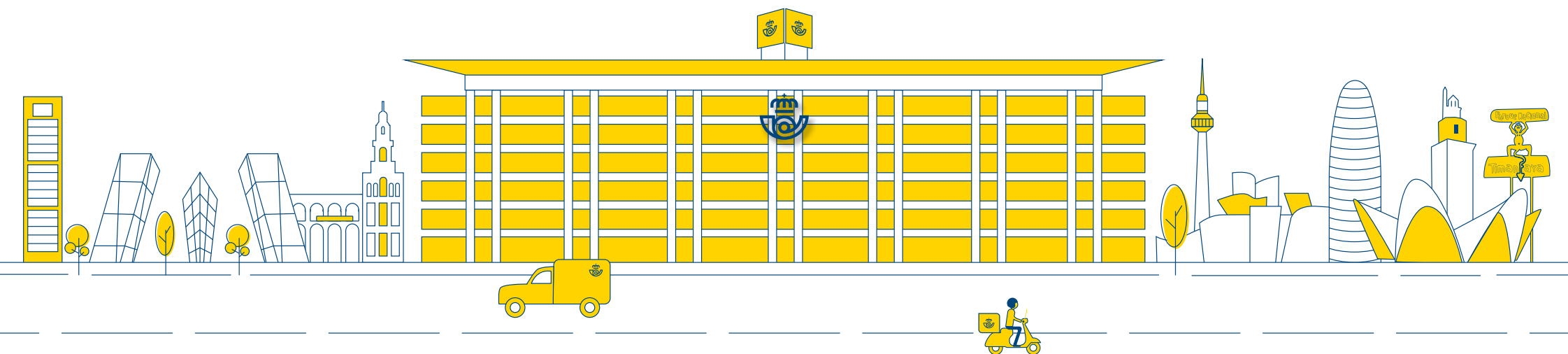


grupoCorreos

Integrated Annual Report 2018



INDEX

Integrated Annual Report 2018 of Correos Group

This Integrated Annual Report has been prepared in accordance with the guidelines of the conceptual framework for the preparation of integrated reports of the International Integrated Reporting Council (IIRC). Its contents include the most relevant economic information as well as that on the sustainability and performance of Correos Group for the 2018 financial year.

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Internal references within the Integrated Annual Report in order to facilitate the connectivity of information

Internal reference within the Report 

Extended content in the non-financial information collected in the consolidated annual accounts 

Link to related web content 

Link to related audiovisual content 

Reported indicator in accordance with GRI Guidelines, 2016 version 

Our contribution to the SDG 





1. Correos Group

Chairman's statement

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Chairman's statement

🌐 (GRI 102-14)



The future has arrived and revolutionised the way we live, communicate and relate to each other. The general public seeks **new custom solutions** and immediate responses to their needs, while companies attempt to redefine their business model to adapt to the new economic and social context.

At Correos we are aware of this global revolution and the uncertainty it brings. At the same time though, our more than 300 years of history have taught us that **behind great changes lie great opportunities** that we have to seize.

Adapting to the new landscape was not a choice, but rather a commitment to society, so accordingly we have opted to accompany people and companies on this journey into the future. Because we strongly believe **on a brand new era, delivered by Correos**.

As part of our transformation, we have designed a portfolio of products and

services that live up to the expectations of our customers, offering specific solutions to **support companies in their digitisation and online sales processes**. This will be accompanied by the necessary renewal of logistics processes and continuous improvement in the automation of our processing centres, **seeking the highest efficiency** to guarantee the quality of our services.

The undisputed protagonist of these new times is, without a doubt, the **parcel services**. Correos Group, which saw **record volumes in 2018**, is ready to take advantage of the synergies offered by this market and become the benchmark logistics operator for individuals and companies. With this in mind, we have signed **major commercial agreements** with giants of e-commerce, such as Alibaba Group and Amazon, which allow us to continue working to consolidate our position in the parcel market.

We believe that **opening up to the outside world** is essential for us to continue making progress towards this objective and, that is why, for the first time we have begun the process of expanding our services internationally. In the last quarter of 2018, we undertook a project to increase **our presence in Portugal** and develop a new unified express offer across the Iberian Peninsula. Today, it is a reality. And this is just the beginning of an ambitious international expansion plan that will see us broadening our global coverage and developing business opportunities in Southeast Asia.

One aspect that we can never lose sight of, however, is Correos' responsibility as a state-owned company, which requires us to focus our efforts on **improving financial performance** through substantial increases in earnings. This is, and should be, the ultimate goal of the future project that we have designed for the Group.

A goal that we will only be able to achieve with the **valuable contribution of our subsidiaries** Correos Express, Correos Nexea and Correos Telecom, whose revenues increased significantly last year thanks to product and service diversification, as well as investment in technologies and optimisation of processes.

Innovation and modernity have never been at odds, of course, with **our vocation for public service** and the values that our company has historically championed. Our image is refreshed, our services evolve, our horizons expand... but the postman keeps on calling every day at the doors of millions of homes and businesses.

We also consider it fundamental that **our business activities are carried out in the most environmentally friendly way**. With this aim in mind, we continuously review our logistics processes by

carrying out research and implementing measures that minimise the ecological footprint we generate. As an example of our environmental commitment, 100% of the energy purchased by Correos comes from renewable sources.

We also strongly believe that we can provide added value to society through innovative initiatives, such as making available to the general public our almost 8,600 service points and more than 5,000 *Citypaq* automated parcel terminals **to ensure access to different services, especially in the rural areas**. Recent successful initiatives, such as *Correos Cash* financial services and our Government Virtual Registration Service (*ORVE*), demonstrate that we have the capacity and encourage us to continue exploring different ways of engaging with society. This will also enable us to strengthen our lines of action in the field of corporate social responsibility, which recently identified

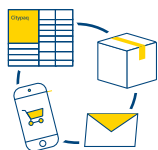
with the **Sustainable Development Goals of the United Nations**.

We cannot lose sight of the fact that the driving force behind all of these projects are the company's employees. Correos Group has a large, diverse and highly qualified workforce that strives every day to contribute **to guaranteeing the best possible communication and parcel services for the public**.

Thanks to them, Correos Group has a promising future. With the effort, professionalism and involvement of all, we will take it further than ever before.

Juan Manuel Serrano Quintana

Highlights



Forging ahead in the diversification of our business

- Correos Group customers entrusted us with **more than 125 million parcels** in 2018, representing an annual increase of 61%.
- The company boasted more than **5,000 Citypaq automated parcel terminals** throughout the country, and also **renewed the mobile application** for users.
- Correos Group's post offices and online store sold **more than one million General Directorate for Traffic environmental stickers**.

- The new **Correos Cash** service allowed customers of several banks to **withdraw or deposit cash through post office network**.

- **Correos post offices** sold the **telephone and fibre services** of new customers.

- The new **Correos Sampling** service enabled customers to **receive promotions, exclusive discounts** and product **samples** from consumer companies through their post boxes.

- The **Correos Prepago** card incorporated the option of **payment by mobile device**.

- **Correos Express** launched **parcel services specially designed for the needs of the dental sector**.

- The **Nexo** service enabled customers in the electricity sector to optimally manage **notifications to their customers**.

- **Correos Telecom** invested **1.7 million euros** in the renewal and roll out of **fibre-optic** lines for its customers.



Promoting efficiency and innovation

- Correos and Correos Express introduced **eight new automated parcel sorting machines** to improve delivery quality and efficiency.

- **Correos Express** expanded its **facilities** in Salamanca, Málaga, Vitoria, Tarragona and Murcia to increase its productive capacity.

- **CorreosLabs**, the company's innovation centre, helped five entrepreneurs to develop their innovative business ideas in the second edition of the '**Lehnica Challenge**'.

- Correos promoted **innovative sustainable mobility and digital communication security projects** together with entrepreneurs, large companies and Public Administration.





Improving employment and commitment to diversity

- Correos signed a **2018-2020 multi-year agreement for improving employment, wages and working conditions** with the majority of trade unions.
- The company designed a **Diversity and Inclusion Plan** aimed at promoting diversity of ideas, experiences and perspectives.
- Correos Group **expanded its workforce by 2%** to meet the **new needs arising from increased parcel delivery demand**.
- The 'Young Talents' work experience programme welcomed **86 students from 14 different nationalities**.
- Correos **renewed its certification as a healthy company** as part of its occupational health and safety policy.



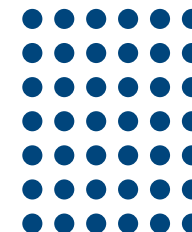
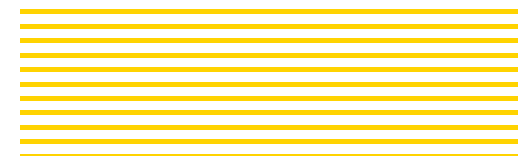
Contributing to the regeneration of air quality in cities

- Correos Group promoted a **sustainable purchasing** policy, especially for the supply of **energy and transport**.
- **100% of the electricity purchased** by Correos came from **renewable** sources.
- Correos tested **new electric vehicle prototypes and more environmentally friendly fuels** for delivery services in various towns and cities in the country.
- Correos Express expanded its **Environmentally Friendly and Sustainable Alternative Means of Delivery (MARES)** scheme to 34 operating centres.
- Correos Nexea **renewed** its UNE-EN ISO 14001:2015, PEFC and FSC **environmental certifications**.



Fostering responsible management committed to society

- Correos Group launched a **new corporate social responsibility plan** to promote dialogue with stakeholders and responsible management.
- Correos defined its contribution to the **Sustainable Development Goals** of the United Nations, supporting progress, environmental protection and social integration.
- Correos promoted various awareness-raising activities as part of its **commitment to a society free of gender-based violence**.
- **More than 50,000 employees received training on ethical commitment** and the new **European General Data Protection Regulation**.



Recognitions

For our digital transformation



Comandia, best e-commerce platform

'eAwards Madrid Award', in the bronze category, to Comandia for 'Best E-Commerce Software Platform'.

Correos Tmall, best initiative for international growth

'World Post & Parcel Award' for Cross Border Growth to Correos' Tmall e-commerce platform. Finalist in the e-commerce category.

Best European CIO of the year in the public sector

CIONET's award of 'European CIO of the Year' in the public sector for Correos' strategic management of information and communication technologies.

Best cultural and digital transformation

'ComputerWorld Workplace Transformation Award' to Correos for its outstanding promotion of the new digital landscape, and various prizes at the Executive Awards of Extremadura, Galicia, Comunidad Valenciana and Andalucía for Correos Group's parcel delivery solutions and new post offices commercial model.



For our management of talent and diversity



Best innovation in the management of talent

SEPI Foundation 'Innovation Award' to Correos for its 'Clic' talent management programme as the most innovative initiative in the field of organisation, human resources, sustainability and corporate identity.

Most attractive logistics company to work for in Spain

For the third consecutive year, Correos was 'the most attractive logistics company to work for in Spain' according to the consulting firm Randstad.

Best boost to digital innovation

'Digital Innovation Award' from the World Observatory for Digital Innovation, sponsored by UNESCO, for the 'Soy Digital' (I Am Digital) training programme.

Company with best diversity practices

Correos was included as a TOP 10 DIVERSITY COMPANY at the Intrama Awards for Diversity and Equality. Its Diversity plan was also selected as a finalist in the World Post & Parcel Awards, in the People Management category.

Healthy company

Correos Group's health management policy was a finalist at the '*Prevencionar España Awards*', in the E-healthy category (Large company). Special mention in a study entitled '*Universum: Spain most attractive Employers Industry best by humanities student 2018 and Industry Top 3*' and awards for occupational health and safety from the Department of Economy, Employment and Finance of the Comunidad de Madrid.



For our social commitment



Best corporate social responsibility campaign

The '#NOESNORMAL' awareness-raising campaign was recognised by the Observatory of Communication and Business Responsibility (OCARE) for 'Best Social Content CSR Communication Campaign'. Finalist at the Corresponsables Foundation Awards.

Best contribution to awareness-raising on mental health

Solidarity stamp awarded by the Manantial Foundation for Correos Group's contribution to mental health.

Medal for Galicia's rural postmen and women

The work of Galicia's more than 1,000 rural postmen and women was recognised by the Regional Government of Galicia with the awarding of the Castela Medal.

Commitment to Spanish sport

The Spanish Olympic Committee awarded Correos with the Olympic Insignia for its involvement with handball.

Sustainable mobility policy

'Spanish Sustainable Mobility Week Award', in the silver category, for Correos' commitment to an electric fleet of vehicles, especially in the last mile, and the major environmental impact of its actions.

Leadership in sustainability

'Cambio 16 Award' in the Sustainability category for Correos' leadership in the transformation of society and its commitment to building a more efficient and sustainable world.





Best promotional action: department of special deliveries

The 'Department of Extraordinary Deliveries' Christmas campaign was recognised for the second consecutive year with silver at the Eventoplus Awards, in the category of 'Best Animation/Show', and with the *El Chupete 2018* Award for Best Children's Event.

Best brand campaign

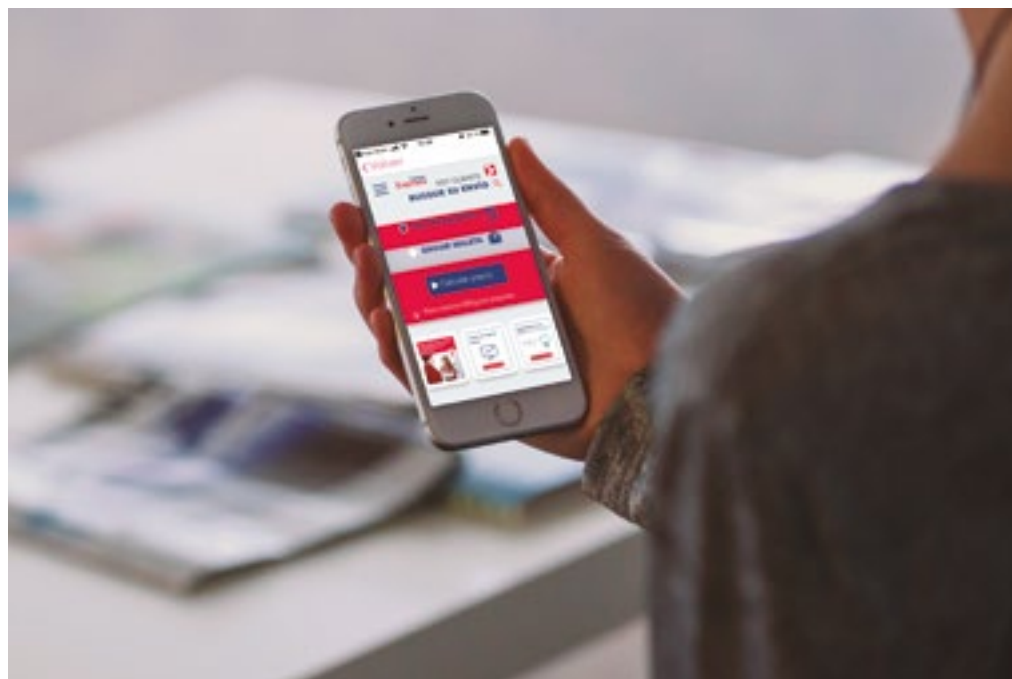
The '*Algo muy nuestro*' (Something Very Much Ours) brand campaign received bronze in the Advertising Effectiveness Awards of the Spanish Association of Advertisers (AEA) in the 'Integrated Campaign' category.

For our customer service



Correos Express, customer service of the year

For the third consecutive year, Correos Express had the 'Best Customer Service of the Year' according to the consulting firm Sotto Tempo ADvertising.

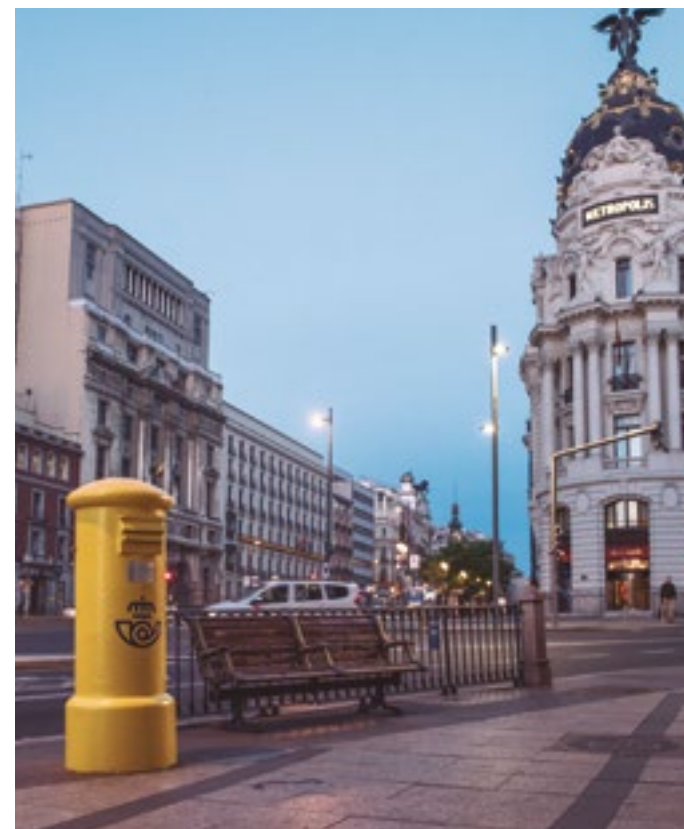


Key figures

Main figures of Correos Group

(GRI 102-7)

Correos Group	2017	2018
Revenue (Thousand euros)	1,859,465	2,035,632
Result before tax (Thousand euros)	(187,877)	(167,955)
Result after tax (Thousand euros)	(146,966)	(152,960)
Investments (Thousand euros)	85,951	77,200
Employees (FTE)	52,476	53,605
Emissions (Scope 1/2/3) (tCO ₂)	175,124	169,983
Energy consumption (Gj)	507,382	503,461
Proportion of electricity consumption with certificate of renewable energy (%)	81	100



Main figures of 2018



52,259
Employees
(FTE)



2,700
Postal items
(millions)



1,739
Delivery units



97
Special
service units



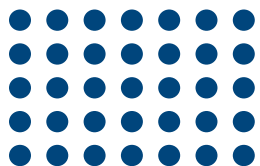
18
Automated
processing centres



14,291
Vehicles



5,152
Citypaq parcel
automatic terminals



6,185
Rural services

+



2,396
Post offices

=



8,581
Service points

Main figures of 2018

Correos
Express



1,108
Employees
(FTE)



54
Operating
centres



3,700
Distribution and
hauling routes



133,152
Operating
area (m²)

Correos
Nexea



193
Employees
(FTE)



2
Operating
centres



13,288
Operating
area (m²)

Correos
Telecom



45
Employees
(FTE)



1.6
Marketed fibre
optic network
(million metres)



193
Marketed
telecommunications
sites



Business model

Correos Group operates in the communications and parcel sectors, being a leader in the non-express delivery segment and a benchmark for e-commerce companies.



Correos is the main company in the Spanish postal market and one of the most important in the parcel sector for the excellence and reliability of its service. It is also the operator designated by law to provide Spain's Universal Postal Service, with criteria of efficiency, quality and affordability, contributing to the sustainability of postal communications for all of the general public.

The company has the largest network of logistics and distribution centres in the country and the most advanced equipment for the automated processing and tracking of postal items until their final delivery. This, together with experience, security and adaptability of its logistics solutions, allows Correos to satisfy the main communication and business needs of Spanish companies.

Correos
Express



Correos Express, dedicated to the **express delivery of parcels** for the B2B (business-to-business) and B2C (business-to-consumer) segments.

The company has a broad portfolio of services designed to meet all of its customers' on-time delivery needs, as well as specific solutions for sectors that require flexibility and full adaptation to their value chains.

Correos
Nexea



Correos Nexea, a specialist in **multichannel solutions for physical and digital mass company communications**.

The company provides its customers with maximum guarantees of information security, document tracking, total integration with their technological systems and reliability in the delivery of all of their communications.

Correos
Telecom



Correos Telecom, responsible for the **management and marketing of telecommunications infrastructures**, as well as providing all other Group companies with technological support.

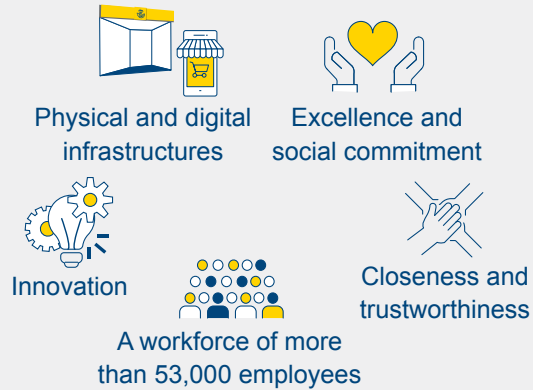
The company specialises in the provision of high-capacity connectivity services, communications and telecommunications infrastructures, adding value to the business activities of its customers through flexibility and innovation.

Business model of Correos Group

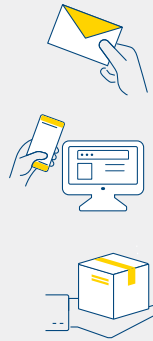


VISION, VALUES AND STRATEGY

Correos Group
operates through...



And with its
business model...



Creates
value...



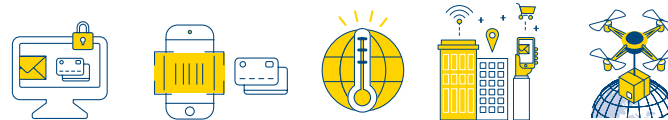
Benefiting
society



SDG



FUTURE TRENDS

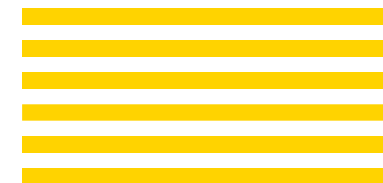


STAKEHOLDER EXPECTATIONS



Business environment

 (GRI 102-6)  (GRI 102-15)



Parcel market

In 2018, the parcel services were one of the most dynamic business segments thanks to the **expansion of e-commerce, whose turnover has been growing** annually in Spain at **rates close to 30%**. These online purchases generate a delivery in 9 out of 10 transactions¹, contributing to the significant increase in the distribution sector and also boosting the activities of Correos and Correos Express, which both ended the year with record growth in parcel deliveries.

The **increase in volumes** was parallel to the increase in the complexity of demand. Customers requested **increasingly**

shorter delivery times – 24-hour delivery is now the standard – and **more custom and flexible options**² in an omnichannel environment of business relationships.

The **seasonality of business**, with very pronounced demand peaks at specific times of the year, also continued to determine the operations of the sector. This concentration requires temporarily increasing productive capacity and having maximum capillarity to ensure a swift response. The appearance of diminishing marginal returns, however, leads companies in the market to simultaneously adopt efficiency measures.

Recent years have also seen the emergence of **new types of competitors** whose common denominator is the **intensive use of technology**. Their business models are based on

direct collaboration with online sales companies through mobile applications, specialisation in delivery niches or the creation of collaborative economy platforms.



¹ Comisión Nacional de los Mercados y la Competencia (National Commission of Markets and Competition) (2018). *Panel de Hogares CNMC. Primer semestre de 2018. Sector Postal.*

² ONTSI (2018). *Estudio sobre comercio electrónico B2C 2017.*



44%

of Internet users
buy online



49%

of e-commerce
deliveries are handled
by Correos Group



62%

of private customers
choose Correos Group
to send their parcels³

In addition to growing competition, the existence of customers with great negotiating power again contributed to increasing pressure on prices and margins. These characteristics inherent to the market reinforced the **need to generate synergies, reduce costs** and incorporate new technologies (robotics, artificial intelligence, Big Data, etc.) to **optimise processes and improve customer experience**.

In 2018, the challenges of last mile delivery also intensified, not only because of the **need to increase the effectiveness of the first delivery attempt**, but also due to the gradual implementation of **environmental restrictions in Spain's main cities**. This, together with increased demand for home deliveries, prompted companies in the sector to expand their fleets of **vehicles powered by alternative energies** and to invest in new infrastructures to **consolidate deliveries in towns and cities**.

Postal market

In the postal market, volumes continued to fall, mainly due to replacement by new forms of electronic communication. In the coming years, this mature market is expected to continue declining both in terms of revenues and volumes.

During the first half of the year, however, coinciding with the **entry into force of the new European General Data Protection Regulation⁴**, companies in the services and banking sectors **increased their postal communication campaigns** to customers, resulting in a significant increase in the number of deliveries and reduction in the rate of decline.

In addition, despite reduced business, customers continued to demand **more complex postal services with greater added values**. The evolution of the business continued to tend towards the rapid digitisation of services and processes, which is why Correos and

Correos Nexea focused on offering **multichannel services** that optimally combine communications in different formats, systems and media.

Correos, the market leader in the postal sector, continued to play an important social role as the operator designated by law to provide the Universal Postal Service. This obligation involves offering coverage throughout Spain and meeting certain requirements of quality, affordability and accessibility in order to ensure territorial cohesion and equal opportunities.

The provision of the Universal Postal Service, which involves having a wide human and infrastructure network, requires sufficient and regular funding. In order to adequately define the allocation of the necessary resources and levels of service required, the *Ministerio de Fomento* (Public Works Ministry) began drafting its Universal Postal Service Plan, scheduled for 2019.

³ *Comisión Nacional de los Mercados y la Competencia* (National Commission of Markets and Competition) (2018).

⁴ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).

Telecommunications and digital services market

In the field of telecommunications, aspects such as the new 5G environment, gradual development of the Internet of Things and cloud computing emphasised the need for greater availability of new infrastructures to **serve the millions of connected devices** and enormous amounts of data traffic they generate. This circumstance led to new opportunities to make the **fibre-optic networks, FTTH roll outs, conduits and facilities** that Correos Telecom

offers to large companies in the sector profitable.

The unstoppable digitisation of society also continued to drive greater **demand for identity management and authentication services in the online environment**, secure electronic mailboxes and digital solutions for the processing of public and private procedures and formalities, **which Correos Group's new range of services addresses.**

Future challenges

Innovations such as augmented reality, drones, autonomous vehicles, blockchain, robotics and artificial intelligence are also helping to **transform business models in almost all sectors**, promoting greater efficiency and quality of service to the customer.

Correos Group conducts its activities in this dynamic business environment in which proper management of change is a priority, so it is essential to have well-trained, customer-orientated employees, **anticipate new demands and accelerate the technological development** that an interconnected world requires.



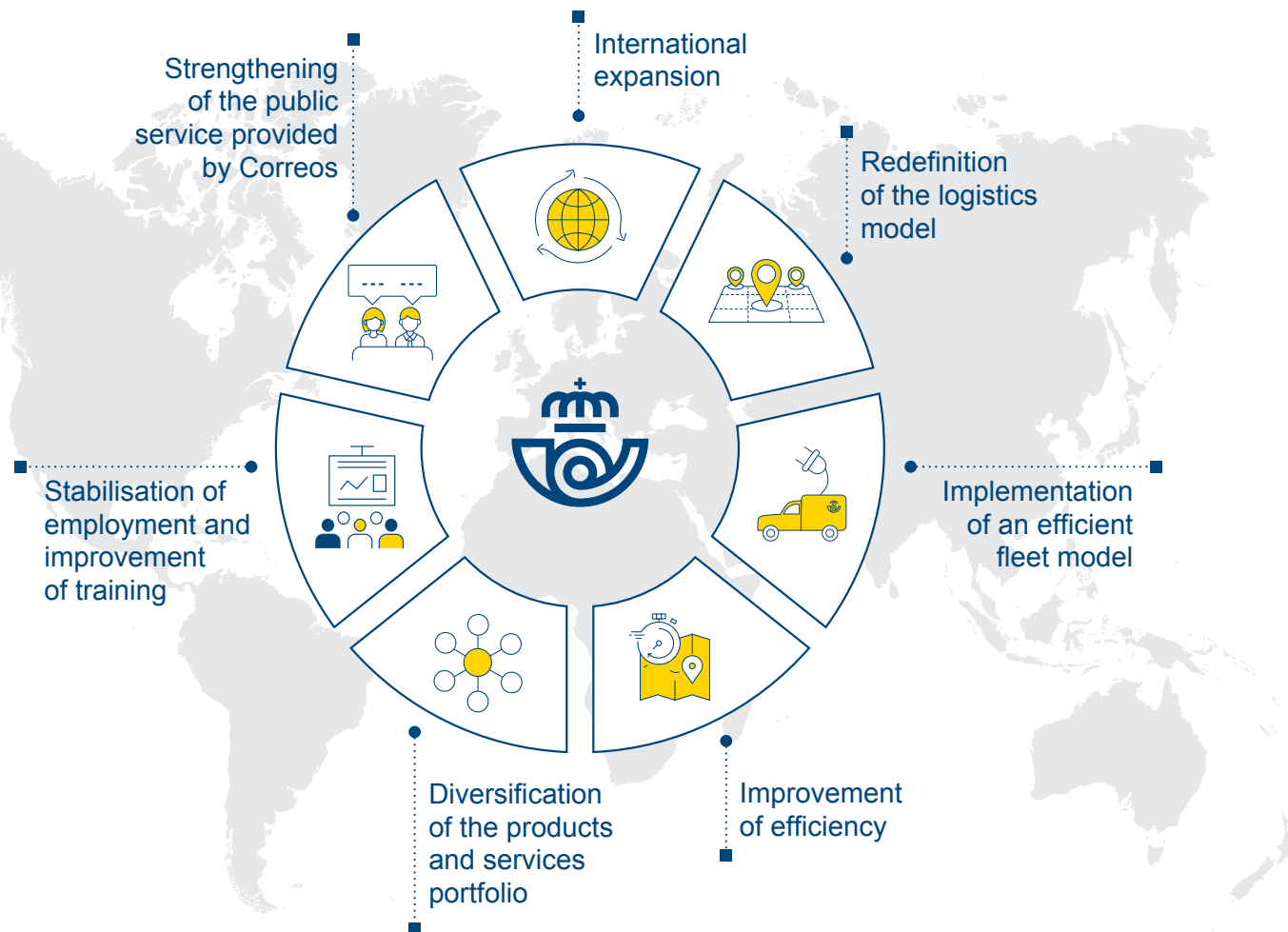
Objectives and strategy

🌐 (GRI 103-2) 🌐 (GRI 203-2)

Correos Group has a business model based on excellence in the provision of a public service, long-term business sustainability and customer orientation, with the ultimate goal of **generating value for the shareholder, customers, employees and society as a whole**.

The principles on which Correos Group's strategy is based are **the strengthening of public service; diversification**, mainly through the parcel services, digital services and retail business; and **international expansion**, especially in the markets of Portugal, Asia and Latin America.

The achievement of these objectives is articulated through the following strategic lines:

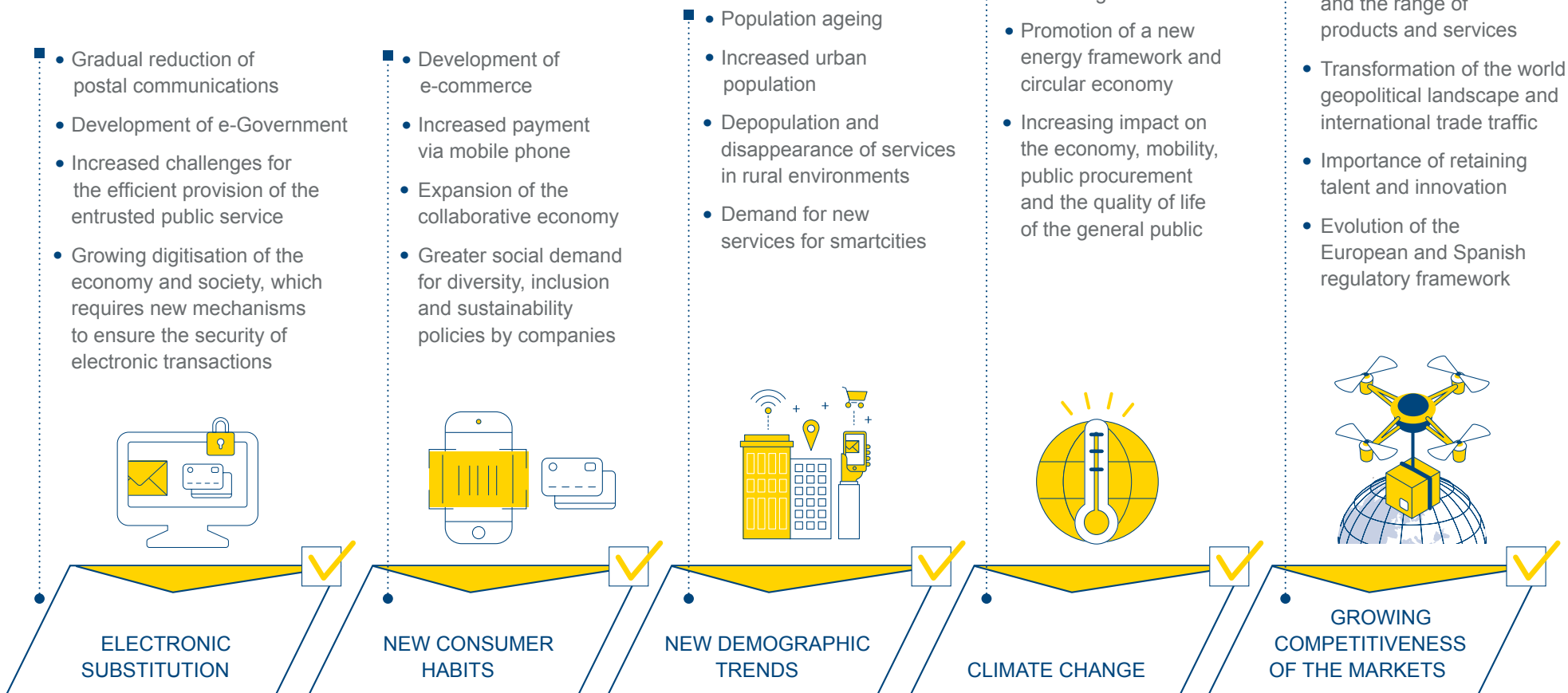


Future trends

(GRI 102-15)

Correos Group has identified several factors with potential short, medium or long-term impact on the markets in which

it operates. These trends represent both a challenge and an opportunity, depending on the response provided by Correos Group.



2. Non-financial information

Materiality and stakeholders' relationships

Main associations in which Correos Group participates

Solutions for customers

Human team

Excellence in operations

Innovation

Environmental sustainability

Social commitment



Materiality and stakeholders' relationships

Determination of content and scope

🌐 (GRI 102-40) 🌐 (GRI 102-42)
🌐 (GRI 102-43) 🌐 (GRI 102-44)
🌐 (GRI 102-46) 🌐 (GRI 102-47)

Determination of the content, structure and scope of this Integrated Annual Report was carried out through a **process of internal and external reflection** that made it possible to identify and prioritise the matters of greatest impact or importance for the business and/or stakeholders.

The materiality analysis was based on:

- The results of Correos Group's **diversity situation study and assessment**.
- Preparatory work for Correos Group's **corporate social responsibility plan**.
- Information about the company in the **press and social media**.
- **Interviews and consultations with executives and internal experts** at Correos and its subsidiaries, as well as representatives of shareholder, customers, employees, associations and sectoral entities, suppliers, consumer prescribers and other companies in the markets in which Correos Group operates.

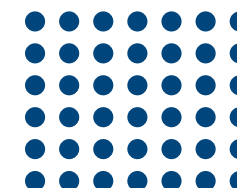
• **Non-financial reporting requirements under Ley 11/2018 (Act 11/2018)** regarding environmental and social matters, respect for human rights, combating corruption and bribery, equality, non-discrimination and inclusion of people with disabilities and universal accessibility.

From the joint assessment of critical matters for each stakeholder and the most significant aspects for the business, the matters with greatest impact on the company were drawn. **These matters have been incorporated**, to a greater or lesser extent, **into the contents of the Integrated Annual Report 2018**.

