that date there were no binding agreements of sale involving any intangible assets owned by Correos Group.

	Balance at 01/01/2015	Additions	Disposals	Transfers	Balance at 31/12/2015
Cost-					
Patents, licences and similar	344	-	-	-	344
Computer software	203,638	24,576	(1,475)	-	226,739
Other intangible assets	502	-	-	-	502
TOTAL COST	204,484	24,576	(1,475)	-	227,585
Accumulated amortisation-					
Patents, licences and similar	(344)	-	-	-	(344)
Computer software	(177,106)	(13,373)	1,422	-	(189,057)
Other intangible assets	(209)	(41)	-	-	(250)
TOTAL ACCUMULATED AMORTISATION	(177,659)	(13,414)	1,422	-	(189,651)
NET VALUE	26,825				37,934



Expressed in thousands of euros

7. Property, land and equipment

The detail of activity in the 2016 and 2015 financial years is as follows:

	Balance at 01/01/2016	Additions and provisions	Disposals	Transfers	Balance at 31/12/2016
Cost-					
Land	377,848	-	(145)	1,652	379,355
Buildings	1,430,230	8,379	(2,204)	15,544	1,451,949
Technical installations and other items	659,994	47,460	(36,882)	5,282	675,854
Under construction and advances	33,988	13,501	-	(25,843)	21,646
TOTAL COST	2,502,060	69,340	(39,231)	(3,365)	2,528,804
Accumulated amortisation-					
Buildings	(467,547)	(34,496)	635	1,026	(500,382)
Technical installations and other items	(512,703)	(36,706)	36,284	(4)	(513,129)
TOTAL ACCUMULATED AMORTISATION	(980,250)	(71,202)	36,919	1,022	(1,013,511)
Adjustments for impairment-	-				
Land and buildings	(113,815)	(1,314)	5,622	(8,155)	(117,662)
Technical installations and other items	(2,888)	-	59	(1)	(2,830)
Under construction and advances	(10,718)	(205)	35	8,507	(2,381)
TOTAL ADJUSTMENTS FOR IMPAIRMENT	(127,421)	(1,519)	5,716	351	(122,873)
NET VALUE	1,394,389				1,392,420



Expressed in thousands of euros

	Balance at 01/01/2015	Additions and provisions	Disposals	Transfers	Balance at 31/12/2015
Cost-					
Land	380,447	-	(824)	(1,775)	377,848
Buildings	1,433,861	5,806	(14,323)	4,886	1,430,230
Technical installations and other items	708,001	32,248	(82,394)	2,139	659,994
Under construction and advances	39,410	13,211	-	(18,633)	33,988
TOTAL COST	2,561,719	51,265	(97,541)	(13,383)	2,502,060
Accumulated amortisation-					
Buildings	(443,777)	(33,581)	6,345	3,466	(467,547)
Technical installations and other items	(553,738)	(38,838)	79,880	(7)	(512,703)
TOTAL ACCUMULATED AMORTISATION	(997,515)	(72,419)	86,225	3,459	(980,250)
Adjustments for impairment-					
Land and buildings	(117,226)	(2,507)	9,046	(3,128)	(113,815)
Technical installations and other items	(2,865)	-	-	(23)	(2,888)
Under construction and advances	(15,782)	(214)	183	5,095	(10,718)
TOTAL ADJUSTMENTS FOR IMPAIRMENT	(135,873)	(2,721)	9,299	1,944	(127,421)
NET VALUE	1,428,331				1,394,389



Expressed in thousands of euros

The most significant additions made under the headings 'land and buildings', and 'Under construction and advances' during the financial year correspond to the Parent Company, and refer to the renovation and adaptation of existing premises and to the investments made at the logistics centres for the postal processing and distribution for sums of 12,212 and 745 thousand euros respectively (10,314 and 2,989 thousand euros respectively during the 2015 financial year).

The heading 'Technical installations and other items' includes the plant investments made at the properties used by the Group (whether or not it owns them), together with the investments made in machinery, IT equipment, motor vehicles and furniture. The most important recordings made under this heading during the financial year correspond to the purchase by the Parent Company of motor vehicles, IT equipment, machinery and furniture for sums of 9,060, 9,143, 9,796 and 6,719 thousand euros respectively (in the 2015 financial year the amounts for motor vehicles, IT equipment, machinery and furniture were 8,346, 7,435, 5,177 and 5,173 thousand euros respectively).

Of the total sum for disposals of property, land and equipment, 35,483 thousand euros correspond to fully amortised elements that were disposed of by the Parent Company, mainly IT equipment, machinery, furniture and technical installations (the Parent Company disposed of wholly amortised material elements amounting to 74,197 thousand euros during the 2015 financial year).

As mentioned in Note 4.e) of this Parent Company report, in light of the stipulations of Order EHA/733/2010, of 25 March which approved accounting aspects for public companies operating in certain circumstances, the impairment of the assets included under the heading property, land and equipment was recorded as per the value in use, as stipulated in the aforementioned 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:

- 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 renovations 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.

The comparison of the replacement cost depreciated by the net book value of the assets assessed by the Parent Company has shown a net reversal of the impairment of 'property, land and equipment' of 4,024 thousand euros (allocation of 1,314 thousand euros and reversal of 5,338 thousand euros), which was recorded in the 2016 income statement (allocation of 2,507 thousand euros and reversal of 4,904 thousand euros in the 2015 financial year).



Expressed in thousands of euros

In the 2015 financial year the Parent Company applied an impairment of 2,272 thousand euros as a result of the cancellation of the assets of a logistics centre it intended to sell and 1,328 thousand euros from cancellation of assets due to renovation of premises. In the 2016 financial year an impairment of 166 thousand euros was applied.

As of 31 December 2016, the Parent Company had signed contracts to purchase property, land and equipment worth 30,623 thousand euros (34,465 thousand euros in the 2015 financial year). At the close of the financial year, the Company has no final commitments involving sale of assets of significant net book value.

The cost of the wholly amortised items that formed part of the property, land and equipment of Correos Group as of 31 December 2016 amounts to 424,297 thousand euros (409,244 thousand euros as of 31 December 2015).

The net book value of the dwellings, premises and plots of land making up the property, land and equipment of the Parent Company not involved in the operation amounts to 43,439 thousand euros (45,607 thousand euros as of 31 December 2015), and their acquisition cost was 69,087 thousand euros (73,625 thousand euros as of 31 December 2015).

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



Expressed in thousands of euros

8. Investment property

The detail of activity in the 2016 and 2015 financial years is as follows:

	Balance at 01/01/2015	Additions and provisions	Transfers	Balance at 31/12/2015	Additions and provisions	Transfers	Balance at 31/12/2016
Cost-							
Land	1,142	-	1,927	3,069	-	1,014	4,083
Buildings	4,755	-	6,227	10,982	23	2,845	13,850
TOTAL COST	5,897	-	8,154	14,051	23	3,859	17,933
Accumulated amortisation-							
Buildings	(1,190)	(127)	(2,680)	(3,997)	(208)	(432)	(4,637)
Adjustments for impairment-							
Land and Buildings	(105)	16	-	(89)	3	-	(86)
NET BOOK VALUE	4,602			9,965			13,210



Expressed in thousands of euros

The investment property correspond to premises that the Parent Company has leased to third parties. The income from these contracts recorded in the consolidated income statement amounted to 648 thousand euros in the 2016 financial year, (602 thousand euros in the 2015 financial year).

The costs associated with property investments fundamentally correspond to their annual amortisation and maintenance costs, and amounted to 493 thousand euros during the 2016 financial year (154 thousand euros during the 2015 financial year). All of these expenses were recorded in the consolidated income statement based on the accrual principle.

There are no restrictions on investment property or on the collection of revenue 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 'Parent Company Activity'.

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

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

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

	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Up to one year	924	586
Between one and five years	2,038	1,524
More than five years	984	1,194
	3,946	3,304



Expressed in thousands of euros

9. Non-current assets held for sale

The detail and movement under this heading during the 2016 and 2015 financial years is as follows:

	Balance at 01/01/2016	Additions and provisions	Disposals	Transfers	Balance at 31/12/2016
Cost-					
Land	8,782	-	(418)	1,709	10,073
Buildings	19,476	3	(654)	(1,805)	17,020
Other installations	874	-	(12)	(398)	464
TOTAL COST	29,132	3	(1,084)	(494)	27,557
Accumulated amortisation-					
Buildings	(5,103)	-	241	(598)	(5,460)
Other installations	(430)	-	12	8	(410)
TOTAL ACCUMULATED AMORTISATION	(5,533)	-	253	(590)	(5,870)
Adjustments for impairment-					
Land and buildings	(4,543)	(12)	512	(351)	(4,394)
NET BOOK VALUE	19,056				17,293



Expressed in thousands of euros

At the close of 2016, the Parent Company classified 17,032 thousand euros (18,795 thousand euros in the 2015 financial year) under the heading 'Non-current assets held for sale', corresponding to the investments in land, buildings and property assets owned by the Company included in a disposal plan approved by the Parent Company's Governing Board in the 2012 financial year or for which it is actively taking steps to achieve a sale.

In the 2016 financial year the Parent Company disposed of assets by a sale worth 1,084 thousand euros and an accumulated amortisation of 253 thousand euros (against 3,764 thousand euros and an accumulated amortisation of 1,069 thousand euros in the 2015 financial year).

	Balance at 01/01/2015	Additions and provisions	Disposals	Transfers	Balance at 31/12/2015
Cost-					
Land	8,176	-	(1,294)	1,900	8,782
Buildings	18,608	-	(2,457)	3,325	19,476
Other installations	883	-	(13)	4	874
TOTAL COST	27,667	-	(3,764)	5,229	29,132
Accumulated amortisation-					
Buildings	(5,381)	-	1,057	(779)	(5,103)
Other installations	(442)	-	12	-	(430)
TOTAL ACCUMULATED AMORTISATION	(5,823)	-	1,069	(779)	(5,533)
Adjustments for impairment-					
Land and buildings	(4,292)	-	1,693	(1,944)	(4,543)
NET BOOK VALUE	17,552				19,056



Expressed in thousands of euros

10. Inventories

Details of this item as of 31 December 2016 and 2015 are as follows:

BALANCE BALANCE AT AT 31/12/2016 31/12/2015

Stock valued at cost-Stamps in the 350 386 possession of third parties Stamps at post offices 1,493 1,483 and warehouses Collectors' Stamps 2,221 3,400 Other inventories 2,497 2,905 8,148 6,587 Valuation adjustments (3,140)(3,812)due to impairment-5,008 2,775

The movement of the valuation adjustments for impairment of inventories during the 2016 and 2015 financial years is as follows:

VALUATION ADJUSTMENTS

	Stamps	Others	TOTAL
BALANCE AT 01 JANUARY 2015	2,859	78	2,937
Valuation adjustments due to impairment	1,011	665	1,676
Reversal of valuation adjustments	(152)	-	(152)
Application against cost of inventories	(617)	(32)	(649)
BALANCE AT 31 DECEMBER 2015	3,101	711	3,812
Valuation adjustments due to impairment	170	-	170
Reversal of valuation adjustments	(219)	(71)	(290)
Application against cost of inventories	(539)	(13)	(552)
BALANCE AT 31 DECEMBER 2016	2,513	627	3,140



Expressed in thousands of euros

Correos Group has maintained valuation adjustments for impairment of stamps for a value of 2,513 thousand euros (3,101 thousand euros in 2015) in cases in which it was estimated that its net realisable value was lower than its book value.

Periodically, the Parent Company destroys that inventories of stamps whose age and/or the reason for their issue make their use impossible. For that reason, completely impaired stamps worth 552 thousand euros were destroyed over the financial year (649 thousand euros in 2015).

11. Current and non-current financial assets

The composition of Correos Group current financial assets as of 31 December 2016 and 2015, excluding cash and other equivalent liquid assets described in Note (12), including the balances with government bodies not considered financial instruments, is as follows:

	BALANCE AT 31/12/2016	BALANCE AT 31/12/2015
Trade and other receivables-		
Clients from sales and provision of services	349,281	352,455
Clients, group companies and associates (Note 20)	61	53
Other debtors	278,747	286,883
Debts, group companies and associates (Note 20)	4,209	21,908
Staff	7,658	9,365
Government bodies (Note 18)	419	363
	640,375	671,027
Current investments-		
Deposits and guarantees	4,064	5,361



Expressed in thousands of euros

The headings for financial instruments in the table above are considered 'Loans and entries receivable'.