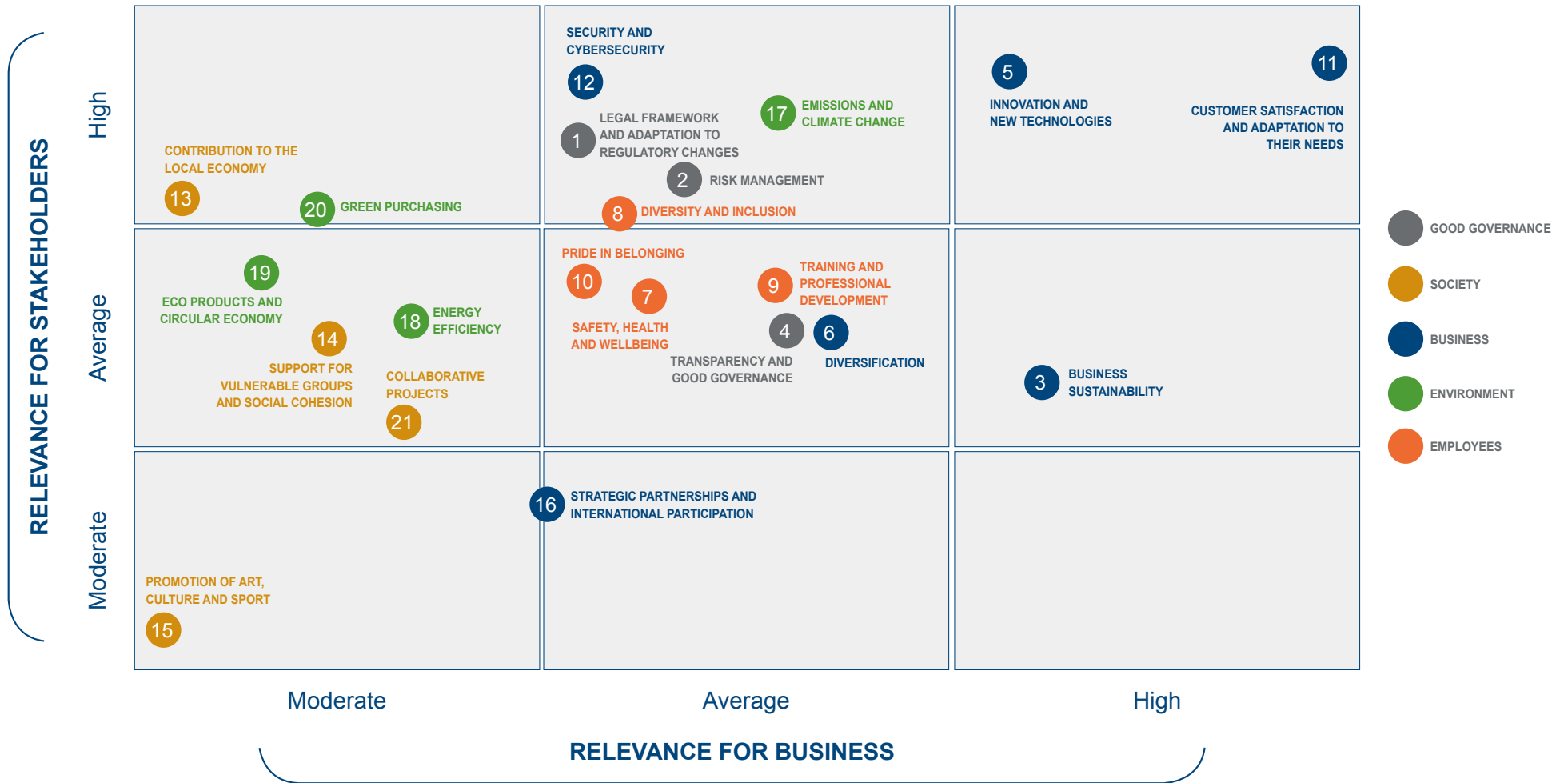
Matters and indicators relating to compliance with the non-financial reporting requirements of Act 11/2018,



included in the Non-financial information statement of the Management report of the Consolidated annual accounts, are supplemented and expanded with the rest of the contents of this Integrated Annual Report 2018 to the extent that they respond to the results of the materiality analysis conducted in accordance with the 2016 version of the **Global Reporting Initiative's Standards (GRI)** for the preparation of sustainability reports.

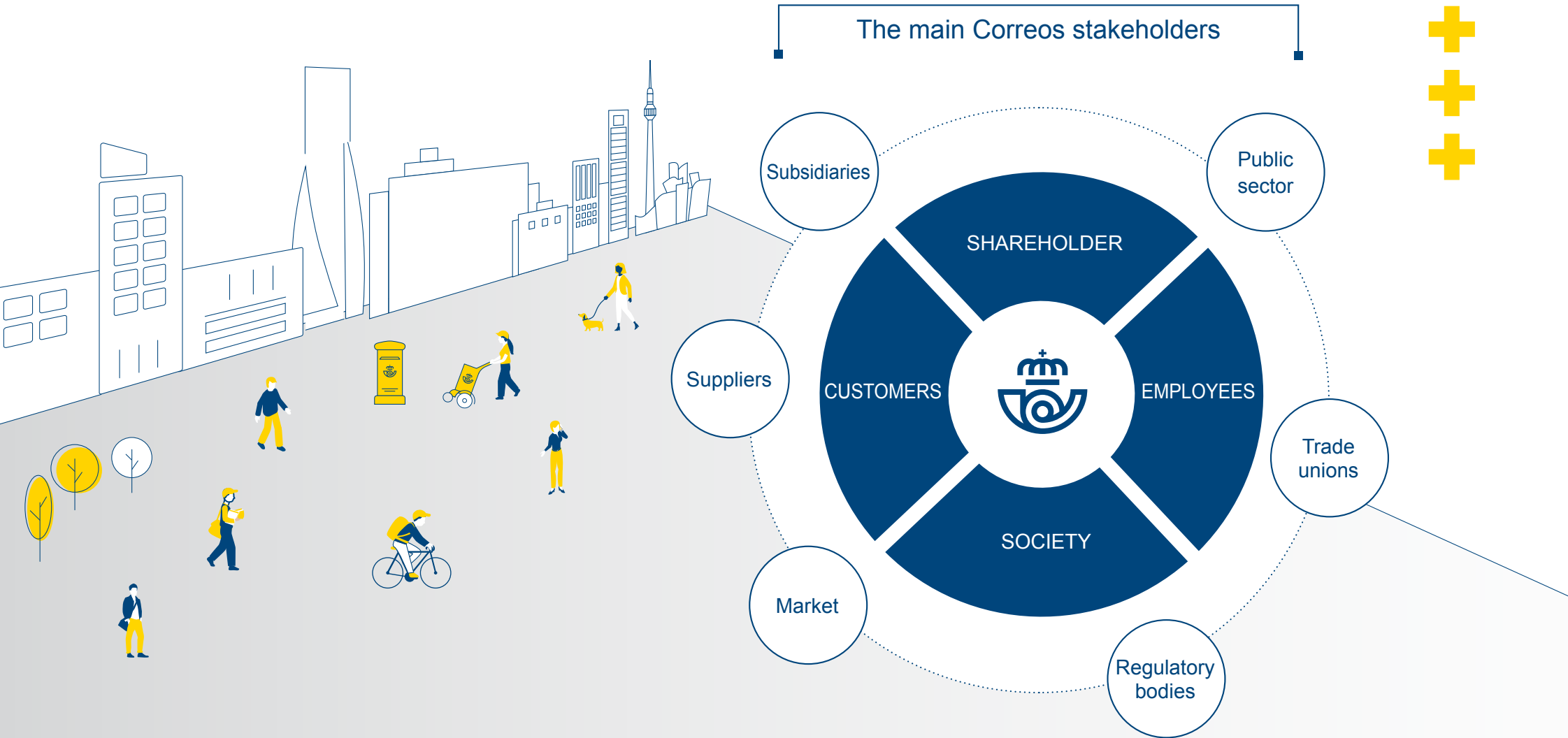


Materiality matrix



Relevants matters	Information
Customer satisfaction and adaptation to their needs	Solutions for customers. Excellence in operations
Innovation and new technologies	Solutions for customers. Excellence in operations. Innovation
Emissions and climate change	Environmental sustainability
Business sustainability	Correos Group. Solutions for customers. Excellence in operations
Diversification	Correos Group. Solutions for customers
Transparency and good governance	Corporate governance and ethical compliance
Training and professional development	Human team
Risk management	Corporate governance and ethical compliance
Safety, health and wellbeing	Human team
Diversity and inclusion	Human team. Social commitment
Security and cybersecurity	Corporate governance and ethical compliance
Legal framework and adaptation to regulatory changes	Corporate governance and ethical compliance
Pride in belonging	Human team
Strategic partnerships and international participation	Main associations in which the Correos Group participates. Social commitment. Innovation
Green purchasing	Environmental sustainability
Energy efficiency	Environmental sustainability
Contribution to the local economy	Environmental sustainability. Social commitment
Collaborative projects	Main associations in which the Correos Group participates. Social commitment
Support for vulnerable groups and social cohesion	Social commitment
Eco products and circular economy	Environmental sustainability
Promotion of art, culture and sport	Social commitment

Stakeholders relations





Communication channels

- General Meeting of Shareholders
- Governing Board
- [Integrated Annual Report](#) 
- Annual Operating Plan and Medium-Term Plan

Relevant issues

- Efficient management, competitiveness and business sustainability
- Transparency and good governance
- Risk management
- Diversification



Communication channels


- Intranet/Corporate website
- Email
- Text messages
- Personalised letters
- Internal memos
- 'Conectad@s' internal magazine
- Workshops
- Informal meetings
- Training actions
- Bulletins and surveys
- Participation programmes
- Social networks
- Representation committees

Relevant issues

- Training and professional development
- Safety, health and wellbeing
- Diversity and inclusion
- Pride in belonging



Communication channels


- Commercial channels and service points
- [Corporate website](#) 
- Social networks
- Satisfaction surveys
- Meetings
- Fairs, forums and other meetings
- Advertising campaigns
- 'Más Cerca' magazine

Relevant issues

- Customer' satisfaction and adaptation to their needs
- Innovation and new technologies
- Security and cybersecurity
- Strategic partnerships and international participation



Communication channels

- 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)

Relevant issues

- Collaborative projects
- Contribution to the local economy
- Support for vulnerable groups and social cohesion
- Environmental sustainability



Main associations in which Correos Group participates

🌐 (GRI 102-12) 🌐 (GRI 102-13)

Correos Group companies participated in the following associations in the last year:

Businesses

- *Fundación Consejo España China* (Spain China Council Foundation)

- *AESPLA (Asociación Española de Servicios de Prevención Laboral)* [Spanish Association of Occupational Health & Safety Services]

- PRL Innovación

- *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]

- Cloud Community Europe – EuroCloud España (association of companies offering products and services based on Cloud Computing and digital transformation technology)

- @asLAN (association of companies from the ICT sector)

- Silicon Alley Madrid (association of companies from the ICT sector)

- *CEUSS (Confederación Empresarial de Usuarios de Seguridad y Servicios)* [Business Confederation of Security and Services Users]

- *AEA (Asociación Española de Anunciantes)* [Spanish Advertisers' Association]

- AUTOCONTROL

- *UNE (Asociación Española de Normalización)* [Spanish Standardisation Association]

- DMAB (Direct Marketing Advisory Board)

- Internal communication forum

- DEC (Association for the Development of the Customer Experience)

- *UNO (Organización Empresarial de Logística y Transporte)* [Business Organization of Logistics and Transport]

- CEOE (not in force in 2019)

- *Círculo de Empresarios* (not in force in 2019)





International

- UPU (Universal Postal Union). Correos is a member of the Postal Operations Council, and is the current chair of the PPS*Clearing User Group and co-chairs the Remuneration Integration Group, as well as the vice chair of the Task Force on Future Sustainability of the UPU Provident Scheme. It is also a member of the Management Boards of the Direct Marketing Advisory Board and the .POST Group.
- IPC (International Post Corporation). Correos has belonged to the Governing Board of this organization since November 2017.
- UPAEP (Postal Union of the Americas, Spain and Portugal). Correos is the co-chair of the Philately Work Group. Besides

Spain has renewed its participation in the Management Board, as first vice chair until 2021.

- PostEurop. The company chairs the European Affairs Committee.
- PUMed (Postal Union for the Mediterranean). Association of postal operators from Mediterranean countries
- EPG Group (E-Parcel Group). Group focusing on parcel services, mostly in Europe
- Kahala Post Group. Business alliance with postal operators from Australia, China, South Korea, Hong Kong, Japan, United States, United Kingdom, France, Thailand and Canada

Corporate social responsibility and good governance

- 'Network of companies for a society free of gender violence', of the *Ministerio de Sanidad, Consumo y Bienestar Social* [Ministry of Health, Consumption and Social Welfare]
- United Nations Global Compact Network Spain
- Forética
- Institute of Internal Auditors
- AEDIVE (*Asociación Empresarial para el Desarrollo e Impulso del Vehículo Eléctrico*) [Business Association for the Development and Promotion of Electric Vehicles]
- GASNAM (*Asociación Ibérica del Gas Natural para la Movilidad*) [Iberian Association of Natural Gas for Mobility]
- *Club de Excelencia en Sostenibilidad* (Sustainability Excellence Club)

Solutions for customers

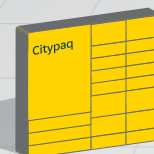
 (GRI 102-2)
  (GRI 102-6)
  (GRI 203-2)

Correos Group's product and service portfolio includes **comprehensive communication and parcel solutions** designed to meet the needs of different types of customers and business segments.



Physical communication solutions

- Mail and registered products
- Bureaufax
- Direct marketing solutions



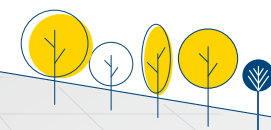
Parcel services

- Domestic parcel services
- International parcel services
- Citypaq lockers network
- Reverse logistics solutions
- Urgent parcel services and tailor-made services for companies
- Advanced Electronic Signature



Retail sales and post offices services

- Mail, parcel and prepaid packaging products
- Financial services and bills payment
- Tickets sale
- Merchandising, philatelic and convenience products
- General Directorate for Traffic environmental stickers sale
- Telecommunications products



Digital communication and e-commerce solutions

- Digital communication services
- Comprehensive solutions for e-commerce: Comandía
- Correos online store
- Correos Prepago and Correos Regalo cards
- Nexo multichannel communication platform
- Telecommunications services



Global parcels services

Correos and its subsidiary Correos Express represent a **benchmark in the parcel market** and especially in the e-commerce services segment. Its catalogue of products provides customers with **total flexibility** to manage their deliveries, **the greatest capillarity and the best ratios of effective delivery** either at home, in the post office or through the *Citypaq* network of automated parcel terminals.

Correos Group's national and international parcels solutions range from maximum urgency (same-day delivery) to more custom options (reverse logistics, luggage transportation, customised services for companies and flexible delivery).

Correos Group's national offer includes products and services tailored to all kinds of requirements:

- **Diversity in terms of delivery**, with ***Paq Estándar*** for more economical deliveries within 48/72 hours; ***Paq Premium***, especially suitable for the e-commerce sector, with delivery within 24/48 hours and added benefits; and ***Paq Today***, with collection and delivery on the same day within the same province.

- **Streamlined reverse logistics** options for returns, mainly from e-commerce volumes, with ***Paq Retorno*** and ***Paq Retorno Premium***, which offer companies an optimum solution to recover goods from their customers at no additional cost to themselves.

- **Response to specific needs**, for example, with services to pilgrims on the *Camino de Santiago* (Way of Saint

James) (***Paq Mochila***, ***Paq Bicicleta*** and ***Paq Peregrino***), which make it possible to transfer luggage or bicycles along the route.

This commercial portfolio is supplemented by added benefits that provide greater information, security and flexibility, such as **electronic proof of delivery** generated and transmitted by the smart mobile devices (PDA) used by all delivery employees.

Other benefits available include selection of delivery time slot, number of delivery attempts or delivery to a post office, as well as a new option introduced in 2018 – **delivery and deposit management** – with which customers can request additional services at the time of receiving or depositing postal items.



International offer for a global context

Against a backdrop of continuous growth in cross-border deliveries largely driven by the expansion of global e-commerce, Correos responds to the specific demands of this business segment through:

- **Preferential delivery services**, such as *Paq Premium Internacional* for the most urgent deliveries, and *Paq Standard Internacional*, with home delivery and signature of the recipient.
- Solutions for **cross-border reverse logistics**.
- **Economical services**, such as *Paq Light Internacional* for lightweight parcels that do not require a signature, with full tracking and highly competitive prices.

This last service continued to be the most requested, **recording growth last year of 112% in number of admitted deliveries**.

In 2018, **more benefits associated with our international parcels service were added**, with optional insurance coverage extended to a greater number of

countries, improved tracking of deliveries with the return of international information and the incorporation of a parameterised volumetric weight option.

In addition, promised delivery times and the contractual terms of *Paq Premium Internacional* were updated to meet new customer demands.



Correos Express urgent services

Correos Express offers custom express delivery solutions to cater to its customers' demands for immediacy, flexibility, an omnichannel approach and integration in the value chain. The company has a commercial portfolio aimed at both B2B and B2C segments, which includes:

- The most urgent services, with delivery at a guaranteed time, [Paq 10](#), [Paq 14](#) y [Paq 24](#).

- Custom solutions [Paq Empresa14](#), for business customers with guaranteed delivery before 2 pm; [ePaq24](#), specially designed for e-commerce deliveries to individuals; and [EquiPaq 24](#) for the collection, transportation and urgent delivery of luggage weighing up to 25 kg.

- [Cross-border services](#) such as *Internacional Express* for urgent air delivery to any country; *Internacional Estándar* for less urgent deliveries to Europe; and specific products for the Canary Islands and the Balearic Islands.

- Highly specialised options for specific business segments, such as [opticians](#), with *OptiBox10* and *Optibag15*, and [dentists](#), with *Valija Dental12*, *Paq Dental10*, *Paq Dental14* and *Paq Dental24*. A recent addition is *Dentabox10*, a new product offering 10 prepaid deliveries weighing up to 2 kg and delivery with 24 hours.

In 2018, Correos Express **also extended its offer to the e-commerce sector** through new agreements with online sales platforms and specific services, such as a new website for the management of reverse logistics that enables recipients to easily request the collection of returns.

The subsidiary also developed a **new mobile application** to provide customers with greater interactivity and management of deliveries. With this app, customers benefit from the security and convenience of having all information related to the collection, transportation and delivery of their goods on any computer device thanks to a **sophisticated tracking system**.

Another technological development is the **Entrega Flexible** service (Flexible Delivery), which allows **recipients to check the status of their deliveries** and, if they wish, modify and select a new date, time slot or delivery address, including the more than 2,400 Correos Group's post offices.

The company also has a *recipient immediate location* system in the event of absence, *proactive incident management*, and the **Firma Digital Avanzada** (Advanced Digital Signature) service for customers who need the legal validation of electronic documents.



The delivery convenience with *Citypaq*

Delivery is one of the most important links in the e-commerce value chain. As a result, the company's **delivery network of automated parcel terminals** *Citypaq*, has not ceased growing and offering the greatest convenience to online buyers and sellers and, in particular, to Correos Group's parcel service customers.

By the end of 2018, Correos had **more than 103,000 registered users of its *Citypaq* service and 5,152 terminals installed throughout the country** and situated in various kinds of locations, from residents' associations, business centres, car parks, petrol stations and public transport stations, to superstores, local markets and associations.

In 2018, *Citypaq*'s evolution focused on four objectives:

- Analysis of active terminals to assess the need for relocation to even more accessible locations.

- **Agreements for the installation of terminals in new public locations** with companies in the food distribution and consumer goods sector; wholesale and retail companies in the do it yourself (DIY), hardware and construction sector; retail sporting goods stores; public and private higher education establishments; and business centres for various sectors (telecommunications, financial, media, energy, industrial, etc.).

- Promotions and discounts for users in partnership with major e-commerce companies and publishing groups.

- Integration of systems with leading companies in the food distribution, fashion and e-commerce sectors to **improve processes for delivery to *Citypaq* terminals**.

Finally, in 2018, the ***Citypaq* application featured a new design**, an updated geolocation map of terminals and improvements in **functionalities and services** to offer simpler and more intuitive use.

Advantages of *Citypaq*

Citypaq	Available at any time of the day
	Locations always close to the customer
	Suitable for receiving and returning deliveries
	No need for multiple delivery attempts
	Reduced environmental burden for deliveries

Solutions for e-commerce

In recent years, companies that sell online have outsourced a large proportion of services related to the logistics of the products they sell. These companies need a strategic partner that is not only responsible for last mile delivery, but also takes care of product storage and order preparation.

To meet this demand, Correos offers a **global portfolio of e-commerce services** that range from online sales and order management to methods of payment and digital marketing, as well as logistics.

End-to-end services for e-commerce

70% of medium-sized Spanish companies still do not sell on the Internet¹. With this in mind, the **Comandia** platform includes various solutions to help SMEs with their e-commerce. To complete its range of services, in 2018, it incorporated **Crea tu web**, with the objective of facilitating the promotion and development of projects and businesses.

This option offers customers who want to advertise their brands on the Internet a simple and intuitive tool for designing their websites, including personal guidance and training.

In this way, **Crea tu web** joins other solutions such as **Crea tu tienda online**, which provides help with designing sales websites, ensuring the best shopping experience for users; **Crea tu App**, which enables online business to be managed from any mobile device; and **Vende en marketplaces**, which assists in publishing and managing products on the main national and international online sales platforms from a single tool. Regarding this last service, Correos also expanded its commercial agreements with the main global marketplaces with the aim of helping Spanish SMEs to export their products.

Since 2018, **Comandia** customers have also been able to take advantage of **new marketing options**, such as content writing, social media management, parcel design, fulfilment services, photography

and legal advice. This has enabled the **Comandia** ecosystem to grow its end-to-end service for selling on the Internet and provided customers with the ability to carry out **the entire process with Correos as the sole provider**.

Thanks to this evolution, **total turnover for Comandia's solutions grew by 161%** in the last financial year.

Secure methods of payment

Correos offers prepaid cards that enable the secure payment of purchases made in both physical and digital stores. The **Correos Prepago** prepaid card enables customers to make payments and withdraw cash at any ATM belonging to the main networks and at its branches without the need for linkage to any bank.

Since last year, an **exclusive version of this card has been available to pilgrims travelling the Way of Saint James** so that they can enjoy the experience without worries.

Correos Prepago
is the first card of its
kind in Spain that
is compatible with
mobile payment

¹ Comisión Nacional de los Mercados y la Competencia (National Commission of Markets and Competition) (2018). *Encuesta de uso de TIC y Comercio Electrónico en las empresas 2017-2018*.

Similarly, the **Correos Regalo** card can be given as a gift with a pre-loaded amount for use in any physical or digital store associated with the MasterCard Network. 2018 also saw the launch of a **special edition in partnership with the e-commerce vendor AliExpress**, allowing its customers to shop online with greater security.

Finally, in response to the latest trends in the financial services sector, the *Correos Prepago* prepaid card **incorporated the option of paying through a mobile device**, integrating itself into the Google Pay platform.

Correos Group's online store

In the second semester of 2018, Correos launched a **new version of its web store** with the aim of strengthening the online channel and offering more services to the general public. The new store offers a wide variety of packaging, merchandising, philatelic items and collectibles that can be delivered within 48/72 hours at home, Correos' post office or *Citypaq* point.

The online store also incorporated the **General Directorate for Traffic environmental stickers** into its offer,

resulting in very high demand, with **over one million units sold** between the online and physical sales channels.

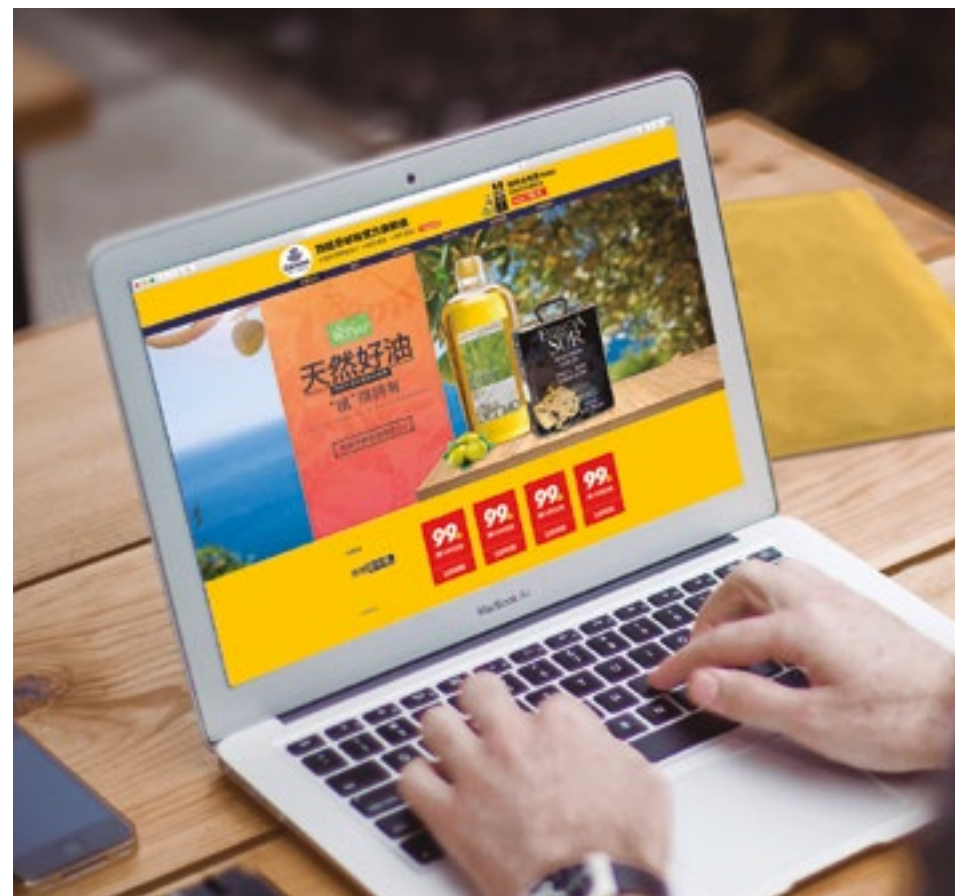
Its re-launch included a new design and better usability (especially on mobile devices), with a more dynamic and visual look.

Thanks to these improvements, the number of visits in the last quarter of 2018 exceeded the total figure for 2017 and the **income generated increased fivefold** compared to the same period of the previous year.

Correos store in Tmall Global

The company also helps companies to market their products abroad through agreements with large marketplaces. The Correos store in Tmall Global, the e-commerce platform of Alibaba Group, enables Spanish SMEs to sell and deliver their products to China.

In 2018, Correos also began providing logistics services from a customs-free zone in that country, thus reducing delivery times and costs. With the ability to perform import trade formalities at the destination, it also enabled customers to pay taxes in China.



Communication services

With more than 300 years of history, **Correos provides postal services to Spanish society**, ensuring the highest efficiency and quality in their provision. Its catalogue of physical communication solutions includes postal items, registered products and faxes, distribution of books and publications, and direct marketing.

Correos Directo, a comprehensive **direct marketing** solution for corporate promotional communications enables businesses to segment, personalise and optimise customer information, acquisition and loyalty campaigns.

As a complement, the new **Correos Sampling** service, launched at the end of 2018, allows consumer brands to send promotions, exclusive discounts and samples of their products to potential customers who request them, based on their preferences, and receive them in their post box at home. These deliveries have an identifying image that enables the recipient to recognise their origin, thus ensuring that their personal data is used correctly by third parties.

The company also developed a **new information collection platform**, through the smart mobile devices (PDA) used by all delivery employees, which enables the collection of relevant information for customers along usual delivery routes. Last year, a pilot programme was started with a food home delivery company involving the auditing of their establishments in Madrid through the monitoring and photographing of facades.

In the field of **electronic communications**, services such as *Correos ID* simplify the management of the digital identity of people, while others such as *Mis notificaciones* enable the receipt of notifications from Public Administrations, with full adaptation to the requirements of Act 39/2015. In 2018, the *Mi Buzón* service also incorporated new features, including receipt and delivery acknowledgements and notifications.

The company also began to provide its **Sellado de Tiempo** service, which certifies the authenticity and integrity of a document on a specific date, with the guarantee and

electronic signature of the Time Stamping Authority (TSA), in its capacity as a qualified Provider of Trust Services.

2018 also saw Correos renewing its *Mi Postal* application, which enables traditional postal items to be customised with photographs, audiovisual content and augmented reality using QR tags.

The new **Buzón Connect**, solution, which also uses QR and NFC technology, enables recipients to digitally receive arrival notifications on their mobile phones and pick up their deliveries at post offices, allowing them to personalise the delivery.

In addition, with the entry into force of the European regulation on data protection, a portfolio of multi-channel tools was created for companies to help them collect explicit, informed and unambiguous consent from their customers for the processing of their data and centralised management of user rights. This platform makes it possible to track processes, channels, dates and recipients, and store and safeguard the electronic evidence generated.

Correos Sampling
was used by more
than 19,600 users
in the first month
after its launch



Nexea: the union of the physical and digital

Correos Nexea develops tailored technological solutions for the comprehensive management of company mass communications through a multi-channel model and in all types of media and formats.

The company provides customers with maximum guarantees of information security, document tracking, total integration with their technological systems and reliability in the delivery of all of their communications.

Correos Nexea's range of services covers all phases of the document

cycle, from consulting, design and document engineering, digitisation, data transmission and composition to printing, placing in envelopes for postal delivery, returns management, digitisation and certified destruction of documents.

Regarding the new legal framework resulting from *Real Decreto 897/2017*² (Royal Decree 897/2017) concerning vulnerable consumers, social allowance and other protection measures for domestic consumers of electricity, the joint service of Correos Nexea and Correos, through the *Nexo* platform, offers a comprehensive solution for this sector, responding to requirements related to notification deadlines, content and reliability of communications to customers.

Services requested by customers in Nexo

	Business sector	Communication needs	Nexo's product
1	Banking	<ul style="list-style-type: none"> Claims for non-payment Offices communications Banking products campaigns 	<ul style="list-style-type: none"> Bureaufax Telegram Registered products Registered SMS
2	Insurances	<ul style="list-style-type: none"> Policy termination Accidents Sick leaves 	<ul style="list-style-type: none"> Burofax Telegram Registered SMS Registered email
3	Institutional	<ul style="list-style-type: none"> Taxes Files Notifications 	<ul style="list-style-type: none"> Notifications Bureaufax Telegram
4	Utilities	<ul style="list-style-type: none"> Cut-off notices Notifications of non-payment Bills 	<ul style="list-style-type: none"> Mail Bureaufax Registered mails Registered SMS



² *Real Decreto 897/2017* (Royal Decree 897/2017) of 6 October concerning vulnerable consumers, social allowance and other protection measures for domestic consumers of electricity.

Telecommunications infrastructure offer

Correos Telecom sells the surplus capacity of the network to other companies, providing high-capacity connectivity solutions, infrastructure for laying cables and collocation for radio emissions (mobile network, radio, DTT); rent of IPV4 address and provision of its own services of Internet access.

With the aim of enhancing and showcasing the Group's telecommunications assets, Correos Telecom **rolled out and improved fibre-optic lines** on the Parla-Madrid, Murcia-Puerto Lumbreras and Valencia-Alzira sections for long-term lease by the main companies in the Spanish telecommunications market under Indefeasible Rights of Use (IRU).

The subsidiary also began providing fibre-optic leasing services under

indefeasible rights of use to a new international customer to ensure connection between its centres, one of them being Madrid's main Data Processing Centre.

Regarding the implementation of 5G technology in Spain, it is also necessary to provide fibre optic to existing mobile telephony towers throughout Spain, which is why Correos Telecom is working on a range of leasing services that respond to this new need of other telecommunications operators.

In 2018, the subsidiary also began to **market spaces in Correos' post offices** for the installation of the necessary **FTTH roll out** header nodes for companies in the sector to bring Internet services with fibre to homes. The wide capillarity of the network of post offices makes it easier for operators to roll out these services, especially in small communities, and this resulted in 94 new contracts.



Income from the leasing of telecommunications infrastructures grew by 16%



Philately: innovation and creativity

In 2018, 104 stamps were issued with a clear focus on innovation, new formats and materials. Examples of these included a stamp to mark the 200th anniversary of the birth of Cosme García Sáez, which was printed on rubber as a tribute to the inventor of the postmark, one made from acetate as part of a series called 'Ancient Trades' and one from the 'Discoverers of Oceania' series, made from wood.

Other **innovative techniques applied to the manufacture of stamps**, postal stationery cards and first day covers included the incorporation of fragrances (eucalyptus, orange blossom or ham with Protected Designations of Origin); invisible, thermochromic and photoluminescent ink; 3D varnishes; and textures such as sand and stone.

In 2018, Correos also made philatelic books with titles such as 'Destinations with stamp: World tourism in stamps' and the 'History of Spain according to Gallego and Rey'; engravings dedicated to the best chalcographic stamps awarded in international philately; and numismatic items to mark the 50th birthday of King

Felipe VI and Santiago de Compostela's listing as a World Heritage City.

Other **philatelic sets** were also put on sale, such as those dedicated to the 'Nobel Prizes in Spanish Philately,' the 'First Stamps of Philately' (which included the first postal money order issued in Spain) and 'Iberian Peninsula,' produced in conjunction with Portugal, with issues representative of the culture of both countries. With a postal theme, also notable was a stamp marking the 25th anniversary of the last travelling post office, whose design featured the exterior and interior of a postal carriage.

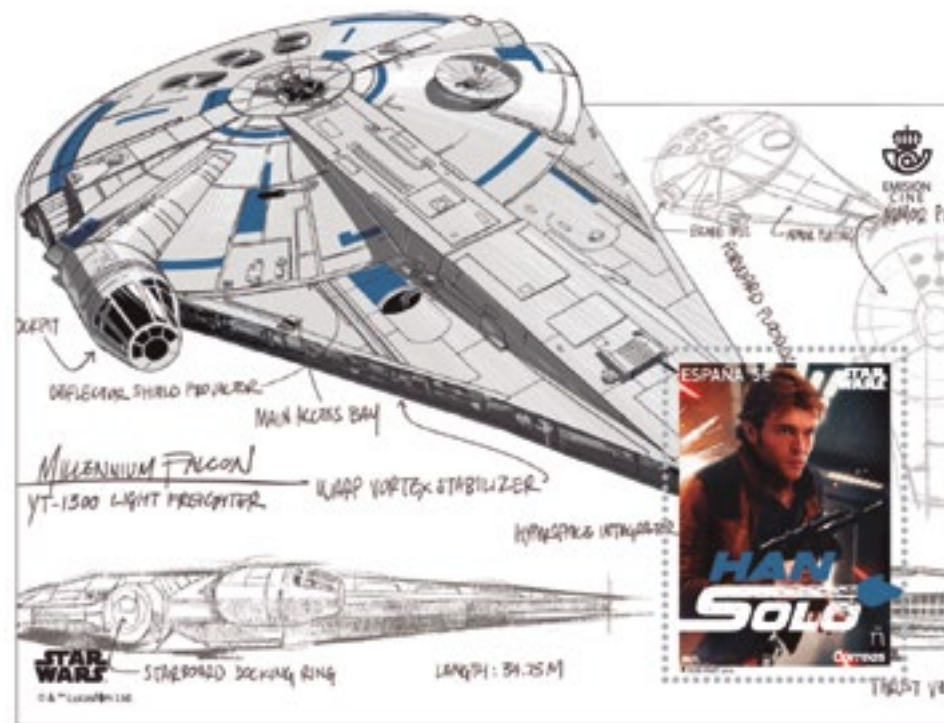
Through the **TuSello digital service**, which allows images and videos to be transformed into real postage stamps, more than 21,800 sheets with personalised motifs were created.

To attract a younger audience, philatelic products dedicated to the famous film's sagas Harry Potter and Star Wars were marketed. Correos also continued organising its *Disello* competition and supporting the holding of exhibitions in 23 schools in partnership with the Spanish Federation of Philatelic Societies (FESOFI). As on previous

occasions, Correos also participated in events such as the 50th edition of the National Stamp Fair and *Exfilna* (National Philatelic Exhibition)/ECC2018.

In 2018, Correos Group's **Postal and Telegraph Museum**, which exhibits

unique pieces from the history of telecommunications, received more than 10,000 visitors. Similarly, guided tours of the postal and telegraphic histories of the cities of Madrid and Barcelona were also very popular.



Retail sales and services in post offices

Correos Group's office network provides **broad geographical coverage**, offering **personalised attention and a wide variety of products and services** to meet all kinds of communication and business management needs.

In the offices, customers can find an extensive offer ranging from postal and parcel services, prepaid packaging and philatelic products for collectors to financial services, payment of bills from more than 50 companies and entities, convenience items and merchandising, sale of tickets for shows (also available at www.entradascorreos.com), in-person identity verification for digital transactions and services for Public Administrations.

Among the latter is the **Government Virtual Registration Service (ORVE)**, which allows the general public to

register and send scanned documents to Public Administrations from Correos' post offices and is now available throughout the network.

In 2018, Correos' post offices and its online store put on sale **environmental stickers** offered by the General Directorate for Traffic.

Last year also saw improvements **in the in-person identity verification service** for customers from the banking and telecommunications sector, enabling more exhaustive validation of the identity document presented in physical form. In addition, for the latter sector, a specific option was developed for **sending items to mobile phone post offices**, with delivery to the customer only taking place after confirming the portability of the operator.

Correos also reached a **new agreement for marketing** in the **telephony and fibre services** network of the operator O2.

The financial solutions offer was also completed with the new **Correos Cash** service, which enables customers of various financial entities, such as Evo Banco, Banco Mediolanum and Triodos Bank to **perform banking transactions**

(deposits, withdrawals, transfers, payments) **in the post office network**.

Finally, the new format of *Tu Correos* offices, which has been implemented gradually since 2015, contributed to improving customer experience with a greater commercial offer, personalised service and more streamlined drop-off through the use of digital machines or self-service sales.



Human team

Comprehensive management of people

Correos Group, one of the largest public enterprise groups in terms of dimensions and workforce, undertakes the management of people as an essential part of its strategy.

In 2018, Correos Group employed 53,605 full-time equivalents. Most were employed by Correos, which had 52,259 employees, of whom 80% were non-civil servant staff and 20% were civil servant staff.

Correos Group labour impacts



Employment quality and stability



Training and professional development



Talent attraction and retention



Diversity and inclusion



Occupational health and safety



Employment quality and stability

🌐 (GRI 102-8) 🌐 (GRI 203-2)

In 2018, **Correos expanded its workforce by 2.1%** (2.2% in the Group), in accordance with the conditions and limits set for it as a state-owned company. These additions to the workforce were a response to new **needs resulting from a notable increase in parcel volumes** and greater activity in the traditional postal sector due to market concentration.

Consolidation in 2018: 2,295 permanent positions

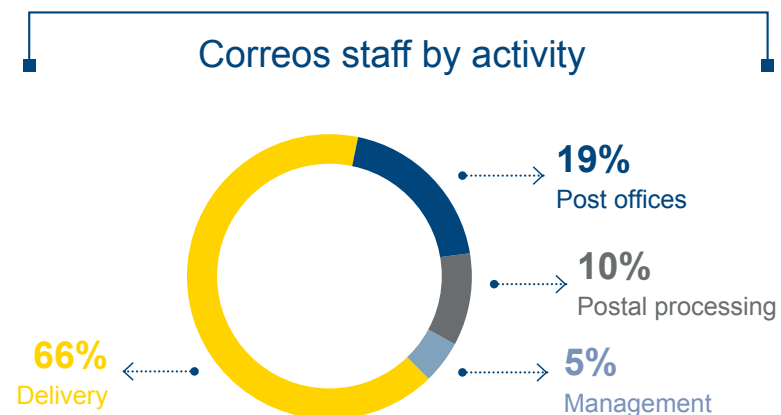
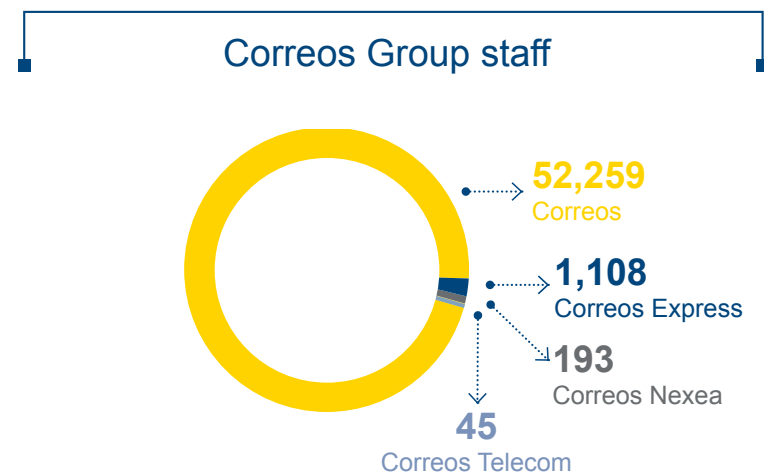
With the aim of improving employment stability, a process was implemented to fill **2,295 permanent positions in urban and rural delivery, sorting and customer service**, for which 116,699 candidates applied.

Provincial recruitment campaigns were undertaken and entry tests were conducted simultaneously in 30 cities,

In 2018, Correos increased its workforce by 1,129 employees

organised by around 3,000 members of Correos staff. **By 1 March 2019, all new employees selected had begun work.**

Within the framework of this process of employment consolidation, the company carried out an **operational training programme for temporary staff**, in which 556,905 teaching hours were taught to a total of **20,500 participants.**



2018-2020 multi-year agreement

In December 2018, Correos and the trade unions CCOO, UGT, CSIF and Sindicato Libre (which all together hold more than 80% of the trade union representation in the company) signed a **2018-2020 multi-year agreement for improved employment, wages and working conditions**.

The commitment was part of the Second Collective Bargaining Agreement for Improved Public Employment and Working Conditions signed by the Government and the trade unions CCOO, UGT and CSIF on 9 March 2018. This agreement established the basis of

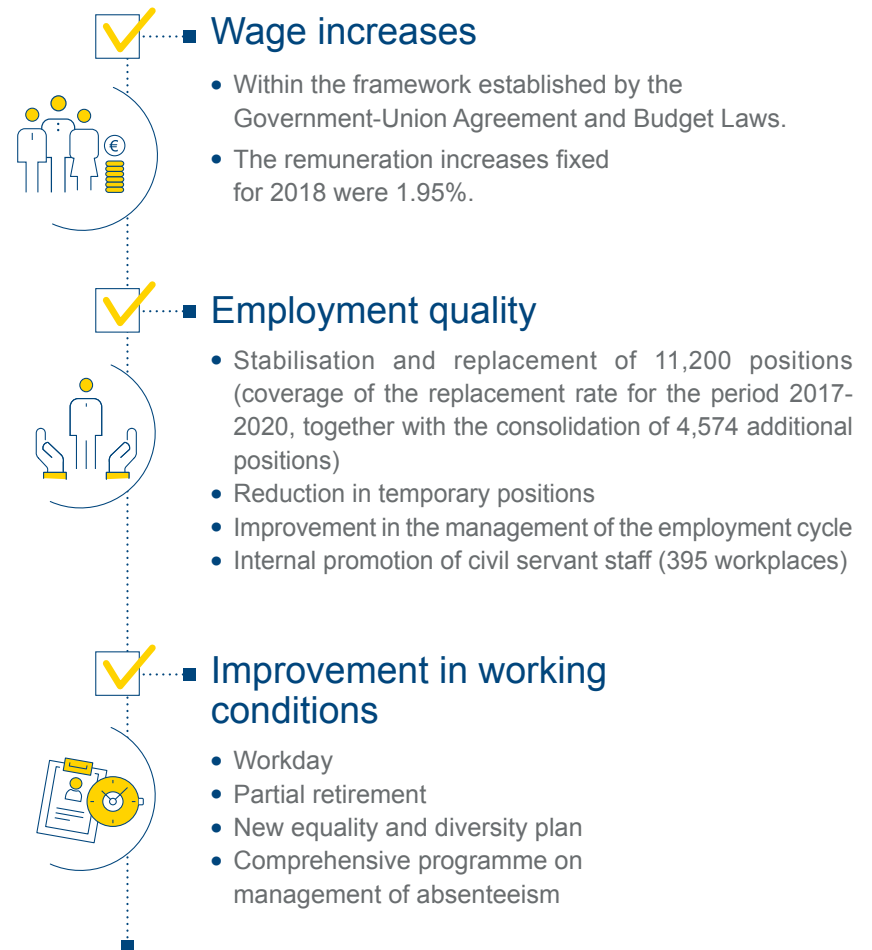
labour relations until 2020 and will enable Correos to acquire the necessary resources to face the strategic challenges of the future.

Consolidation in 2019: 4,055 permanent positions

In application of the agreement, the end of the financial year saw the publication of the general principles for the **filling of 4,055 permanent operational positions**, with selection tests to be conducted in **2019**. This recruitment campaign integrates coverage of the replacement rates for 2017 and 2018, as well as the posts included for those years in the employment stabilisation plan.



Main points of the 2018-2020 multi-year agreement



Promotion of talent and professional development

🌐 (GRI 404-3)

Correos has a talent management programme whose purpose is to identify employees with the capacity and potential to assume certain positions in the company and **contribute to their development and personal and professional growth in line with business objectives.**



Talent management



'Clic' programme

Aimed at a group of about 400 Correos employees. Its lines of action during the year included the execution of individualised action plans to enhance professional profiles and the organisation of training activities and workshops on skills with a total of 15,200 teaching hours.



Performance assessment system

This promotes greater alignment of individual performance with the company's objectives, and also ensures greater effectiveness of selection, promotion, training and professional development plans.

In 2018, 1,598 Correos employees took part in this programme, 3.1% of the total, including all managers, technicians and middle managers.

The main improvements introduced were aimed at providing more training and self-assessment tools to team leaders.



The 'Young Talents' work experience programme

Aimed at university students who wish to complement their academic training with practical work experience, thereby increasing their employability and allowing the company to enrich itself with new knowledge and ideas.

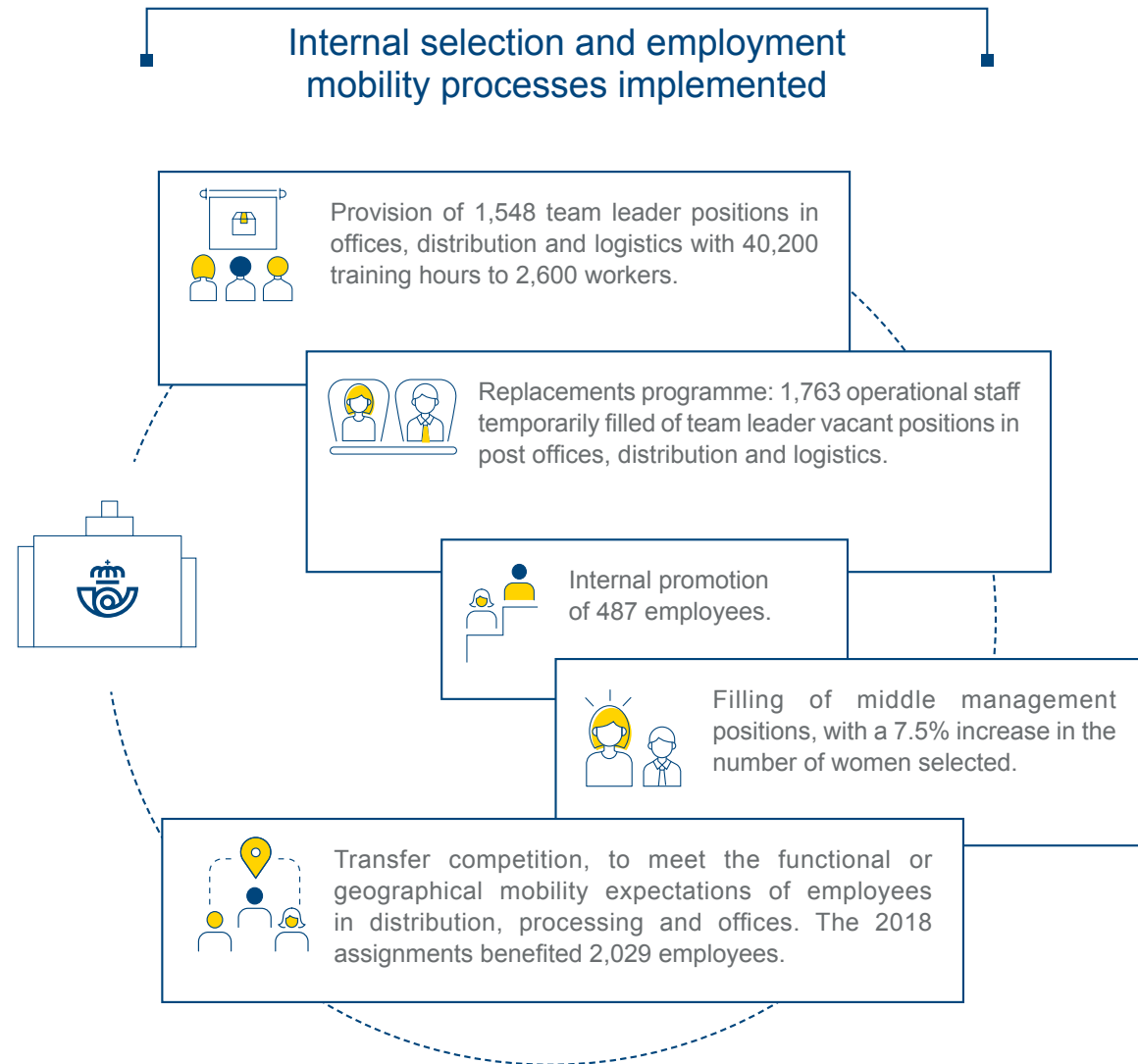
In 2018, this project reinforced its presence in social media and digital platforms with 86 students from 14 different nationalities, various universities and the SEPI Foundation.

Internal promotion

The company's **professional development** plans include internal promotion as the main component to promote and retain talent. In 2018, **new mechanisms were introduced to ensure candidate diversity and equal opportunity** and selection regardless of age, nationality or gender (in that financial year, for example, 56% of the selected candidates were women).

Correos made available to **temporary staff and new entrants the Colearning platform**, an online environment that provides information about processes and applications related to operational positions to assist them in their first months of adaptation and meet their development needs. During the financial year, 8,500 employees accessed this space.

In addition, the **welcoming and monitoring programme**, designed to provide training to new employees or those changing positions within the company, saw the participation of 955 employees.



Innovative training for transformation

Correos Group's training policy is aimed at responding to the strategic business needs and professional development of its employees, with the aim of providing excellent service and supporting its range of new products and services.

In 2018, the company organised 486 training activities, mainly taught by its more than 770 internal trainers. The ratio of teaching hours to employee was 28.

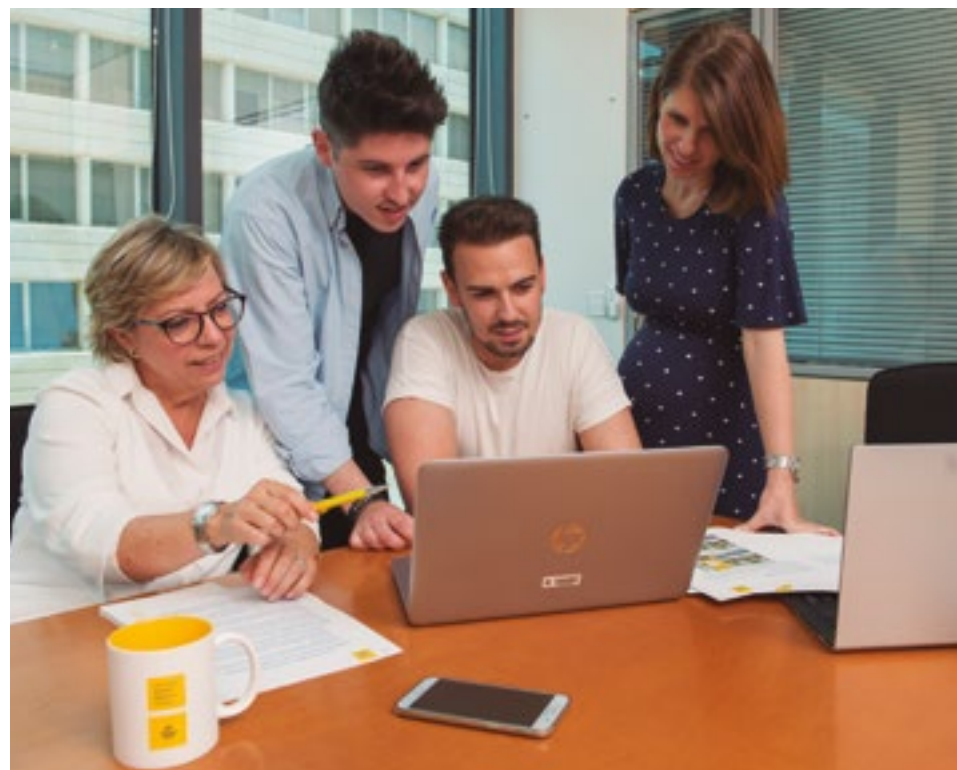
43% of the employees were trained online using the **Virtual Campus e-learning platform in support of a good work-life balance**. The remaining 57% received face-to-face, distance and on-the-job training.

During the last year, Correos offered more than 100,000 places for five online training activities related to the commercial field and digitisation, teaching more than 986,000 hours.

In addition, the performance assessment system includes a specific training programme consisting of skills (orientation towards excellence, objectives, teamwork and innovation) and knowledge courses (products and services, sector and regulation), which was taught to 1,039 employees and contained 9,938 teaching hours.

The company continued to organise its monthly talks programme 'Learning together with Correos' on matters of interest to employees ('For a society free of gender-based violence,' 'Agenda 2030: A change in people and the planet,' to name some of them). These sessions, which were attended by more than 700 people, were also disseminated on video through various channels (the Virtual Campus, intranet and corporate social media).

Correos organised
486 training
courses, 26% more
than in 2017



Specialised educational environments

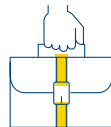
Products School

Virtual self-learning space offering courses on Correos Group's commercial offer.

20,775 participants in 2018

Sales School

Focused on the training of sales managers.



Accompaniment in post offices programme

This promotes the adoption of best management practices for office managers.



'I Am Digital' project

Self-learning courses for the development of greater digital skills.

10,810 participants in 2018

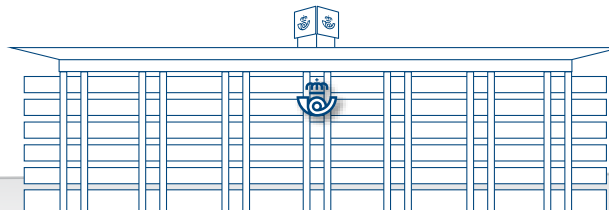
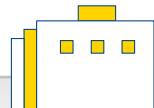
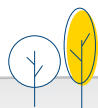
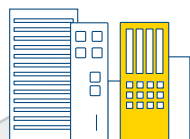
Leadership School

In 2018, it taught the 'Four Steps to Lead' programme to 885 team leaders and participants from the 'Clic' programme.



'Managerial environment'

Platform with academic content on management, personal development, skills and strategy available to managers and middle managers and participants from the 'Clic' programme.



Improvement of internal communication

Correos Group's **corporate intranet, Conecta, is the main communication channel** for employees to consult and share relevant information about the company's management, business model, new plans and projects and corporate values.

In 2018, this channel published 276 items of national and 237 pieces of regional or local company news, which were also disseminated on bulletin boards in all operational centres.

The **in-house magazine** (which last year adopted a new interactive digital format and **changed its name to Conectad@s after a vote by employees**) continued to be a popular channel. Information on subjects related to people and business was also added to the back of monthly pay slips.

The company organised eight **'Meetings with the President,'** in which

employees had the opportunity to share their suggestions and concerns with the President. About 200 employees from different areas and fields of work (distribution, processing, post offices, innovation and customer service and experience) attended these meetings.

Lastly, during the financial year, the company promoted **various employee participation initiatives**, such as:

- The 'My Postcard to China' campaign and the monthly photography competition 'Help Them to Know Us,' which promoted Spanish culture and products, as well as the services of Correos Group's online store in the Tmall Global marketplace, on Chinese social media.
- The 4th Short Postal Film Competition at the Almería International Film Festival (FICAL).



Annual Recognition Day



More than 230 employees gathered under the slogan 'Our Success. Our Team'. At this event, winners and finalists received the following awards:



Diversity and inclusion for a diverse society

Correos, as a pioneering Spanish company and benchmark in equal opportunities between women and men, has in recent years maintained a situation of parity between both genders.

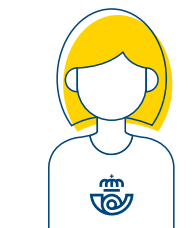
The company has an **Equality Plan** that, among its contents, includes:

- A Protocol against sexual, workplace and psychological harassment in order to prevent and resolve situations of this kind.
- Policies to help and protect victims of gender-based violence, promoting streamlined processing and guaranteeing confidentiality, and involving measures such as reducing working hours

and special consideration of victims' absenteeism; leaves of absence due to gender-based violence; and guarantee of work transfer.

Work-life balance measures

The company promotes measures to reconcile family, personal and professional lives through training and awareness-raising activities, as well as through measures included in its internal regulations. The latter, applicable to all employees, in many cases provide for improvements with respect to current employment legislation (such as extended periods of leave, special leave days and reductions in working hours).



52%
women in
Correos




51%
women in
Correos Group

Since 2012, the company has participated in the 'Companies Against Gender-Based Violence' initiative



Additionally, to the extent that the organisation of work and the obligations of providing a public service permit, Correos enables employees to work continuously throughout the day from Monday to Friday in morning, afternoon or evening shifts, this being the most frequent working day option for employees.

The company seeks to ensure **equal opportunities** in both remuneration and opportunities for internal promotion, and in **taking advantage of work-life balance measures**. 

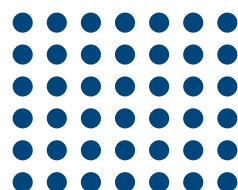
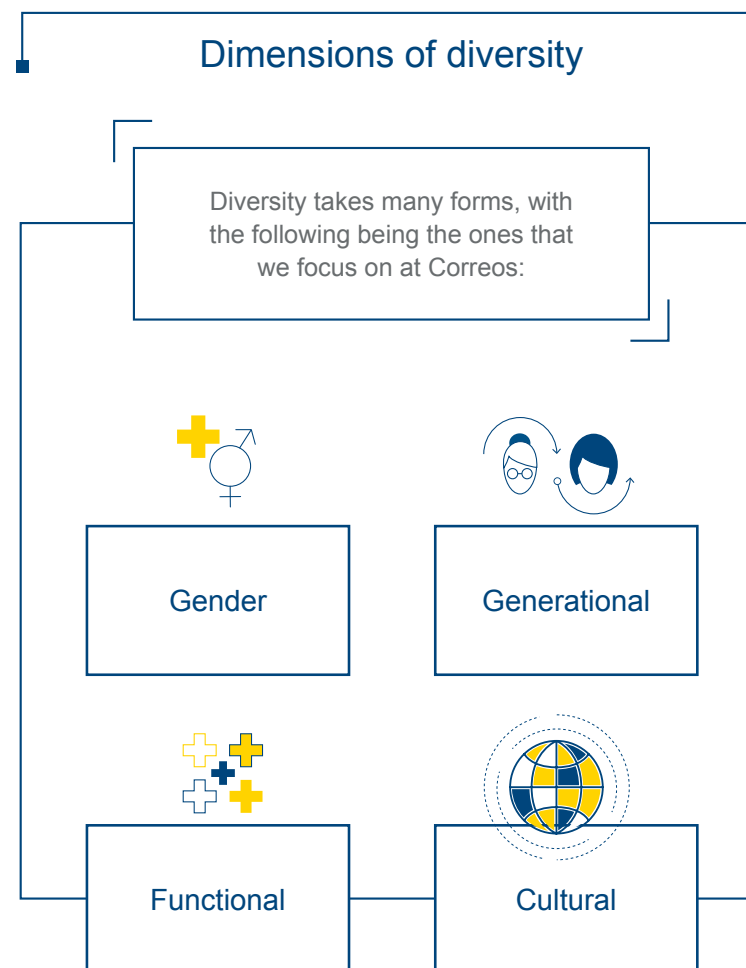
Diversity policy

Correos strives to promote among its employees a management model and leadership style that promotes the **plurality of ideas, experiences and perspectives** to respond to the needs of a diverse society.

In order to do so, it promotes **equal opportunities at work** with special attention to gender, the integration of people at risk of social exclusion and any kind of disability, as well as the enriching coexistence of different generations and cultures.

In addition to the measures included in the collective bargaining agreement, the General Civil Servants Agreement and the Equality plan of the company, in 2018, Correos designed a **Diversity and Inclusion Plan**.

The starting point of this programme was a diversity and inclusion assessment study which included identification of good practices, consultation with more than 500 employees with different profiles and the holding of work sessions with 12 groups from all regions in which improvements were proposed for greater effectiveness in diversity management.



Diversity and Inclusion Plan

7 lines of action



Promotion
and selection



Business
culture



Communication and
awareness-raising



Healthy
company



Talent



Training



Corporate social
responsibility

3 priority areas



Gender diversity

- Equality Plan
- Female career plans
- Visibility of female talent
- Training and awareness-raising
- Protocol against sexual, workplace and psychological harassment



Functional diversity

- Integration of people with physical or intellectual disabilities into the workforce
- Collaboration with Foundations, Special Employment Centres and Occupational Centres



Generational diversity

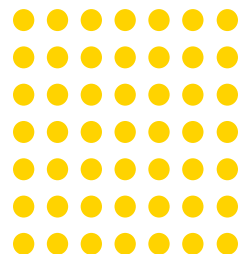
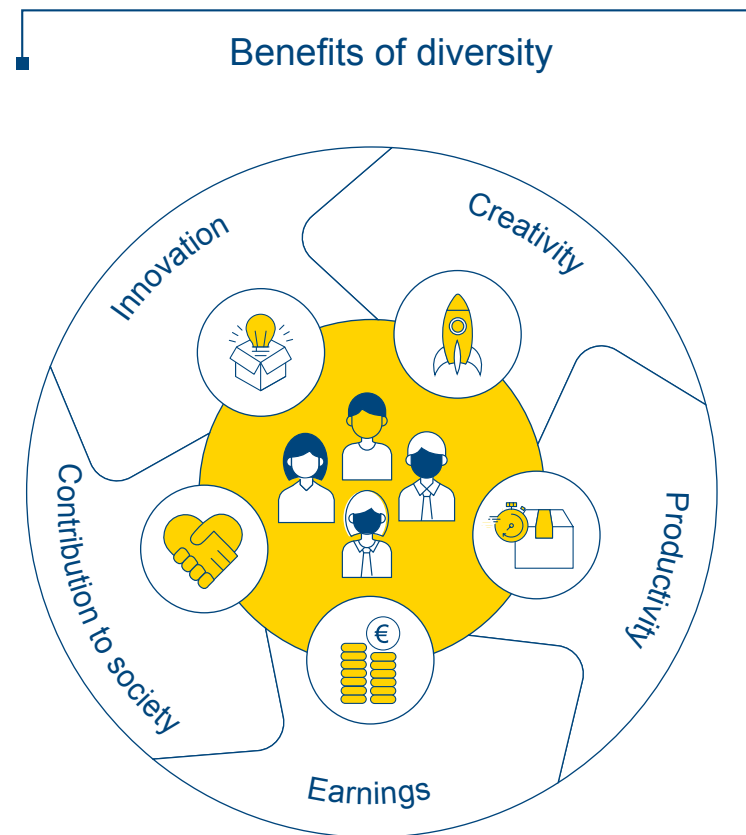
- Inverse mentoring
- Collaborative work through 'Proyecto Comparte' (Share Project)
- Leadership to achieve inclusive and transformative management models

The initiatives carried out by Correos were **recognised by the NGO Red Acoge in its 'II Diversity and inclusion management index'**, which awarded the company the ninth position among a selection of 36 for its good performance in all the categories assessed (corporate policy, internal and external measures and diversity map).

The company is also a member of the **expert groups on generational diversity**, *Observatorio 50+* and *Generacciona*, and was selected for inclusion in the 2018 edition of the 'VariableD Report:

The TOP 30 Companies in Spain with Best Practices in Diversity and Equality,' published by the consulting firm Intrama.

Finally, **four of Correos Group's good practices** in the field of talent management, training, health promotion and inverse mentoring were included in the '*Estudio de los trabajadores senior en la empresa Española: realidad y retos*' (Senior Workers in Spanish Companies: Realities and Challenges Study) published by the IE Business School's Observatory of Demography and Generational Diversity.



During the financial year, various **awareness-raising activities** were also carried out to mark International Women's Day, the International Day for the Elimination of Violence against Women and the European Day of Solidarity and Cooperation between Generations.

Greater social benefits for employees

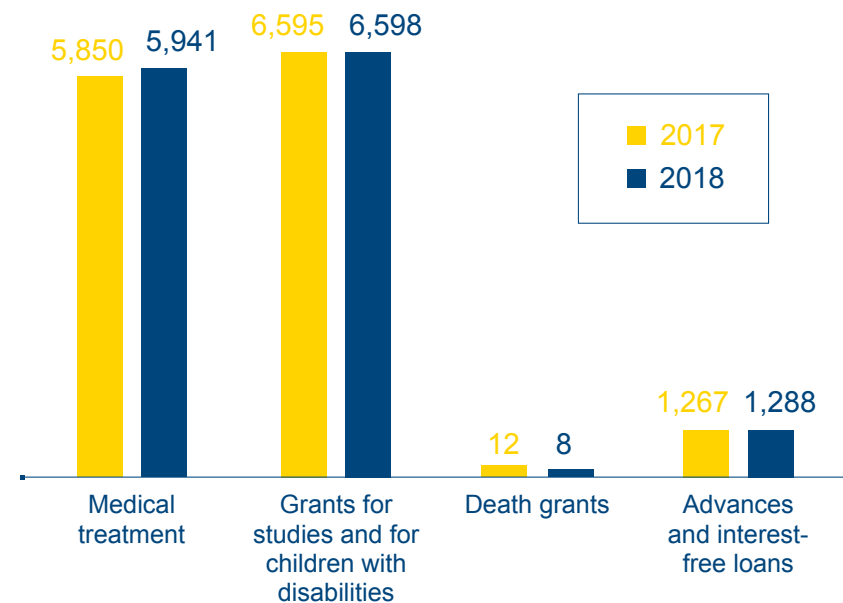
🌐 (GRI 401-2)

Correos Group's social action programme contributes to improving the social and professional well-being of its employees and work-life balance. In 2018, **14,000 employees and their families**

applied for financial assistance for medical treatment, university studies, early childhood education, care for children with disabilities and death. Permanent staff were able to take advantage of advances and interest-free loans.

In addition, the **range of preferential life and accident insurance policies** for employees was improved and the **web platform for employee promotions and discounts** incorporated new products and services for leisure, culture, health, sports equipment and consumer goods. In 2018, more than 30,000 employees were registered with this platform.


Welfare payments granted to employees



Safe and healthy working environment

Occupational health and safety is a fundamental element of the company's corporate risk management policy, in which the integration of a **preventative culture model at all levels of the organisation** is prioritised through information and ongoing employee training.

In this way, the company contributes to occupational health with a **comprehensive approach** that not only provides a healthy and safe working environment, but also promotes all aspects related to overall well-being through three lines of action: **physical well-being, emotional well-being and the health and safety employees.**

Correos implements an essentially internal preventative management policy, with its own health and safety department employing more than 90 staff and equipped with a central and peripheral structure in each of Correos Group's zones. 



Healthy company

As part of its **'Healthy company' project**, Correos promotes life habits that contribute to improving the health of its employees from a multidisciplinary perspective. In 2018, this initiative's cardiovascular risk factor reduction programme was extended to the provinces of León and the Balearic Islands, after successful trials in Alicante and Granada. This awareness-raising and motivational activity to promote healthy practices saw 270 workers volunteer to take part.

The company also organised a healthy eating campaign and a physical exercise programme through the dissemination of awareness-raising infographics via the corporate intranet and displaying of posters in centres.

In addition, an emotional well-being programme, through workshops and talks, offered workers tools to help with self-knowledge, managing emotions, motivation and the positive management of change.

Correos also joined several **awareness-raising campaigns** to mark international days dedicated to the following:

- **Stroke.** The company included awareness-raising messages in more than 2,500 delivery trolleys, distributed information leaflets and gave a talk at Correos Group's headquarter in Madrid.
- **Breast cancer.** The company disseminated a campaign on social media, the corporate website and intranet and decorated the entrance to its headquarter in Madrid with a large pink ribbon.

Effective preventative management

The main actions carried out with the aim of properly identifying and preventing occupational hazards included:

- Approving the operating regulations of national commission for occupational health.
- **Updating** the occupational hazard prevention management system's



procedures and protocols with respect to particularly sensitive employees, such as female workers who are pregnant, breastfeeding or have recently given birth.

- Preparing 521 general and 76 specific technical studies on hazards in centres, as well as 783 emergency plans. Carrying out 10 **risk assessments** for potential exposure to explosive atmospheres and 9 for work teams.

- **Prevention training** with 46,573 participants and 162,264 teaching hours. Sending 76,179 health and safety sheets to employees.

- Preparing audio visual training materials for motorcycle delivery workers, as part of our road safety programme.

- Organising 16,151 **preventative medical examinations**, carrying out a

flu vaccination campaign and extending a colon cancer early-detection project to the whole company.

- **Installing semi-automatic external defibrillators** in 13 work centres and training more than 100 workers on how to use them.

- Carrying out awareness-raising and information campaigns for employees.

- Providing **new uniforms to delivery staff** for greater safety and comfort in the various jobs.

Our commitment to the health and safety of workers was recognised with the **renewal of our healthy company certification**. Correos, which was the first state-owned company to receive this recognition, obtained a score of 82.9 out of 100, surpassing by 12% the result of the previous external audit.



Correos Group labour indicators

Employees (full-time equivalents), (The sum of decimals may affect to total result)

🌐 (GRI 102-8) 🌐 (GRI 102-41) 🌐 (GRI 401-3) 🌐 (GRI 403-2) 🌐 (GRI 404-1) 🌐 (GRI 405-1)

	Correos		Correos Express		Correos Nexea		Correos Telecom	
	2017	2018	2017	2018	2017	2018	2017	2018
Total employees	51,205	52,259	1,047	1,108	179	193	46	45
Employees by gender								
Women	26,084	26,918	309	320	76	80	9	10
Men	25,121	25,341	738	788	103	113	37	36
Employees by nationality								
Spanish	51,093	52,113	1,022	1,076	179	193	46	45
Not Spanish	112	146	25	32	Nd	Nd	0	0
Employees by professional category								
Managers/deputy managers	42	45	14	15	5	5	1	1
Technicians /middle managers	6,391	6,545	193	184	16	21	44	43
Administrative staff	1,150	1,195	279	296	15	16	1	1
Operational staff	43,623	44,474	561	612	143	151	0	0
Employees by age								
until 35	6,264	6,550	ND	ND	ND	ND	ND	ND
from 36 to 45	11,684	12,307	ND	ND	ND	ND	ND	ND
from 46 to 60	30,924	30,830	ND	ND	ND	ND	ND	ND
more than 61	2,333	2,572	ND	ND	ND	ND	ND	ND

+ Continued...

	Correos		Correos Express		Correos Nexea		Correos Telecom	
	2017	2018	2017	2018	2017	2018	2017	2018
Employees by contract type and gender								
Permanent staff								
Women	17,695	17,574	267	261	52	51	8	8
Men	18,226	17,417	657	646	72	70	32	29
Temporary staff								
Women	8,389	9,344	42	58	23	29	1	1
Men	6,895	7,924	82	142	31	43	4	7
Employees by type of work day and gender								
Full-time								
Women	23,559	24,157	234	239	75	79	9	10
Men	23,165	23,234	693	728	103	107	37	36
Part-time								
Women	2,526	2,761	74	81	1	1	0	0
Men	1,956	2,107	45	60	0	6	0	0

+ Continued...