11.1.) Trade and other receivables

The headings 'Clients from sales and provision of services' and 'Other debtors' include 149,405 thousand euros in fees to be collected by the Parent Company from third-country postal operators for the provision of postal and telegram services (which stood at 117,691 thousand euros as of 31 December 2015).

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.

'Other debtors' includes 258,926 thousand euros (267,926 thousand euros in the 2015 financial year), corresponding to the balance at 31 December 2016 for compensation of costs derived from provision of the UPS in previous financial years and pending liquidation and which the Parent Company expects to receive in the short term. According to a communication sent by the Directorate General of the Treasury and Financial Policy on 10 March 2009, 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 (see Notes 11.3.1 and 17.c)).

The headings 'Clients from sales and provision of services' and 'Other debtors' are shown as net valuation adjustments for impairment, with activity taking place during the 2016 and 2015 financial years as follows:

VALUATION ADJUSTMENTS

	Clients	Debtors	TOTAL
BALANCE AT 01 JANUARY 2015	18,294	7,360	25,654
Valuation adjustments due to impairment	5,713	-	5,713
Reversals of valuation adjustments	(6,610)	(563)	(7,173)
BALANCE AT 31 DECEMBER 2015	17,397	6,797	24,194
Valuation adjustments due to impairment	5,233	109	5,342
Reversals of valuation adjustments	(4,036)	-	(4,036)
BALANCE AT 31 DECEMBER 2016	18,594	6,906	25,500



Expressed in thousands of euros

Under the item 'Losses, impairment and change in trade provisions' of the consolidated income statement, Correos Group recorded an expense of 531 thousand euros due to a direct cancellation of defaulting debts (having recorded an expense of 2,320 thousand euros for this same item during the 2015 financial year).

11.2.) Current investments

The current '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 Governing Board. On the basis of these policies, a set of procedures and controls was established to make it possible to identify, measure and manage risks deriving from the financial instruments, which expose the Company to credit, market and liquidity risks:



Expressed in thousands of euros

11.3.1) Credit risks

A credit risk arises due to the possible loss caused by a breach of the contractual obligations of the Parent Company's counterparts, that is, due to the possibility of not recovering the financial assets for the sum recorded in the set period. The maximum exposure to credit risk of Correos Group at 31 December 2016 and 2015 is as follows:

	PARENT COMPANY		REST OF THE GROUP COMPANIES		TOTAL OF CORREOS GROUP	
	Balance at 31/12/2016	Balance at 31/12/2015	Balance at 31/12/2016	Balance at 31/12/2015	Balance at 31/12/2016	Balance at 31/12/2015
Non-current investments	4,940	2,935	821	781	5,761	3,716
Clients from sales and provision of services	301,811	313,121	47,470	39,334	349,281	352,455
Other debtors (Note 11)	278,217	286,617	530	266	278,747	286,883
Current investments	4,045	5,262	19	99	4,064	5,361
Current deposits	-	30,000	-	-	-	30,000
Banks and financial institutions	99,341	104,344	1,838	2,183	101,179	106,527
	688,354	742,279	50,678	42,663	739,032	784,942



Expressed in thousands of euros

'Other debtors' is composed as follows:

'Non-current investments' comprises the following:

	BALANCE AT 31/12/2016	BALANCE AT 31/12/2015
Trade and other receivables		
Other debtors - UPS compensation (Note 18)	258,926	267,926
Other debtors - rest	19,821	18,957
	278,747	286,883

BALANCE AT BALANCE AT 31/12/2016 31/12/2015 Non-current investments Loans to third-4,499 2,499 parties Other financial 1,262 1,217 assets 5,761 3,716

In the 2015 financial year (see Note 17 c)), the Parent Company recognised rights to charge for outstanding payments of compensation of costs derived from the UPS in previous financial years worth 180,000 thousand euros (in 2015 it recognised 180,000 thousand euros corresponding to payment of compensation of costs derived from the UPS in previous years). As explained in Note 11.1), under the heading 'Other

debtors' the Parent Company classifies 258,926 thousand euros as current right to charge as it deems it receivable in the short term (267,926 thousand euros in the 2015 financial year).

The headings for financial instruments in the table above are considered 'Loans and entries receivable'.

The heading 'Non-current investments' of the Parent Company includes a non-current loan of 1,999 thousand euros, for the sale with postponed payment of a building in financial year 2015 (2,499 thousand euros in financial year 2015), as well as a collection right registered by the contract closure agreement by the credit agency, of 2,500 thousand euros, taken out in financial year 2016. It also includes 15 thousand euros, which correspond fully to the acquisition of shares in the International Post Corporation (IPC).



Expressed in thousands of euros

The headings for financial instruments in the table above are considered 'Loans and entries receivable'.

The different companies in Correos Group perform a solvency analysis for each of their clients.

These analyses are used for awarding 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 from sales and provision of services' and 'Other debtors' sections of Correos Group as of 31 December 2016 and 2015 is as follows:

	Parent Company		Rest of companies	
_	Number	Thousands of euros	Number	Thousands of euros
lients and debtors-				
With balance greater than 1,000 thousands of euros	21	42,958	-	-
With balance between 500 and 1,000 thousands of euros	40	26,897	-	-
With balance below 500 thousands of euros	21,448	86,940	10,455	47,465
	21,509	156,795	10,455	47,465
Foreign postal operators	218	149,405	-	-
Other debtors - UPS compensation (Note 11)	-	258,926	-	-
Other financial assets	-	14,902	-	535
		423,233		535
		580,028		48,000



Expressed in thousands of euros

	Parer	nt Company	Rest of companies	
	Number Thousands of euros		Number	Thousands of euros
Clients and debtors:				
With balance greater than 1,000 thousands of euros	27	92,140	1	1,306
With balance between 500 and 1,000 thousands of euros	39	27,211	-	-
With balance below 500 thousands of euros	21,040	82,747	8,362	37,894
	21,106	202,098	8,363	39,200
Foreign postal operators	219	117,691	-	-
Other debtors - UPS compensation (Note 11)	-	267,926	-	-
Other financial assets	-	12,023	-	400
		397,640		400
		599,738		39,600



Expressed in thousands of euros

At 31 December 2016 and 2015, the breakdown of the 'Clients' and 'Foreign postal operators' of the Correos Group companies by maturity is as follows:

2016 FINANCIAL YEAR

	Parent C		Parent Company Rest of Group Companies			Parer	Rest of Group Companies	
Clier	Clients	Foreign postal operators	Clients	Clients	Foreign postal operators	Clients		
Not due	97,653	71,040	35,070	145,893	56,902	30,984		
Due non-doubtful:								
Less than 30 days	32,766	252	6,410	10,848	93	3,874		
Between 30 and 60 days	9,735	522	2,088	23,049	689	1,680		
Between 60 and 90 days	7,551	325	896	6,701	176	410		
Between 90 and 120 days	2,173	81	656	10,647	161	356		
Over 120 days	6,917	66,436	2,345	4,960	44,606	1,896		
Provisional payments	-	10,749	-	-	15,064	-		
	156,795	149,405	47,465	202,098	117,691	39,200		
Doubtful clients	12,335	928	5,331	10,876	1,274	5,245		
Adjustments for impairment	(12,335)	(928)	(5,331)	(10,876)	(1,274)	(5,245)		
	156,795	149,405	47,465	202,098	117,691	39,200		



Expressed in thousands of euros

The amounts receivable from Parent Company clients that are more than 120 days old come to 6,917 thousand euros (4,960 thousand euros in 2015).

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

The Parent Company streamlined the cash flow surpluses during the 2016 financial year by actively managing the funds deposited in current accounts in highly solvent national financial entities. Over the course of the 2016 financial year, the Parent Company also lent cash flow to its Sole Shareholder (SEPI), payable in less than two months at market interest rates (See Notes 12, 17 h) and 20).

11.3.2) Market risk

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

Interest rate risks

An interest risk arises due to the possible loss caused by variations in the fair 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 arises due to the possible loss caused by variations in the exchange rate. 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 result from the services provided to and received 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 2016 amounted to 39,680 thousand euros payable (38,309 thousand as of 31 December 2015), 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 them 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 breakdown of the current financial assets and liabilities of the Group as of 31 December 2016 and 2015, and, by difference, its ability to meet its payment obligations in the short-term, is as follows:



Expressed in thousands of euros

	BALANCE AT 31/12/2016	BALANCE AT 31/12/2015
Current financial assets-		
Clients from sales and provision of services	349,281	352,455
Other debtors	278,747	286,883
Current investments	4,064	5,361
Cash and cash equivalents	127,987	173,676
Current financial liabilities-		
Current debts	(19,914)	(22,609)
Trade and other payables	(336,458)	(350,655)
DIFFERENCE	403,707	445,111



Expressed in thousands of euros

12. Cash and cash equivalents

Details of this item as of 31 December 2016 and 2015 are as follows:

	BALANCE AT 31/12/2016	BALANCE AT 31/12/2015
Cash:		
Cash	26,808	37,149
Banks and financial institutions	101,172	106,482
Cash equivalents:		
Current deposits (Notes 11.3.1) 20)	-	30,000
Accrued interest not due:		
From group companies (Notes 11.3.1 and 20)	-	5
From third-parties	7	40
	127,987	173,676



Expressed in thousands of euros

13. Equity

The breakdown of movements of Correos Group equity is shown in the Statement of changes in the consolidated equity, which is an integral part of the consolidated annual report.

a) Capital

The Share Capital of the Parent Company is represented by 611,521 shares with a nominal value of 1,000 euros each. All shares have the same political and economic rights and are fully subscribed and paid up.

b) Share premium

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.

The Parent Company's share premium was 250,938 thousand euros at 31 December 2016 and 2015.

c) Reserves

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

The Legal Reserve can only be used to increase the Share Capital in the part of its balance that exceeds the previously increased capital by 10%. Except for the purpose mentioned above, and 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 profits for the year to reserves required by Articles of Association. As of 31 December 2016, these reserves may be freely disposed of as decided by the Governing Board of the Parent Company pursuant to article 36 of its Articles of Association. As of 31 December 2016, the Statutory Reserves totalled 214,119 thousand euros while the Voluntary Reserves stood at 369,153 thousand euros (at 31 December 2015, these totalled 214,119 thousand euros and 402,935 thousand euros, respectively).



Expressed in thousands of euros

d) Reserves in consolidated companies

The breakdown as of 31 December 2016 and 2015 is as follows:

	Balance at 31/12/2014	Result 2014	Dividend	Balance at 31/12/2015	Result 2015	Dividend	Balance at 31/12/2016
Correos Telecom, S.A.	4,245	1,303	(1,303)	4,245	1,223	(1,223)	4,245
Nexea Gestión Documental, S.A.	(4,887)	(1,282)	-	(6,169)	(1,198)	-	(7,367)
Correos Express Paquetería Urgente, S.A.	(197,201)	(2,504)	-	(199,705)	(1,851)	-	(201,556)
	(197,843)	(2,483)	(1,303)	(201,629)	(1,826)	(1,223)	(204,678)

This heading also includes the Parent Company's Other Reserves, reflecting the reserves generated by certain consolidation adjustments in the past for 206,709 thousand euros (203,976 thousand euros in the 2015 financial year), 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 Correos Express Paquetería Urgente, S.A.



Expressed in thousands of euros

e) Consolidated results of Correos Group

Correos Group's consolidated profits for the 2016 and 2015 financial years are as follows:

FINANCIAL YEAR 2016

	Individual Result	Consolidation adjustments	Consolidated results
Correos y Telégrafos, S.A.	(51,537)	7,010	(44,527)
Correos Telecom, S.A.	1,513	-	1,513
Nexea Gestión Documental, S.A.	(1,155)	-	(1,155)
Correos Express Paquetería Urgente, S.A.	991	-	991
	(50,188)	7,010	(43,178)

	Individual Result	Consolidation adjustments	Consolidated results
Correos y Telégrafos, S.A.	(33,702)	1,429	(32,273)
Correos Telecom, S.A.	1,223	-	1,223
Nexea Gestión Documental, S.A.	(1,198)	-	(1,198)
Correos Express Paquetería Urgente, S.A.	(1,850)	-	(1,850)
	(35,527)	1,429	(34,098)



Expressed in thousands of euros

14. Government contributions, donations, bequests and compensations received for costs derived from providing the UPS

The itemised details of movements during financial years 2016 and 2015 of compensations received as capital subsidies up to financial year 2010 from the Parent Company were as follows:

Thousands of euros

INITIAL BALANCE AT 01 JANUARY 2015	292,460
Government contributions, donations and bequests recognised	-
Tax effect	-
Amounts transferred to the consolidated income statement:	
- due to amortisation	(15,836)
- due to adjustments for impairment	(551)
- due to disposals	(4,071)
Tax effect	5,728
Tax effect - exchange rates	(133)
FINAL BALANCE AT 31 DECEMBER 2015	277,597



Expressed in thousands of euros

The Parent Company values the liabilities from deferred tax resulting from capital compensations received up to the 2010 financial year at the tax rates expected at the time they were revised, as per the applicable regulation at 31 December 2016,

and acknowledges this change in the Company's net assets (see Note 4p), 18 and Statement of total changes in the consolidated equity).