	Correos		Correos Express		Correos Nexea		Correos Telecom	
	2017	2018	2017	2018	2017	2018	2017	2018
Employees by contract type and professional category								
Permanent staff								
Managers/deputy managers	41	43	ND	ND	ND	ND	ND	ND
Technicians /middle managers	6,180	6,411	ND	ND	ND	ND	ND	ND
Administrative staff	1,123	1,123	ND	ND	ND	ND	ND	ND
Operational staff	28,577	27,413	ND	ND	ND	ND	ND	ND
Temporary staff								
Managers/deputy managers	1	2	ND	ND	ND	ND	ND	ND
Technicians /middle managers	171	134	ND	ND	ND	ND	ND	ND
Administrative staff	77	72	ND	ND	ND	ND	ND	ND
Operational staff	15,035	17,061	ND	ND	ND	ND	ND	ND
Employees by type of work day and professional category								
Full-time								
Managers/deputy managers	42	45	ND	ND	ND	ND	ND	ND
Technicians /middle managers	6,349	6,543	ND	ND	ND	ND	ND	ND
Administrative staff	1,199	1,192	ND	ND	ND	ND	ND	ND
Operational staff	39,135	39,610	ND	ND	ND	ND	ND	ND
Part-time								
Managers/deputy managers	0	0	ND	ND	ND	ND	ND	ND
Technicians /middle managers	2	2	ND	ND	ND	ND	ND	ND
Administrative staff	1	3	ND	ND	ND	ND	ND	ND
Operational staff	4,478	4,863	ND	ND	ND	ND	ND	ND

+ Continued...

	Correos		Correos Express		Correos Nexea		Correos Telecom	
	2017	2018	2017	2018	2017	2018	2017	2018
Employees by contract type and age								
Permanent staff								
until 35	1,655	1,504	ND	ND	ND	ND	ND	ND
from 36 to 45	6,799	6,675	ND	ND	ND	ND	ND	ND
from 46 to 60	25,472	24,595	ND	ND	ND	ND	ND	ND
more than 61	1,994	2,217	ND	ND	ND	ND	ND	ND
Temporary staff								
until 35	4,609	5,046	ND	ND	ND	ND	ND	ND
from 36 to 45	4,885	5,632	ND	ND	ND	ND	ND	ND
from 46 to 60	5,451	6,235	ND	ND	ND	ND	ND	ND
more than 61	339	355	ND	ND	ND	ND	ND	ND
Employees by type of work day and age								
Full-time								
until 35	4,603	4,796	ND	ND	ND	ND	ND	ND
from 36 to 45	10,397	10,874	ND	ND	ND	ND	ND	ND
from 46 to 60	29,504	29,269	ND	ND	ND	ND	ND	ND
more than 61	2,220	2,452	ND	ND	ND	ND	ND	ND
Part-time								
until 35	1,661	1,755	ND	ND	ND	ND	ND	ND
from 36 to 45	1,287	1,433	ND	ND	ND	ND	ND	ND
from 46 to 60	1,419	1,561	ND	ND	ND	ND	ND	ND
more than 61	114	120	ND	ND	ND	ND	ND	ND

	Correos	Correos Express	Correos Nexea	Correos Telecom
Employees attending training actions	322,576	4,132	105	134
Average training hours by employee	27.7	17.6	1.7	32.1
Average training hours by gender				
Women	30.1	19.23	1.28	30.33
Men	25.1	16.94	2.08	32.60
Total training hours by professional category				
Managers/deputy managers	1,419	ND	ND	ND
Technicians /middle managers	435,529	ND	ND	ND
Administrative staff	16,713	ND	ND	ND
Operational staff	1,434,747	ND	ND	ND
Training satisfaction (%)	82	95	70	ND

	Correos		Correos Express		Correos Nexea		Correos Telecom	
	2017	2018	2017	2018	2017	2018	2017	2018
Paternity or maternity leave by gender								
Women	248	289	11	10	1	1	1	1
Men	453	482	11	20	2	2	1	0

100% of the employees who benefited from paternity/maternity leave returned to their job when it was completed. The data relating to male employees includes both paternity leave and assignment of maternity leave, with the 2017 data being reformulated according to this criterion.

	Correos	Correos Express	Correos Nexea	Correos Telecom
Employees* covered by the collective agreement (%)	79	100	97	NA

* Non-civil servant staff. Civil servant staff have their own legal regulations

	Correos		Correos Express		Correos Nexea		Correos Telecom	
	2017	2018	2017	2018	2017	2018	2017	2018
Workplace accident frequency index	30.37	29.76	ND	ND	ND	ND	ND	ND
Workplace accident severity index	1.12	1.28	ND	ND	ND	ND	ND	ND
Absenteeism (thousand of days)	932.3	1,051.4	ND	ND	ND	ND	ND	ND
Occupational hazard prevention training hours	166,524	162,264	2,041	3,284	181	198	0	94
Occupational accident by gender								
Women								
Deaths	0	1	0	0	0	0	0	0
Very serious accidents	0	0	0	0	0	0	0	0
Serious accidents	3	1	0	0	0	0	0	0
Minor accidents	2,011	2,032	2	9	6	6	0	0
Accidents with sick leave	2,014	2,034	2	9	6	6	0	0
Men								
Deaths	2	2	0	0	0	0	0	0
Very serious accidents	0	0	0	0	0	0	0	0
Serious accidents	8	7	0	0	0	0	0	0
Minor accidents	1,774	1,769	25	33	11	7	0	0
Accidents with sick leave	1,784	1,778	25	33	11	7	0	0

At Correos: Deaths due to traffic accidents in itinere and in the workplace. In 2017 deaths due to traffic accidents in itinere and due to natural causes in the workplace

Excellence in operations

Logistics tailored to the evolution of demand

The extensive capillarity of **Correos Group's network** of post offices and distribution centres and its operational efficiency based on the optimisation of processes and resources, as well as the application of the most advanced technologies, has enabled it to position itself as one of the main operators in the communications and parcel market.

In this regard, Correos has addressed the **adaptation of its production model to the expansion of the national and international parcel demand**, boosting increased automated parcel processing, operational and technological integration with large customers and the consolidation of the distribution by formats system in ordinary delivery and special service units.

Technologies for processing efficiency

Correos has **18 automated processing centres** equipped with 92 automated sorting machines for parcels and post items. The aim of the investments made in these infrastructures is to increase automation to improve efficiency, enhance delivery quality and meet growing demand for parcels.

In 2018, the company installed a high-production line for the **automated sorting of small parcels in its Barcelona integrated logistics centre (CLI)**, with the capacity to process 8,000 parcels per hour. In this same centre, as well as the Madrid mass admission centre (CAM1), **two parcel control and admission machines** were also put into operation to speed up processing for those shipments that due to their shape and dimensions, are unable to perform automated sorting.

A high-performance machine and a medium-production machine were also installed in the **Valencia and Oviedo automated processing centres**, respectively, for the **sorting of large parcels**.

The Barcelona (CLI) also incorporated **radio-frequency identification (RFID) technology** which will allow better quality

control and monitoring of delivery times, as in other processing centres.

These additions were complemented by the **purchase of new logistics equipment for automated processing centres** to support the work carried out in centres, offices and distribution. Automated processing centres incorporated 40,000 trays, 1,500 collapsible containers for holding small parcels, 702 transport trolleys, 1,716 cages and 55 forklifts, stackers and electric pallet jacks.

Delivery units were equipped with 2,500 delivery trolleys specifically designed for parcels, 2,300 trolleys to support parcel sorting and 300 motorcycle top boxes. The renewal of operational elements also included 4,794 new admission post boxes and 2,900 weighing scales for post offices.

The company also continued making progress towards its goal of concentrating all manual sorting processes in automated processing centres. In 2018, the transfer of operations from the facilities in Toledo to the network of centres in Madrid was completed, a process that involved adapting local, provincial and inter-centre transport routes, as well as those for post box collection.

Correos has
92 automated
sorting machines
in its centres



Logistical presence of Correos Group



18 Automated processing centres



3 International processing centres



4 Mass admission centres



8.581 Service points



1.739 Delivery units



97 Special service units

International presence:
ETOs (Extraterritorial Offices of Exchange) in the UK and the Netherlands

Correos
Express



54 operating centres

Correos
Nexea

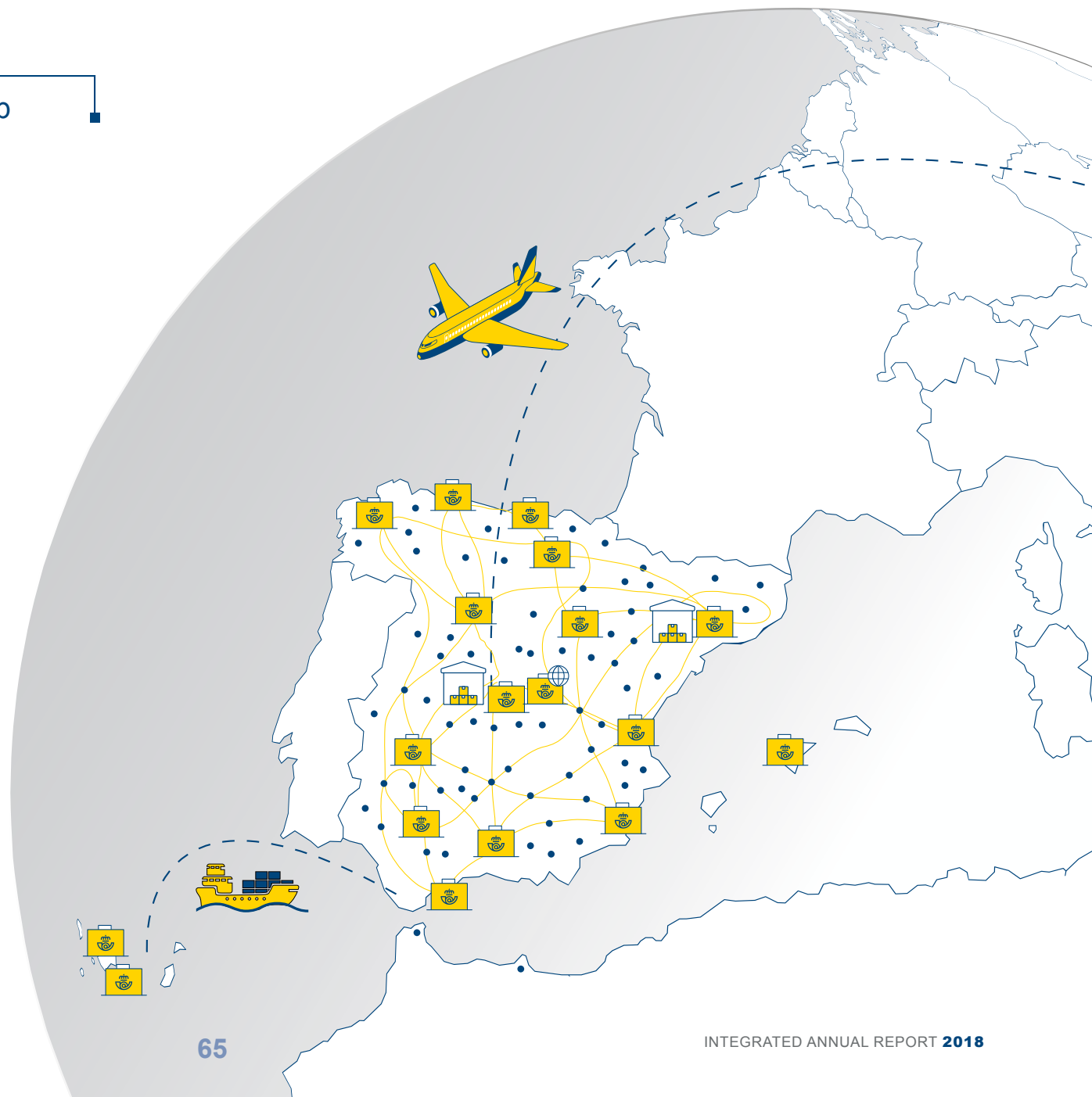


2 operating centres

Correos
Telecom



1,6 millions of metres of telecommunications infrastructures



Distribution model tailored to the parcels service

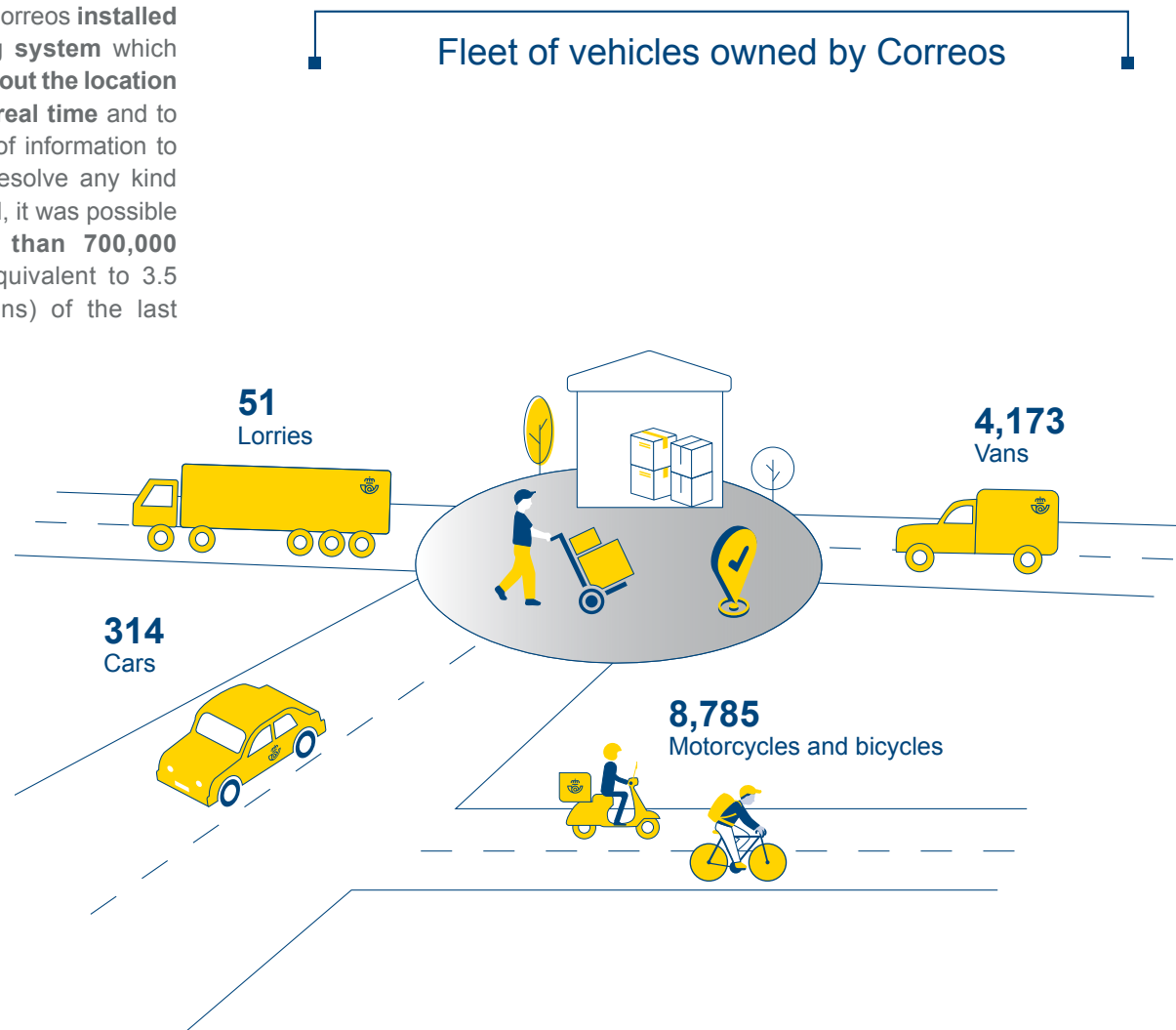
Correos has a **transport fleet** consisting of 13,323 own vehicles and 968 third-party vehicles with which it connects the entire country, travelling more than 560,000 kilometres daily.

Its adaptation to a new market in which parcel volumes are experiencing continuous growth has resulted in the transformation of its distribution model towards a mixed system in which **network specialisation in size** is increasingly taking presence over that of delivery time.

This means that ordinary distribution units carry out the delivery of postal and small parcel products, while special service units take care of larger parcels.

New social habits and market demands create opportunities for the development of additional lines of business in the field of distribution, taking advantage of these new capabilities. Good examples are the two pilot projects being carried out in **Madrid** and **Zaragoza** for the **delivery of purchases made in supermarkets and traditional markets**.

At the end of 2018, Correos installed a **new parcel tracking system** which makes it possible to **find out the location of any item almost in real time** and to incorporate new levels of information to detect and effectively resolve any kind of incident. With this tool, it was possible to monitor the **more than 700,000 deliveries per day** (equivalent to 3.5 million daily transactions) of the last Christmas campaign.



Connectivity for more efficient processes

Delivery staff (urban and rural) use **smart mobile devices (PDA)** to enable them to manage their work digitally and **provide an increasing number of services.**

Thanks to new functionalities incorporated in recent years, these tools also enable the optimisation of processes carried out at different points of the logistics chain:

- **Mass admission centres:** Devices capture the codes of items on pallets and trolleys, thus reducing the need to move loads and speeding up admission. Similarly, the integration of RFID technology makes it possible to monitor different logistics elements.

- **Post office network:** Terminals, through their Wi-Fi connectivity, enable different products to be admitted and picked up without the need for employees to remain in a fixed position when attending to the public. This option is especially useful for bolstering customer service in

post offices during busy periods, such as elections days.

- **Distribution:** In addition to providing speed and security in delivery, the terminals also offer additional services such as the capture and transfer of any kind of information on distribution routes.

In addition, with the option of **transmission of delivery events in real time**, it is possible to notify major senders of postal items of the precise moment and the result of the delivery attempt to their customers, thereby streamlining their sales processes.

The new tool integrated into these devices for managing deliveries according to geographical criteria and generating an optimum route on a map also contributes to distribution optimisation.

In 2018, Correos began a full renewal of the terminals used by rural delivery staff in order to incorporate the latest functionalities and enable additional

services in these geographical areas to be provided.

By the end of the financial year, the company had **27,907 smart mobile devices (PDA)**, of which 100 were operational in post offices, 50 in centres and the rest in distribution.

Correos has around 28,000 smart mobile devices that enable operating processes to be optimised



Presence inside and outside our borders

During the last financial year, Correos continued to experience a **notable increase in international business** both through the postal channel and direct entry due to the growth of volumes, mainly from Europe and the Asia-Pacific region. The growth trend in small international parcel deliveries associated with e-commerce continued to consolidate, both in terms of import and export.

In the area of **importation**, the facilities attached to the Madrid-Barajas international processing centre (CTI3) increased their capacity to process small parcels and import certificates from China and Singapore, increasing efficiency in the management of this kind of delivery. As a result, the company signed 20 **new agreements with large companies**, mainly in the e-commerce sector, to become their logistics partner in Spain.

Correos also increased its **capture of parcel volumes for exportation** from large customers, especially thanks to the *Paq Light* Internacional product. Because of this, the **productive capacity of the Madrid Barajas International Processing Centre** (point of entry and exit

of international deliveries) was increased in response to the challenge posed by the growing importance of electronic data interchange on deliveries (EDI messaging) in the automated processing of export parcels and customs management.

International customers, mainly e-commerce platforms, large retailers and consolidators, increasingly demand cross-border solutions tailored to their business. Correos satisfies their requirements through **wide international coverage**. In addition to offshore offices in the United Kingdom and the Netherlands, which promote its presence abroad and business capture in the European, Asian and Latin American markets, it also has a large number of partnerships.

In Europe, it works with the International Post Corporation on various programmes, including the **Interconnect** project, which is aimed at providing international postal services that are particularly orientated towards e-commerce.

Similarly, the company is part of the **Kahala Post Group**, a partnership of ten leading postal operators in Europe, Asia,

the Americas and Oceania that promotes international express parcel services. In 2018, the members of this group worked together on the development of a specific light parcel product to help adapt the Kahala network to the current demands of the e-commerce sector.



Innovative technology for express delivery

In 2018, the express parcels subsidiary Correos Express renewed and expanded its facilities in Salamanca, Málaga, Vitoria, Tarragona and Murcia, providing them with **greater processing capacity and state-of-the-art machinery** in order to **respond to increased demand**, especially in the e-commerce sector.

It also incorporated **new equipment** for containerisation and automated sorting in its Valencia, Alicante, Sevilla, Granada, Málaga and Vigo centres, as well as dynamic weighing systems in its Vitoria, Tarragona, Valladolid and Murcia offices.

By the end of the financial year, the company had developed its **own dynamic delivery management system** to improve monitoring and tracking of items, from receipt and sorting to delivery. This tool uses **artificial intelligence**, mobility

technology, item geolocation algorithms, digital mapping and experience in the management of Correos Express routes.

This means that drivers can optimise their routes through an integrated navigation system, reduce depot loading times and improve productivity, thus **maximising total delivery capacity**.

As part of its commitment to **customers in the pharmaceutical sector**, Correos Express also implemented a quality system in its Cáceres post office to promote **good distribution practice (GDP) of medicinal products for human use**, based on the 2013/C68/01 Guidelines¹. In this same centre, it also started a pilot programme to assess a new model of refrigerated container for the transportation of cold goods, which ensures both temperature control and item tracking.

Correos Express
incorporated a new
dynamic delivery
management system
using artificial
intelligence and
geopositioning



¹ Guidelines, of 7 March 2013, on good distribution practice of medicinal products for human use.

Certifications of Correos Group

Excellence management model

Correos Group has a **quality management system** based on standard UNE-EN ISO 9001 with which it applies its continuous improvement cycle to all activities and areas of the organisation.

Since 2009, Correos has also used the **League of Excellence** as a fundamental tool to assess the contribution of operating units to quality improvement and business

objective achievement. The monitoring carried out focuses on efficient use of resources, appropriate use of information and proper execution of processes. The results also enable the best performing post offices, delivery centres and units to be recognised on an annual basis.

Similarly, the company applies the LEAN continuous improvement system, which is aimed at achieving the highest efficiency in processes in order to provide maximum value to customers. In 2018, the company's automated processing centres applied this methodology specifically to the management of the mechanical processing of parcels.



Customer Service



18 Automated processing centres and the integrated logistics centre (CLI) of Barcelona
1 Mass admission centre
2 International processing centres



16 main post offices



3 operating centres of Correos Express



2 operating centres of Correos Nexea



Customer Service



18 Automated processing centres and the integrated logistics centre (CLI) of Barcelona
1 Mass admission centre
3 International processing centres



2,156 post offices



54 operating centres of Correos Express



2 operating centres of Correos Nexea



Integral management of Correos Telecom's communication network



FSC and PEFC of Correos Nexea

Customers' relations channels

Correos Group companies offer **commercial guidance and specialised attention through different channels**, including commercial and after-sales networks, telephone channel, mobile applications for customers, social media and the corporate website.

Correos Group's post offices network also makes available to users, besides its own electronic customer service forms, official consumer complaints and claims forms from the respective Autonomous Communities.

The Correos **customer service system** makes a distinction between:

- Service claims, which include enquiries and complaints related to deliveries or service in post offices.
- Product claims, relating to delays, damage, loss or other incidents relating to a product, which are subject to compensation.

During the last financial year, Correos received and handled 93,174 service claims and 232,521 product claims. Of the latter, 27% were resolved with compensation.

The subsidiaries of the Group have their own customer service systems and complaints and claims procedures. Correos Nexea, for example, classifies incidents, complaints and claims received according to their seriousness and impact on the continuity of the service, striving to resolve the most serious within 24 hours.

	Correos		Correos Express		Correos Nexea		Correos Telecom	
	2017	2018	2017	2018	2017	2018	2017	2018
Complaints and claims	292,850	325,695	248,642	265,797	116	235	ND	4
Complaints (Service claims)	79,613	93,174	1,250	1,170	110	227	ND	4
Claims (Product claims)	213,237	232,521	247,392	264,627	5	8	ND	0
Claims ending in compensations	ND	27%	ND	9%	ND	63%	ND	0%



New tools for commercial attention



In 2018, the website www.correos.es received around 383 million visits. Through this channel, 455,817 enquiries were dealt with, 28% more than in the previous financial year.

Despite this notable increase, which was also the case with the number of enquiries made through social media, Correos **improved response times by 50%** (within an average response time of 5 minutes).

The company also streamlined its other service channels with measures such as the use of semantic optimisation technology in email responses and the creation of a specific team to manage and resolve incidents with *Citypaq* automated lockers in real time.

The subsidiary Correos Express, in turn, developed a **new mobile application for customers** equipped with a sophisticated tracking system, while Correos Telecom implemented a **tool that enables real-time monitoring of the service provided** throughout the telecommunications network.

Renewal of customer confidence

Correos produces an annual **Net Recommendation Index**, a satisfaction study that reveals to what extent customers would be willing to recommend the company and its services.

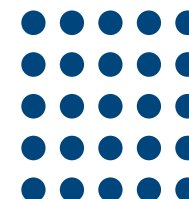
The study carried out in 2018 concluded that the **proportion of recommenders** (those that give the company a rating between 9 and 10) **grew to 37%**. Overall, the company obtained a Net Recommendation Index (the difference between recommenders and detractors) of 22 points, with more than 84% of satisfied customers.

Last year, the sample also included new kinds of customers, consulting companies with or without contract, post office users and recipients of deliveries at home or in office or *Citypaq* terminals. The rating of these last two customer segments (office customers and recipients) improved over the previous year by more than 10 and 30 points, respectively. Similarly, the score awarded by customers with a parcel products contract increased by 5 points compared to 2017, matching the rating for postal products.

As part of this survey, the company initiated the implementation of certain measures aimed at improving lower rated aspects of the customer experience, such as increasing commercial coordination between Correos and Correos Express and extending collection timetables to facilitate 24-hour delivery throughout the Iberian Peninsula.

Another new tool introduced was **text analytics to improve the management of the 'voice of the customer.'** This application enables the analysis and mass processing of information provided by customers during interactions with the company in order to identify areas for improvement of their overall experience.

The subsidiaries of the Group also improved the results of their customer satisfaction surveys. Correos Express achieved a rating of 7.2 out of 10, reinforcing its image as a reliable company offering good value for money and a wide range of services. For their part, Correos Nexea obtained 4.1 out of 5 and Correos Telecom 39.4 out of 40.



Close communication with customers

Correos Group's presence in the media in 2018 manifested itself in 6,990 mentions, with an increase in visibility across all channels of 33.8%. Of these, 73% were positive in nature, with special emphasis on news related to the parcels business, e-commerce, new office

services, employment, innovation and sustainability.

Similarly, the company's social media exposure continued to show a positive evolution. Its number of followers increased by 12% to 209,388 across all of its corporate accounts. This growth was particularly evident on Instagram,

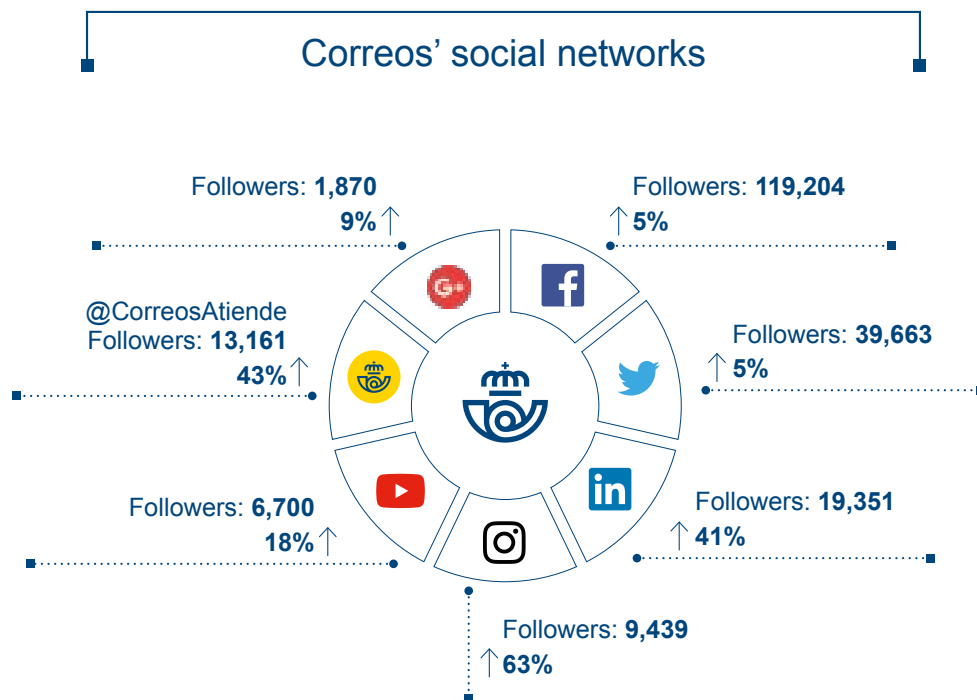
LinkedIn and its @CorreosAtiende customer service account on Twitter. The latter consolidated itself as a benchmark channel for customer service on social media, responding to user enquiries and requests for information.

Correos Group's social media followers particularly liked the following content:

- The 'Department of Special Deliveries' Christmas campaign.
- Promotional events associated with the Harry Potter and Star Wars film sagas.
- The *Citypaq* promotional campaign featuring Jesús Calleja and his participation in the 2019 Dakar Rally.
- Services for pilgrims on the Way of Saint James and their experiences.

In line with growing interest in the range of services offered to pilgrims on the Way of Saint James, 2018 saw the company's community of followers across its accounts continue to grow on Facebook (9,885), Twitter (1,984) and Instagram (3,598).

Correos now has more than 209,000 followers on social media



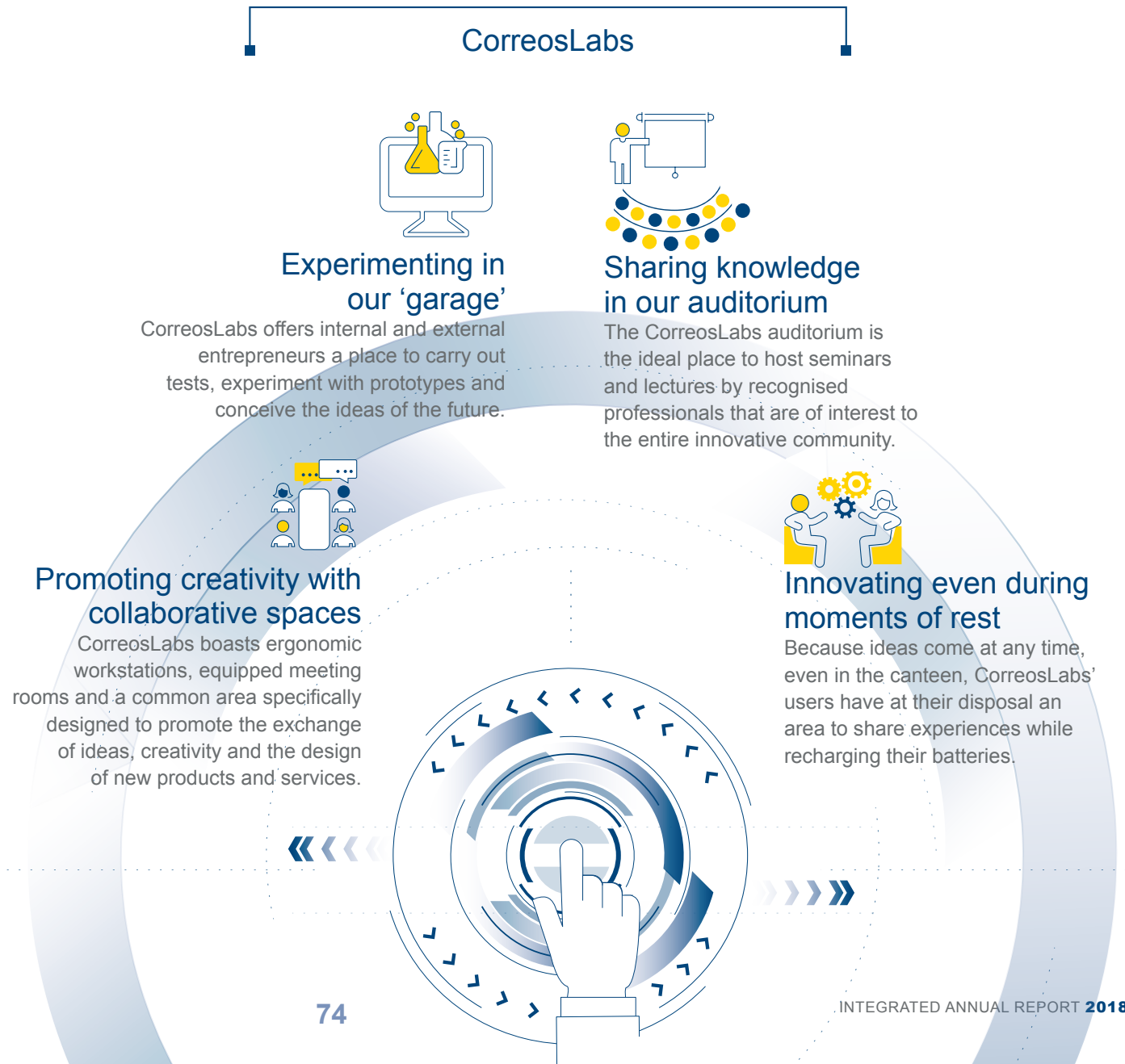
Innovation

🌐 (GRI 203-2)

CorreosLabs: a meeting point for internal and external innovation

Correos promotes a culture of innovation among its employees as the ideal mechanism to identify new lines of business, incorporate the latest technological and methodological advances into its processes and, ultimately, provide greater value to customers and strengthen business competitiveness.

Since its opening in 2017, CorreosLabs, Correos Group's innovation centre, has established itself as a benchmark for the development of alternative business models arising from internal and external entrepreneurship. This multidisciplinary space allows knowledge sharing between employees and the innovative environment, facilitating the materialisation of projects with great potential.



Enhancing the generation of ideas and co-creation

Information and work sessions

In 2018, CorreosLabs hosted 16 events on various themes.



App programming



Artificial intelligence



Startup maturity



Agile methodology



Blockchain technology



Deep learning



IoT



Sandbox system

Collaborative agreements

The CorreosLabs community of collaborators continues to grow and bring together large technology companies and emerging businesses to promote new projects.



International events

CorreosLabs' projects were present on the main global innovation platforms and at European business technology events.



Correoslabs

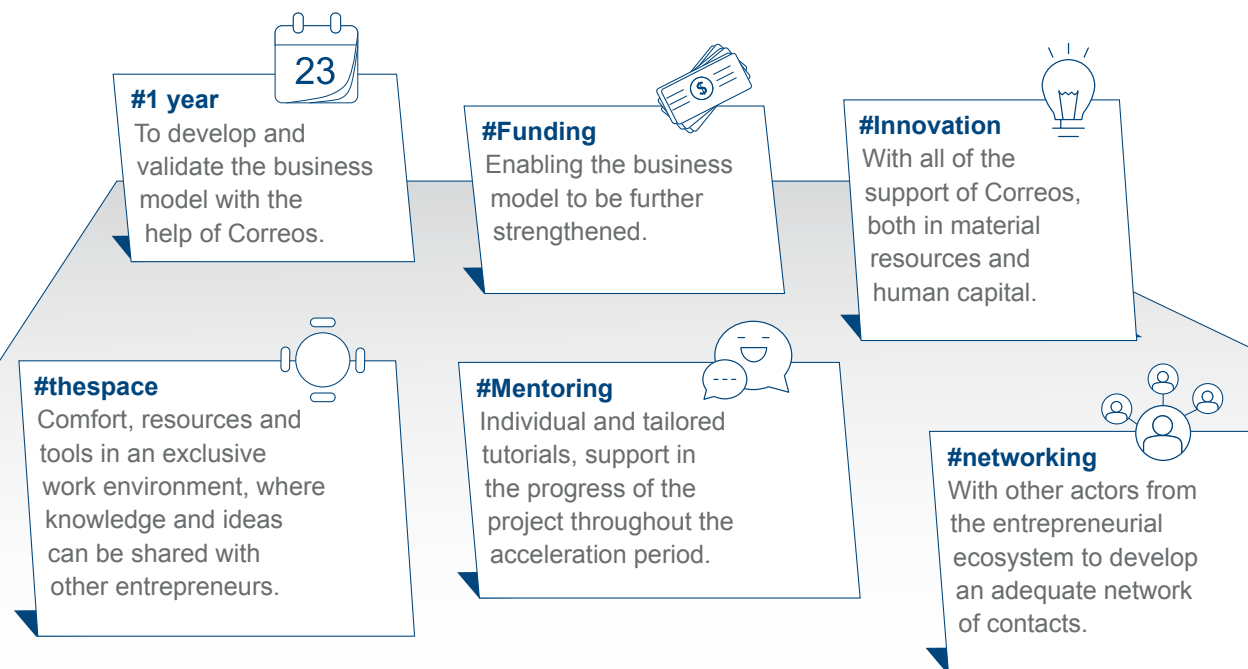
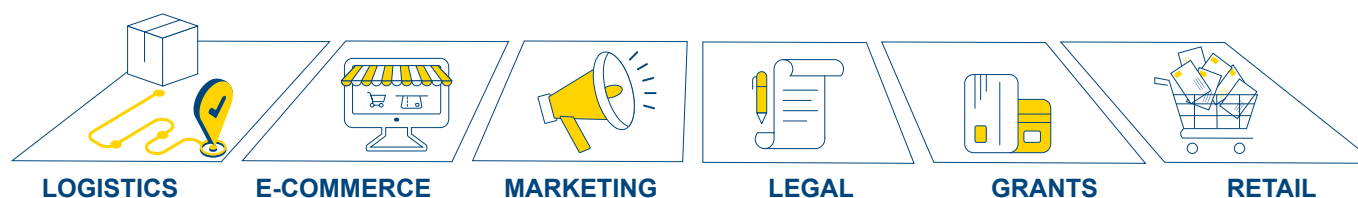
New participants in 'Lehnica Challenge'

Correos continued to bet on open innovation and collaboration with emerging talents. 2018 saw the second edition of the **Reto Lehnica** ('Lehnica Challenge'), **Correos' acceleration programme for entrepreneurship projects**, carried out through CorreosLabs.

The aim of the 'Lehnica Challenge' is to identify and promote business proposals that have potential **synergies with the business activities** of the company in the following areas:

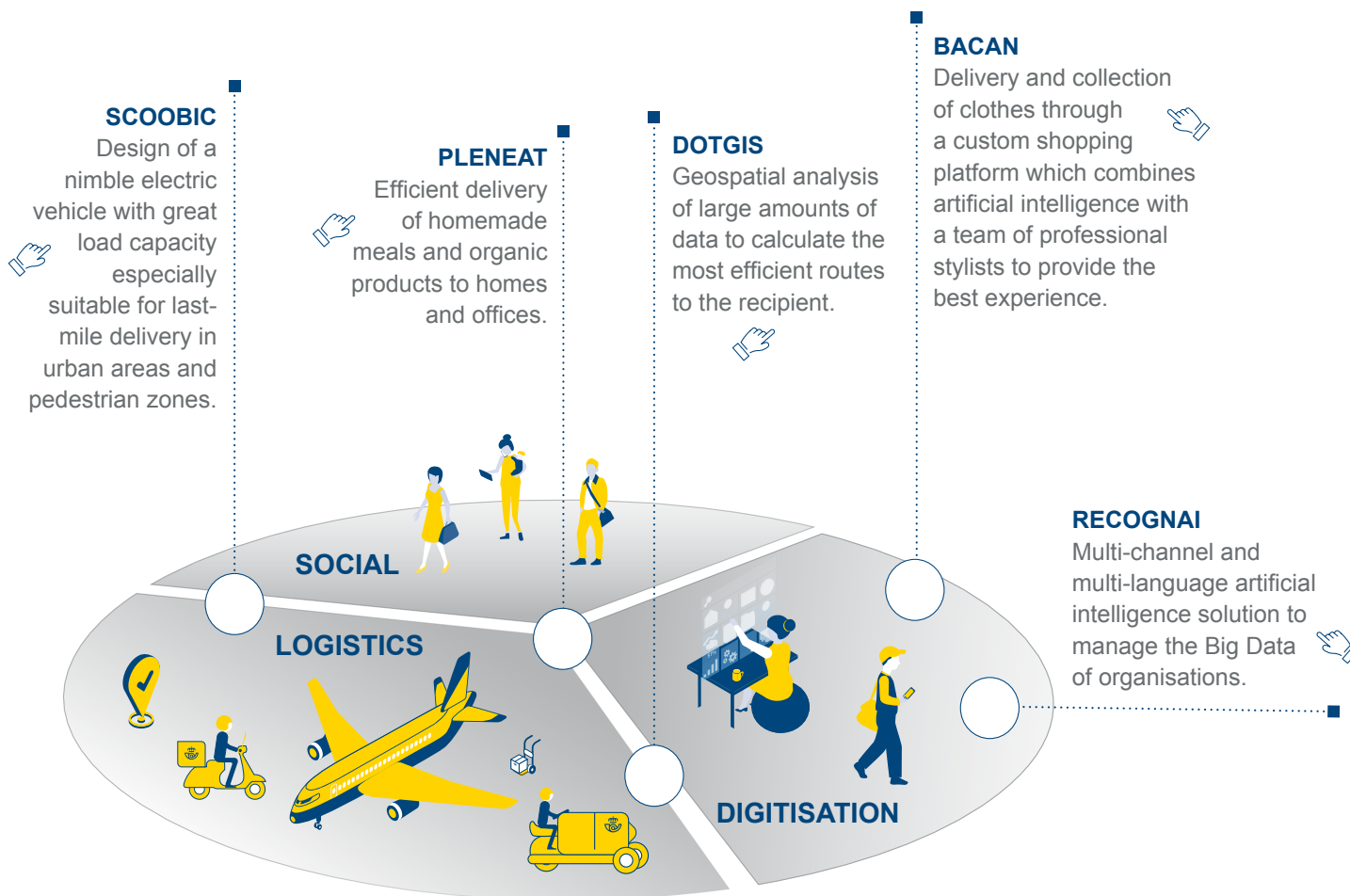
- **Logistics:** tracking, new delivery models, urban logistics and circular economy.
- **Digitisation:** blockchain, artificial intelligence, big data, additive manufacturing and virtual reality.
- **Social:** citizen participation, economic development, environment, human rights, education and health.

Support to the winners of 'Lehnica Challenge'



The five winning proposals, which are now part of the entrepreneurship programme implemented in CorreosLabs, were:

The five winning proposals of second edition of 'Lehnica Challenge'



At the same time, the five projects selected in the first edition of the 'Lehnica Challenge' successfully completed their acceleration process. After a year in Correos' mentoring programme, they were able to **promote the development of their activity and validate or reorientate their business model**.

As an example of the achievements of these entrepreneurs, DelSúper developed its new brand, Super Technologies and a joint food delivery service with Correos in Madrid for a well-known chain of supermarkets. For its part, Homyhub successfully tested the first secure parcel deliveries in private garages in the city of Rivas-Vaciamadrid (Madrid).

Collaboration with the innovation ecosystem

Correos is a benchmark in the public sector for its management of innovation. For years, it has had an **intrapreneurship programme** in which employees integrated into 'Innovation Teams' participate in cross-cutting creativity and digital transformation projects through disruptive thinking techniques.

In 2018, more than thirty members of these teams took part in a session with the Chairman of Correos, in which they exchanged ideas to improve products, services and processes.

Similarly, the company collaborates on R&D and innovation projects with entrepreneurs, startups and Public Administrations, both nationally and internationally, focused on subjects such as sustainable mobility and digital communications security.

Sustainable mobility

Correos is one of the 17 companies of the **Domus Consortium**, a proposal selected by the European Union to carry out in Spain the most advanced demonstration of the operation of U-space: a traffic management system for drones, which the consortium will be responsible for integrating with the operations of manned aircraft and access to airspace. This project will culminate in the summer of 2019 with the display of joint drone and manned aircraft exercises.

Correos explored the **possibilities offered by drones for postal and parcel delivery**, developing a [test](#) with the company FuVeX, which is attached to the Public University of Navarra (UPNA) and is also a participant in the Domus Consortium. This pilot test, conducted

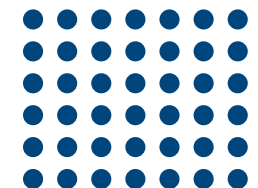


at the facilities of the National Institute of Aerospace Technology (INTA) in Castro de Rey (Lugo), assessed the **use of a hybrid technology drone** (combining two fixed wings and four rotors), capable of vertical take-off and landing and flying like an aircraft in order to reach rural areas that are difficult to access or can become isolated due to inclement weather.

In 2018, the company also began collaborating with the Polytechnic University of Madrid on ECOTRAFFIC, an **efficient driving and urban traffic management project**, included in the State R&D Plan as part of the Challenges call financed by the *Ministerio de Economía y Competitividad* (Ministry of Economy and Competitiveness). 

Innovative business initiatives

Finally, Correos renewed its participation in the [‘Entrepreneurial Promotion’](#) call, in its sixth edition, an acceleration programme promoted by the Government of Navarra through the state-owned company Navarra European Centre for Companies and Innovation (CEIN) to promote the creation of innovative companies. 



Environmental sustainability

Correos' environmental policy

🌐 (GRI 203-2)

The European Union has made a commitment to achieving a **low carbon economy by 2050**. This objective involves addressing an ambitious reduction in greenhouse gas emissions, with specific goals for each sector.

Transport emissions (representing a fifth of the total) **must be reduced by more than 60%** by gradual replacement of vehicle fleets with hybrid, electric or biofuel-powered alternatives. Similarly, emissions from buildings could be reduced by 90% with improved energy efficiency and use of air conditioning systems powered by renewable energy.

Elsewhere, the Spanish Circular Economy Strategy, currently in its preparation phase, aims to promote the transition to this new economic model through actions such as the **promotion of green public purchasing** and the development of 'ecodesign,' among others, to maximise the use of materials and reduce the generation of waste.

Correos aims to contribute actively to these objectives and reduce its environmental impact, developing action policies that:

- Improve the **air quality of cities** (cutting nitrogen oxide (NO_x) and PM10 particulate emissions), thus helping to protect the health of inhabitants
- Combat **climate change** (reducing carbon dioxide (CO₂) emissions)
- **Consume sustainably** (using resources efficiently)
- Promote a **circular economy** (increasing recycling percentages and reducing waste generated)



2014-2020 General Sustainability Plan

The main impacts of Correos on the environment in the short, medium and long term are the **generation of CO₂, NOx and particulate emissions, energy consumption and waste generation.**

Correos' impacts are reviewed and assessed on an annual basis and checked against the main international (COP, SDG, EU legislation) and national (new regulations and recommendations, major business forums) reference frameworks. That way, policies and investments in this area can be orientated towards initiatives that are likely to enable greater risk mitigation, thus maximising the precautionary principle.

Correos' management of environmental hazards is articulated through its **2014-2020 General Sustainability Plan**, which includes policies, preventative and repair measures and applied indicators, with priority given to three areas.



Spheres of action of the 2014-2020 General Sustainability Plan

Reduction of CO₂ emissions

2020 objective

Ensuring that emissions per delivery do not increase by more than 2% with respect to 2013 in light of the exponential growth of parcel volumes, which represent higher unit emissions than postal items.



Measures adopted

- ✓ Promotion of a more efficient delivery model through new technologies and fuels.
- ✓ Awareness raising among employees.
- ✓ Reduction in necessary distances travelled for the service.



Energy efficiency

2020 objective

Reduction in the energy consumption of the company's buildings by 25% compared to 2009.



Measures adopted

- ✓ Optimisation of the energy needs of centres.



Waste management

2020 objective

Improvement in waste management in the main operating centres.



Measures adopted

- ✓ Implementation of a concentration model that improves segregation and increases recycling rates.



Environmental assessment and certification procedures

Aspects such as project monitoring, prioritisation of actions and watchfulness over environmental hazards and opportunities are carried out through an **environmental management system certified in accordance with standard UNE-EN ISO 14001:2015** 'Environmental management systems' in 38 processing centres and post offices.

In addition, the monitoring of measures to reduce CO₂ emissions is based on:



Verification of CO₂ emission management results in accordance with **standard UNE-EN ISO 14064-1:2012** 'Greenhouse gases' and registration in the '**Carbon Footprint, Offsetting and Carbon Dioxide Absorption Project Register**' of the *Ministerio para la Transición Ecológica* (Ministry for Ecological Transition).



Participation in the **Environmental Measurement and Monitoring System (EMMS)** project of the International Post Corporation, whose purpose is to reduce the CO₂ emissions of the postal sector. In 2018, Correos achieved a score of 87% in the management of its emissions within this model (representing an annual improvement of 7%).



Environmental reporting of the company according to the standards of the **international CDSB consortium**.



Voluntary disclosure of emissions to **CDP, an organisation that measures performance in climate change management** and has disclosed environmental information from more than 7,000 companies worldwide.



Environmental reporting to the Universal Postal Union through its **Online Solution for Carbon Analysis and Reporting (OSCAR)** assessment and monitoring tool.

The company belongs to the Business Association for the Development and Promotion of Electric Vehicles (AEDIVE) and the Iberian Association of Natural Gas for Mobility. In 2018, it also participated in the Forética Climate Change Cluster.



Reduction of emissions through more efficient delivery

🌐 (GRI 305-5) 🌐 (GRI 308-2) 🌐 (GRI 413-1)

One of the main environmental impacts of the company is last-mile delivery, which involves the emission into the atmosphere of NO_x, particulates and CO₂. Actions to mitigate these effects are aimed at reducing the number of kilometres travelled and making them greener.

Correos **travels more kilometres on foot** (deliveries with zero emissions) **than any other Spanish company**, thanks to its more than 34,000 postmen and postwomen. In addition, it reduces distances travelled through the use of **route optimisation** systems, new services that facilitate **effective delivery**, such as parcel terminals *Citypaq* and **efficient driving** training for its delivery staff.

The pilot projects for efficient driving and improvement of road safety that began in 2018 included:

- **Movil eye.** Programme for the reduction of road accidents through the use of the Advanced Driver-Assistance System (ADAS) in 150 vehicles in Barcelona, contributing to driving efficiency and reducing polluting emissions.

- **ECOTRAFFIC.** Efficient driving project in collaboration with the Polytechnic University of Madrid, to which Correos will be providing data on the use of vehicles, in addition to contributing to the awareness-raising of its drivers.

Similarly, as in previous years, the company participated in the IPC Drivers' Challenge, a competition for postal drivers that the International Post Corporation organised at the Estoril circuit in Portugal. Selection of the team that would represent Correos was made through the Eco Challenge, a competition in which driving efficiency and vehicle maintenance were assessed.



Correos contributes to improving quality of life in cities by using vehicles with alternative fuels

Electric vehicles

- ✓ Zero CO₂, NO_x and PM emissions
- ✓ Noiseless
- ✓ Mainly recharged with renewable electricity

Gas vehicles

-85% NO_x emissions
-96% PM emissions

We also help with other measures

- ✓ Delivery on foot
- ✓ Efficient driving
- ✓ Route optimisation
- ✓ Effective delivery at the first attempt with tracking technologies and convenient delivery points



Electric vehicles

The kilometres that Correos travels are also increasingly becoming greener thanks to the incorporation of vehicles that use fuels as alternatives to those derived from petroleum, generating 0 particle, NO_x and CO₂ emissions.

Company's electric fleet is one of the largest in the sector, and its use is reserved to home deliveries in urban environments and historic centres, where the circulation of traditional combustion vehicles is increasingly becoming restricted by new municipal mobility regulations.

This measure is reinforced by the fact that the company only purchases 100% renewable energy for the electricity supply of those delivery units which use ecoefficient vehicles for their operation, thus contributing to creating areas of reduced emissions.

The company collaborates with a growing number of Local Administrations to ensure that its activities generate minimum environmental impact and **contribute to achieving the emission**

Correos contributes to achieving the emission reduction targets of Spain's main cities with its fleet of electric vehicles

reduction targets of Spain's main cities.

During the past year, this cooperation translated into various initiatives for sustainable postal delivery:

- The use of pedal-assist electric tricycles for the express distribution of mail and parcels in urban centres. After a successful pilot scheme carried out in Sevilla in 2018, the initiative spread to the cities of **Málaga**, **Córdoba** and **Granada**.
- Assessment of an electric scooter prototype designed for the delivery of small parcels in city centres and areas with access restrictions in the localities of **Las Rozas** and **Majadahonda (Madrid)**.
- The European project REMOURBAN in collaboration with **Valladolid** City Council to promote electric mobility in areas with high traffic congestion.

Correos also took part in events held in various Spanish cities to mark European Mobility Week, promoted by the European Commission and the Ministry for Ecological Transition in order to raise awareness among the general public, companies and Public Administrations.

Other transport technologies

The company also assessed other technologies such as liquefied petroleum gas (LPG) and compressed natural gas (CNG) for its long-distance and last-mile delivery fleets.

The main collaborations related to the use of these fuels included:



The **POSTLowCIT project**, led by Correos in conjunction with the University of Deusto and the vehicle transformer Evarm since 2016. This programme, co-funded by the European Union within the framework of the 'Connecting Europe Facility' (CEF) programme, aims to reduce the environmental impact of freight transport by using vehicles powered by alternative energies.

The tests carried out involved 73 **electric** last-mile delivery **vehicles** and 4 long-distance lorries that had been adapted to use **autogas (GLP)** on routes between Barcelona, Madrid, Sevilla and Valencia.



The **ECO-GATE programme**, also co-funded by the European Union, in which Correos has participated since 2017 for testing the use of transformed or native **compressed natural gas (CNG)** vehicles for last-mile delivery in the city of Barcelona.



Sustainable use of natural resources

🌐 (GRI 302-4)

Correos has work centres throughout Spain dedicated to serving the public as well as sorting and management tasks. Optimising the energy needs of these buildings is also essential to reducing the company's environmental footprint.

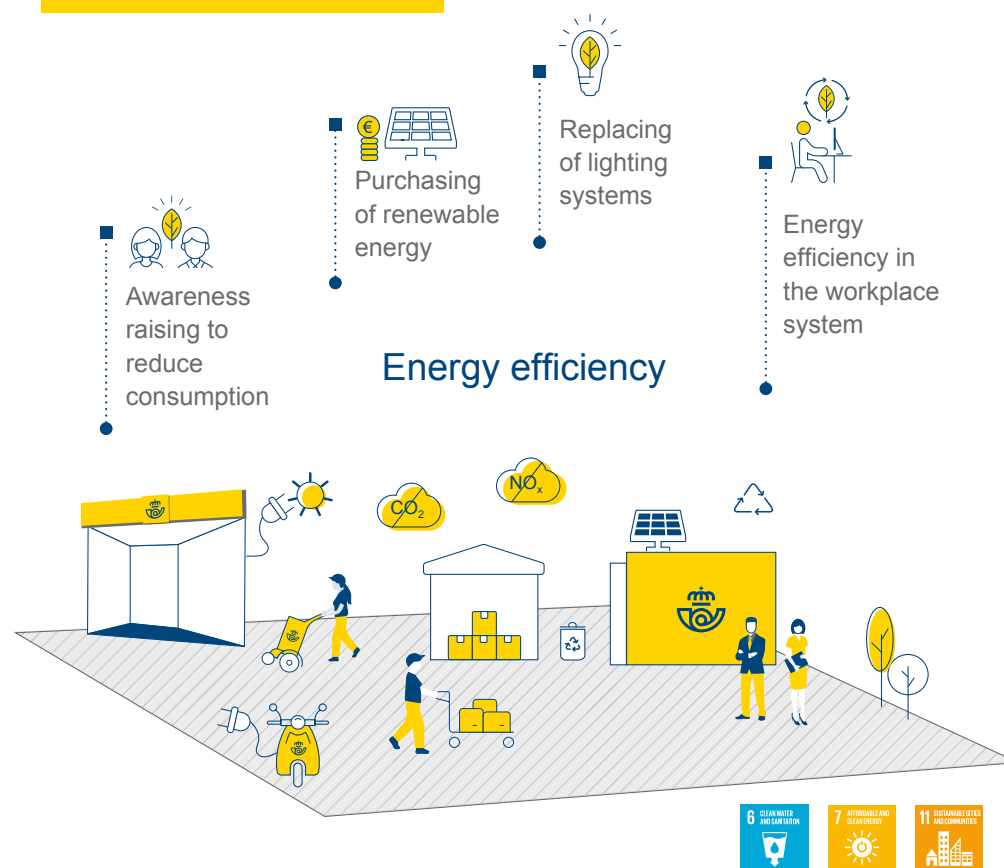
Since 2018, **100% of the electricity purchased by Correos has come from completely renewable sources** (in 2017, it was 90%). The main energy efficiency measures implemented in 2018 were:

- Promotion of a **sustainable purchasing policy, especially for the supply of energy and transport.**
- Replacement of lighting systems in centres with LED technology.
- Implementation of the **energy efficiency in the workplace** system, which monitors the status of computer equipment network connected to determine consumption and enable the application of energy saving policies.

• Awareness-raising among employees through:

- Organisation of an annual 'Environmental Commitment Award' to identify best practices in mobility and energy efficiency in the company's buildings.
- Dissemination of various recommendations through internal communication channels.
- Participation in the WWF's **Earth Hour** movement, the world's largest annual environmental protection event in which individuals, communities and businesses are encouraged to turn off non-essential electric lights.
- Energy Audit training for the company's specialised employees.
- Participation in the **#Cadagotasuma** campaign (every drop counts) through the company's corporate communication channels, almost 2,400 post offices and close to 12,000 delivery trolleys.

100% of the energy purchased by Correos comes from renewable sources



Circular economy and waste management

🌐 (GRI 304-3) 🌐 (GRI 413-1)

With the aim of promoting a circular economy, Correos is committed to **optimising the management and recycling of waste generated** by its post offices, administrative buildings and logistics centres.

The starting point was a pilot scheme successfully carried out in Zaragoza involving the creation of an efficient paper and cardboard waste management model and its centralisation in the automated processing centre in that area.

Its implementation made it possible to **improve separation and the proportion of resources recovered**, increasing cost savings, efficiency in use and the protection of forest areas through paper recycling. The experience gained during the pilot scheme will help to gradually extend it to the rest of Spain.

Defending and protecting biodiversity

Correos also promotes circular economy by promoting recycling and contributing to **biodiversity protection projects**. Through 'Línea Verde-

Bosques de Correos' (**Green Line-Forests of Correos**) programme, the company's post offices sell envelopes, boxes and packaging made with paper from sustainable forests, 100% recycled cardboard with no contaminating inks, the proceeds of which go to financing reforestation projects in collaboration with WWF Spain's Forest Landscapes Restoration Programme.

In 2018, Correos and WWF Spain supported the restoration of a forest in the region of La Litera in the municipality of Peralta de Calasanz (Huesca), where intensive use of the land had displaced the original vegetation and a major forest fire in 2016 had caused widespread damage.

The company also participated in a project aimed at **restoring abandoned natural spaces** in Quintana Redonda (Soria) **in order to contribute to rural development**. This initiative, carried out with the Soria Forest Association (ASFOSO), local communities of livestock farmers and the region's Municipal Authorities, was selected as good practice by the Spanish Global Compact Network

to mark World Environment Day. Correos also took part in school environmental awareness-raising and education days taught by forest engineers from ASFOSO.

Finally, the company offset the CO₂ emissions generated by the employee recognition event by purchasing carbon credits on the voluntary carbon market. These credits are associated with an **Amazon conservation project in Peru** and the fight against climate change and poverty as defined in the Sustainable Development Goals of the United Nations.



Environmental policies of Correos Group's subsidiaries

🌐 (GRI 302-4) 🌐 (GRI 305-5)

The subsidiary **Correos Express** assesses and monitors its main lines of environmental performance through its **environmental management system, certified in accordance with standard UNE-EN ISO 14001:2015** in 3 of its centres. Its main environmental impacts are the generation of CO₂, NO_x and particulate emissions, so its environmental management policy is articulated towards mitigating this kind of risk in order to maximise the precautionary principle.

Aware that the growth of parcel volumes directly affects the emissions generated and the consumption of energy and other natural resources, since 2017, the company has been executing its **Environmentally Friendly and Sustainable Alternative Means of Delivery (MARES)** scheme, aimed at developing and using alternative means of delivery to reduce the impact of its activity on the environment.

The first phase of this project included the use of electric and traditional bicycles

and delivery on foot in urban environments in the Islas Baleares, Cataluña, Comunidad Valenciana, Madrid, Galicia, País Vasco and Andalucía. By the end of last year, this model had been implemented in 34 operating centres of the company, with 445 active 'green routes' (11% of the total).

With these measures, in 2018, Correos Express **prevented the emission into the atmosphere of around 955 tons of CO₂**, with more than six million 'green deliveries.'

The project, which will be gradually extended to the rest of Spain, will include the introduction of other means of transport, such as electric motorcycles and vans or natural gas vehicles.

Correos Express also aims to reduce the use of natural resources through the implementation of an **efficient energy policy**. To that end, the company's new operating centres opened in 2018 were equipped with greater natural lighting and LED technology.

Correos Express prevented the emission into the atmosphere of around 955 tons of CO₂

Similarly, staff environmental training and awareness-raising days during the year, such as the 'Green October' campaign and the dissemination of the 'Good Environmental Practices Manual,' contributed to reducing the energy consumption of work centres.

For its part, **Correos Nexea** has a system for identifying, assessing and managing environmental hazards in order to monitor its main impacts on the environment: the use of natural resources (mainly paper) and the generation of waste. This system, certified in accordance with

standard UNE-EN ISO 14001:2015 in all of its centres, is complemented by **PEFC and FSC certification audits to ensure that the paper and cardboard** it uses in its activities comes from sustainable wood sources. The subsidiary has also initiated a project to reduce electricity consumption in its centres by raising awareness and disseminating recommendations to its employees.

Finally, **Correos Telecom** also implements an **efficient energy** policy in locations that it manages, but does not have its own environmental management system because of its small size, low impact on the environment and the fact that it shares most of its centres with Correos.



Correos Group environmental indicators

 (GRI 305-1)
  (GRI 305-2)
  (GRI 305-3)
  (GRI 305-7)

	Correos		Correos Express		Correos Nexea		Correos Telecom	
Greenhouse gas emissions (tCO ₂)	2017	2018	2017	2018	2017	2018	2017	2018
Total greenhouse gas emissions	175,124	169,983	ND	ND	ND	ND	25	29
Direct (scope 1)	46,696	48,016	ND	ND	ND	ND	25	29
Indirect (scope 2)	9,800	2,292	ND	ND	ND	ND	ND	ND
Other indirect emissions (Scope 3)	118,628	119,675	ND	ND	ND	ND	ND	ND
Emissions per item (g CO ₂ /item)	21.34	18.55	ND	ND	ND	ND	ND	ND
Other atmospheric emissions (kg)								
SOx	220	221	ND	ND	ND	ND	ND	ND
NOx	133,055	136,122	ND	ND	ND	ND	ND	ND
Particulates	11,833	12,133	ND	ND	ND	ND	ND	ND

CO₂ emissions are calculated using the GHC Protocol and verified in accordance with standard UNE-EN ISO 14064-1:2012 'Greenhouse gases'. The remaining emissions are calculated using the CORINAIR methodology based on billed consumptions. The 2017 values for 'Other atmospheric emissions' have been reformulated.

🌐 (GRI 301-1) 🌐 (GRI 302-1) 🌐 (GRI 303-1)

	Correos		Correos Express		Correos Nexea		Correos Telecom	
Energy consumption (Gj)	2017	2018	2017	2018	2017	2018	2017	2018
Electricity	498,405	494,278	19,334	ND	7,157	8,943	3,442	3,537
Natural gas	69,088	79,098	ND	ND	ND	36,376	ND	ND
Gasoil C	42,835	42,312	ND	ND	ND	ND	ND	ND
Automotive diesel	340,451	350,432	ND	ND	NA	NA	511	401
Petrol	56,873	55,676	ND	ND	NA	NA	NA	NA
Others (carbon, butane and propane)	96,415	129,319	ND	ND	NA	NA	NA	NA
Raw materials consumption								
Water (m³)	312,516	336,291	ND	ND	1,107	1,592	ND	ND
Paper (Kg)	650,268	755,880	ND	ND	ND	ND	ND	ND
Ink (units)	27,190	14,614	ND	ND	ND	ND	ND	ND

Energy consumption is calculated from billing amounts and renewable energy source guarantee certificates and are verified in accordance with standard UNE-EN ISO 14064-1:2012 'Greenhouse gases'. The consumption of raw materials is calculated from the billing amount. The consumption of 'Others' (carbon, butane and propane) from 2017 has been reformulated.

	Correos		Correos Express		Correos Nexea		Correos Telecom	
Resources destined for the prevention of environmental hazards (thousands of euros)	2017	2018	2017	2018	2017	2018	2017	2018
Environmental investments	1,843	4,191	ND	ND	ND	ND	ND	ND
Environmental expenses	1,183	1,556	65,275	92,253	ND	11,492	ND	ND
Environmental grants	8	74	ND	ND	NA	NA	ND	ND

Social commitment

Correos Group's social contribution

🌐 (GRI 203-2)

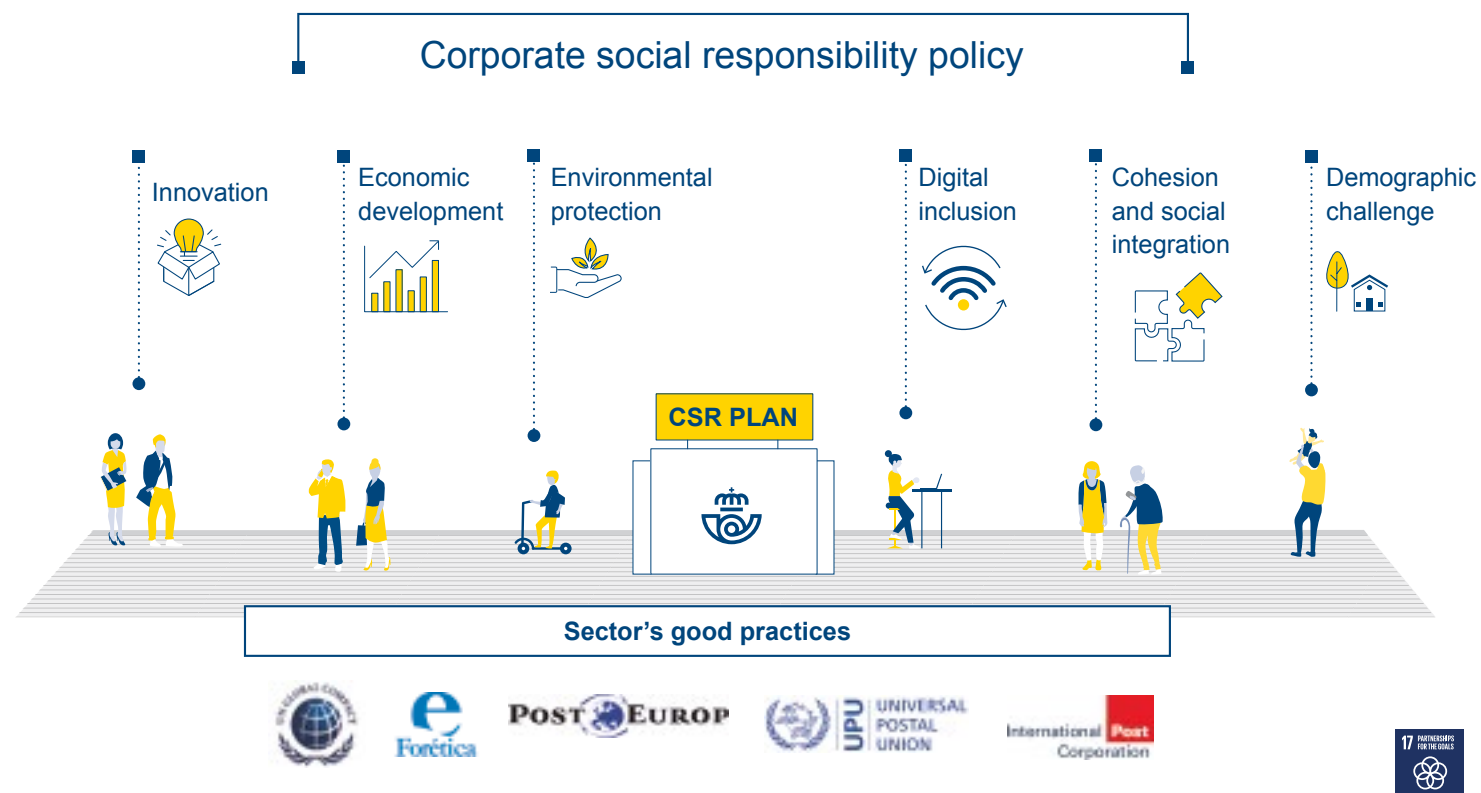
As a state-owned company that provides a **public service**, Correos strives to **create a positive social impact with its activities**, supporting the **economic development** of Spanish businesses and promoting **entrepreneurship and innovation**.

It also contributes to **economic progress in rural areas**, facilitating **social cohesion and development**; participates in the advancement of **eGovernment, smartcities** and **digital inclusion** of the entire population; and meets the **communication and parcel needs** of all of the general public, regardless of their place of residence or income, with an efficient and quality service

Both the company's corporate strategy and **corporate social responsibility policy** rest on these same aspirations and are aligned with the UN's Sustainable Development Goals, orientated towards promoting **progress, protecting the environment and social integration**.

In this area, Correos is a member of the corporate social responsibility and sustainability association Forética, in which it participates in forums such as the [Transparency, Good Governance and Integrity Cluster](#) and the [CSR Action Group in state-owned companies](#), whose work focuses on integrating the

United Nations' Goals into the corporate strategy of state-owned companies. It is also a member of the Global Compact and, at international level, participates in the corporate social commitment and sustainability initiatives of PostEurop, the International Post Corporation and the Universal Postal Union.



Corporate social responsibility objectives

🌐 (GRI 304-3)

Correos Group's new corporate social responsibility plan prepared in 2018 aims to **integrate corporate social responsibility into its business model and generate shared value** at a social, economic and environmental level, supporting:

- the development of new business
- dialogue with stakeholders
- the promotion of innovation
- responsible management

It identifies three priority areas for action based on expectations expressed by its main stakeholders and the commitments entered into with them:



Commitment to the SDG

What are the SDG?


17 Sustainable Development Goals (SDG) adopted by the countries of the UN General Assembly with the aim of eradicating poverty, protecting the planet and ensuring global prosperity, as part of the 2030 Agenda.


Who participate?

- More than 190 countries
- Public and private entities
- The general public in their day-to-day lives

How does Correos collaborate with the SDG?

Based on the expectations of its stakeholders, Correos has identified three SDG that it **contributes to as a priority (8, 9 and 11)** and four that it **supports in a cross-cutting manner (5, 7, 12 and 13)**. In general, it **also supports Goal 17** through the implementation of projects and actions with public and private entities. The rest of the goals are indirectly promoted through various programmes and policies of the company.

Commitment to all of them will make it possible to make progress towards fulfilling the [2030 Agenda](#) and, by doing so, improve the quality of life of people and preserve the planet. 

The company will also promote dialogue with the [United Nations High Commissioner](#) to explore new ways to help disseminate and advance these goals. 



Click over the SDG and find out how Correos works on it

Dialogue with local communities

🌐 (GRI 413-1)

With the daily presence in Spain of its more than 34,000 postmen and women and almost 2,400 post offices, Correos is in constant contact with local communities.

The company maintains communication channels with local and regional Administrations, professional and consumer associations, academic institutions and citizen platforms in order to understand their needs and explore possible areas of collaboration.