Thousands of euros

INITIAL BALANCE AT 01 JANUARY 2016	277,597
Government contributions, donations and bequests recognised	312
Tax effect	-
Amounts transferred to the consolidated income statement:	
- due to amortisation	(13,388)
- due to adjustments for impairment	(1,781)
- due to disposals	(381)
ax effect	3,887
FINAL BALANCE AT 31 DECEMBER 2016	266,246



Expressed in thousands of euros

15. Non-current and current provisions

The breakdown of non-current and current provisions for the 2016 and 2015 financial years was as follows:

		CURRENT PROVISIONS				
	Provision for taxes	Provision for claims from the staff	Provision for court actions	Other provisions	TOTAL	
BALANCE AT 01 JANUARY 2015	4,707	13,109	27,589	2,077	47,482	5,080
Provisions	421	3,201	271	-	3,893	386
Applications / payments	(1,347)	(1,019)	(3,135)	(1,450)	(6,951)	(3,917)
Reversals / excesses	(1,930)	(271)	(6,456)	(60)	(8,717)	(399)
BALANCE AT 31 DECEMBER 2015	1,851	15,020	18,269	567	35,707	1,150
Provisions	4,379	-	1,295	94	5,768	1,078
Applications / payments	(372)	(1,946)	-	-	(2,318)	(258)
Reversals / excesses	(1,300)	(5,698)	(1,540)	(142)	(8,680)	(127)
BALANCE AT 31 DECEMBER 2016	4,558	7,376	18,024	519	30,477	1,843



Expressed in thousands of euros

The provisions for the financial year, amounting to 5,768 thousand euros, have been charged to the consolidated income statement according to their type (4,279 thousand euros in 2015).

The origin of these charges lies in court decisions that have been unfavourable for Correos Group during financial year 2016 and which have involved the actual payment of certain amounts.

The reversals for the financial year, amounting to 8,680 thousand euros, have been charged to the consolidated income statement according to their type (9,116 thousand euros in 2015).

Provision for claims from the staff

The balance of this provision as of 31 December 2016 records the estimated sums to be paid for claims and court actions in labourlaw proceedings against Correos Group.

Provision for court actions

The balance of this provision as of 31 December 2016 and 2015 records the sums to be paid by the Parent Company for penalties imposed by the CNMC which the former has appealed against.



Expressed in thousands of euros

16. Financial liabilities

The composition of Correos Group's current financial liabilities as of 31 December 2016 and

2015, including balances with government bodies not considered financial instruments, is as follows:

	BALANCE AT 31/12/2016	BALANCE AT 31/12/2015
Current debts:		
Current payables for fixed assets	5,146	10,097
Money order deposits	4,408	4,691
Deposits and guarantees	8,624	7,286
Other current debts	1,736	535
TOTAL CURRENT DEBTS	19,914	22,609
CURRENT DEBTS WITH GROUP COMPANIES AND ASSOCIATES (NOTE 20)	492	478
Trade and other payables:		
Suppliers	1,453	1,706
Suppliers, group and associated companies (Note 20)	-	3
Other payables	192,428	178,298
Staff (unpaid wages)	17,938	64,779
Other debts with government bodies (Note 18)	51,713	59,505
Customer advances	72,926	46,364
TOTAL TRADE AND OTHER PAYABLES	336,458	350,655



Expressed in thousands of euros

The headings for financial instruments in the table above are considered 'Debts and payables'.

'Money order deposits' include money orders accepted prior to 31 December 2016 and pending payment by the Parent Company to their recipients at that date.

The 'Other creditors' heading includes amounts received by the Parent Company from third parties totalling 23,155 thousand euros (25,430 thousand euros in the 2015 financial year).

Similarly, the headings 'Other payables' and 'Advances from customers' include 109,725 thousand euros whose origin lies in pending payments to different third-country postal operators for postal and telegram services received from them (79,382 thousand euros as of 31 December 2015).

At the close of the financial year the Parent Company had no outstanding amount due to suppliers that was delayed beyond the legal limit established by Act 15/2010 of 5 July.

In accordance with the provisions of Act 15/2010 and the ICAC's Resolution of 29 January 2016, the information from the Parent Company on the average settlement period for supplier invoices in business operations at 31 December 2016 is as follows:

	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
	Days	Days
Average settlement period for supplier invoices	27	28
Ratio of paid transactions	28	29
Ratio of paid transactions	16	14
	Thousands of euros	Thousands of euros
TOTAL PAYMENTS MADE	430,673	411,257
TOTAL OUTSTANDING PAYMENTS	13,327	33,554



Expressed in thousands of euros

17. Income and expenses

category, as well as by geographical markets, for the 2016 and 2015 financial years is as follows:

a) Revenue

The distribution of Correos Group's revenue corresponding to its ordinary activities by activity

	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Category activity segmentation-		
Revenue from postal, telegraph and parcel services	1,679,030	1,684,109
Revenue from provision of services to third parties and provision of banking services	22,279	26,540
Revenue from money transfer	25,569	26,426
Sale of philatelic products	18,410	18,838
Others	15,857	9,802
TOTAL	1,761,145	1,765,715
Geographical markets' segmentation-		
National	1,750,973	1,764,347
International	10,172	1,368
TOTAL	1,761,145	1,765,715



Expressed in thousands of euros

The heading 'Provision of postal, telegraph and parcel services' shows the net value of the figure for volume discounts granted by Correos Group to its clients during the financial year for 7,037 thousand euros (this figure was equivalent to 11,052 thousand euros in the 2015 financial year).

b) Supplies

The breakdown of the heading 'supplies' in the attached consolidated income statement during the 2016 and 2015 financial years is as follows:

FINANCIAL FINANCIAL YEAR 2016 YEAR 2015 National purchases of merchandise-Stamps and other franking signs 5,748 4,380 Other products 8,375 7,998 Changes in inventories (2,110)(1,078)**MERCHANDISE USED** 12,013 11,300 Impairment of merchandise, raw materials and other supplies (120)1,524 Work carried out by other companies 225,895 201,179 **SUPPLIES** 237,788 214,003

c) Compensations received for costs derived from providing the UPS

In 2016 financial year, the Public Works Ministry transferred 180,000 thousand euros to the Treasury. This amount was assigned to the Parent Company in the Public Works Ministry's budget for provision of the Universal Postal Service to cover outstanding payments within programme 491 Universal Postal Service, in the National Budget for the financial year 2016. Pursuant to the above, in financial year 2016 the Parent Company recorded revenue of 180,000 thousand euros under this heading, in line with Correos' accounting practice (in financial year 2015, 180,000 thousand euros were obtained by the Parent Company for the provision of the Universal postal service, pending payment, within programme 491 - Universal postal service, within the National Budget for financial year 2015, which were entered into the accounts as revenue in financial year 2015).



Expressed in thousands of euros

However, at the date these annual accounts were drafted, the resolutions on the determination of the net cost of the Universal Postal Services for the 2011, 2012, 2013, 2014, 2015 and 2016 financial years had yet to be issued and approved by the CNMC. Therefore, until these resolutions are issued and this net cost can be determined, advance payments from previous financial years made by the Public Works Ministry cannot be considered as a final settlement.

It is possible that if the CNMC resolution on the calculation of the net cost of the UPS in the financial years 2011, 2012, 2013, 2014, 2015 and 2016 differs from the amounts assigned in the National Budget, there could be a positive or negative impact on the amounts recorded.

Any such final impact cannot be calculated until the new Service Plan, to be developed by the Spanish Government, comes into force, which will establish the methodology and concepts to calculate the net cost.

	COMPENSATION FOR PROVISION OF THE UPS PENDING COLLECTION AS OF 01 JANUARY 2015 (DEPOSITED IN THE TREASURY)	518,000
1		
FINANCIAL YEAR	UPS compensation collected by the Treasury	(430,074)
2015	UPS Treasury compensation - previous years pending payment	180,000
	COMPENSATION FOR PROVISION OF THE UPS PENDING COLLECTION AS OF 31 DECEMBER 2015 (DEPOSITED IN THE TREASURY)	267,926
FINANCIAL YEAR	UPS compensation collected by the Treasury	(189,000)
2016	UPS Treasury compensation - pending payment	180,000
	COMPENSATION FOR PROVISION OF THE UPS PENDING COLLECTION AS OF 31 DECEMBER 2016 (DEPOSITED IN THE TREASURY)	258,926



Expressed in thousands of euros

Over the course of 2016 financial year, the Parent Company has collected 189,000 thousand euros for compensation for costs derived from provision of the UPS in the previous financial years (430,074 thousand euros in financial year 2015). The pending amount for this item at the end of financial year 2015 was 258,926 thousand euros (see Notes 11.1, 11.3.1)) (267,926 thousand euros at the close of the 2015 financial year).

The Parent Company received other subsidies during financial year 2016, worth 8 thousand euros (in financial year 2015 it received 193 thousand euros for staff training).

d) Staff costs

The breakdown of the heading 'staff costs' for the financial years ending on 31 December 2016 and 2015 is as follows:

	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Salaries and wages	1,125,786	1,134,184
Social security contributions	251,860	240,714
Other expenses	8,587	9,080
Extra pay December 2012	-	58,549
	1,386,233	1,442,527

Social security contributions for the financial years 2016 and 2015 do not include any amount for pension contributions and allowances. On the basis of the provisions of article two of Royal Decree 20/2011, of 30 December, on

urgent budgetary, fiscal and financial measures for the correction of the public deficit, the Parent Company did not make contributions to the pension plans (see Note 5-o)).



Expressed in thousands of euros

e) External services

The breakdown of the heading 'External Services' for the financial years ended at 31 December 2016 and 2015 is as follows:

	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Leases	40,311	40,690
Repairs, preservation and maintenance	71,239	69,753
Security	20,594	20,320
Fees from sales	25,588	12,554
Supplies	38,155	43,624
Advertising, marketing and public relations	15,194	13,853
Communications	9,659	9,485
Cleaning	26,591	28,808
Other expenses	38,651	41,091
	285,982	280,179

The costs derived from the maintenance and management services provided by third parties for the Parent Company's data processing centres, among other things, are included under 'Other expenses'.

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

	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Up to one year	11,365	14,874
Between one and five years	17,394	24,072
More than five years	23,081	25,460
	51,840	64,406

f) Taxes

Under the heading 'Taxes' the Parent Company records, among other things, the effect of the restatement of the VAT pro rata figure determined for capital goods and the restatement effect of the definitive pro rata of the 2016 financial year (see Note 4-r)). These restatements led to an expenditure of 972 thousand euros and an income of 1,411 thousand euros respectively in financial year 2016 (in financial year 2015 the expenditure was 1,329 thousand euros for the restatement of capital goods from previous financial years and 721 thousand euros for restatement of the definitive pro rata of the previous financial year).

Other taxes, such as the property tax cost the Parent Company 5,784 thousand euros in financial year 2016 (5,799 thousand euros in financial year 2015).