All of this is carried out to provide a quality service to all of the general public and, at the same time, support initiatives that are related more to Correos' corporate purpose and its corporate social responsibility objectives.

One of the three pillars on which the company's corporate social responsibility plan is based is **commitment to the community**, which is expressed through four main lines of action:



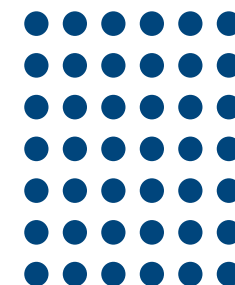
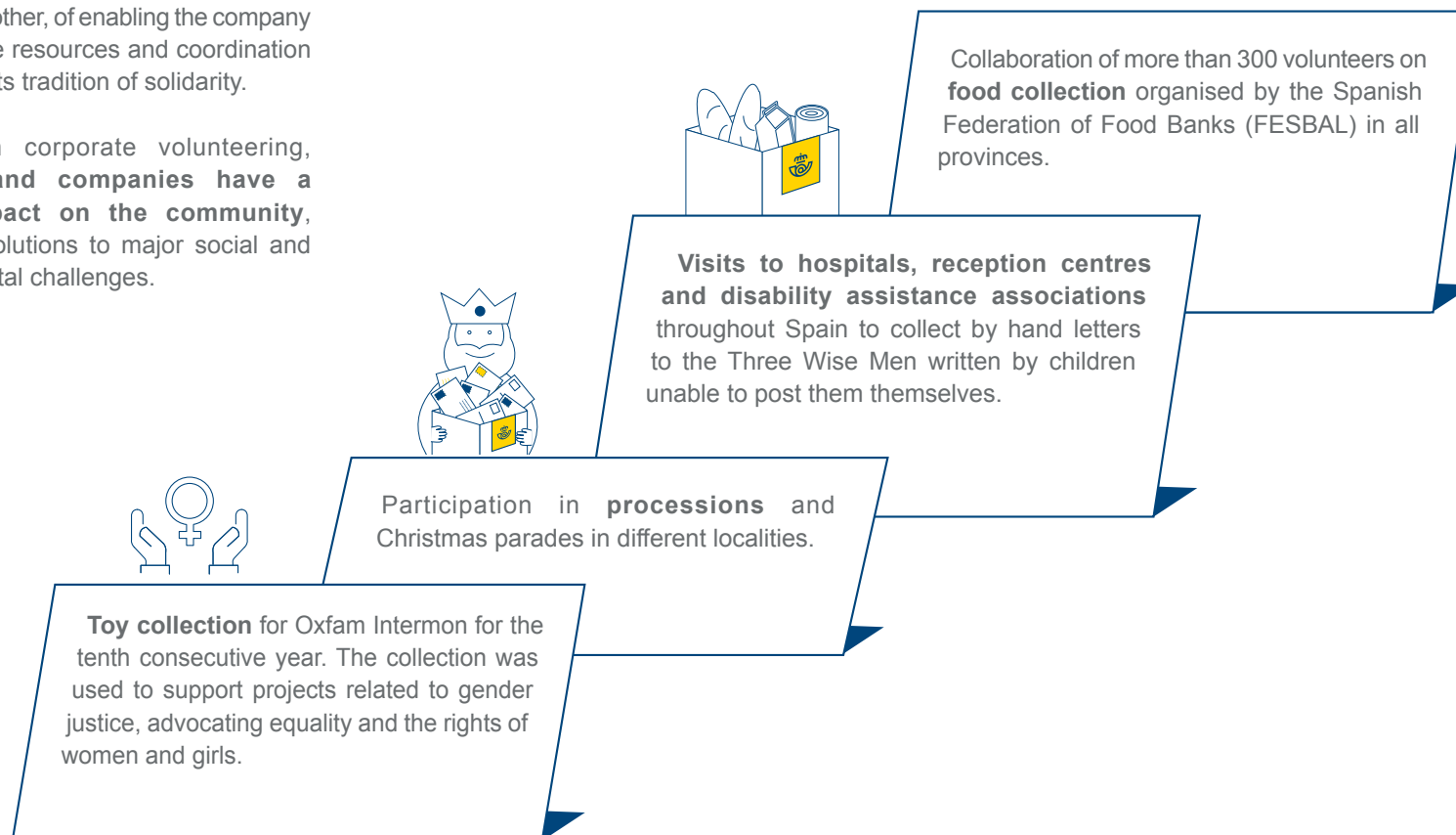
Volunteering: 'Correos Solidaridad'



'Correos Solidaridad', Correos Group's corporate volunteering programme created in 2014, has the aim, on the one hand, of uniting and channelling the sensitivity of employees who selflessly contribute their time, effort and motivation and, on the other, of enabling the company to contribute resources and coordination in line with its tradition of solidarity.

Through corporate volunteering, **workers and companies have a direct impact on the community**, providing solutions to major social and environmental challenges.


Activities carried out in 2018



Diversity

Supporting people with different abilities

Correos contributes to promoting the comprehensive development of people at risk of social exclusion or with any kind of different ability through programmes and initiatives such as the following:

- The company's **Diversity and Inclusion Plan**, prepared in 2018, which promotes equal opportunities, taking into account functional differences. 
- The **purchase of goods and services** from 29 special employment and occupational centres to promote their comprehensive development through standardised work consistent with the capabilities of each individual.
- The issuing of a commemorative stamp to mark International Day of Persons with Deafblindness to support this group.

- Cooperation with La Caixa's '*Incorpora*' Programme for the integration of people with diverse abilities and the **carrying out of work experience**, as well as with foundations such as *A la Par* (together along), Catalanian Association for Integration and Human Development (ACIDH), Prodis and *Dales la palabra* (give them the word) among others.

- The organisation of solidarity markets at the headquarters of Correos in Madrid to benefit foundations such as *A la Par* (together along), Prodis, Juan XXIII-Roncalli, Aprocor, *Jugarterapia* (Play therapy), Asperger Association and APAMA, as well as the association EcoEko, Spain Due South Foundation, Telefónica Foundation and AECC.

Similarly, with respect to the universal accessibility of people with disabilities to services provided, Correos has implemented in recent years a policy


of **physical accessibility** to centres where it deals with the general public, resulting in all of its new post offices being adapted to prevent the existence of architectural barriers. A large number of these establishments also offer **assisted hearing devices** for people with impaired hearing. The corporate website also conforms to Level AA of the W3C Web Content Accessibility Guidelines 1.0.

The subsidiaries Correos Express and Correos Telecom also have agreements with foundations or special employment centres for the carrying out of services or organisation of work experience in order to promote the employment integration of these people.



Promoting gender equality

Correos was a pioneer in promoting equality between men and women in the workplace. For years, it has also maintained a commitment to denouncing and raising awareness about gender-based violence. The company promotes various actions that contribute to raising awareness and fostering a climate of equality and inclusion:

- Implementation of internal policies to help and **protect victims of gender-based violence**, a Protocol against sexual, workplace and psychological harassment and the creation of an Equality and Diversity working group, as part of the 2018-2020 multi-year agreement between the company and unions. 

- Integration in the '**Network of companies for a society free of gender violence**' and participation in various

events to mark International Day for the Elimination of Violence against Women on 25 November:

- The second year of the *#NoEsNormal* campaign aimed at people close to victims who can help identify possible cases with the message '*Ante el primer indicio de algo que NO ES NORMAL habla con la víctima y llama al 016*' (at the first sign of something that IS NOT NORMAL, talk to the victim and call 016).

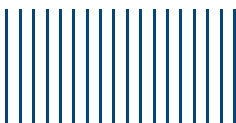
- Dissemination through the company's corporate intranet and social media profiles of a video produced by employees themselves showing twelve situations of gender-based violence to contribute to awareness-raising and prevention.

- The distribution of purple ribbons in different centres throughout the country and inclusion of a ribbon on all corporate communication channels.

- Contribution to the 5th edition of the '*Hay Salida*' (Way Out) solidarity race promoted by the Government Office on Gender-based Violence held in Madrid.

- **Celebration of International Women's Day** on 8 March, with events such as the dissemination of a video to highlight the talent, capabilities and dedication of women who work at all levels of the company, published in the company's internal communication channels, and awareness-raising through the handing out of 8,000 badges to employees.

Correos was a pioneer in Spain in promoting gender equality in the workplace



Awareness-raising



As part of its commitment to solidarity and the dissemination of ethical values, the company collaborated with various campaigns aimed at social awareness-raising.

- Correos, together with other state-owned companies, continued to contribute to the **'XTUMIRADA' awareness-raising** campaign promoted by Down Spain, hosting a travelling photographic exhibition with images of 150 personalities from the world of culture, sport and art whose eyes were replaced by those of people with Down syndrome. The posters of the campaign were also included on 3,600 delivery trolleys in major towns and cities of the country.

- The company also disseminated the **'X Solidaria' campaign** using delivery trolleys. This initiative, promoted by the NGO Platform for Social Action, is aimed

at persuading taxpayers to tick Box 106 on their income tax return form so that part of their taxes can be allocated to helping people in situations of social vulnerability.

- The company was one of the collaborators on the 10th edition of the **'Ponle freno' race organised** in Madrid by the Atresmedia Foundation with the aim of funding projects to help victims of traffic accidents.

- Correos also promotes social awareness-raising through **philately**. In 2018, the **'Manos Unidas'** stamp, from the Civic Values series, became the first charitable issue, with a proportion of the proceeds from sales going to support a social project of the NGO *Manos Unidas* (Joined Hands) to 'strengthen education and prevent child and youth violence in Rivera Hernández (San Pedro Sula, Honduras).'



Childhood



The company collaborates with different associations and organisations through the sale of charitable products in its post office network:



Spanish Red Cross
Shares in lottery tickets for the Spanish Christmas Lottery and Golden Draw.
Objective: To support the programmes carried out by this organisation in developing countries.

UNICEF
Christmas cards, notebooks, pens and diaries.
Objective: To support several projects for the protection of children's rights.

Fundación Crecer Jugando (Grow Up Playing Foundation) and **Radio Nacional de España**
Charity pens and notebooks from the 'A Toy, A Dream' campaign.
Objective: To provide toys to poor children in Latin America, Africa and the Middle East and create children's play centres in schools, hospitals and other community centres.

CRIS Cancer Foundation and Emoji®
Personalised boxes and envelopes with Emoji® emoticons.
Objective: To collaborate in the opening of the Childhood Cancer Advanced Therapy Unit at La Paz Hospital in Madrid.

Messengers of Peace Foundation
Charity backpacks from the 'Ayúdales a volver al cole. ¡Llena sus mochilas de ilusión!' (Help them back to school. Fill their backpacks with hope!) campaign.
Objective: To help children whose families are experiencing financial difficulties to begin their studies with the necessary school material.

Aldeas Infantiles SOS (SOS Children's Villages)
Provision of spaces in post offices to publicise its work.
Objective: To disseminate the activities carried out by this NGO for the integration of children and young people in vulnerable situations into society and family.



3. Corporate governance and ethical compliance

Correos Group's structure and organisation

Governing bodies of Correos

Governing bodies of the subsidiaries

Correos Group's Management Committee

Legal framework of activities

Transparency and ethical commitment

Application of internal audit processes

Responsible procurement

Operational and customer safety

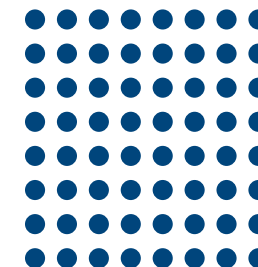
Correos Group's structure and organisation

🌐 (GRI 102-5)

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.

Sociedad Estatal Correos y Telégrafos, S.A., S.M.E., is **the parent company of the 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

Correos is a limited company governed by private law, except in matters in which budgetary, accounting, financial control and procurement regulations apply to it as a company that is part of the public business sector¹.



¹ In accordance with the provisions of Article 3 of *Ley 47/2003, de 26 de noviembre, General Presupuestaria* (Act 47/2003, of 26 November, on General Budgetary) in coordination with Article 166 of *Ley 33/2003, de 3 de noviembre, de Patrimonio de las Administraciones Públicas* (Act 33/2003, of 3 November, on Public Authority Assets).

Governing bodies of Correos

🌐 (GRI 102-18) 🌐 (GRI 102-23) 🌐 (GRI 405-1)



The parent company's governing bodies are the **General Meeting of Shareholders** and the **Governing Board**.

The company's management is overseen by the Governing Board, its Chairman and the Executive Committee, whose responsibilities are specified in its [Articles of Association](#):



General Meeting of Shareholders



Chairman

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.



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 which, by law, cannot be delegated.



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 re-election. They are appointed and removed by the General Meeting of Shareholders. The Governing Board usually meets monthly to oversee the management of the company.



Audit and Control Committee

Audit Composed of three members of the Governing Board, the Audit and Control Committee has no executive functions. It is responsible for informing and advising the Board on economic and financial matters and on risk control and internal auditing.

On 31 December 2018 the composition of the **Governing Board** of Sociedad Estatal Correos y Telégrafos, S.A. S.M.E. was as follows:



Juan Manuel Serrano Quintana
Chief Executive Officer and Chairman

David Benito Astudillo
Independent External Director

Carmen Castaño Laorden
Independent External Director

Rafael García Monteys
Independent External Director

Luis Gonzaga Serrano de Toledo
Independent External Director

Aquilino González Hernando
Independent External Director

Isabel Eugenia Juliani Fernández de Córdoba
Independent External Director

José Ángel Partearroyo Martín
Proprietary Director

Jaime Pérez de la Cruz
Independent External Director

M^a José Pérez Ruiz
Independent External Director

Alberto Requena Navarro
Independent External Director

Isabel Riaño Ibáñez
Independent External Director



Mercedes Rodríguez Arranz
Independent External Director

Tomás Suárez-Inclán González
Independent External Director

Belén Villar Sánchez
Independent External Director

Julio Víctor González García
Secretary not member of the Board

Luis Vacas Chalfoun
Vicesecretary not member of the Board

Governing bodies of the subsidiaries

🌐 (GRI 102-18) 🌐 (GRI 102-23) 🌐 (GRI 405-1)







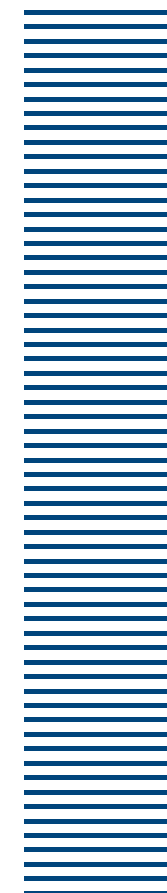
The governing bodies of the Group's subsidiaries are the General Meeting of Shareholders and the Governing Board.

Board members of the subsidiaries, whose positions are not remunerated, are chosen from among members of the management team of Correos and SEPI Group. The minimum and maximum number of members of the Governing Boards of each of the subsidiaries is:

- From 6 to 12 in Correos Express
- From 4 to 12 in Correos Nexea
- From 4 to 8 in Correos Telecom

The **subsidiaries also have their respective Audit and Control Committees** for guidance on economic-financial matters, risk control and internal audit.

	Governing Board meetings	Audit and Control Committee meetings
	12	5
	13	2
	12	1
	10	1



The composition of the respective
Governing Boards at 31 December 2018
is as follows:



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

Magín Blanco González
Chairman

Roberto Ducay Azparren

Julio Víctor González García

Carlos Millán Ruiz

Eva Pavo López

Domingo Sebastián Bello

Luis Vacas Chalfoun
Secretary not member of the Board



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

Enrique Ramirez Palacín
Chairman

Avelino Castro López

Carlos Millán Ruiz

Eva Pavo López

Luis Vacas Chalfoun
Secretary not member of the Board



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

Julio Víctor González García
Chairman

Roberto Ducay Azparren

Óscar Medina Martín

Enrique Ramirez Palacín

Luis Vacas Chalfoun
Secretary not member of the Board



Correos Group's Management Committee


The Correos Group Management Committee is an internal collegiate body that aids the **Chairman in his/her ordinary duties**, developing and coordinating all key issues between the various units and subsidiaries.

Composed of the Chairman and managers of Correos and the general managers of subsidiaries, it meets weekly at the request of the Chairman. The [members of the Management Committee](#) do not receive a specific remuneration for attendance.



Legal framework of activities



 The Spanish postal market has been fully liberalised since 1 January 2011 following the entry into force of [Act 43/2010](#)². By virtue of this regulation, **Correos is the operator designated to provide the Universal Postal Service** in Spain until 2025.

The **legislation stipulates the conditions the designated operator must meet**, as well as the financing mechanism underpinning the public service obligation, prices and other pricing conditions for the postal services.

The **Universal Postal Service** comprises the collection, admission, classification, transport, distribution and delivery of **ordinary letters and postcards of up to 2 kg, and of postal**

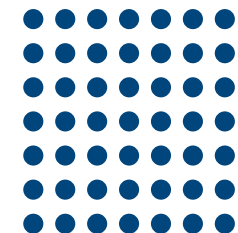
parcels, with or without commercial value, **of up to 20 kg**, to national or international destinations, as well as the provision of certified and declared value services complementary to said postal items.

New postal regulations and a Universal Postal Service plan and its regulatory contract, as provided for by Act 43/2010 are still pending approval.

Furthermore, Correos and Correos Express operate in the parcel delivery market, and are thus subject to legislation which applies to the land transport of goods sector³. Equally, the provision of **digital communication services** by Correos and Correos Telecom is regulated by Act 9/2014⁴.

Regulatory bodies

The **regulatory functions** of the postal sector are the responsibility of the *Comisión Nacional de los Mercados y la Competencia* (National Commission of Markets and Competition) (CNMC) and the *Ministerio de Fomento* (Ministry of Public Works). The CNMC also governs the parcel services and telecommunications markets in which the Group subsidiaries operate.



² *Ley 43/2010, de 30 de diciembre, del servicio postal universal, de los derechos de los usuarios y del mercado postal* (Act 43/2010, of 30 December, on the Universal Postal Service, User Rights and the Postal Market).

³ *Ley 16/1987, de 30 de julio, de Ordenación de los Transportes Terrestres* (Act 16/1987, of 30 July, on Regulation of Land Transport) and *Ley 15/2009, de 11 de noviembre, del Contrato de Transporte Terrestre de Mercancías* (Act 15/2009, of 11 November, on Contract for the Land Transport of Goods).

⁴ *Ley 9/2014, de 9 de mayo, General de Telecomunicaciones* (Act 9/2014, of 9 May, on General Law on Telecommunications).

Transparency and ethical commitment

🌐 (GRI 102-16) 🌐 (GRI 102-17) 🌐 (GRI 205-2) 🌐 (GRI 412-2)



The Group's companies have the **necessary mechanisms in place to comply with the reporting obligations laid down in Act 19/2013⁵**. To this end, they have a transparency portal and various other access channels which the public can use to send requests for public information under the terms specified in the Act.

More than 50,000 employees of the Group received training on ethical commitment

Ethical compliance and commitment

The Governing Board of Correos has a [Regulation](#) whose application represents an additional commitment to the **integration of good practices and standards of good governance** in the operation of this body.

In addition, Correos Group has a **'Criminal Risk Prevention Programme'**⁶ including a [General Code of Conduct](#), which reflects the reference values that govern the actions of its employees. The document, which is available for consultation by all internal and external stakeholders, contains among others, measures to **prevent and eradicate**

corruption and bribery (including guidelines for equal treatment and opportunities, fair competition, prevention of conflict of interests and the use of privileged information).

Last year, more than 50,000 employees of the Group received training on the ethical commitment contained in the General Code of Conduct and on the new European general data protection regulation⁷.

Since 2014 the Group also has a **Compliance Committee**, a collegiate body whose main function is to evaluate

⁵ *Ley 19/2013, de 9 de diciembre, de transparencia, acceso a la información pública y buen gobierno* (Act 19/2013, of 9 December, on Transparency, Access to Public Information and Good Governance).

⁶ Adapted to the *Circular de la Fiscalía 1/2016* (Prosecutor Circular 1/2016) and the requirements of Art. 31 bis 2, of the Criminal Code (derived from the modification introduced by the Organic Law Organic Law 1/2015, of 30 March, amending Organic Law 10/1995, of 23 November, of the Criminal Code).

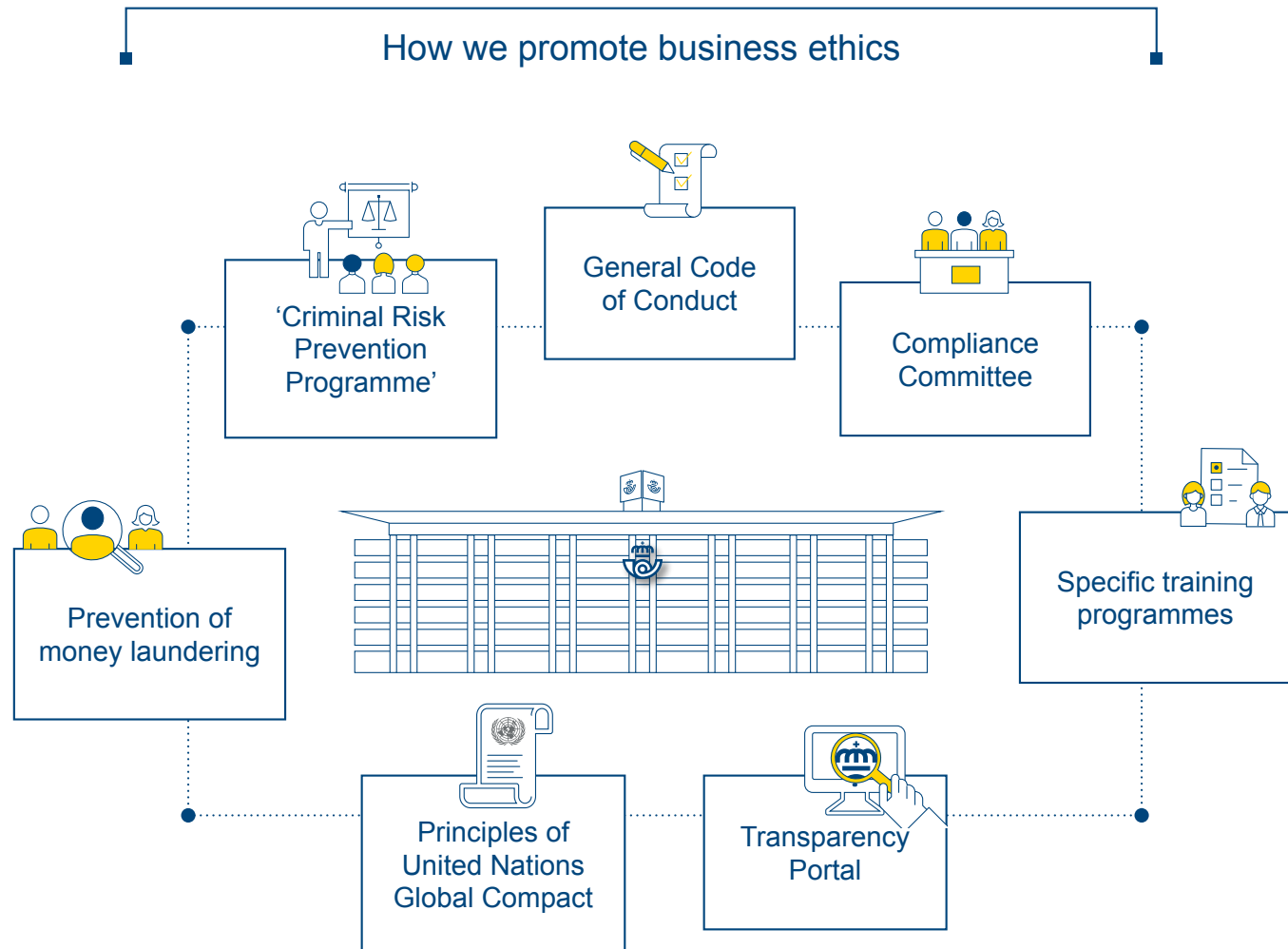
⁷ Regulation (EU) 2016/679 of the European Parliament and of the Council, of 27 April 2016, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).



and report biannually to Correos' Governing Board through the Audit and Control Committee, on the content and results of the resolutions issued.

The Committee also has a communication and complaint channel to facilitate compliance with the objectives of the Code of Conduct. In 2018, the Compliance Committee received and analysed 182 validation communications, 56 enquiries and 8 complaints about possible incompatibilities with internal or external regulations, proceeding, in each case, as established in its operating regulation.

In addition, following the recommendations of the Audit and Control Committee, in 2018, the Committee initiated a procedure to review and adapt its prevention system, which will be carried out in 2019.



Application of internal audit processes

🌐 (GRI 102-15) 🌐 (GRI 205-2)

Through its internal audit function, Correos Group verifies **compliance with the principles of integrity and good governance** in ordinary activities and business management in order to prevent, detect and **eradicate any practices that are contrary to business ethics**, such as corruption and bribery.

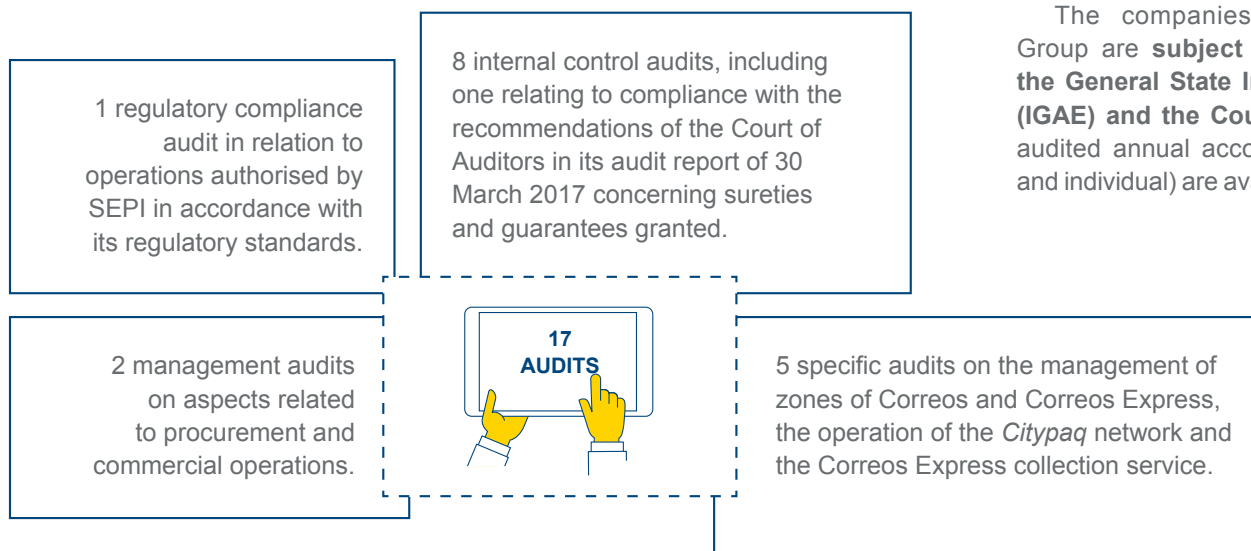
The annual internal audit plan, approved by SEPI and whose results are regularly reported, as well as reporting to the Audit and Control Committee of the Governing Board and the management team, envisaged the completion of **17 audits**:

Monitoring of recommendations was also carried out to verify the degree of implementation of those formulated in 2018 and previous years, with 85 implemented during the financial year. Last year, **1,268 economic-accounting and quality audits** were carried out in post offices, processing centres and ordinary and express delivery units.

The companies of the Correos Group are **subject to the control of the General State Intervention Board (IGAE) and the Court of Auditors**. Its audited annual accounts (consolidated and individual) are available in the IGAE's

Register of public accounts which can be accessed via the [National Government Administration's Transparency portal](#). In addition, Correos was subject to a public spending and efficiency assessment by the Independent Authority for Spanish Fiscal Responsibility (AIReF).

Correos Group is also subject to public control via the supervision mechanisms applicable to its sole shareholder (more information on the [website](#) and in the SEPI Group annual report).



Prevention of money laundering

Regarding the obligations derived from Act 10/2010 and its Regulation⁸, Correos has an internal prevention manual. It also audits the money laundering prevention area internally and externally on an annual basis, and carries out continuous monitoring of the application of due diligence measures in offices, where the greatest risk exists, since they manage financial transactions on a daily basis. In 2018, **more than 33,000 employees of post offices and delivery units received training in this area**. The subsidiaries of the Group are not subject to these obligations.

Risk management

Correos Group's risk analysis and management system aims to identify, manage, prevent and ensure an adequate response to its materialisation. In 2018, a

review of the Group's main risks was initiated in accordance with the COSO methodology, identifying the main impacts (including those of a social, environmental and employment nature) and those responsible for their control or mitigation. This review will be completed in 2019 with an updating of the policies of the Group for the prevention and mitigation of risks and significant impacts.

The activities of the different companies of the Group are conditioned by factors that are common to their sectors and by exclusive impacts that only affect each one of them. Among the most important are market, operational, employment, environmental, reputational, legal, tax and financial risks, as described in the [management report](#) of the consolidated annual accounts.



⁸ *Ley 10/2010, de 28 de abril, de prevención del blanqueo de capitales y de la financiación del terrorismo* (Act 10/2010, of 28 April, on the Prevention of Money Laundering and Financing of Terrorism) and *Real Decreto 304/2014, de 5 de mayo* (Royal Decree 304/2014, of 5 May), approving the Regulation of *Ley 10/2010, de 28 de abril, de prevención del blanqueo de capitales y de la financiación del terrorismo* (Act 10/2010, of 28 April, on the Prevention of Money Laundering and Financing of Terrorism).

Responsible procurement

 (GRI 102-9)
  (GRI 102-12)
  (GRI 203-2)
  (GRI 204-1)
  (GRI 308-1)
  (GRI 408-1)
  (GRI 409-1)



Correos Group's procurement activities are subject to the **principles of advertising, concurrence, transparency, confidentiality, equality and non-discrimination**, guaranteeing compliance with the applicable procurement regulations:

- Directive 2014/25/EU⁹
- Act 9/2017¹⁰
- Act 31/2007¹¹
- Correos Group's Internal Procurement Instructions.

In July 2018, **Correos Group's new Internal Procurement Instructions**

entered into force as a result of a change in the legal status of Correos as a non-contracting authority and in accordance with the provisions of Act 9/2017, which empowers public sector entities that do not have the status of a contracting authority to approve instructions that regulate procurement procedures.

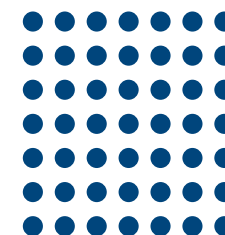
Similarly, **additional measures were implemented to increase the transparency** of tenders in accordance with recommendations issued by the General State Intervention Board (IGAE), such as the creation of boards to assist the procurement body or the establishment of a financial and business committee to analyse the cost-effectiveness of the procurement proposals. In addition,

Correos amended its asset rules that regulate the disposal, acquisition and encumbrance of property assets.

The Group announces the tenders and awards of its contracts, according to their amount, in the [Contractor's Profile](#), on the Public Sector Procurement Platform, in the Official State Gazette and in the Official Gazette of the European Union. Regularly, the Group also sends information to the Court of Auditors and Register of Public Sector Contracts.



The **Investments Committee** is the body that studies, approves and, where necessary, refers to the Governing Board the procurement provided in the **Internal Procurement Instructions**.



⁹ Directive 2014/25/EU of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors.

¹⁰ *Ley 9/2017, de 8 de noviembre, de Contratos del Sector Público* (Act 9/2017, of 8 November, on Public Sector Contracts), which entered into force on 8 March 2018.

¹¹ *Ley 31/2007, de 30 de octubre, sobre procedimientos de contratación en los sectores del agua, la energía, los transportes y los servicios postales* (Act 31/2007, of 30 October, on Procurement Procedures in the sectors of Water, Energy, Transport and Postal Services).

Good practices in the supply chain

Correos Group contributes to the Spanish economy by making sure that **99% of its procurement is from domestic suppliers**. All parties interested in taking part in the contract procedures must guarantee **compliance with the principles of the United Nations Global Compact**. Due to its geographical scope of action and the nature of its suppliers, the Correos Group considers that none of them present a significant risk of breaching these principles.

In addition, its specifications include **clauses on environmental, social** (such as gender equality and occupational health and safety), **innovation** and **development criteria**. These considerations are included in the form of special and obligatory execution conditions for all bidders or as bid appraisal criteria.

In all cases, bidders for contracts **must understand and accept the principles contained in the General Code of Conduct of the Correos Group**.

Owing to the size and nature of the activities they carry out, the companies in the Correos Group collaborate with a large number of suppliers in different sectors, in all phases of the supply chain.

In 2018 Correos awarded contracts worth 427.3 million euros which were executed by 7,734 suppliers (326 investment contracts and 7,408 purchase contracts).

In turn, the subsidiaries awarded contracts worth 207.2 million euros. Correos Express worked with 1,870 suppliers, most of them transport related. Correos Nexea had 177 paper, envelope and equipment maintenance suppliers; and Correos Telecom had 126 operational services and telecommunications asset maintenance or equipment suppliers.



Operational and customer safety

 (GRI 203-2)



Correos has a security operating centre which receives signals and/or images from the security devices installed in over 2,600 post offices and centres throughout the country, helping to contribute effectively to **the security of people (employees and customers) and property**.

The company also regularly uses scanners to inspect postal items requiring controls. In 2018, 284 million items were examined. As a result, 456 postal items were detected with supposedly illegal content. These were handed in to the relevant authorities. Also, 36,158 parcels containing dangerous goods for air mail were intercepted and withdrawn.

The company **permanently cooperates** with entities such as the Postal Security Group of the Universal

Postal Union, the National security forces and law-enforcement agencies, such as the Spanish National Police Corps through the *Red Azul* (Blue Network), the Spanish Civil Guard through the Coopera Portal, as well as **judicial bodies** for the exercise of their functions.

Correos is also accredited in 6 of its operational centres to accept, manage and safely transport certain **dangerous goods** as air mail, under the terms set forth in Order FOM/456/2014.

For its part, **Correos Express has been awarded a Certificate as an Authorised Economic Operator for Customs simplification (AEOC)**, whose purpose of this certificate is to guarantee the reliability and security of goods being imported and exported.

Protection of privacy

The new European data protection regulation, which came into force in 2018, established new mechanisms for the protection of personal data. In compliance with this regulation, Correos Group appointed a **Data Protection Officer (DPO)**, whose function is to manage and advise the Group on this matter, and assess the risks inherent to the processing of this kind of information.

The new regulation also involved the **adaptation of information systems and technologies to increase monitoring and security** in relation to the use of the personal data of customers and employees by Group companies and/or their suppliers.

Correos Group's information security policy prioritises optimum integration into business processes to ensure proper carrying out of activities and prevention of potential risks for customers.

In addition, as part of the process of **obtaining UNE-ISO/IEC 27001:2014 certification**, Correos created an **Information Security Committee** in 2018 responsible for ensuring adequate risk management and the implementation of the necessary procedures to safeguard information, systems and processes.





4. Consolidated annual accounts of Correos Group

Auditor's report
Consolidated balance sheet
Consolidated income statement
Consolidated cash flow statement
Statement of total changes in the consolidated equity
Report for the financial statement
Management report
Non-financial information statement
Governing Board statement

Independent auditor's report on the consolidated annual accounts



To the sole shareholder of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company):



Opinion

We have audited the consolidated annual accounts of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company) (the Parent Company) and its subsidiaries (the Group), comprising the balance sheet as of 31 December 2018, the profit and loss account, the statement of changes in equity, the cash flow statement and the report, all consolidated, corresponding to the financial year ended on that date.

In our opinion, the accompanying consolidated annual accounts express, in all material respects, the true image of the Group's equity and financial position as of 31 December 2018, as well as its results and cash flows, all of which are consolidated, corresponding to the financial year ended

on that date. All the above complies with the applicable regulatory framework for financial information (identified in note 3 of the consolidated report) and, in particular, with the accounting principles and criteria contained therein.

Basis for opinion

We have carried out our audit in accordance with the regulations governing current account auditing in Spain. In accordance with these standards, our responsibilities are described later in the section of our report entitled *Responsibilities of the auditor regarding the auditing of the consolidated annual accounts*.