Expressed in thousands of euros

g) Impairment and loss/gain on disposal of fixed assets

The breakdown of this heading for the financial years ending at 31 December 2016 and 2015 is as follows:

	FINANCIAL YEAR 2016				
	I. Fixed assets and non-current assets held for sale				
	Intangible assets	Land and buildings	Other fixed assets	Technical installations	TOTAL
Adjustments for impairment:					
Provisions	-	183	-	-	183
Reversals	-	(4,659)	-	(59)	(4,718)
	-	(4,476)	-	(59)	(4,535)
Result from disposals and others:					
Profits	-	(462)	(395)	-	(857)
Losses	-	1,226	157	8	1,391
	-	764	(238)	8	534
	-	(3,712)	(238)	(51)	(4,001)
			-		

FINANCIAL YEAR 2015

I. Fixed assets and non-current assets held for sale				
Intangible assets	Land and buildings	Other fixed assets	Technical installations	TOTAL
-	2,508	-	-	2,508
-	(6,047)	-	-	(6,047)
-	(3,539)	-	-	(3,539)
(10)	(2,912)	(912)	-	(3,834)
34	3,716	481	5	4,236
(24)	804	(431)	5	402
(482)	(2,735)	(431)	5	(3,137)
	(10) 34 (24)	Land and buildings	Land and buildings	Intangible assets Land and buildings Other fixed assets Technical installations - 2,508 - - - (6,047) - - - (3,539) - - (10) (2,912) (912) - 34 3,716 481 5 (24) 804 (431) 5



Expressed in thousands of euros

h) Financial income and expenses

The breakdown of this heading for the 2016 and 2015 financial years is as follows:

FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
97	269
749	1,063
846	1,332
214	63
214	63
	97 749 846 214

Over the course of the 2016 financial year, the Parent Company also lent cash flows to its Sole Shareholder (SEPI), payable in no more than two months at market interest rates. At the close of financial year 2016 there were no cash flow loans made (30,000 thousand euros at 31 December 2015) (See Notes 11.3.1) and 20). The consequent revenue generated stood at 97 thousand euros in the 2015 financial year (269 thousand euros in financial year 2015).

The interest the Parent Company earned from the management of the cash flow surplus in its current accounts is recorded in 'Other financial income' (see note 11.3.1)).



Expressed in thousands of euros

18. Tax situation

The detail of the balances held by the Group with government bodies as of 31 December 2016 and 2015 is as follows:

	BALANCE AT 31/12/2016	BALANCE AT 31/12/2015
Non-current assets-		
Deferred tax assets	17,743	15,738
TOTAL NON-CURRENT ASSETS WITH GOVERNMENT BODIES	17,743	15,738
Current assets-		
Other debtors - UPS compensation (Note 11.3.1)	258,926	267,926
Others (Note 11)	419	363
TOTAL CURRENT ASSETS WITH GOVERNMENT BODIES	259,345	268,289
	(Nota 11)	(Nota 11)
Non-current liabilities-		
Deferred tax liabilities	88,698	92,716
Current liabilities-		
Income Tax – [IRPF in Spanish]	17,955	21,626
Value-added tax - VAT	4,111	6,630
Social Security	26,489	28,340
MUFACE (public employee mutual soc.) and liability fees	2,150	2,494
Others	1,008	415
TOTAL CURRENT LIABILITIES WITH GOVERNMENT BODIES	51,713	59,505
	(Nota 16)	(Nota 16)



Expressed in thousands of euros

In the 2011 financial year Correos Group paid its taxes under the fiscal consolidation regime as the Parent Company of the Fiscal Group no. 38/11 comprising the Parent Companies Correos Express Paquetería Urgente, S.A., Correos Telecom, S.A. and Nexea Gestión Documental, S.A.

In the 2012 financial year, following the transfer of the shares of the Company to the public law entity Sociedad Estatal de Participaciones Industriales (SEPI), formalised by a deed dated 5 June 2012, all companies of Correos Group were integrated in the Consolidated Fiscal Group SEPI with the number 9/86 and the the Fiscal Group 38/11 subsequently terminated.

This integration has been effective since 1 January of the 2012 financial year, and was communicated by SEPI (as the Parent Company of the Fiscal Group) to the Central Office of Large-Scale Taxpayers of the Fiscal Authorities when the second instalment of the corporation tax payment for 2012 was made in compliance with the provisions in article 70.6 of the amended text of the Ley del Impuesto sobre Sociedades [Corporation Tax Act].

For the purposes of Corporation Tax, the companies of Correos Group are part of Consolidated Fiscal Group 9/86, made up of the SEPI and its companies based in Spain where its direct or indirect shareholdings are greater than 75% and it has the majority of voting rights, in line with the provisions in article 58 of the Corporation Tax Act.

The Fiscal Group's taxable base is calculated by adding the individual tax bases of its constituent companies. In spite of this, all Group Companies submit their settlement separately.

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.

To determine the individual taxable amounts, certain adjustments or eliminations to transactions within the group are made at an individual level, i.e. they are transferred

to the individual taxable amounts of the Group Companies instead of having them at a consolidated level. These transactions most often are those relating to the dividends received by the Group Companies and the provisions for impairments of the shareholdings in affiliate companies. The objective of this so-called 'homogenisation' of the taxable bases that are integrated in the base of the Fiscal Group No. 9/86 is to avoid doubling up in the calculation of the tax debts and credits.



Expressed in thousands of euros

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

	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Temporary differences:		
Provision for risks and charges	125	-
Provisions related to staff	742	80
Provisions related to fixed assets	2,353	1,378
Amortisation of fixed assets	10,918	12,791
Others	341	292
	14,479	14,541
Adjustment due to change to tax rate	(274)	(414)
Credits for deductions	3,538	1,612
DEFERRED TAX ASSETS	17,743	15,738
Temporary differences:		
Tax effect of UPS capital compensations received up to 2010	88,287	92,532
Other temporary adjustments	411	184
DEFERRED TAX LIABILITIES	88,698	92,716



Expressed in thousands of euros

The movement of assets due to deferred payment of the Corporation Tax during the 2016 and 2015 financial years is as follows:

FINANCIAL YEAR 2016

	Balance at 01/01/2016	Additions	Adjustment	Reversal	Balance at 31/12/2016
Deferred tax base	49,420	10,143	-	(8,728)	50,834
Tax effect:					
Temporary differences	14,126	2,536	-	(2,457)	14,206
Credits for losses to be compensated/deductions	1,612	1,926	-	-	3,539
	15,738	4,462	-	(2,457)	17,743

FINANCIAL YEAR 2015

	Balance at 01/01/2015	Additions	Adjustment	Reversal	Balance at 31/12/2015
Deferred tax base	69,639	6,457	(1,850)	(24,827)	49,420
Tax effect:					
Temporary differences	20,203	1,808	(933)	(6,952)	14,126
Credits for losses to be compensated/deductions	-	1,612		-	1,612
	20,203	3,420	(933)	(6,952)	15,738



Expressed in thousands of euros

The movement of liabilities due to deferred payment of the Corporate Tax during the 2016 and 2015 financial years is as follows:

FINANCIAL YEAR 2016

	Balance at 01/01/2016	Additions	Adjustment Exchange rates	Reversal	Balance at 31/12/2016
Liabilities due to deferred taxed compensation UPS capital	92,126	-	-	(3,879)	88,247
Temporary differences	2,360	-	-	(557)	1,803
Temporary differences tax effect	590	-	-	(139)	451
TOTAL LIABILITIES FOR DEFERRED TAX	92,716	-	-	(4,018)	88,698

FINANCIAL YEAR 2015

	Balance at 01/01/2015	Additions	Adjustment Exchange rates	Reversal	Balance at 31/12/2015
Liabilities due to deferred taxed compensation UPS capital	97,711	-	133	(5,718)	92,126
Temporary differences	618	1,972	-	(230)	2,360
Temporary differences tax effect	173	552	(71)	(64)	590
TOTAL LIABILITIES FOR DEFERRED TAX	97,884	552	62	(5,782)	92,716



as follows:

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The effective aggregate tax expense and the aggregate Corporate Tax expense are calculated

Expressed in thousands of euros

	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
	Consolidated income statement	Consolidated income statement
Consolidated result before taxes	(47,553)	(52,432)
Consolidation adjustments	(1,007)	1,901
AGGREGATE RESULTS BEFORE TAXES	(48,560)	(50,531)
Breakdown of aggregate results before taxes:		
- Accounting basis	2,572	1,706
- Capitalised Accounting basis (losses)	(50,125)	(54,138)
- Non-taxable Accounting basis	(1,007)	1,901
	(48,560)	(50,531)
Theoretical tax charge	(502)	(478)
Tax credit	12,953	15,158
Non-calculable income	605	408
Non-deductible expenses	(9,317)	413
Deductions	1,622	1,612
Effective aggregate taxable income/(expense)	5,361	17,113
Breakdown of effective aggregate taxable income/ (expense):		
Current taxes	3,246	21,133
Deferred taxes	2,115	(4,020)
TOTAL EFFECTIVE AGGREGATE TAXABLE INCOME/ (EXPENSE)	5,361	17,113
Adjustment due to change to tax rate	(274)	(399)
Adjustment previous financial year Corp. Tax	304	190
Consolidation adjustment	(9)	(471)
AGGREGATE CORPORATION TAX INCOME / (EXPENSE)	5,382	16,433



Expressed in thousands of euros

The calculated Corporation Tax pending payment and collection as of 31 December 2016 and 2015 is as follows:

	FINANCIAL YEAR 2016		FINANCIAL YEAR 2015		
	Debtor current tax	Creditor current tax	Debtor current tax	Creditor current tax	
Aggregate current tax	3,738	(492)	21,611	(478)	
Tax withholdings and prepayments	280	-	297	-	

The conciliation of the consolidated book result with the taxable base for income tax as of 31 December 2016:

	Increases	Decreases
Aggregate result	-	(47,553)
Consolidation adjustments	-	(1,007)
Permanent differences:		
-of each company	37,507	(2,419)
Temporary differences:		
-of each company		
-Arising in the year	12,250	(15)
-Arising in previous years	557	(13,310)
Taxable base (tax result)	-	(13,990)

On 27 November 2014, the Act 27/2014 on Corporation Tax was published in the Official State Gazette. It came into force on 1 January 2015 and applies to all tax periods from that date onwards. In accordance with article 29.1 of this Act, the general tax rate has been reduced from 30% to 25%. Moreover, a number of other measures were also brought in on a temporary basis, including Temporary Provision Thirty-Four i) which establishes a general tax rate of 28% for tax periods beginning in 2015. In light of this, the Group Companies have recorded their deferred tax assets as of 31 December 2016 at a rate of 25%, which is the expected rate at which the assets will revert, as set out in the adjustment due to change to tax rate.

Current laws and regulations establish that taxes may not be deemed finally settled until filed tax statements have been inspected by the tax authorities or a statute of limitations of four years elapses. At 31 December 2015, the companies that make up Correos Group had all applicable taxes since 01 January 2012 open to inspection by the tax authorities. The Parent Company's



Expressed in thousands of euros

Directors do not expect significant additional liabilities to accrue in any inspection procedure.

In accordance with the Corporation Tax Act effective in financial years starting from 1 January 2015, if a company's tax base is negative as calculated using the applicable rules, there is no maximum period for said amount to be offset. The offset must be made upon filing the Corporation Tax return, and is subject to the tax authorities' power of verification.

The negative tax amounts from before the integration in the Fiscal Group No. 9/86 that Companies of Correos Group generated in the 2011 financial year or before, can be subject to compensation with future taxable amounts generated by these companies. The limit is their own taxable amount, as the Parent Company of this consolidated fiscal group allows the compensation of negative tax amounts generated before its incorporation into the Fiscal Group No. 9/86.

As of 31 December 2016, the Group's companies had negative tax bases of 198,635 thousand

euros to offset against future fiscal benefits (198,635 thousand euros in financial year 2015).

The temporary differences corresponding to Correos Express Paquetería Urgente, S.A. are treated as permanent differences due to the Company's recurring losses. It is deemed doubtful whether the potential assets from deferred taxes can be recovered and whether the potential liabilities from deferred taxes can be achieved.

Upon the entry into force of Act 16/2013, the tax treatment of the impairment loss on securities representing capital or equity shares in companies was modified, and it was decreed that losses due to impairment would not be tax deductible. Pursuant to this legislation, the Parent Company therefore deems the impairment of the value of its shares in its subsidiaries as well as the impairment of the value of equity loans issued to subsidiaries not deductible.

In addition, Act 16/2013 approved a transitional system to govern situations which came into being under previous legislation. Based on this system, tax impairments calculated in

accordance with previous legislation (article 12.3 of the TRLIS) had to be included in the tax base for the period during which the value of the investee company's equity at the close of the financial year exceeded its value at the start.

This transitional system was modified by the publication of the Royal Decree 3/2016 in the Official State Gazette on 3 December 2016, where measures for tax purposes were adopted aimed at consolidating public finances, as well as other urgent social measures.

In accordance with the provisions of this Royal Decree, the reversal of impairment losses on securities representing the capital or equity shares in companies which were tax deductible in the Corporation Tax base during tax periods which began before 1 January 2013 must be included, at least, in parts that are equal to the taxable base corresponding to each of the first five tax periods which begin from 1 January 2016.