We are independent of the Group in accordance with ethical standards,

including those of independence, which are applicable to our audit of the consolidated annual accounts in Spain as required by the regulations governing the audit of accounts. In this respect, we have not provided services other than those of the audit of accounts nor have situations or circumstances occurred that, in accordance with the provisions of the aforementioned mandatory regulations, have compromised the necessary independence.

We believe that the audit evidence we have obtained provides a sufficient and adequate basis for our opinion.

Most relevant aspects of the audit

The most relevant aspects of the audit are those that, according to our

professional judgement, have been considered the most significant material misstatement risks in our audit of the consolidated annual accounts of the current period. These risks have been addressed in the context of our audit of the consolidated annual accounts as a whole, and in the formation of our opinion on them, and we do not express an opinion on the individually.

Revenue recognition

As described in note 17.a of the attached consolidated report, the revenue obtained by the Group comes mainly from the following activities:

- Sales of customers with contracts, amounting to 1,411,209 thousand euros, corresponding to the sales of corporate clients and representing 69% of the heading 'Revenue'.
- Sales of cash collection, amounting to 381,367 thousand euros, representing 19% of the heading 'Revenue'.

- Sales of the international unit, amounting to 133,954 thousand euros, representing 7% of the heading 'Revenue'.

In accordance with the applicable regulatory financial reporting framework and as indicated in note 5.n of the attached consolidated report, the Group records revenue from the sale of goods and the provision of services at fair value of the consideration, already received or to be received, derived from them. This is after deducting any discount, reduction in price or other similar items that the company may grant, as well as indirect taxes levied on the transactions and chargeable to third parties. We have considered the recognition of revenue as a significant audit risk and subject to material misstatement, in relation to the high number of transactions.

We have performed the following procedures as part of our audit and in response to the aforementioned risk:

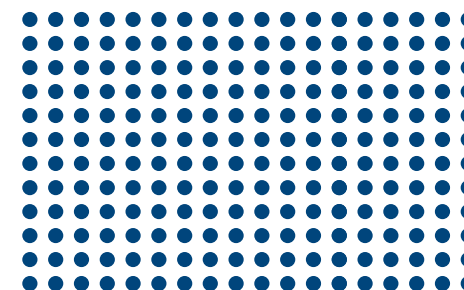
- An understanding of the policies and processes implemented by the Group in

the revenue and accounts receivable cycle for each type of activity detailed above, including verification of the general controls of management information systems (IRIS and OCA) and accounting systems (SAP). We have also verified the effectiveness of different automatic and manual controls that have been considered key points, together with the automatic transfer of the revenue recorded in the management systems to the accounting system.

- We have carried out the following procedures for sales of clients with contracts:

We have obtained all accounting entries for this type of revenue recorded in the 2018 financial year, verifying whether the consideration complies with logical accounting standards.

Obtaining external confirmations for a sample of customer invoices in relation to the outstanding balance. In the absence of confirmation, alternative procedures have been carried out by means of subsequent





payment receipts or documentation supporting said invoicing.

- We have carried out the following procedures for cash sales:

We have obtained all accounting entries for these revenues recorded in the 2018 financial year, verifying whether the consideration complies with logical accounting standards.

We have extracted all revenue recorded in the management information system (IRIS) confirming that it matches the amount of turnover registered in the accounting system.

- We have carried out the following procedures for sales of the international unit:

We have obtained all accounting entries for this type of revenue recorded in the 2018 financial year, verifying whether the consideration complies with logical accounting standards.

We have verified the accounting system's assessment of the valuation of the services provided through the request for file samples, verifying the services provided with the corresponding delivery notes and the rates applied with those included in the general agreements with the Universal Postal Union and other specific agreements between countries, as well as the corresponding quote on the day of the Special Drawing Rights.

We have verified a sample of the different postal companies with which a commercial relationship is maintained, of the advances issued and received, through the collation of bank statements.

We have verified a random sample of compensations of advances issued and received with the balances of the invoices pending issuance and receipt through compensation agreements signed with other postal companies.

- We have verified that the information disclosed in the consolidated annual

accounts is sufficient and adequate in accordance with the regulatory framework of applicable financial information.

Evaluation of the existence and valuation of provisions and contingent liabilities

As described in note 15 of the attached consolidated report, the Group has recorded non-current and current provisions for a total amount of 32,325 thousand euros, corresponding to lawsuits and claims of a different nature.

In accordance with the applicable regulatory framework of financial information and as indicated in note 5.k of the attached consolidated report, the Group recognises provisions when it has a present obligation, be it legal or contractual, implicit or tacit, resulting from a past event, a reliable estimate of the obligation can be made and it is likely to entail a future outflow of resources for its settlement.

We have considered this area as a significant audit risk and subject to



material misstatement, in relation to the fact that the recognition of provisions or their consideration as contingent liabilities implies a high degree of judgement and estimates by Management.

We have performed the following procedures as part of our audit and in response to the aforementioned risk:

- Obtaining confirmation from legal and tax advisers, both internal and external, detailing the open lawsuits and claims as of 31 December 2018, which have been closed during that year.

- Obtaining the supporting documentation of those lawsuits and claims that we have considered significant, verifying that the amounts claimed are those reported in the responses of the legal and tax advisers.

- We have held meetings with the legal department of the Group in order to understand the nature of the different lawsuits and claims and confirm the

assessment made by them and their external advisers through their responses to balance confirmation, in order to determine their registration as provisions or contingent liabilities.

- We have verified that the information disclosed in the consolidated annual accounts is sufficient and adequate in accordance with the regulatory framework of applicable financial information.

Evaluation of the impairment of the lands and buildings of the Parent Company

As described in note 7 of the accompanying consolidated report, the Group records the book value of the land and buildings of the Parent Company under 'Property, plant and equipment' section, for a net amount of 1,159,880 thousand euros. This section includes a provision for impairment amounting to 115,503 thousand euros.

In relation to the impairment of the registered assets, as mentioned in note 3 of the attached consolidated report, since

2009 the Parent Company has applied the provisions of Order EHA/733/2010, of 25 March, which approves accounting aspects of public companies that operate in certain circumstances. The Parent Company determines the impairment of its tangible and intangible fixed assets by referring to the depreciated replacement cost of each asset (note 4.e).

The Parent Company requested an external assessor to evaluate a selection of a total of 556 assets. This selection has been made considering those properties that have a significant risk of deterioration due to acquisitions made in years with bullish prices prior to the property crisis in Spain, and those with an impairment provision recorded as of 31 December 2018.

We have considered this area a significant audit risk and subject to material misstatement, in relation to the fact that the value of tangible fixed assets represents 55% of the Group's total assets as of 31 December 2018, and that every assessment is subject to a high degree of judgements and



estimates. As a result of the assessment carried out by the Parent Company, a net reversal of impairment was recorded in the consolidated income statement for the year, amounting to 4,989 thousand euros.

We have performed the following procedures as part of our audit and in response to the aforementioned risk:

- Verification of the competence, capacity and independence of the expert by obtaining confirmation and evidence of its recognized standing in the market.
- We have obtained the assessment reports from the independent expert and we have verified that the assessments have been made according to the accepted methodology through the documentation provided on his work.
- We have gained an understanding of the process documented by management to identify the assets presenting the highest risk with regard to their assessment.
- We have compared the net book value with the assessed value obtained for each asset plus the cost of the reforms

made since its start-up, discounting the accumulated depreciation since its acquisition and confirming the impairment or reversal of the impairment provision recorded by the Parent Company.

- We have verified that the information disclosed in the consolidated annual accounts is sufficient and adequate in accordance with the regulatory framework of applicable financial information.

Evaluation of the risk of recognition of compensation for operating deficits of the Parent Company

As described in notes 5.q and 17.c of the accompanying consolidated report, the Parent Company recognized under 'Other operating income' in the consolidated profit and loss account for 2018 compensation for the provision of the Universal Postal Service (hereinafter, 'UPS') amounting to 120,000 thousand euros. As a result of the absence of approval of a methodology and concepts that must be included for the calculation of the net cost of the UPS, the Parent

Company records annually in the consolidated profit and loss account the amounts of compensation recognized in General State Budgets when funds are transferred to a specified item in the Directorate General of the Treasury and Financial Policy and once the necessary requirements for its consideration as non-refundable have been met.

In addition, as described in note 17.h of the accompanying consolidated report and as a result of a decision of the European Commission dated 7 July 2018, in relation to compensation for the UPS as state aid, for the period corresponding to 2004 to 2010, the Parent Company has registered a refund to the Kingdom of Spain for overcompensation of the UPS for the sum of 134,419 thousand euros. A total of 103,021 thousand euros of this amount derived from subsidies to the operation, have been recorded in the consolidated profit and loss account for 2018 and 11,495 thousand euros have been recorded as lower equity because they are considered capital

subsidies. The refund also includes a total of 19,903 thousand euros of interest for late payment, which has been recorded under the financial result of the consolidated profit and loss account for 2018. Recognition of these amounts in 2018 is due to the fact that the Parent Company has considered this information as additional to that existing on the date of preparation of the consolidated annual accounts for 2017, which stated that there was a possible contingency in this respect as its quantification was not possible.

Likewise, as indicated in note 17.c of the attached consolidated report, a possible resolution of the National Commission of Markets and Competition regarding the calculation of the net cost of the UPS for 2011 to 2018 that did not coincide with the provisions of the General State Budgets could have a positive or negative impact on the amounts recorded. This final impact could not be calculated until the entry into force of the new Service Plan and calculation methodology, which are being developed

by the Government of Spain, which is currently under negotiation with the European Commission. If the methodology and concepts for calculating the net cost are approved in the terms in which they are being negotiated, the Directors of the Parent Company, supported by their legal advisers, consider that there is a remote risk of a negative impact in the consolidated annual accounts for 2018 and onwards, regarding the calculation of the net cost of the UPS between 2011 and 2018.

As described in note 5.q of the attached consolidated report, a subsidy will be considered non-refundable when there is a specific agreement to grant it to the Parent Company, the conditions established for granting it have been met and there are no reasonable doubts about the receipt of the subsidy.

We have considered this area as a significant audit risk and subject to material misstatement, in relation to the complexity of the compensation accrual principle and

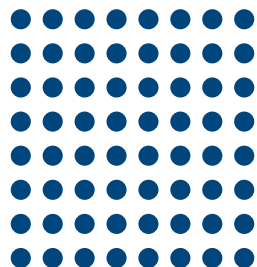
the lack of approval of the new Service Plan that includes a methodology for calculating compensations for provision of the UPS.

We have performed the following procedures as part of our audit and in response to the aforementioned risk:

- Obtaining written confirmation from the Directorate General of the Treasury and Financial Policy that the amount charged by the Parent Company in 2018 is 144,895 thousand euros, of which 120,000 thousand euros correspond to 2018 and 24,895 thousand euros were pending collection as of 31 December 2017.

- We have held meetings with the financial department and with the analytical accounting and cost model department, as well as with the legal counsel of the Parent Company in order to assess the situation of the calculation methodology, previously detailed. This has served as the basis for the written confirmation that we have obtained from said Company in which it has considered that the risk of





future returns between 2011 and 2018 is remote, as reflected in the consolidated annual accounts of the present year.

- We have obtained the file of the European Commission where the refund to the Kingdom of Spain is established for overcompensation of the UPS for a total of 134,419 thousand euros, including 19,903 thousand euros of interest for late payment and we have also verified the refund made by the Parent Company of such amounts with supporting documentation.

- When we have considered it appropriate we have involved our experts, in relation to the correct accounting of the return of state aid both in relation to the year and sections in which such refund has been registered, as well as in the policy followed by the Parent Company for the recognition of annual compensation.

- We have verified that the information disclosed in the consolidated annual accounts is sufficient and adequate in

accordance with the regulatory framework of applicable financial information.

Other issues

On 5 April 2018, other auditors issued their audit report on the consolidated annual accounts for the year ended 31 December 2017 in which they expressed a favourable opinion.

Other information: Consolidated management report

The other information comprises exclusively the consolidated management report for 2018, whose compilation is the responsibility of the Directors of the Parent Company and is not an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is

defined in the regulations governing the audit of accounts, which establishes two different levels:

a) A specific level that is applicable to the consolidated non-financial information statement, which consists of verifying only that the aforementioned information has been provided in the consolidated management report or, if applicable, that the corresponding reference to the separate report on non-financial information complies with the regulations and, if not, to report on it.

b) A general level applicable to other information included in the consolidated management report, which consists of evaluating and reporting on the concordance of the aforementioned information with the consolidated annual accounts, based on the knowledge of the entity obtained during the audit of the aforementioned accounts. This report contains no information other than that obtained as evidence during same and also consists of evaluating and reporting



whether the content and presentation of this part of the management report are in accordance with the applicable regulations. If the work we have done leads us to conclude that there are material misstatements, we are obliged to report them.

Based on the work done, as described above, we have verified that the information mentioned in section a) above is provided in the consolidated management report and that other information contained in the consolidated management report matches that of the consolidated annual accounts for 2018 and their content and presentation comply with the applicable regulations.

Liability of the Directors of the Parent Company and the audit and control committee in relation to the consolidated annual accounts

The Directors of the Parent Company are responsible for compiling the accompanying consolidated annual accounts, in order to

give a true and fair view of the Group's assets, financial position and consolidated results, in accordance with the regulatory framework for financial information applicable to the Group in Spain. This also includes a view of the internal control that they consider necessary to allow for the preparation of consolidated annual accounts free of material misstatements, due to fraud or error.

In the preparation of the consolidated annual accounts, the Directors of the Parent Company are responsible for assessing the Group's ability to continue as a going concern, revealing, as appropriate, the issues relating to the company in operation and using the accounting principle of this type of company unless the Directors intend to liquidate the Group or cease operations, or there is no other realistic alternative.

The audit and control committee is responsible for supervising the process of preparing and presenting the consolidated annual accounts.

Responsibilities of the auditor regarding the auditing of the consolidated annual accounts

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement, due to fraud or error, and to issue an audit report that contains our opinion.

Reasonable security is considered a high degree of security but does not guarantee that an audit conducted in accordance with the regulations governing audits in force in Spain will always detect any eventual material misstatement. Misstatements may be due to fraud or error and are considered material if, individually or in an aggregated way, they can reasonably be expected to influence the economic decisions made by users based on the consolidated annual accounts.

As part of an audit in accordance with the regulations governing current account

audits in Spain, we apply our professional judgement and maintain an attitude of professional scepticism throughout. In addition:

- We identify and assess the risks of material misstatement in the consolidated annual accounts, due to fraud or error, and design and apply audit procedures to respond to such risks, obtaining sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than in the case of material misstatements due to error, since fraud can involve collusion, falsification, deliberate omissions, intentionally erroneous statements, or circumvention of internal control.
- We obtain knowledge of the internal control of the audit in order to design audit procedures that are appropriate in the circumstances, not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



- We evaluate the adequacy of the accounting policies applied, as well as the reasonableness of the accounting estimates and the corresponding information disclosed by the Directors of the Parent Company.

- We conclude on whether the use of the accounting principle of the company in operation by Directors of the Parent Company is adequate and, based on the audit evidence obtained, we conclude whether or not there is material uncertainty in relation to facts or conditions that may generate significant doubts about the Group's ability to continue in operation. If we conclude that there is material uncertainty, we are required to draw attention in our audit report to the corresponding information disclosed in the consolidated annual accounts or, if such disclosures are not adequate, express an amended opinion. Our conclusions are based on the audit evidence obtained to date from our audit report. However, future events or conditions may cause the Group to cease operations.

- We evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosed information, and whether the consolidated annual accounts represent the underlying transactions and events in a way that manages to express the true image of the company.

- We obtain sufficient and adequate evidence in relation to the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the management, supervision and performance of the Group's audit process. We are solely responsible for our audit opinion.

We communicate with the Directors of the Parent Company regarding, among other items, the scope and timing of the planned audit and the significant findings thereof, as well as any significant internal control deficiencies that we identified during the course of the audit.

Among the significant risks that have been reported to the Directors of the Parent Company, we state those that have been of the greatest significance in the audit of the consolidated annual accounts of the current period and that are therefore considered the most significant.

We describe those risks in our audit report unless legal or regulatory provisions prohibit public disclosure thereof.

David Calzada Criado
ROAC nº 22193
27 March 2019



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Page M-657.409, Entry 36 and in the Official Registry of Auditors (ROAC) under No. S0231*

Consolidated balance sheet at the end of 2018

(Expressed in thousands of euros)

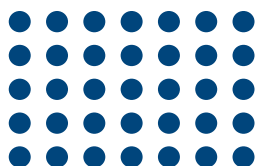
ASSETS	Notes	Balance at 31/12/2018	Balance at 31/12/2017
NON-CURRENT ASSETS		1,462,918	1,470,406
Intangible assets	6	25,365	32,962
Computer software		25,185	32,768
Other intangible assets		180	194
Property, plant and equipment	7	1,384,844	1,387,948
Land and buildings		1,174,145	1,194,534
Technical installations and other fixed assets		180,773	169,750
Assets under construction and advances		29,926	23,664
Investment property	8	13,625	13,144
Non-current financial investments	11	2,194	3,106
Loans to third parties		-	1,000
Other financial investments		2,194	2,106
Deferred tax assets	18	36,890	33,246
CURRENT ASSETS		621,716	708,207
Non-current assets held for sale	9	529	12,271
Inventories	10	5,188	4,660
Trade and other receivables	11	486,433	489,620
Clients from sales and provision of services		440,414	401,901
Clients, group companies and associates	20	57	70

+ Continued...

Consolidated balance sheet at the end of 2018

(Expressed in thousands of euros)

ASSETS	Notes	Balance at 31/12/2018	Balance at 31/12/2017
Sundry debtors		25,254	53,706
Debtors, group companies and associates	20	12,934	26,640
Staff		7,521	7,125
Other receivables from public administration	18	253	178
Current financial investments	11	946	903
Current accruals		502	811
Cash and cash equivalents	11, 12	128,118	199,942
TOTAL ASSETS		2,084,634	2,178,613



Consolidated balance sheet at the end of 2018

(Expressed in thousands of euros)



EQUITY AND LIABILITIES	Notes	Balance at 31/12/2018	Balance at 31/12/2017
EQUITY		1,445,777	1,615,934
Shareholder's equity	13	1,204,728	1,357,688
Capital		611,521	611,521
Share premium		250,938	250,938
Reserves		571,487	632,095
Legal reserve		100,070	100,070
Statutory reserve		214,119	214,119
Voluntary reserves		257,298	317,906
Reserves in consolidated companies		(76,258)	10,100
Result for the year attributable to Parent Company	4	(152,960)	(146,966)
Grants, donations and bequests received	14	241,049	258,246
NON-CURRENT LIABILITIES		117,457	124,294
Non-current provisions	15	29,308	30,395
Non-current payables	16	7,404	7,907
Deferred tax liabilities	18	79,562	85,399
Non-current accruals		1,183	593
CURRENT LIABILITIES		521,400	438,385
Current provisions	15	3,017	2,891
Current payables	11, 16	32,478	25,413

 Continued...

Consolidated balance sheet at the end of 2018

(Expressed in thousands of euros)

EQUITY AND LIABILITIES	Notes	Balance at 31/12/2018	Balance at 31/12/2017
Short-term debts with group companies and associates	16, 20	1,285	878
Trade and other payables	11, 16	479,020	402,522
Suppliers		3,196	2,842
Suppliers, group companies and associates	20	-	3
Sundry creditors		241,312	230,517
Staff		38,951	18,394
Other debts with public administration	18	55,885	50,074
Customers advances		139,676	100,692
Current accruals		5,600	6,681
TOTAL EQUITY AND LIABILITIES		2,084,634	2,178,613



Consolidated profit and loss account for the financial year ended 31 December 2018

(Expressed in thousands of euros)

CONTINUED OPERATIONS	Notes	Financial year 2018	Financial year 2017
Revenue	17-a)	2,035,632	1,859,465
Supplies		(294,669)	(271,541)
Merchandise used	17-b)	(15,032)	(13,746)
Impairment of merchandise, raw materials and other supplies	10, 17-b)	(661)	(1,951)
Work carried out by other companies	17-b)	(278,976)	(255,844)
Other operating income		126,342	62,902
Non-trading and other operating income		6,029	3,906
Compensation for provision of the UPS	17-c)	120,000	58,700
Operating grants included in the result of the financial year	17-c)	313	296
Staff costs	17-d)	(1,511,288)	(1,452,492)
Salaries, wages and similar		(1,205,302)	(1,169,211)
Social Security contributions		(296,039)	(275,025)
Other expenses		(9,947)	(8,256)
Other operating expenses		(329,934)	(314,350)
External services	17-e)	(312,255)	(302,801)
Taxes	17-f)	(7,521)	(4,997)
Losses, impairment and changes in trade provisions		(4,021)	(82)
Other expenses from ordinary activities		(6,137)	(6,470)

 Continued...

Consolidated profit and loss account for the financial year ended 31 December 2018

(Expressed in thousands of euros)

CONTINUED OPERATIONS	Notes	Financial year 2018	Financial year 2017
Amortisation and depreciation	6, 7, 8	(95,034)	(92,938)
Non-financial and other capital subsidies	14	11,260	12,777
Provision surpluses	15	-	8,179
Impairment and loss/gain on disposal of fixed assets	17-g)	4,226	6,684
Impairment and losses		(1,445)	2,946
Result from disposals and others		5,671	3,738
Other results	17-h)	(103,093)	(9,865)
OPERATING RESULT		(156,558)	(191,179)
Financial income	17-i)	2,246	703
From negotiable securities and other financial instruments:			
From group companies		75	61
From third parties		2,171	642
Financial expenses	17-i)	(20,253)	(115)
Debts with third parties		(20,253)	(115)
Exchange-rate differences		6,610	2,714
FINANCIAL RESULT		(11,397)	3,302
RESULT BEFORE TAX		(167,955)	(187,877)
Income tax	18	14,995	40,911
CONSOLIDATED RESULT FOR THE FINANCIAL YEAR	3	(152,960)	(146,966)

Consolidated cash flows statement for the financial year ended 31 December 2018

(Expressed in thousands of euros)

OPERATING ACTIVITIES	Notes	Financial year 2018	Financial year 2017
Result for the financial year before taxes		(167,955)	(187,877)
Adjustments to the result			
Amortisation and depreciation	6, 7, 8	95,034	92,938
Valuation adjustments due to impairment	7, 10, 11	2,106	(996)
Change in provisions		34,024	7,262
Allocation of capital subsidies	14	(11,260)	(12,777)
Recognition of compensation for provision of the UPS	17-c)	(120,000)	(58,700)
Operating grants included in the result of the financial year	17-c)	(313)	(296)
Result of removals and disposal of fixed assets		(5,671)	(3,738)
Financial income	17-i)	(2,246)	(703)
Financial expenses	17-i)	20,253	115
Exchange-rate differences		(6,610)	(2,714)
Other income and expenses		102,876	(151)
Changes in current capital			
Inventories		(1,189)	(1,602)
Trade and other receivables		111,784	234,285
Other current assets		(35)	3,487

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Consolidated cash flows statement for the financial year ended 31 December 2018

(Expressed in thousands of euros)

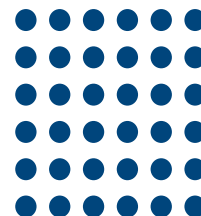
OPERATING ACTIVITIES	Notes	Financial year 2018	Financial year 2017
Trade and other payables		50,735	65,528
Other current liabilities		(433)	9,702
Other non-current assets and liabilities (+/-)		(5,241)	(3,461)
Other cash flows from operating activities			
Interest payments		(279)	(91)
Interest received		2,230	565
Income tax received		25,635	3,528
Other payments		(134,419)	-
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		(10,974)	144,304
INVESTING ACTIVITIES			
Payments for investments			
Intangible assets		(10,266)	(16,992)
Property, plant and equipment		(59,935)	(66,650)
Proceeds from disposals			
Property, plant and equipment		607	1,910
Non-current assets held for sale		8,744	9,417
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES		(60,850)	(72,315)

 Continued...

Consolidated cash flows statement for the financial year ended 31 December 2018

(Expressed in thousands of euros)

OPERATING ACTIVITIES	Notes	Financial year 2018	Financial year 2017
FINANCING ACTIVITIES			
Proceeds from and payments for equity instruments			
Grants, donations and bequests received		-	-
Proceeds from and payments for financial liability instruments			
Return and amortisation of other debts		-	(34)
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		-	(34)
NET VARIATION IN CASH OR CASH EQUIVALENTS		(71,824)	71,955
Cash and cash equivalents at the start of the financial year	12	199,942	127,987
Cash and cash equivalents at the end of the financial year	12	128,118	199,942



Consolidated statement of changes in equity corresponding to the financial year ended 31 December 2018

(Expressed in thousands of euros)

A) Consolidated statement of recognised income and expenses for the financial year ended 31 December 2018:

	Notes	Financial year 2018	Financial year 2017
Consolidated result for the financial year		(152,960)	(146,966)
Income and expenses directly attributed to consolidated equity:	14		
Grants, donations and bequests received		22	-
Return of 2004-2010 UPS Overcompensation		(11,495)	
Tax effect		2,874	-
		(8,599)	-
Transfers to consolidated profit and loss account:	14		
Grants, donations and bequests received:			
- due to amortisation		(10,543)	(12,018)
- due to adjustments for impairment		(219)	(385)
- due to disposals		(642)	(374)
Tax effect		2,806	3,186
		(8,598)	(9,591)
TOTAL RECOGNISED CONSOLIDATED INCOME AND EXPENSES		(170,157)	(156,557)



Consolidated statement of changes in equity corresponding to the financial year ended 31 December 2018

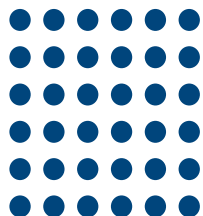
(Expressed in thousands of euros)

B) Statement of total changes in the consolidated equity corresponding to the financial year ended 31 December 2018:

Reserves held by the Parent Company								
	Capital	Share premium	Legal reserve	Voluntary, statutory reserves	Reserves in consolidated companies	Consolidated result for the financial year	Grants, donations and bequests received	TOTAL
BALANCE START OF 2017 FINANCIAL YEAR	611,521	250,938	100,070	583,272	2,031	(43,178)	267,837	1,772,491
Total recognised consolidated income and expenses	-	-	-	-	-	(146,966)	(9,591)	(156,557)
Operations with partners or owners:								
Distribution of dividends	-	-	-	-	-	-	-	-
Other variations in the consolidated equity	-	-	-	(51,247)	8,069	43,178	-	-
BALANCE START OF 2018 FINANCIAL YEAR	611,521	250,938	100,070	532,025	10,100	(146,966)	258,246	1,615,934
Total recognised consolidated income and expenses	-	-	-	-	-	(152,960)	(17,197)	(170,157)
Operations with partners or owners:								
Distribution of dividends	-	-	-	-	-	-	-	-
Other variations in the consolidated equity	-	-	-	(60,608)	(86,358)	146,966	-	-
BALANCE END OF 2018 FINANCIAL YEAR	611,521	250,938	100,070	471,417	(76,258)	(152,960)	241,049	1,445,777

Consolidated report corresponding to the financial year 2018

(Expressed in thousands of euros)



1. Activities of the Parent Company

Sociedad Estatal Correos y Telégrafos S.A., S.M.E. (Sole Shareholder Company) (hereinafter, Correos, the Parent Company, or the Company) was incorporated as a public limited company [*sociedad anónima estatal*] pursuant to article 6.1.a) of the Consolidated Text of the *Ley General Presupuestaria* [the Budget Act] enacted by *Real Decreto* (Royal Decree) 1091/1988, of 23 September, and additional item twelve of *Ley 6/1997, de 14 de abril, de Organización y Funcionamiento de la Administración General del Estado* (LOFAGE) [Act 6/1997, of 14 April 1997, on the Central Government Organisation], by a resolution of the Council of Ministers, of 22 June 2001, under article 58.1 of *Ley 14/2000, de 29 de diciembre, de Medidas Fiscales, Administrativas y del Orden Social* [Act 14/2000, of 29 December 2000, on the Tax, Administrative and Social Measures]. 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.

On 1 February 2017 the Sole Shareholder, with the prior agreement of the Company's Governing Board held the 27 October 2016, agreed to change the Parent Company's name and amend 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 2015, on the Legal System for the Public Sector]. According to these provisions, the Company name changed and is hereafter known as Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company). The Sole Shareholder's decision was passed by a public deed by the company on the 1 February 2017 and recorded in the Companies Registry on the 20 February 2017.

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* [Act 24/1998, of 13 July 1998, on the Universal Postal Service and the Liberalisation of Postal Services], 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* [Act 43/2010, of 30 December 2010, on the Universal Postal Service, Users' Rights and the Postal Market].



Pursuant to article 58.4 of 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 for State Assets], has a pre-emptive right over certain buildings belonging to the Company, in accordance with the Council of Ministers' decision authorising the incorporation of the Company. The exercise price of that right of first refusal will be set by surveyed value appraised by the technical units of the Directorate General for State Assets, which will use a property valuation prepared by a public corporation specialising in property surveying. The lease rights are likewise reserved in the case that the Company decides to operate those buildings.

Under article 58.7 of 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 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 legal relationship between this type of employee and the Company is governed by *Real Decreto 370/2004, de 5 de marzo* [Royal Decree 370/2004, of 5 March], which approved the *Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. Workers' Statute*. (Sole Shareholder Company).

In addition, and pursuant to article 58.17 of the aforementioned Tax, Administrative and Social Measures Act, any worker contracted by the Parent 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 UPS Plan and the regulatory contract (on the date of these financial statements 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 2013, on the Creation of the National Markets and Competition Commission] [on 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 2007, on the Creation of the National Commission for the Postal Sector] and created 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 the Creation of the National Markets and Competition Commission Act, the CNMC supervises and ensures the correct functioning of the postal market, in particular as regards the following functions:

- Ensure that the UPS is guaranteed, in compliance with postal regulations and free 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 compensation fund and the public services financed by it, in accordance with the Postal Act.
- 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 the Postal Act, to monitor the conditions in which the UPS is provided.

The *Dirección de Transportes y del Sector Postal* [Directorate for Transport and the Postal Sector] is the body responsible for investigating CNMC dossiers on postal matters.

In order to maintain the UPS, the Postal Act 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 licenses.

Article 26 of the Postal Act establishes the obligation of the designated operator –Correos– to keep analytical accountings that makes 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 license 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.

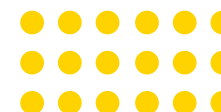
The temporary provision of the Postal Act sets out that the terms for the provision of the Universal Postal Service and its financing are governed by the previous regulations, which were in force before these, until the Universal Postal Service Plan and its regulatory contract is approved.

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 the Postal Act, will be regulated as per the regime established in Royal Decree 1298/2006, of 10 November, regulating access to the public postal network and determining the conflict resolution procedure among postal operators and the conditions contained in the Resolution of 23 April 2007, from the *Subsecretaría de Fomento* [Under secretariat 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 Parent 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 deliver 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 the Company has been part of the group of companies called SEPI Group of which SEPI, a public law entity, is the parent company. SEPI has its registered office in Calle Velázquez no. 134 in Madrid, and is the sole shareholder, which means that the Company has a single-shareholder status pursuant to the provisions in article 12 of Royal Decree 1/2010, of 2 July, which approves the amended text of 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* [Act 47/2003, of 20 November 2003, the Budget Act], SEPI is not obliged to submit its consolidated financial statements at the Companies Registry, as it is not a trading company.

Correos is the parent company of Correos Group. The annual accounts of the Company corresponding to the financial year ended 31 December 2017, both individual and consolidated, were drawn up by the Governing Board of Correos on 22 March 2018, approved by the Sole Shareholder of the Parent Company on 18 May 2018. The annual accounts are filed at Madrid's Companies Registry.





2. Structure of the Correos Group

The subsidiaries that comprise the Correos Group (hereinafter the Group) and which fall within the scope of consolidation as of 31 December 2018 are the following:

Name of the company	Principal activity	Registered address
Correos Telecom, S.A., S.M.E., M.P. (Sole Shareholder Company)	Management of the Parent Company's telecommunications network	c/ Conde de Peñalver, 19 (Madrid)
Nexea Gestión Documental, S.A., S.M.E. (Sole Shareholder Company)	Hybrid mail services	c/ Rejas, 9 (Madrid)
Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company)	Transport services for documents and small parcels	Avenida de Europa, 8 Coslada (Madrid)

Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company) 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., S.M.E. (Sole Shareholder Company), is the transport of corporate documents and small parcels, both nationally and internationally.

Correos Telecom, S.A., S.M.E., M.P. (Sole Shareholder Company) 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.

Nexea Gestión Documental, S.A., S.M.E. (Sole Shareholder Company), 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.

No changes have occurred within the scope of consolidation in financial years 2018 and 2017.

All subsidiaries close their financial year on 31 December, with the Euro being the functional and the presentation currency.

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 the Legal System for the Public Sector Act. According to these provisions the name of all Correos Group's companies changed and are hereafter known as:

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.

The detail as of 31 December 2018 and 2017 for the equity instruments of the subsidiaries included in the consolidation of Correos Group, before the standardisation and/or consolidation adjustments, are as follows:

Name of the company
Sociedad Estatal Correos y Telégrafos, S.A., S.M.E (Sole Shareholder Company)
Correos Telecom, S.A., S.M.E, M.P (Sole Shareholder Company)
Nexea Gestión Documental, S.A., S.M.E (Sole Shareholder Company)
Correos Express Paquetería Urgente, S.A., S.M.E (Sole Shareholder Company)





	Financial year 2018			Financial year 2017		
	Correos Express P.U., S.A., S.M.E.	Correos Telecom, S.A., S.M.E., M.P.	Nexea, G.D., S.A., S.M.E.	Correos Express P.U., S.A., S.M.E.	Correos Telecom, S.A., S.M.E., M.P.	Nexea G.D., S.A., S.M.E.
Net book value	110,824	1,503	-	94,912	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	99	300	128	99	300	128
Other reserves	1,937	3,941	(60)	(560)	3,941	(60)
Results of previous financial years	-	-	(4,148)	(5,125)	-	(3,328)
Result of the financial year	5,659	1,740	(440)	7,623	1,632	(821)
Total equity	14,176	7,484	(3,546)	8,518	7,376	(3,107)
Operating result	6,269	2,345	(242)	(6,508)	2,198	(827)





3. Basis for presenting the consolidated annual accounts

When preparing these consolidated annual accounts, the Parent Company's Directors applied the accounting regulations included in the new Spanish General Accountancy Plan (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 2017. Specifically:

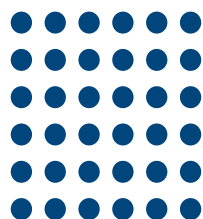
- The annual accounts for the Parent Company are consolidated with those of all of its subsidiaries (see Note (2)) using the full consolidation method. The Parent Company holds all voting rights in all the consolidated companies.
- Where subsidiaries have followed materially different accounting or valuation 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 equity instruments belonging to all of the Parent Company's subsidiaries are compensated with their equity.
- 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 2018 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 Spanish General Accountancy Plan (GAP) and which, given the strategic or public interest nature of their activities, regularly deliver goods or provide services to other bodies or users without remuneration, or in exchange for a fee, or according to a pricing policy set directly or indirectly by the Government.





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

a) Fair presentation

These consolidated annual accounts, made up of the consolidated balance sheet, the consolidated profit and loss account, the consolidated statement of changes in equity, the consolidated cash flows statement and the consolidated report, made up of notes 1 to 24, 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 2018, in order to provide a fair presentation of the assets, financial situation and results of the Group, together with the accuracy of the cash flows shown on the consolidated cash flows statement. 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 otherwise stated, with the Euro being the functional currency of the Parent Company and of the companies included within the scope of consolidation.

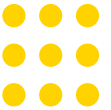
b) Critical aspects of the valuation and estimation of uncertainty

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 on the breakdown of contingent assets and liabilities on 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 main judgements 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.

- *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 2018 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 principal assumptions and estimates 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 (5-1) of this report on 'Provisions and contingency liabilities'. The 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 value impairment tests when there is evidence of said impairment.