A minimum amount was therefore established for reversal of the impairment losses of the securities portfolio from financial year 2016



Expressed in thousands of euros

onwards, regardless of whether the reversal of the impairment is recorded in the accounts. However, should an accounting reversal of an amount greater than the general procedure established in this provision occur, the pending amount shall be shared by equal parts between the remaining tax periods.

In the case of impairment in the value of Correos' shares in Correos Express Paquetería Urgente S.A. and Nexea Gestión Documental, S.A., the amount of tax deducted by the Parent Company for Corporation Tax in years prior to 2013 was 176,335 thousand euros and 1,302 thousand euros respectively.

The integration procedure implemented through Royal Decree 3/2016 led to an increase in the taxable basis for the Parent Company's Corporation Tax for the financial year 2016 of 35,267 thousand euros and 260 thousand euros respectively, amounts which correspond to a fifth of the total impairment losses deducted in the years up to 2013. This integration will have an effect on the Parent Company's taxable base, leading to a

change in the tax charge for the financial year of 8.817 thousand euros and 65 thousand euros.

The pending amount to be integrated into the Parent Company's Corporation Tax for the four financial years following 1 January 2017 amount to a total of 142,110 thousand euros, with a corresponding effect on the tax charge of 35,527 thousand euros.



Expressed in thousands of euros

19. Other information

a) Number of employees

The breakdown of the Group's usual staff by number of employees during the 2016 and 2015 financial years was as follows:

	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Management Committee	14	14
Rest of workforce:		
Civil servants	13,905	15,936
Employees under ordinary contracts	37,108	35,433
	51,027	51,383

As of 31 December 2016 and 2015, the number of employees of Correos Group broken down by job categories and gender was as follows:

	DATA AT 31/12/2016		DAT	DATA AT 31/12/2015		
	Men	Women	TOTAL STAFF	Men	Women	TOTAL STAFF
Management Committee	13	1	14	13	1	14
Rest of workforce:						
Civil servants	9,048	3,892	12,940	10,583	4,514	15,097
Employees under ordinary contracts	17,295	22,192	39,487	15,394	20,712	36,106
	26,356	26,085	52,441	25,990	25,227	51,217



Expressed in thousands of euros

The average workforce of the Group with disabilities of 33% or more during the 2016 and 2015 financial years was as follows:

	FINANCIAL YEAR 2016	FINANCIAL YEAR 2015
Civil servants	340	393
Employees under ordinary contracts	560	545
	900	938

c) Planned financial investments

The Parent Company plans to make certain financial investments, subject to authorisation from the Council of Ministers, in accordance with article 12.5 of Act 5/1996, of 10 January, on the Creation of Certain Public Law Bodies.

d) Fees for accounts auditors and group and associated companies

The amounts accrued during the financial year by PricewaterhouseCoopers Auditores, S.L. for auditing accounts and other verification services totalled 130 thousand euros (129 thousand euros in financial year 2015).

Furthermore, fees accrued during financial year 2016 by other companies in the PwC network totalled 238 thousand euros (40 thousand euros in financial year 2015).

b) Commitments and contingencies

At 31 December 2016, the guarantees provided on behalf of Correos Group by various banks came to 64,022 thousand euros (61,379 thousand euros at 31 December 2015). 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.



Expressed in thousands of euros

20. Related party transactions

a) Associated companies

Correos has been part of the SEPI Group since 5 June 2012 (see Note 1). The debit and credit balances Correos Group maintains with companies of the SEPI Group at 31 December 2016 and 2015 are as follows:

	Clients, companies of the Group		compani	oliers, les of the oup
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
SEPI	-	1	-	-
SEPI Group, remainder	61	52	-	3
	61	53	-	3
	(Note 11)	(Note 11)	(Note 16)	(Note 16)
		Inter-SEPI	cash flows	
	31/12	/2016	31/12	2/2015
SEPI		-	30,005	
SEPI Group, remainder	-			-
		-	30,	005
	(Not	e 12)	(No	te 12)

The cross credits and debits corresponding to the operation of the Fiscal Group (see Note 18) are described below:

BALANCES FISCAL GROUP NO. 9/86

		companies Group	Debts, com the G	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
SEPI	4,209	21,908	492	478
	4,209	21,908	492	478
	(Note 18)	(Note 18)	(Note 18)	(Note 18)

The transactions with the companies of the SEPI Group in the 2016 and 2015 financial years are as follows:

	Income from provision of services		Operating expenses		
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	
SEPI	4	5	-	-	
SEPI Group, remainder	238	276	37	89	
	242	281	37	89	
	Financia	l income	Distribution of dividends		
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	
SEPI	97	269	-	100,823	
	97	269	-	100,823	
	(Note 17h)	(Note 17h)	(Note 4)	(Note 4)	



Expressed in thousands of euros

b) Directors and senior management 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 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 2016 and 2015 financial years.

Remunerations and other benefits
to Directors and to members of the
Management Committee of the Parent
Company during the financial year
Pay received for all items during the 2016
financial year by members of the Parent
Company's Governing Board and Management
Committee totalled 1,994 thousand euros
(2,023 thousand euros in 2015), 153 thousand
of which correspond to assistance fees paid
to members of the Governing Board of the
Parent Company for attending Board meetings
(160 thousand in 2015); the rest was paid
as salaries and/or other pay items (including
compensation) to the members of the

As of 31 December 2016, 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.

Governing Board of the Parent Company.

Other information regarding the Governing Board

In order to avoid conflicts with the interests of the Group's companies, the Directors holding positions on the Governing Board of the Parent Company complied with all of the obligations set out in article 228 of the amended text of the Capital Companies Act. Moreover, both the members of the Board and the people associated with them have refrained from falling into any of the conflict of interest scenarios set out in article 229 of said Act.

On the date of preparing these annual accounts, the Governing Board of the Parent Company was made up of 10 men and 6 women.



Expressed in thousands of euros

21. Segment results

Correos Group's segment results for the 2016 and 2015 financial years are as follows:

FINANCIAL YEAR 2016 FINANCIAL YEAR 2015

	Postal, telegraphs and parcels	Urgent parcels and others	Portfolio adjustment and participative P.	TOTAL		Postal, telegraphs and parcels	Urgent parcels and others	Portfolio adjustment and participative P.	TOTAL
Revenue	1,590,473	170,672	-	1,761,145	Revenue	1,613,925	151,790	-	1,765,715
Supplies	(143,541)	(94,247)	-	(237,788)	Supplies	(128,294)	(85,709)	-	(214,003)
UPS compensation	180,000	-	-	180,000	UPS compensation	180,000	-	-	180,000
Staff costs	(1,342,693)	(43,540)	-	(1,386,233)	Staff costs	(1,398,016)	(44,511)	-	(1,442,527)
Other results	(332,833)	(32,992)	141	(365,684)	Other results	(316,227)	(26,509)	3,020	(339,716)
RESULT BEFORE TAX	(48,594)	(107)	141	(48,560)	RESULT BEFORE TAX	(48,612)	(4,939)	3,020	(50,531)



Expressed in thousands of euros

22. Environmental information

The itemised details of the Parent Company's investments and costs in environmental protection and improvement in financial years 2016 and 2015 are as follows:

	FINANCIAL YEAR 2016		
-Investments	1,181	156	
-Costs			
Environmental protection services	93	75	
Environmental management costs	52	52	
Environmental taxes	827	725	
Clean-up costs	67	66	
Prevention costs	42	-	
TOTAL EXPENSES	1,081	918	

Likewise, during the financial year ending on 31 December 2016, no environmental subsidies were received.

The Parent Company's Directors take the view that no significant 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 of 31 December 2016.

23. Contingent liabilities

On 11 February 2016 the European Commission decided to initiate the formal investigation process established in article 108, paragraph 2, of the Treaty on the Functioning of the European Union with regard to the compensations for the USO awarded to the Parent Company under the Ley Postal de 1998 [Postal Act of 1998], the exemptions from the Impuesto sobre Bienes Inmuebles [Property Tax] and the Impuesto sobre Actividades Económicas [Economic Activity Tax], the three capital increases awarded in 2004, 2005 and 2006, and the compensation awarded to the Parent Company

for the distribution of electoral materials, thus launching an investigation during which the Parent Company submitted claims on 11 May 2016. However, this procedure is at a very early stage making it difficult to estimate the potential risk to the Parent Company. Nevertheless, it is worth noting that in the event that the possible aid received by the Parent Company is deemed incompatible with the market, the European Commission may require the Kingdom of Spain to recover the amount of the potential aid from the Parent Company, a figure which we consider difficult to assess at this stage.

The European Commission has requested preliminary information from the Spanish Government with regard to a complaint concerning supposed State aid awarded to the Correos Express Paquetería Urgente, S.A. between 1998 and 2013. However, no formal case has been opened to date against the Kingdom of Spain for State aid.

In November 2015, in the framework of an investigation into possible anti-competitive practices in the parcel services and urgent courier market, the CNMC inspected Correos Express



Expressed in thousands of euros

Paquetería Urgente, S.A., which submitted the requested documentation. The CNMC has not begun disciplinary proceedings to date, nor has Correos Express Paquetería Urgente, S.A. entered any provision in its financial statement as the Company deems the investigation to be at a very early stage and that it is difficult to estimate the possible risk it may represent to Correos Express Paquetería Urgente, S.A.

Correos Group believes that it does not have significant contingent assets or liabilities at the close of the 2016 financial year.

24. Subsequent events

On 1 February 2017 the Sole Shareholder of each of the Correos Group's companies, with the prior agreement of their respective Governing Boards held in October 2016, agreed to change the companies' names and amend Article 1 of their Articles of Association to adapt to the provisions of Article 111 of Ley 40/2015, de 1 de octubre, de Régimen Jurídico del Sector Público (Act 40/2015 of 1 October, on the Legal System for the Public Sector). According to the provisions the name of all Correos Group Companies shall be changed and hereafter known as:

Name of the company

Sociedad Estatal Correos y Telégrafos, S.A., S.M.E.

Correos Telecom, S.A., S.M.E, M.P.

Nexea Gestión Documental, S.A., S.M.E.

Correos Express Paquetería Urgente, S.A., S.M.E.

The Sole Shareholder's decision was passed by a public deed by each Company, and recorded in the Companies Registry for all of the Group's Companies.

There were no other events after 31 December 2016 that might have a significant effect on these annual accounts.



1. Business model

Correos Group comprises the Parent Company, Sociedad Estatal Correos y Telégrafos, S.A. and its subsidiaries, Correos Express Paquetería Urgente, S.A., Nexea Gestión Documental, S.A. and Correos Telecom, S.A. The four companies operate in the physical and digital communications markets.

SEPI is the Sole Shareholder of Sociedad Estatal Correos y Telégrafos S.A., (hereinafter Correos or the Company), a public law entity whose activities are governed by private legislation, attached to the Ministry of Finance and Public Administration, reporting directly to the minister.

Correos is a global operator of physical and digital communications and parcel services. It is also the company appointed to provide the UPS in Spain, with criteria of efficiency, quality and sustainability.

Correos Express is the Correos Group's express parcel company, specialised in delivering parcels within 24 hours. It has its own network of agencies which manages requests with great flexibility. Nexea is the Correos Group' company specialised in the integrated management of corporate mass communications and in the development of customised technological solutions for document processes.

Correos Telecom is the company responsible for the management of Correos Group's telecommunications network. It is also specialised in providing high-capacity connectivity, communications and telecommunications infrastructure.

The purpose of Correos Group is to become the best provider in physical and digital communications and parcel services, to offer added value to its customers, shareholders and society in a way which is consistent and in-keeping with its values.

To meet these objectives the Group's strategy has focused on:

 Diversification: development of new business lines that complement the provision of traditional postal activities.

- Commercial effectiveness: offer of integrated solutions, tailor-made to meet customer needs, with a multichannel approach.
- Operational optimisation: increased efficiency in delivery networks and customer service.
- Organisational model: transformation of corporate culture, giving priority to teamwork and adapting to change.
- Innovation: creation of solutions that anticipate new customer demands.

To achieve this the Group has the following assets:

- Financial capital: a revenue of 1,761 million euros and a healthy balance sheet.
- Human capital: one of the biggest workforce in Spain, with over 50,000 thousand employees.
- Corporate capital: because of the excellence and reliability of its UPS provision, Correos have earned recognition, a sound reputation and a trademark image in Spanish society.



- Intellectual capital: driven by talent within and outside of the organisation. Training and continuing professional development of employees, as demonstrated by 533 training activities organised throughout 2016, with more than 200,000 participants.
- Industrial capital: with 18 automated processing centres, more than 8,700 points of access to its services, and the 52 centres which currently make up Correos Express.

Corporate bodies

The parent company's governing bodies are the General Meeting of Shareholders and the Governing Board. The Company is managed by the Governing Board, its Chairman and the Executive Committee, whose responsibilities are specified in the Company's Articles of Association.

The corporate bodies of the Group's subsidiaries are the General Meeting of Shareholders and the Governing Board.

Legal framework

The Spanish postal market was fully liberalised on 1 January 2011, following the entry into force of Act 43/2010 of 30 December, which implemented Directive 2008/6/EC in Spanish law for the full implementation of Community postal services in the internal market. By virtue of this regulation, Correos is the designated operator for providing the UPS in Spain for a period of 15 years from its effective date.

Furthermore, Correos and Correos Express operate on the parcel delivery market, and are thus subject to legislation which applies to the land transport of goods sector. Correos Telecom's activity is regulated by the *Ley 9/2014*, *de 9 de mayo*, *General de Telecomunicaciones* (Act 9/2014 of 9 May, on General Telecommunications).

2. The Market and the company

Economic environment

In 2016 the gross domestic product (GDP) increased by 3.2% according to the most recent

forecasts published by the Bank of Spain, an identical figure to the previous year. This growth was mostly boosted by household consumption, improved exports and the dynamic nature of the labour market. Furthermore, the Bank of Spain's extended expansionist policy improved financing conditions, fostering business investment.

As regards the forecasts for 2017, the Bank of Spain estimates that the Spanish economy will grow more slowly, although it expects growth to remain above 2%.

The Postal and Parcel Sector

Demand for postal services continued to fall in 2016 due to electronic substitution. The entry into force of the *Ley 39/2015*, *de 1 de octubre*, *del Procedimiento Administrativo Común de las Administraciones Públicas* [Act 39/2015, of 1 October, on the Common Administrative Procedure of Public Administrations], contributed to this trend, stipulating that notifications would preferably be made by digital channels. In Spain, close to 95% of public services are available



in digital format and 50% of citizens use the Internet to communicate with government bodies, compared to 48% elsewhere in Europe.

However, the parcel market continued to grow thanks to the increase in e-commerce, which grew by more than 20% during the first half of 2016 according to the National Markets and Competition Commission (CNMC). For the year as a whole, market analysts estimate that sector revenue in the parcel sector will exceed 6,400 million euros.

In 2016 the percentage of Spanish people shopping online increased by two percentage points, to 44%. The continued e-commerce boom, alongside the consolidation of the trend of buying on mobile devices (m-commerce), has generated fresh demand for commercial and logistics services which are flexible and global, both from purchasers and sellers.

In this context, operators are implementing two different strategies: on the one hand, diversification strategies which redefine how to connect with consumers when developing digital business, increasing market share through growth in the value of the e-commerce channel and assessing new business areas; on the other, cost effectiveness strategies and investment in innovation.

Drawing on investment, innovation and partnerships with third parties, postal operators are harnessing technology to improve their services and seeking to boost growth outside core business. Nevertheless, income from diversification remains unequal; traditional postal activity represents 70% of income for some operators and less than 15% for others.

3. Correos Group's position and future prospects

Correos Group has made significant progress in meeting its strategic objectives by diversifying its activity, through improved commercial and operational efficiency and by increasingly aligning its organisational culture with innovation.

The major lines which the Group is working on are:

- I. Becoming a leader in B2C parcel services.
- **II.** Globalising its activity
- **III.** New sales and customer service model in post offices.
- IV. Developing tools to facilitate digital sales.
- **V.** Improved management efficiency.
- I. Correos is now a leading company in parcel services and e-commerce sector, with initiatives such as the installation of CityPaq and HomePaq automated terminals for the collection and delivery of parcels, a concept which has established the company as a global pioneer in this kind of service. To date more than 1,300 have been installed.

To respond to new customer needs, Correos Group has incorporated new parcel services such as: Paq Today, with same-day collection and delivery, ePaq24, with guaranteed



next working day delivery and Equipaq 24, designed for luggage transport.

Due to the constant increase in parcel volumes in general, and volumes related to e-commerce in particular, Correos is focusing investments on automated processing centres, with specific equipment for sorting these products, thus contributing to more effective use of the centres and transport networks. These increases have not been detrimental to the capillarity of the service or to delivery effectiveness, which are the best in the market and differentiate the company from competitors.

II. Correos continues to increase its presence abroad, creating an Etoe (Extraterritorial Office of Exchange) in 2016 in the Netherlands, which joins the one already established in the United Kingdom. These overseas Correos offices are intended to secure substantial export volumes through commercial partnerships with local operators or through own management and handle these volumes through the international mail-stream.

III. Correos is adapting its post offices to the new 'Tu Correos' format, and has also created the TuCorreos.es web store, which markets a large catalogue of products sold in its post offices (merchandise, solidarity products, philatelic products, or tickets for all kinds of events). Through this post office format, the Company is looking to improve its customers' experience, with a personalised experience, more streamlined processes, less paper and an extended and innovative choice of products, changing not only the range of available products but also the way it interacts with its customers. This model is based on a new sales concept which seeks to prioritise customer service and communication.

IV. Another of its key diversification areas is digital business. Correos is undergoing a complete digital overhaul. Moreover it is a leading company in the parcel services for the e-commerce sector. Through its platform Comandia, which had more than 8,000 online merchants in 2016, it can offer a global e-commerce solution to the market, which will be a new source of income. Through the virtual post office the company provides customers with

online access to Correos' products, both physical and electronic, which includes postal and philatelic products, direct marketing, notifications, parcel services, financial services and digital solutions.

Due to the increasingly demanding nature of the logistics sector, Correos continues innovating and redefining the ways it connects with its customers in the digital age. The growing importance of international e-commerce highlights the need for strengthened cooperation with other companies. In this context, Correos has reached an agreement with Alibaba on two levels. On the one hand, it has developed specific logistics solutions to reduce delivery times and improve Spanish customers' experience when purchasing Chinese products using AliExpress, the Alibaba platform which connects Chinese sellers with the world, and for which Spain is the second largest market globally. On the other, Correos is opening up China to SMEs, providing the T-Mall Global shop to sell online in China, as well as overseeing the logistics. This partnership is an opportunity for Spanish sellers, as it builds bridges with a market of more than 400 million e-commerce purchasers.



Furthermore, since 2016 Correos Group has been one of the leading logistics suppliers for Amazon, providing its customers with a convenient and urgent delivery of their purchases. With this service, it has given Amazon and its customers access to the delivery network and territorial coverage with the best capillarity in Spain.

Physical mailing continues to be the most effective method of advertising. This is another channel which the Company hopes will grow, adding value to the services it provides. Customers require increasing added value for improved effectiveness and feedback on the campaigns carried out. Correos meets these needs with 'Correos Directo', a comprehensive solution that combines direct marketing products and services best suited to optimising the capture of potential customers and improving the effectiveness of commercial communications. The aim is to offer a broader portfolio of solutions which ensure a more efficient service and greater added value for customers.

V. Correos has increased efficiency in delivery and customer service networks, as well as

administrative costs. Significant progress has also been made in the implementation of a management model to promote and boost the Company's innovation culture, to nurture internal talent and entrepreneurship, implementing channels and tools which foster the generation and promotion of new breakout ideas.

Correos Group has also focused its efforts on optimising routes and on improving commercial integration with Correos Express and Nexea.

Every day in Correos around 15 million IT transactions are carried out. It is also the first postal operator in the world to have equipped all of its nearly 30,000 postmen and women with a mobile device (PDA), noticeably improving their efficiency and productivity. In the coming months new digital services will be added to make its transactions easy, convenient and secure.

Furthermore, Correos Group plans, through Nexea, to extend its commercial proposal through a multichannel model for managing communications in all media and formats, guaranteeing maximum IT security, efficient delivery and document traceability. A multichannel approach is fundamental, since it will help the Group to adapt to all customer preferences and become a leading provider in the Business Process Outsourcing sector.

Ultimately, Correos Group has been able to make progress during the 2016 financial year in digital transformation, in changing its business culture, moving towards a more customeroriented approach geared towards their needs, and in reworking its business model, towards greater diversification in products and services.



4. Main figures for the financial year 2016

Correos Group's revenue has barely decreased by 4.6 million euros compared to the 2015 financial year, largely due to the fact that traditional business (letters and certificates) has fallen but at a lesser rate than in previous years. It is noteworthy that the revenue, excluding electoral services, has improved by 2.3% compared to 2015 (38.3 million euros).

The operational result, or EBITDA, increased by 12.5 million euros (322% compared to 2015), reaching

CONSOLIDATED INCOME STATEMENT 2016 2015 **VARIATION** 1,761,145 1,765,715 (0.3)%Revenue 0.0% UPS compensation 180,000 180,000 Supplies (237,788)(214,003)11.1% Staff costs (1,442,527)(1,386,233)(3.9)%(304,658)5.2% Other operating expenses (289,533)Other results 3,946 (6.8)% 4,232 Operational EBITDA 16,412 3,884 322.6%

16.4 million euros, while the operating result rose by 3.8 million euros compared to 2015.

The evolution of revenue and the EBITDA were positively boosted by expansion in parcel services and e-commerce, as well as good performance in ordinary letter services. Additionally, Correos has implemented variable and structural cost control measures, which have helped to offset impacts associated with the situation in the sector.

Correos Group ended the financial year having improved its competitive position in the national and international markets, and in the segments offering greater added value and growth, especially in parcel services, e-commerce and international mail. In traditional business areas, in spite of continued electronic substitution, the Company has been able to manage and mitigate falls in demand.

These results have allowed the Group to remain a leader in the different markets in which it operates.

The management team, aware of the decline in the traditional sector, will boost measures to



ensure that the main objectives are achieved: laying the foundations for achieving the best possible results, continuing its internal transformation and nurturing talent within the organisation, all with the necessary and continued customer-oriented approach.

5. Products and services

Correos Group offers a wide range of services to its customers. Below are the main ones:

Communications

Letters: documents or objects up to 2 kg. This product offers great variety, with ordinary or registered, urgent or non-urgent, national or international items.

Bureaufax / Online Bureaufax: for urgent messages or documents with recorded delivery (signed for by recipient), sent electronically from origin to the destination delivery centre, with the possibility of reliable proof of both delivery and contents.

Administrative Notification: certified mail for the exclusive use of Official Bodies or Public Entities which require reliable proof of delivery of their legal communications.

Correos Directo

Mailing products such as **Publicorreo**, **Publibuzón** or services such as **national/international prepaid envelopes**. Other services include:

Correos Target: campaign optimisation service which helps choose the most appropriate target audience for the customer.

Correos Add: service aimed at ensuring successful customer commercial actions using excellent databases.

Correos Data: database hire service so that the customer can develop higher-quality and more effective direct marketing campaigns.

Financial services

Money order: depending on the service contracted, this is a service which allows money to be wired instantly or at a later date from any of Correos' post offices nationally or internationally, with delivery points in countries with which Correos has an agreement.

Western Union: money transfer between post offices and countries which offer the money transfer service within minutes.

Prepaid Card: MasterCard card, not associated with or linked to any current account. The customer can use the money put on the card previously in any Correos post office, online or using a mobile application.

Parcel Sector

Parcel services on offer range from **Paquete azul**, the most affordable option, to the more urgent services **Paq48**, **Paq72** and **Paq Today** or the international products.



CorreosPaq: is a Correos service which makes sending a parcel easier, using two types of device: HomePaq and CityPaq. Correos has a network of automated terminals both in strategic public places (CityPaq) and in neighbourhood communities (HomePaq), which allow both citizens and companies to receive and send parcels, adapting to their needs and schedules.

Due to its aim of meeting the needs and expectations of its customers, the Group's parcel subsidiary, **Correos Express**, now offers new services, such as: **ePaq 24** for B2C customers or **Paq empresa 14**.

Other relevant services under this category include: parcel return service which allows business customers to obtain goods and/or documents from their own customers, or the delivery and simultaneous collection service for all types of documents or goods, where our customers have the possibility of requesting any additional service required, such as confirmation of contents, document checks, collection of signature, etc.

E-commerce

Correos Group is convinced that the future lies in the ability to create tools to facilitate digital sales in the transport and logistics sector. The most important of its products is Comandia, a platform which allows companies to develop their own online shop, providing the best e-commerce solution currently available in the national market. In this area the following have been developed:

Comandia Express: a tool able to publish and manage our customer's products in marketplaces from a single point, with more than 50 online sales platforms: Ebay, Amazon, Rakuten, etc...

Comandia Shop: a digital platform enabling customers to create their own online shop with templates that can be personalised and adapted to all devices, and sell their products with no technical knowledge required.

Correos Tmall Global Store: an agreement between Correos and the Alibaba Group which includes the creation of an online Correos shop so that Spanish companies can sell their products in the Chinese market using the TMall Global platform.

Philately

Our philatelic range includes, as well as **stamps**, **personalised emissions**, **coins**, **cards**, **albums**, **postmarks**, **themed books**.

Correos Digital

In digital field Correos is working to offer products through its **Virtual Post Office**, as well as postcards from mobile terminals or IT systems capable of interconnecting registry offices with government bodies.

Correos' digital product range includes applications like **Correos Info**, an app which provides customers with all information about their mail, or **Mi Post@l** which allows sending images and photos taken on a Smartphone.

Moreover, **Nexea** offers document management services, including printing, placing documents in



envelopes, sharing data, composition and layout and digitalisation of documents for deposit and sending.

This portfolio of products and services is completed by services provided by **Correos Telecom**, offering added value services such as high capacity optical circuits, voice and data services, management of communications networks or technical consulting.

6. Innovation

In 2016 Correos developed the CorreosLabs space (www.correoslabs.es). The aim of this place is to serve as a meeting point for the entrepreneurial community. Correos is looking to lend support to innovative projects in the logistics sector, outreach services and digitalisation. An acceleration process for start-ups will be developed within CorreosLabs to identify initiatives which are at an advanced stage, in line with Correos' interests, and which can add value.

At the same time Correos will continue to invest in a new edition of its programme for identifying new business models, centred on internal Innovation Teams, as a way to spread innovation culture in Correos. The evolution of this initiative, Innovation Team 4.0, is a genuine internal entrepreneurial programme where Correos staff can create their own start-up to develop projects. Internal start-ups will benefit from all the advantages of the Acceleration of External Entrepreneurs programme, sharing CorreosLabs space.

Correos Group made investments in R&D+i during the 2016 financial year.

7. Main risks and uncertainties

The business carried out by the companies which make up Correos Group is limited both by factors inherent to any company in the sector, and by specific factors which only apply to each of them.

Correos Group's activity is subject to specific risks and uncertainties, including downstream market risk among others, the progressive decline in postal activity due to electronic substitution, competition and the emergence of new technologies causing rapid change in demand.

Correos Group has identified certain operation risks derived from its structural complexity and the need to make progress in the implementation of new technologies to increase the efficiency of the distribution and delivery processes.

Likewise, Correos faces the labour risks inherent to any company with a large workforce needed to maintain a presence across the entire country.

Equally significant are the environmental risks generated by the impact of a large infrastructure network and fleet of vehicles, and the reputational risks that can come from unpredictable changes in the positive perception the Company has always enjoyed among its various stakeholders. To these risks we must add the legal, fiscal and financial uncertainties from possible changes to sectoral legislation and how the Company operates.

Moreover, the Group manages technological risks through its risk control systems that makes it possible to identify, measure, limit, control and report technological risks, with the aim of mitigating and eliminating their potential negative impact.



It is important to highlight exposure to financial risk, shared by all of the Group's companies. The most significant risks which could affect the business are:

A credit risk, arising due to the possible loss caused by a breach of the contractual obligations of the companies' counterparts, that is, due to the possibility of not recovering the financial assets for the sum recorded in the set period.

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

A liquidity risk, arising due to the possibility of Correos Group not having liquid funds or access to them 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.

An exchange rate risk, arising due to the possible loss caused by variations in the exchange rate.

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 result from the services provided to and received by foreign postal operators and from the provision of the international money order service.

To provide a maximum level of guarantee and protect stakeholder interests, the Governing Board and its Executive Committee rely on the collaboration of the Audit and Control Committee as a consultative body which monitors and informs the former on the effectiveness of the internal monitoring and control systems at identifying relevant risks.

8. Information on Correos Group staff

Correos sees its human resources as a key factor in its development, and as one of its major assets as well as giving it a competitive advantage.

The major focus areas in human resources are:

- Attract, develop and retain talent so that the company can meet its strategic objectives.
- Support the business and ensure that staff work in line with the Company's objectives.
- Build a customer-oriented culture.
- Foster communication between the management team and the different levels of the organisation.



The most noteworthy projects in 2016 which have helped it achieve these are:

- Talent management: through the 'Programa clic' for continuing professional development of the organisation's staff, agreements with universities or educational institutions or through the inclusion of new employees in the performance evaluation system.
- Training: a total of 533 training activities have been held aimed at capacity-building, providing technical and digital knowledge to foster more effective employee development and improve customer focus.
- Adapting the workforce to the development of the Company: this adaptation was lower in 2016 due to the entry into force of the Act 39/2015, in October 2016.
- A focus on stable and quality employment: a job consolidation process and publication of the bases of entry for full time staff.

- Maintenance of the work-life balance policy, as well as of social action and employee recognition policies. Organisation of online training activities as a work-life balance tool.
- Boosting the use of several communication channels with employees.
- Activation and implementation of actions resulting from its healthy company certification.
- Commitment to gender equality.



9. Company

Corporate governance

For Correos Group, business integrity, professional efficiency, transparency and ethics are key to its actions to generate trust and more solid relationships with its stakeholders.

To achieve this aim, Correos has a criminal risk prevention programme, which includes the General Code of Conduct and establishes the principles which must govern the development of activities and commercial relationships of Correos Group companies, both internally and externally.

The Correos Group Code of Conduct reflects the core values and general principles that govern its corporate behaviour and must be adhered to by all employees.

Correos oversees the efficiency of procurement processes and proper contracting procedures, also ensuring compliance with regulatory requirements. It also extends its commitment

to social responsibility to its suppliers and subcontractors through the inclusion in tenders and contracts of the ethical, environmental and social principles established by the United Nations Global Compact.

Corporate social responsibility

Corporate social responsibility is part of Correos' business strategy, with the aim of promoting integrity at all levels of the organisation, as well as ensuring that sustainable development principles are implemented in a cross-cutting way at all levels of the Company. Correos seeks to promote responsible corporate activity, which goes beyond strict compliance with national and international legislation in force.

In addition to its own social projects, Correos supports programmes of nationally and internationally recognised third sector institutions and organisations. For further information see the CSR information section on the Correos website www.correos.es.

Communication

The aim of Correos' communication policy is to respond to and maintain a sustained relationship of trust with its stakeholders, providing relevant and accurate information. The Group thus reaffirms its commitment to integrity and transparency, while ensuring that it is in line with the public service obligations it has undertaken, as well as helping to improve society.

Correos seeks to pass on its values in a proactive manner through its communication activities, as well to share all information relating to its business activities with its shareholder, customers, suppliers and employees.

To ensure this commitment is executed transparently, it makes use of all available channels and technologies: the corporate web, digital newsletters, social media, advertising campaigns, meetings with the media or press releases, among others.



10. Information on the environment and sustainability activities

Correos Group sees environmental sustainability as a strategic investment in the future. Corporate programmes in environmental management currently in place seek to minimise the impact of Correos' activity on the environment.

Applying environmental protection policies provides business opportunities, such as reducing costs by lowering consumption, the possibility of developing products and services that better protect the environment by optimising innovation and best practices created in Europe, or positioning the Group as a benchmark for sustainability in the postal sector.

Correos' environmental management system is certified under the ISO 14001 standard, which helps monitor and improve the Company's environmental initiatives. This system tracks global indicators, such as waste generation, CO_2 emissions, consumption of paper, water or office consumables.

Sustainability actions in 2016 were developed in 3 main areas:

I. Reduction of CO₂ emissions.

Correos increased its fleet of electric vehicles by 125 in 2016. The addition of these new vehicles is accompanied by the provision of energy from guaranteed renewable sources, which means its CO_2 emissions are almost completely zero.

To promote the use of electric vehicles, a partnership agreement was signed with car manufacturer Renault and the Valladolid City Council to carry out a sustainable mail distribution pilot project using electric vehicles.

II. Energy efficiency

Correos' aim is to reduce energy use in its buildings by 25% by 2020. Among other programmes, Correos has optimised the contracted power in its buildings, purchased capacitors to offset reactive power and installed an energy efficiency system in workstations which has reduced the energy use of IT equipment by 44%. These measures have been bolstered by increased purchasing of renewable energy, which has risen to 75%. Finally, the Company began the first project to build a new kind of post office (in Argamasilla de Alba) with low energy consumption criteria.

III. Waste reduction

A paper consolidation pilot project was launched in 2016 to ensure waste paper is correctly managed and disposed of, maximising returns on its sale. This year Correos has also registered as an authorised transporter for transporting non-dangerous waste using its own fleet.

<u>Informed and committed individuals</u>

Continuity was given to the awareness campaign developed since 2015 with the energy saving and efficiency guide and the prize for environmental commitment.



In addition to specific actions, Correos participated in various communications events in 2016, including:

- Electric car stickers and participation in VEM2016, Expoelectric and Madrid mobility week to show the Correos' electric fleet.
- Participation in the International Day of Energy Efficiency and Earth Hour, to raise awareness of energy efficiency measures and the renewable energy purchasing policy.

In addition to these initiatives, the Company also maintained its certified environmental management system, its emissions reporting, as part of the IPC's EMMS sectoral programme, to CDP, the benchmark of reference for climate change management, and renewed its registration on the public carbon footprint register.

It is noteworthy in this area that Correos Group attained the objective set by this proposal for 2020 by the year 2014, namely to reduce greenhouse gas emissions by 20%. For that reason, last year a new goal was set, consisting of cutting emissions by an additional 20% over the figure for 2013.

In the scope of developing more environmentally-friendly products, through the *Línea Verde* (Green Line) programme, Correos sells envelopes, boxes and packaging made of 100% recyclable paper and cardboard, part of the proceeds from which are used to finance reforestation projects around Spain.

Last year, the *bosques de Correos* reforestation project, in collaboration with the WWF Spain association, helped recover an area of 10 hectares on the banks of the Jarama and Manzanares rivers (Madrid), preventing erosion and creating a wildlife corridor in the area. Since this project started in 2000, Correos has helped restore 1,700,000 m² of forest ground cover.

11. Others

Correos Group holds no treasury shares, nor did it conduct transactions with financial products during the 2016 financial year.

12. Subsequent events

On 1 February 2017 the Sole Shareholder of each of the Correos Group's companies, with the prior agreement of their respective Governing Boards held in October 2016, agreed to change the companies' names and modify Article 1 of their Articles of Association to adapt to the provisions of article 111 of the Ley 40/2015, de 1 de octubre, de Régimen Jurídico del Sector Público (Act 40/2015 of 1 October, on the Legal System for the Public Sector). According to these provisions the name of all Correos Group companies shall be changed and hereafter known as:



Name of the company

Sociedad Estatal Correos y Telégrafos, S.A., S.M.E.

Correos Telecom, S.A., S.M.E, M.P.

Nexea Gestión Documental, S.A., S.M.E.

Correos Express Paquetería Urgente, S.A., S.M.E.

The Sole Shareholder's decision was passed by a public deed by each company, and recorded in the Companies Registry for all of the Group's companies.

There were no other events after 31 December 2016 that might have a significant effect on these annual accounts.



<u>Consolidated</u> annual accounts and management report for this financial year ending 31 December 2016 of Sociedad Estatal Correos y Telégrafos S.A., S.M.E. and its subsidiaries

The preceding **CONSOLIDATED** annual accounts of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (formerly known as Sociedad Estatal Correos y Telégrafos, S.A.) (with all pages stamped and endorsed by the Secretary of the Management Board), which comprise the consolidated balance sheet (on two sheets of ordinary paper), the consolidated income statement (on two sheets of ordinary paper), the consolidated cash flow statement (on one sheet of ordinary paper), the statement of changes in the consolidated equity (on two sheets of ordinary paper), and the attached report on the accompanying sheets of ordinary paper, numbered accordingly from 1 to 69 (both inclusive), corresponding to the financial year closed at 31 December 2016, together with the management report corresponding to the same year issued on sheets of ordinary paper numbered 1 to 16 (both inclusive), were submitted **for** approval by the Governing Board on 9 March **2017.** In accordance with current provisions, the Directors sign and give their conformity with all the abovementioned documents.

Francisco Javier Cuesta Nuin

Ana Bosch Jiménez

Carmen Castaño Laorden

Rafael García Monteys

Ma del Carmen Herrera Velasco

José Ángel Partearroyo Martín

Mercedes Rodríguez Arranz



<u>Consolidated</u> annual accounts and management report for this financial year ending 31 December 2016 of Sociedad Estatal Correos y Telégrafos S.A., S.M.E. and its subsidiaries

Belén Villar Sánchez

David Benito Astudillo

Luis de Burgos Buil

Manuel David Delacampagne Crespo

MI

Aquilino González Hernando

Isabel Juliani Fernández de Córdoba

basu fuliam)

Alberto Requena Navarro

Luis Gonzaga Serrano de Toledo





The contents of the 2016 Correos Group Integrated Annual Report cover the period from 1 January to 31 December 2016. The financial, social and environmental information appearing in the document covers all the Correos Group's activities as a global communication solutions operator, and includes the transactions made by Correos and its subsidiary companies, Correos Express, Correos Nexea and Correos Telecom.

In order to offer the reader a more complete overview of Correos and its subsidiaries, information on the most noteworthy policies and actions and the most relevant quantitative indicators are generally presented broken down for the different companies that integrate the Group, whenever the nature of the companies themselves so allows. In the case of environmental performance, the scope of information only covers Correos.

With regard to the definition of the content, the report has been prepared in accordance with the Global Reporting Initiative's 'Sustainability Reporting Guidelines', version 2016, Core option. This model integrates economic, social

and environmental information and provides a threefold perspective of business performance.

Furthermore, the recommendations of the 'Conceptual Framework for Drafting the Integrated Report' of the International Integrated Reporting Council (IIRC) were followed. Thus, it is intended to give interested parties an integrated, transversal and relevant view of the business model and the mechanisms for creating value in the short, medium and long term.

Correos signed the United Nations Global Compact in 2002. Therefore the company undertakes to respect and promote the ten principles of the Compact in the fields of human and labour rights, the environment and fight against corruption. Every year the company prepares its progress report, which successfully retained its advanced level distinction in 2016 for the sixth consecutive year. The report is available on the Global Compact new Amanda Compact Network and the Correos websites.

Identification of materiality

The content and the identification of the issues relevant to this report have been determined through an internal and external reflection process. Internally, the members of the Management Committee identified all the issues to be included in the report using questionnaires based on the IIRC model. Furthermore, employees performing their duties in different departments and in different areas of Spain were interviewed.

At the external level, comparative analyses were carried out with companies from the same sector and from other sectors. Similarly, the opinions and information on Correos Group published in the press and social media were evaluated. Finally, Correos Group maintains a fluid relationship of trust with its stakeholders, based on continuous dialogue, which facilitates an understanding of their expectations, and by communicating the achievement of the company's business objectives.



Based on its relevance, degree of influence and relationship, Correos Group has identified its main stakeholders as follows:

MAIN STAKEHOLDERS	COMMUNICATION CHANNELS	RELEVANT ISSUES FOR STAKEHOLDERS		
SHAREHOLDER	 General Meeting of Shareholders Governing Board Annual report Annual Operating Plan and Medium-Term Plan 	 Efficient management, competitiveness and corporate sustainability Value generation Good governance and ethical behaviour 		
EMPLOYEES	 Intranet/Corporate website Email Text messages Personalised letters Internal memos 'Abrecartas' internal magazine Meetings Informal meetings Training actions Bulletins and surveys Participation programmes Social networks Representation committees 	 Bi-directional and transparent communication Company management and corporate sustainability Professional development and performance recognition Usability of work tools Working conditions Enhancement of Correos' standing as an employer Commitment to Correos' values 		

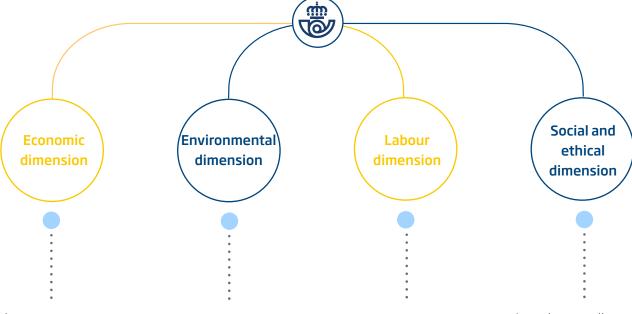


MAIN STAKEHOLDERS	COMMUNICATION CHANNELS	RELEVANT ISSUES FOR STAKEHOLDERS		
CUSTOMERS	 Commercial channels and attention points Corporate website Social networks Satisfaction surveys Meetings Fairs, forums and other meetings Advertising campaigns 'Más Cerca' magazine 	 Specialised offer Customer experience Business flexibility Contract negotiation Online services Innovation and new technologies Quality of service 		
SUPPLIERS	 Contractor Profile State Contracting Platform Meetings Congresses, fairs and forums 	 Transparency and fairness in tendering Collaboration in the search for joint solutions Contracting regulations Supplier evaluation systems 		
SOCIETY	 Participation in national and international initiatives Meetings and forums Corporate website Integrated Annual report Transparency portal Press releases Social networks Advertising campaigns Institutional control (Parliament, Ombudsman, Court of Auditors) 	 Provision of the Universal Postal Service Innovation and new technologies New products and services Corporate social responsibility programmes Environmental sustainability Good governance and ethical behaviour 		



Material aspects for Correos Group

From the overall analysis of the issues critical for each stakeholder and the most important aspects for the business activity, those issues with greatest impact and/or relevance for Correos Group have been classified in four dimensions (economic, environmental, labour and social).



Efficient management, competitiveness and corporate sustainability Economic performance Commercial offering and market position Innovation Customer experience

Energy consumption Restored habitats Greenhouse gas emissions Employment and working conditions
Training
Reconciliation
Occupational health and safety
Diversity and equality
Professional development and talent retention
Freedom of association and collective bargaining

Assesing suppliers
Anti-Corruption policies
Good governance
Provision of the
Universal Postal Service
Corporate social
responsibility



GRI STANDARD	DISCLOSU	IRE	PAGE NUMBER	OMISSION	GLOBAL COMPACT PRINCIPLE		
GRI 101: Foundation 2016							
GRI 102: General I	Disclosures i	2016					
	1. Organiz	rational profile					
	102-1	Name of the organization	236	-	General information		
	102-2	Activities, brands, products and services	37-49, 213-215	-	General information		
	102-3	Location of the headquarters	236	-	General information		
	102-4	Location of operations	19, 52, 183	-	General information		
	102-5	Ownership and legal form	103	-	Strategy and governance		
	102-6	Markets served	19-26	-	General information		
	102-7	Scale of the organization	9-12, 14, 120-221	-	General information		
	102-8	Information on employees and other workers	63	-	6		
	102-9	Supply chain	113	-	-		
	102-10	Significant changes to the organization and its supply chain	-	-	-		
	102-11	Precautionary Principle or approach	79-91	-	7,8		
	102-12	External initiatives	69-70, 86, 87, 91- 92, 96-101, 111, 113, 225	-	Global Compact objectives and subjects		
	102-13	Membership of associations	33-34	-	-		



GRI Content Index

GRI STANDARD	DISCLOSU	RE	PAGE NUMBER	OMISSION	GLOBAL COMPACT PRINCIPLE
GRI 101: Foundat	ion 2016				
GRI 102: General	Disclosures 2	2016			
	2. Estrate	ду			
	102-14	Statement from senior decision-maker	3-6	-	General information
	102-15	Key impacts, risks and opportunities	19-27	-	General information
	3. Ethics a	nd integrity			
	102-16	Values, principles, standards and norms of behavior	109-110	-	10
	102-17	Mechanisms for advice and concerns about ethics	109-110	-	-
	4. Govern	ance			
	102-18	Governance structure	104-108	-	Strategy and governance
	5. Stakeho	older engagement			
	102-40	List of stakeholder groups	226	-	General information
	102-41	Collective bargaining agreements	75	-	3
	102-42	Identifying and selecting stakeholders	225	-	General information
	102-43	Approach to stakeholder engagement	225	-	Strategy and governance
	102-44	Key topics and concerns raised	226-228	-	Strategy and governance



GRI STANDARD	DISCLOSU	RE	PAGE NUMBER	OMISSION	GLOBAL COMPACT PRINCIPLE			
GRI 101: Foundation 2016								
GRI 102: General	Disclosures 2	2016						
6. Reporting practice								
	102-45	Entities included in the consolidated financial statements	118, 135	-	General information			
	102-46	Defining report content and topic boundaries	225	-	General information			
	102-47	List of material topics	228	-	General information			
	102-48	Restatements of information	-	-	-			
	102-49	Changes in reporting	225	-	-			
	102-50	Reporting period	225	-	General information			
	102-51	Date of most recent report	225	-	General information			
	102-52	Reporting cycle	225	-	General information			
	102-53	Contact point for questions regarding the report	236	-	-			
	102-54	Claims of reporting in accordance with the GRI Standards	This report has be in accordance w Standards: Co	vith the GRI	-			
	102-55	GRI Content Index	229	-	-			
	102-56	External assurance	-	-	-			



GRI STANDARD	DISCLOSU	RE	PAGE NUMBER	OMISSION	GLOBAL COMPACT PRINCIPLE
201: Economic Pe					
GRI 103: Manager	ment Approa	ch 2016	28, 120-221, 226		
	201-1	Direct economic value generated and distributed	124-125	-	-
205: Anti-corrupt	tion 2016				
GRI 103: Manager	ment Approa	ch 2016	109-112, 226-227		
	205-2	Communication and training about anti-corruption policies and procedures	109-112	-	10
302: Energy 2016	5				
GRI 103: Manager	ment Approa	ch 2016	80-85		
	302-1	Energy consumption within the organization	85	-	7,8
	302-4	Reduction of energy consumption	82, 84-85	-	7,8
303: Water 2016					
GRI 103: Manager	ment Approa	ch 2016	80-83, 90		
	303-1	Water withdrawal by source	90	-	7,8
304: Biodiversity	2016				
GRI 103: Managei	ment Approa	ch 2016	80-83, 89		
	304-3	Habitats protected or restored	89	-	7,8



GRI STANDARD	DISCLOSU	JRE	PAGE NUMBER	OMISSION	GLOBAL COMPACT PRINCIPLE
305: Emissions 20	016				
GRI 103: Manager	ment Appro	ach 2016	80-83, 86-89		
	305-1	Direct (Scope 1) GHG emissions	88	-	7,8
	305-2	Energy indirect (Scope 2) GHG emissions	88	-	7,8
	305-3	Other indirect (Scope 3) GHG emissions	88	-	7,8
	305-5	Reduction of GHG emissions	86-88	-	7, 8, 9
	305-7	NOx, SOx and other significant air emissions	88	-	7,8
401: Employment	2016				
GRI 103: Manager	ment Appro	ach 2016	62-78		
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	70-71	-	6
	401-3	Parental leave	71	-	6
403: Occupationa	l Health and	d Security 2016			
GRI 103: Management Approach 2016		76-78			
	403 -2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism and number of work-related fatalities	77	-	-



GRI STANDARD DISCLOSURE			OMISSION	GLOBAL COMPACT PRINCIPLE
404: Training and Education 2016 GRI 103: Management Approach 2016				
404-1	Average hours of training per year per employee	73	-	6
404-3	Percentage of employees receiving regular performance and career development reviews	68	-	-
405: Diversity and Equal Opp	ortunity 2016			
GRI 103: Management Approach 2016		69-71		
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408: Child Labour 2016				
GRI 103: Management Appro	ach 2016	113		
408-1	Operations and suppliers at significant risk for incidents of child labour	113	-	1, 2, 5
409: Forced or Compulsory La	abour 2016			
GRI 103: Management Approach 2016		113		
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	113	-	1, 2, 4



GRI STANDARD	DISCLOSU	RE	PAGE NUMBER	OMISSION	GLOBAL COMPACT PRINCIPLE
412: Human Rights Assessment 2016					
GRI 103: Management Approach 2016		225			
	412-2	Employee training on human rights policies or procedures	225	-	1, 2
	-	Awards	17	-	General information



2016 Integrated Annual Report

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This integrated annual report is issued exclusively in digital format, with designs suitable for viewing on smartphones and tablets, and is publicly accessible on www.correos.es. The Executive Summary 2016 has been printed and is also available in the corporate website.

All reports are also available in English. In the event of any disparity between the versions, the information contained in the Spanish version shall take precedence.