- *Calculation of fair values, values in use, present values and recoverable amounts*

The calculation of reasonable values, values in use, current values and recoverable amounts 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 when 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.

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 year.

d) Classification of current and non-current items

For the classification of current items, a maximum period of one year from

the date of these consolidated annual accounts has been considered.

4. Application of the results of the Parent Company

The proposed use of profit for 2018 put forth by the Parent Company Directors and pending approval by the Sole Shareholder, as well as the proposal approved for the 2017 financial year, is as follows:

	Financial year 2018	Financial year 2017
Result for the financial year	(142,841)	60,727)
Distribution base:		
Voluntary reserves	(142,841)	(60,727)
Total	142,841)	(60,727)

On 18 May 2018, the Parent Company's Sole Shareholder approved the proposed use of the profits from the 2017 financial year.



Limitations on the distribution of results and dividends

Pursuant to Article 274 of the 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 profit and loss account in the event that other reserves are not available.

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:

Control acquisition

The acquisition by the Parent Company (or another Group company) of the control of a subsidiary constitutes a business combination that is recorded in accordance with the acquisition method. This method requires the acquiring company to record, at the acquisition date, the identifiable acquired assets and the assumed liabilities in a business combination, as well as, if applicable, the corresponding goodwill or negative difference. Subsidiaries are consolidated as of the date on which control is transferred to the Group, and are excluded from consolidation on the date on which the control ceases.

The acquisition cost is determined as the sum of the fair values, at acquisition date, of the assets delivered, the liabilities incurred or assumed and the equity instruments issued by the acquirer,

and the fair value of any contingent consideration that depends on future events or on the fulfilment of certain conditions, which must be recorded as an asset, a liability or as equity according to their nature.

Expenses related to the issuance of equity instruments or financial liabilities delivered do not form part of the cost of the business combination, and are recorded in accordance with the rules applicable to financial instruments. Fees paid to legal advisors or other professionals involved in the business combination are recorded as expenses as they are incurred. The costs internally generated for these concepts are also excluded in the cost of the combination, as well as those incurred by the acquired entity, as the case may be.

The excess, on the date of acquisition, of the cost of the business combination, over the proportional part of the value of the identifiable assets acquired, less that of the assumed liabilities representing the share capital of the acquired company,





is recognized as goodwill. In such an exceptional case when this amount is higher than the cost of the business combination, the excess will be recorded in the consolidated profit and loss account as an income.

Consolidation method

The assets, liabilities, income, expenditure, cash flows and other entries in the annual accounts of the Group's entities are incorporated into the consolidated annual accounts using the global integration method. This method requires the following:

- **Standardised timing.** The consolidated annual accounts are established on the same date and for the same period as the annual accounts of the entity whose consolidation is required. Where an entity of the Group closes its financial year on a different date from that of the consolidated annual accounts, its inclusion in those accounts has to be done through interim statements referring to the same date and

period that the consolidated accounts refer to.

- **Standardised valuation.** The assets and liabilities, income and expenditure and other entries in the annual accounts of the Group's entities were valued according to uniform methods. The assets or liabilities or income or expenditure entries that were valued under non-uniform criteria with respect to the ones applied in consolidation were valued again with the necessary adjustments made, solely for consolidation purposes.

- **Aggregation.** The different items on the previously standardised individual annual accounts are aggregated according to item type.

- **Net equity investment elimination.** The representative accounting values for the equity instruments of the subsidiary entity directly or indirectly owned by the Parent Company are balanced with the proportional part of the net equity entries of that subsidiary allocated to

these holdings, generally, on the basis of the resulting values for applying the above mentioned acquisition method. In consolidations subsequent to the financial year in which the control was acquired, the surplus or shortfall of the net equity generated by the subsidiary from the acquisition data that is allocated to the parent company is presented in the consolidated balance sheet inside the entries for reserves or adjustment for changes in value, according to their nature.

- **Elimination of intragroup items.** Credits and debts, income and expenses and cash flows between Group companies shall be fully eliminated. Similarly, all results from internal operations are eliminated and deferred until performed for third parties which are not part of the Group.

(a) Intangible assets

Intangible fixed assets are valued at their purchase price or at their production

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

- *Computer software and other intangible fixed 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.

Other intangible fixed assets corresponds with the amount paid for the transfer of sublease rights and is amortized on a straight-line basis over the live of such right.

- *Patents, licences and similar*

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

(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's Activity), 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 built assets	35 – 75
Technical installations and machinery	3 – 33
Other installations, equipment and furniture	5 – 20
Information technology equipment	3 – 8
Transportation elements	6 – 10
Other assets	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 tangible fixed assets, 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 their use or lengthen their lifetime are entered in the profit and loss account 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. The amortisation of these investments are made according to their useful life, which will be the duration of the lease or assignment contract, including the renewal period when there are evidences that they can support it, when this is lower than the asset's economic life.

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) Investment 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 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 items, which is 35-75 years.

The criteria contained in the above rules, regarding property, plant and equipment, shall be applied to investments property.

(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 profit and loss account based on their accrual on a straight-line basis of the total lease period.

- *Correos Group as lessor*

Earnings from operating leases are recorded in the consolidated profit and loss account based on their accrual a straight-

line basis 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 value for 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 tangible and intangible fixed assets is held mainly with a view to producing socio-economic flows benefiting society and do not correspond to investments in assets with the sole objective of economic profitability and whose recovery would be based on the economic flows produced.

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

- *Remaining assets*

Should there be signs of 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, 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 are discounted at their 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 cash-generating units comprising them, when their book value exceeds the corresponding recoverable amount. Impairment losses are recorded within the profit and loss account and are reverted, except where they originate from goodwill if there have been changes in the estimates used in order to determine the recoverable amount. The reversal of an impairment loss is recorded in the profit and loss account, with the restriction that the book value of the asset after the reversal cannot exceed the amount, net of amortisations, that would appear in the

books had the aforementioned 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 equity instruments and cash and cash equivalents.

Correos Group classifies its financial assets into the following categories for the purposes of their valuation:

- Loans and entries receivable: these include the financial assets which, not being negotiated in any organised asset market, have expected cash flow in a determined or determinable sum and for which it is estimated that 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 non-trade operations, loans to staff, the

debtor accounts with government bodies, as well as deposits and guarantees given.

- Cash and cash equivalents: see Note 5 (j).

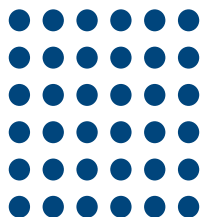
The financial assets to be realised in less than 12 months from the date of preparation of the consolidated balance sheet are classified as current, and those to be realised in a longer period are classified as non-current.

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

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

- The financial assets included in the category of 'Loans and entries receivable' are valued at the amortised cost.





- Cash and cash equivalents: see Note 5 (j).

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, refinancings or possibilities of not recovering all of 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 profit and loss account and is limited to the book value of the financial asset that would have been recorded on the date of reversal, if the 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 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.

The non-current assets held for sale are recorded as the lesser of the following two amounts: their book value or their reasonable value minus the costs of sale. These assets are not amortised, and if necessary, the appropriate 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 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 are 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 appropriate valuation adjustments are made, with these being recognised as a cost in the consolidated profit and loss account.

(k) Provisions and contingent liabilities

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

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



reflecting the best current estimate of the corresponding liability at all times.

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

These consolidated annual accounts include all the provisions with respect to which it is estimated that the probability of having to meet the obligation is greater than the opposite. Contingent liabilities are not recognized in the consolidated annual accounts, but are reported in the consolidated report.

(I) Financial liabilities

The financial liabilities of Correos Group correspond to the accounts

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

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

Financial liabilities maturing less than 12 months from the date 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 profit and loss account, 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 profit and loss account of the financial year in which they appear.

(n) Income and expenses

Income and expenses are allocated on the basis of 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*

The earnings from the sale of goods and the provision of services are valued at the reasonable value of its counterpart, received or to be received, deriving from the same, minus: the amount of the discount, the reduction in the price and other similar entries that the company may concede, together with the indirect taxes that are levied on the operations

and which can be passed on to third parties. The interest incorporated into trade loans maturing no later than one year and not having a contractual interest rate is included as the higher value of the earnings, since the effect of not updating the cash flows is insignificant.

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 2018, the Parent Company had no additional commitment to the participants in the above scheme other than the sums actually contributed since 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.

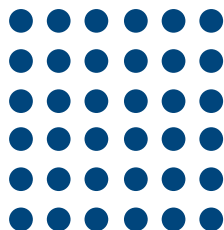
- *Compensation for dismissal*

Under employment legislation, the Group is obliged to pay compensation to those employees with whom, under certain conditions, it terminates their employment relationships. 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 subsidiary Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company) provide that employees taking voluntary early retirement from age 60 to 65 must be paid a length-of-service bonus, which varies from various fixed sums to a set number of monthly payments if they have provided services to the company





for between 10 and 30 years (depending on the applicable collective bargaining agreement).

(p) Current and deferred taxes

The cost or (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 profit and loss account, except in those cases in which this tax is directly related to entries reflected explicitly in the net assets of Correos Group, in which case the tax is recognised, likewise, in the same item.

In 2011 Correos Group 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., S.M.E.

Due to the integration of Correos Group into the 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 No. 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 No. 9/86, made up of the SEPI and its companies based in Spain where its direct or indirect shareholdings are at least 75% and it has the majority of voting rights, in line with the provisions in article 58 of *Ley 27/2014, del Impuesto sobre Sociedades* [Act 27/2014, on the Corporation Tax].

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 'Debtors, group companies and associates' and 'Short-term 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.

The Subsidiaries and the Group's Parent Company recognise deferred tax assets for all of the deductible temporary differences, unused tax credits and negative taxable bases that are not applied, to the extent that it is likely that the Group Company that has generated them has future tax gains that make the application of these assets possible, or that they can rationally be expected to be recovered within the Tax Consolidation Group; however, in any case, the negative tax amounts generated by the Correos Group Companies starting from their incorporation in the consolidated



fiscal group 9/86 were acquired by SEPI at a rate of 28% until financial year 2015 and from financial year 2016 at a rate of 25%. 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 assets', their recoverability is evaluated annually to determine future tax benefits 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 annual account, except insofar as the assets and liabilities for deferred taxes affected have been charged or paid directly to the net equity.

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

(q) Grants, donations, bequests and compensations received for costs derived from providing the UPS

Grants, donations, bequests 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.

Grants, donations and bequests are considered non-refundable when there is an individual agreement for granting them in favour of the Company, when the conditions established for granting them have been met and when there are no reasonable doubts about their receipt.

On this basis, the Parent Company recognised in financial year 2018 Compensation for provision of the UPS for an amount of 120,000 thousand euros (Note 17.c), once the necessary requirements to be considered as non refundable have been met.

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 profit and loss account of the compensations used for the financing of land is deferred until the financial year in which their transfer or impairment takes place.

As regards the considerations received up until 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.

Non-refundable grants, donations and bequests and cost compensations received by the Parent Company to compensate the operation deficits derived

from the provision of UPS are recorded in the consolidated profit and loss account 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 to 2018 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, which is being developed by the Spanish Government and is currently being processed and negotiated with the European Commission, comes into force. If the methodology and the concepts for calculating the net cost are approved in the terms in which they are being negotiated, the Parent Company Directors consider that there is a remote risk of a negative impact on the consolidated annual accounts of this year and the following, relative to the calculation of the net cost of UPS for the period 2011 to 2018.

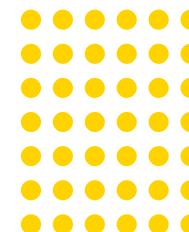
(r) Transactions with related parties

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

(s) Value Added Tax

The non-deductible value added tax (hereinafter, VAT) forms part of the acquisition price of the capital goods, 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 profit and loss account.

Article 2 of the *Ley 23/2005, de 18 de noviembre, de Reformas en Materia Tributaria para el Impulso a la*





Productividad [Act 23/2005, of the 18 November 2005, on Tax Incentives for Productivity Act], 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 capital goods within the legally prescribed deadlines. For each of the financial years, the total revenue from such restatements has been stated under the item 'Taxes' in the heading 'Other operating expenses' of the consolidated profit and loss account.

Article 22.2 of 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.

(t) Consolidated cash flows statement

The consolidated cash flows statements have been prepared using the indirect method and contain the use of the

following expressions and their respective meanings:

- Operating activities: activities that constitute ordinary Group revenues, as well as other activities that cannot be qualified as investing or financing.

- Investing activities: acquisition, sale or disposal and other means of assets in the long-term and other investments not included in cash and cash equivalents.

- Financing activities: activities that generate changes in the size and composition of equity and liabilities that do not form part of operating activities.

6. Intangible assets

The detail of activity in the 2018 and 2017 financial years is as follows:





Financial year 2018

	Balance at 01/01/2018	Additions	Disposals	Transfers	Balance at 31/12/2018
Cost-					
Patents, licences and similar	344	-	-	-	344
Computer software	258,543	10,514	(370)	-	268,687
Other intangible assets	502	-	-	-	502
TOTAL COST	259,389	10,514	(370)	-	269,533
Accumulated amortisation-					
Patents, licences and similar	(344)	-	-	-	(344)
Computer software	(225,775)	(18,097)	370	-	(243,502)
Other intangible assets	(308)	(14)	-	-	(322)
TOTAL ACCUMULATED AMORTISATION	(226,427)	(18,111)	370	-	(244,168)
NET VALUE	32,962				25,365

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

The registrations seen during financial year correspond in the main o investments made by the Parent Company to acquire user licences and new IT programmes, in addition to the updates to others, for the sum of 6,720 thousand euros (with

the investment registered during the 2017 financial year being 15,054 thousand euros).



Financial year 2017

	Balance at 01/01/2017	Additions	Disposals	Transfers	Balance at 31/12/2017
Cost-					
Patents, licences and similar	344	-	-	-	344
Computer software	242,783	16,964	(1,204)	-	258,543
Other intangible assets	502	-	-	-	502
TOTAL COST	243,629	16,964	(1,204)	-	259,389
Accumulated amortisation-					
Patents, licences and similar	(344)	-	-	-	(344)
Computer software	(207,354)	(19,625)	1,204	-	(225,775)
Other intangible assets	(291)	(18)	1	-	(308)
TOTAL ACCUMULATED AMORTISATION	(207,989)	(19,643)	1,205	-	(226,427)
NET VALUE	35,640				32,962



The cost of the wholly amortised items that formed part of the intangible assets of the Correos Group as of 31 December 2018 amounts to 222,189 thousand euros (198,689 thousand euros as of 31 December 2017).

At 31 December 2018, the Parent Company held binding agreements for the acquisition of IT applications and evolutionary enhancements to IT systems for the sum of 25,750 thousand euros (8,261 thousand euros in 2017). On that

date there were no binding agreements of sale involving any intangible assets owned by Correos Group.



7. Property, plant and equipment

The detail of activity in the 2018 and 2017 financial years is as follows:

Financial year 2018					
	Balance at 01/01/2018	Recordings and provisions	Disposals	Transfers	Balance at 31/12/2018
Cost-					
Land	379,856	-	-	5,706	385,562
Buildings	1,463,939	4,238	(1,410)	14,880	1,481,647
Technical installations and other tangible fixed assets	682,938	46,421	(31,293)	5,826	703,892
Assets under construction and advances	25,880	16,031	-	(10,702)	31,209
TOTAL COST	2,552,613	66,690	(32,703)	15,710	2,602,310
Accumulated amortisation-					
Buildings	(534,459)	(36,064)	777	(3,505)	(573,251)
Technical installations and other tangible fixed assets	(510,343)	(40,616)	31,086	(357)	(520,230)
TOTAL ACCUMULATED AMORTISATION	(1,044,802)	(76,680)	31,863	(3,862)	(1,093,481)
Adjustments for impairment-					
Land and buildings	(114,802)	(8,587)	7,180	(3,604)	(119,813)
Technical installations and other tangible fixed assets	(2,845)	-	-	(44)	(2,889)
Assets under construction and advances	(2,216)	-	-	933	(1,283)
TOTAL ADJUSTMENTS FOR IMPAIRMENT	(119,863)	(8,587)	7,180	(2,715)	(123,985)
NET VALUE	1,387,948				1,384,844



Financial year 2017

	Balance at 01/01/2017	Recordings and provisions	Disposals	Transfers	Balance at 31/12/2017
Cost-					
Land	379,355	447	(352)	406	379,856
Buildings	1,451,949	8,472	(1,434)	4,952	1,463,939
Technical installations and other tangible fixed assets	675,854	43,216	(41,141)	5,009	682,938
Assets under construction and advances	21,646	15,218	-	(10,984)	25,880
TOTAL COST	2,528,804	67,353	(42,927)	(617)	2,552,613
Accumulated amortisation-					
Buildings	(500,382)	(34,971)	790	104	(534,459)
Technical installations and other tangible fixed assets	(513,129)	(38,090)	40,880	(4)	(510,343)
TOTAL ACCUMULATED AMORTISATION	(1,013,511)	(73,061)	41,670	100	(1,044,802)
Adjustments for impairment-					
Land and buildings	(117,662)	(1,965)	5,207	(382)	(114,802)
Technical installations and other tangible fixed assets	(2,830)	-	9	(24)	(2,845)
Assets under construction and advances	(2,381)	(476)	181	460	(2,216)
TOTAL ADJUSTMENTS FOR IMPAIRMENT	(122,873)	(2,441)	5,397	54	(119,863)
NET VALUE	1,392,420				1,387,948



The most significant additions made under the headings 'Land and buildings', and 'Assets 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 delivery for sums of 14,138 and 3,815 thousand euros respectively (18,046 and 1,773 thousand euros respectively during financial year 2017).

The heading 'Technical installations and other tangible fixed assets' 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, machinery, IT equipment and furniture for sums of 5,669, 8,909, 11,310 and 8,464

thousand euros respectively (in the 2017 financial year the amounts for motor vehicles, IT equipment, machinery and furniture were 11,805, 8,232, 5,428 and 6,097 thousand euros respectively).

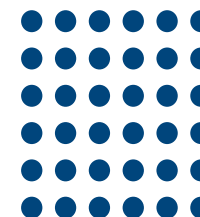
Of the total sum for disposals of property, plant and equipment, 31,206 thousand euros correspond to fully amortised elements that were disposed of by the Parent Company, mainly IT equipment, machinery, furniture and motor vehicles (the Parent Company disposed of wholly amortised material elements amounting to 39,549 thousand euros during the 2017 financial year).

As mentioned in Note 4. f) 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, plant 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:

- Obtaining market studies and evaluation of the components of the assets regarding 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 property 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, plant and equipment', of 4,989 thousand euros (allocation of 2,077 thousand euros and reversal of 7,066 thousand euros), which was recorded in the 2018 profit and loss account. A net reversal for impairment of 3,315 million thousand euros was recognised in 2017 (provision of 2,099 thousand euros and a reversal of 5,414 million thousand euros).

In financial year 2018, the Parent Company recognized an impairment of 6,418 euros in anticipation of the disposals of assets expected due to the renovation of buildings. In 2017, the Parent Company applied 1,677 thousand euros for impairment to the headings 'Property, plant and equipment', 'Investment property' and 'Non-current

assets held for sale' as a result of the disposal due to sale of property.

As of 31 December 2018, the Parent Company had signed contracts to purchase Property, plant and equipment worth 37,005 thousand euros (45,072 million thousand euros in the 2017 financial year). At the close of the financial year, the Company has no final commitments involving sale of assets.

The cost of the wholly amortised items that formed part of the Property, plant and equipment assets of the Correos Group as of 31 December 2018 amounts to 458,040 thousand euros (432,245 thousand euros as of 31 December 2017).

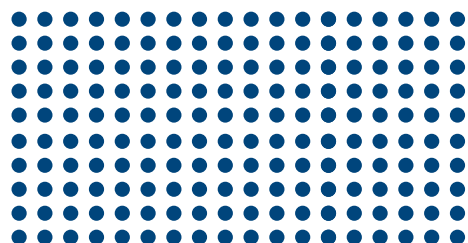
The net book value of the dwellings, premises and plots of land making up the Property, plant and equipment of the Parent Company not involved in the operation amounts to 39,646 thousand euros (41,107 thousand euros as of 31 December 2017), and their acquisition

cost was 67,384 thousand euros (65,267 thousand euros at 31 December 2017).

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

8. Investment property

The detail of activity in the 2018 and 2017 financial years is as follows:





	Balance at 01/01/2017	Recordings and provisions	Disposals	Transfers	Balance at 31/12/2017	Recordings and provisions	Transfers	Balance at 31/12/2018
Cost-								
Land	4,083	-	(180)	198	4,101	-	305	4,406
Buildings	13,850	16	(271)	420	14,015	4	649	14,688
TOTAL COST	17,933	16	(451)	618	18,116	4	954	19,074
Accumulated amortisation-								
Buildings	(4,637)	(234)	138	(102)	(4,835)	(243)	(234)	(5,312)
Adjustments for impairment-								
Land and buildings	(86)	3	-	(54)	(137)	-	-	(137)
NET BOOK VALUE	13,210				13,144			13,625





Investment property corresponds to premises that the Parent Company has leased to third parties. The income from these contracts recorded in the consolidated profit and loss account amounted to 1,134 thousand euros in the 2018 financial year (955 thousand euros in the 2017 financial year).

The costs associated with property investments mostly correspond to their annual amortisation and maintenance costs, and amounted to 536 thousand euros during the 2018 financial year (517 thousand euros during the 2017

financial year). All of these expenses were recorded in the consolidated profit and loss account based on the accrual principle.

There are no restrictions on 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'.

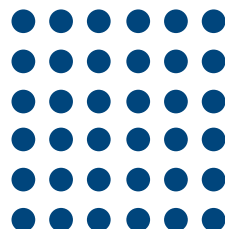
There are no contractual obligations for the acquisition, construction or

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 2018	Financial year 2017
Up to one year	784	1,032
Between one and five years	1,096	1,549
More than five years	264	514
	2,144	3,095





9. Non-current assets held for sale

The detail and movement under this heading during the 2018 and 2017 financial years is as follows:

	Balance at 01/01/2018	Recordings and provisions	Disposals	Transfers	Balance at 31/12/2018
Cost-					
Land	7,194	-	(1,163)	(5,562)	469
Buildings	12,194	-	(1,426)	(10,696)	72
Other installations	424	-	(18)	(406)	-
TOTAL COST	19,812	-	(2,607)	(16,664)	541
Accumulated amortisation-					
Buildings	(4,431)	-	680	3,739	(12)
Other installations	(375)	-	18	357	-
TOTAL ACCUMULATED AMORTISATION	(4,806)	-	698	4,096	(12)
Adjustments for impairment-					
Land and buildings	(2,735)	-	20	2,715	-
NET BOOK VALUE	12,271				529

At the close of 2018, the Group classified 529 thousand euros (12,271 thousand euros in the 2017 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 which are available for immediate sale and that they are highly likely to be sold.

In financial year 2018, the Parent Company reclassified under 'Property, plant and equipment' investments in buildings with a cost of 16,151 thousand euros and an accumulated amortisation of 3,844 thousand euros, as these assets are no longer in compliance with the requirements to be classified as held for sale; also, it has corrected the assets for the amortizations that would have been recognized had they not been classified as held for sale, of 719 thousand euros, which has been recorded in the consolidated profit and loss account for the year 2018.



Likewise, the Parent Company disposed of assets due to sales worth 2,607 thousand euros and an accumulated amortisation of 698 thousand euros in financial year 2018 (against 8,022

thousand euros and an accumulated amortisation of 1,062 thousand euros in the 2017 financial year), being 5.8 million euros the result obtained.

	Balance at 01/01/2017	Recordings and provisions	Disposals	Transfers	Balance at 31/12/2017
Cost-					
Land	10,073	273	(3,152)	-	7,194
Buildings	17,020	2	(4,828)	-	12,194
Other installations	464	3	(42)	(1)	424
TOTAL COST	27,557	278	(8,022)	(1)	19,812
Accumulated amortisation-					
Buildings	(5,460)	-	1,029	-	(4,431)
Other installations	(410)	-	33	2	(375)
TOTAL ACCUMULATED AMORTISATION	(5,870)	-	1,062	2	(4,806)
Adjustments for impairment-					
Land and buildings	(4,394)	(37)	1,696	-	(2,735)
NET BOOK VALUE	17,293				12,271

10. Inventories

Details of this item as of 31 December 2018 and 2017 are as follows:

	Balance at 31/12/2018	Balance at 31/12/2017
Inventories valued at cost-		
Stamps in the possession of third parties	209	311
Stamps at Company's post offices and warehouses	1,699	1,734
Philately Stamps	4,669	4,329
Other stocks	2,792	2,615
	9,369	8,989
Valuation adjustments due to impairment-	(4,181)	(4,329)
	5,188	4,660

The movement of the valuation adjustments for impairment of inventories during financial years 2018 and 2017 is as follows:

	Valuation adjustments		
	Stamps	Others	Total
BALANCE AT 01 JANUARY 2017	2,513	627	3,140
Valuation adjustments due to impairment	2,049	211	2,260
Reversal of valuation adjustments	(309)	-	(309)
Application against cost of stock	(565)	(197)	(762)
BALANCE AT 31 DECEMBER 2017	3,688	641	4,329
Valuation adjustments due to impairment	568	93	661
Reversal of valuation adjustments	-	-	-
Application against cost of stock	(758)	(51)	(809)
BALANCE AT 31 DECEMBER 2018	3,498	683	4,181

Correos Group has maintained valuation adjustments for the impairment of stamps for a value of 3,498 thousand euros (3,688 thousand euros in 2017) in those cases in which it was estimated that

its net realisable value was lower than its book value.

Periodically, the Parent Company destroys those stocks of stamps whose





age and/or the reason for their issue make their use impossible. For that reason, completely impaired stamps worth 809 thousand euros were destroyed over the financial year (762 thousand euros in 2017).

11. Current and non-current financial assets

The composition of Correos Group current and non-current financial assets as of 31 December 2018 and 2017, 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 31/12/2018	Balance at 31/12/2017
Non-current financial investments-		
Deposits and guarantees	2,067	2,060
Others	127	1,046
	2,194	3,106
Trade debtors and other receivables-		
Clients from sales and provision of services	440,414	401,901
Clients, group companies and associates (Note 20)	57	70
Sundry debtors	25,254	53,706
Debtors, group companies and associates (Note 20)	12,934	26,640
Staff	7,521	7,125
Public administration (Note 18)	253	178
	486,433	489,620
Current financial investments-		
Deposits and guarantees	946	903

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

11.1.) Trade debtors and other receivables

The headings 'Clients from sales and provision of services' and 'Sundry debtors' include 191,821 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 160,491 thousand euros as of 31 December 2017).

As of 31 December 2018, the balance pending collection of compensation for costs derived from the provision of UPS for prior years pending settlement of the Parent Company is zero (24,895 thousand euros in the year 2017, recorded under 'Sundry debtors'). 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 'Staff' heading contains the amounts delivered by the Parent Company to different employees as advance payroll

payments in accordance with a specific plan designed by the Company and that are still pending recovery at the close of the financial year.

The headings 'Clients from sales and provision of services' and 'Sundry debtors' are shown as net valuation adjustments for impairment, with their movements during the 2018 and 2017 financial years being as follows:



Valuation adjustments			
	Clients	Debtors	Total
BALANCE AT 01 JANUARY 2017	18,594	6,906	25,500
Valuation adjustments due to impairment	8,783	-	8,783
Reversals of valuation adjustments	(4,709)	(5,916)	(10,625)
BALANCE AT 31 DECEMBER 2017	22,668	990	23,658
Valuation adjustments due to impairment	6,436	1	6,437
Reversals of valuation adjustments	(6,870)	-	(6,870)
BALANCE AT 31 DECEMBER 2018	22,234	991	23,225

Under the item 'Losses, impairment and changes in trade provisions' of the consolidated income statement, the Correos Group recorded an expense of 4,455 thousand euros due to a direct cancellation of defaulting debts (having registered an expense of 1,864 thousand euros for this same item during the 2017 financial year).

11.2.) Non-current and current financial 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.

'Non-current financial investments' comprises the following:

	Balance at 31/12/2018	Balance at 31/12/2017
Non-current financial investments		
Loans to third parties		1,000
Other financial investments	2,194	2,106
	2,194	3,106



The heading 'Non-current financial investments' of the Parent Company includes guarantees and deposits for 1,112 thousand euros and also includes 18 thousand euros, which correspond to the acquisition of shares in the International Post Corporation (IPC). In financial year 2018, the Parent Company reclassified under short term 999 thousand euros pending collection for the sale with deferred payment of a building.

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.

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

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

11.3.1) Credit risks

A credit risk arising 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 2018 and 2017 is as follows:



	Parent Company		Rest of companies of the Group		Total Correos Group	
	Balance at 31/12/2018	Balance at 31/12/2017	Balance at 31/12/2018	Balance at 31/12/2017	Balance at 31/12/2018	Balance at 31/12/2017
Non-current financial investments	1,118	2,096	1,076	1,010	2,194	3,106
Clients from sales and provision of services	386,248	345,547	54,166	56,354	440,414	401,901
Sundry debtors (Note 11)	24,943	53,294	311	412	25,254	53,706
Current financial investments	912	883	34	20	946	903
Current deposits	20,000	70,000	-	-	20,000	70,000
Accrued interest not collected	-	12	-	-	-	11
Banks and lending institutions	77,881	96,760	2,461	2,024	80,342	98,784
	511,102	568,591	58,048	59,820	569,150	628,411



'Sundry debtors' is composed as follows:

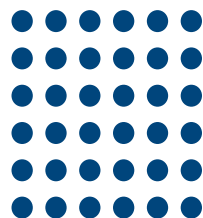
	Balance at 31/12/2018	Balance at 31/12/2017
Trade debtors and other receivables		
Sundry debtors - UPS compensation (Note 18)	-	24,895
Sundry debtors - rest	25,254	28,811
	25,254	53,706

In the 2018 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 120,000 thousand euros (in 2017 it recognised 58,700 thousand euros corresponding to the payment of compensation of costs derived from the UPS in previous years). As explained in Note 11.1), the balance pending collection of compensation for costs derived from the provision of UPS for prior years pending settlement is zero (24,895 thousand euros in the year 2017, recorded under 'Sundry debtors'). 'Sundry debtors-rest' includes,

among others, the balances pending settlement due to provisional payments of international mail of the Parent Company amounting to 15,711 thousand euros (14,164 thousand euros).

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

The breakdown of the concentration of credit risks per counterpart under the 'Clients from sales and provision of services' and 'Sundry debtors' sections of Correos Group as of 31 December 2018 and 2017 is as follows:





Financial year 2018				
	Parent Company		Rest of companies	
	Number	Thousands of euros	Number	Thousands of euros
Clients and debtors-				
With balance greater than 1,000 thousand euros	27	76,298	1	1,014
With balance between 500 and 1,000 thousand euros	41	28,228	-	-
With balance below 500 thousand euros	24,164	101,305	14,322	53,151
	24,232	205,831	14,323	54,165
Foreign postal operators	220	191,821	-	-
Sundry debtors - UPS compensation (Note 11)	-	-	-	-
Other financial assets	-	13,539	-	312
		205,360		312
		411,191		54,477



Financial year 2017				
	Parent Company		Rest of companies	
	Number	Thousands of euros	Number	Thousands of euros
Clients and debtors-				
With balance greater than 1,000 thousand euros	31	85,788	-	-
With balance between 500 and 1,000 thousand euros	31	21,326	-	-
With balance below 500 thousand euros	22,921	85,647	12,988	56,351
	22,983	192,761	12,988	56,351
Foreign postal operators	226	160,491	-	-
Sundry debtors - UPS compensation (Note 11)	-	24,895	-	-
Other financial assets	-	20,694	-	415
		206,080		415
		398,841		56,766





At 31 December 2018 and 2017, the breakdown of the 'Clients' and 'Foreign

postal operators' of Correos Group's companies by maturity is as follows:

Financial year 2018			
	Parent Company		Rest of Group companies
	Clients	Foreign postal operators	Clients
Not due	134,369	82,349	38,901
Due, non-doubtful:			
Less than 30 days	39,527	454	6,452
Between 30 and 60 days	13,928	2,942	3,293
Between 60 and 90 days	4,116	244	2,056
Between 90 and 120 days	3,833	347	633
Over 120 days	10,058	89,774	2,830
Provisional payments	-	15,711	-
	205,831	191,821	54,165
Doubtful clients	12,023	1,071	9,140
Adjustments for impairment	(12,023)	(1,071)	(9,140)
	205,831	191,821	54,165

Financial year 2017		
Parent Company		Rest of Group companies
Clients	Foreign postal operators	Clients
107,984	67,405	37,623
58,360	437	10,836
15,909	1,107	2,798
3,933	462	1,762
1,931	233	649
4,644	76,683	2,683
-	14,164	-
192,761	160,491	56,351
14,488	1,012	7,169
(14,488)	(1,012)	(7,169)
192,761	160,491	56,351



The amounts receivable from Parent Company clients that are more than 120 days old come to 12,888 thousand euros (7,327 thousand euros in 2017).

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 balance of advances collected from foreign operators by the Parent Company amounts to 131,164 thousand euros as of 31 December 2018 (92,541 thousand euros as of 31 December 2017).

The Parent Company streamlined the cash flow surpluses during the 2018 financial year by actively managing the funds deposited in current accounts in highly solvent national financial entities. Over the course of the 2018 financial year, the Parent Company also lent cash flow to its Sole Shareholder (SEPI), payable

in less than one month at market interest rates (See Notes 12, 17 i) and 20).

11.3.2) Market risks

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 2018 amounted to 67,292 thousand euros payable (10,172



thousand as of 31 December 2017), the Parent Company's Directors do not consider this risk significant.

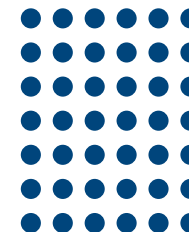
11.3.3) Liquidity risks

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 Parent Company has contracted lines of credit to meet any liquidity needs, which have not been used during 2018.

The breakdown of the current financial assets and liabilities of the Group as of 31 December 2018 and 2017, and, by difference, its ability to meet its payment obligations in the short-term, is as follows:

	Balance at 31/12/2018	Balance at 31/12/2017
Current financial assets-		
Clients for sales and provision of services	440,414	401,901
Sundry debtors	25,254	53,706
Financial investments	946	903
Cash and other liquid resources	128,118	199,942
Current financial liabilities-		
Current debts	(32,478)	(25,413)
Trade creditors and other accounts payable	(479,020)	(402,522)
DIFFERENCE	83,234	228,517





12. Cash and cash equivalents

Details of this item as of 31 December 2018 and 2017 are as follows:

	Balance at 31/12/2018	Balance at 31/12/2017
Cash:		
Cash	27,776	31,146
Banks and lending institutions	80,342	98,784
Cash equivalents:		
Current deposits (Notes 11.3.1) and 20))	20,000	70,000
Accrued interest not due:		
From group companies (Notes 11.3.1) and 20))	-	1
From third parties	-	11
	128,118	199,942

As of 31 December 2018, the Parent Company maintains a restricted deposit of 766 thousand euros in order to cover the IBI settlements received from local entities (see Note 17 h)), as a result of the decision of the European Commission that declared the exemption from this tax as illegal aid.

13. Shareholder's equity

The breakdown of the movement of the Correos Group's equity is shown in the consolidated statement of changes in equity, which is an integral part of the consolidated annual accounts.

a) Declared 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 2018 and 2017.

c) Reserves

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 by the part



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

As of 31 December 2018, the Statutory Reserves of the Parent Company totalled

214,119 thousand euros while the Voluntary Reserves stood at 257,298 thousand euros (at 31 December 2017, these totalled 214,119 thousand euros and 317,906 thousand euros, respectively).

The Parent Company Directors are planning to request, in financial year 2019, to the Shareholders' Meeting the authorization to redistribute the whole balance of Statutory Reserves to Voluntary Reserves.

d) Reserves in consolidated companies

The detail as of 31 December 2018 and 2017 is as follows:



	Balance at 31/12/2016	Result 2016	Balance at 31/12/2017	Result 2017	Balance at 31/12/2018
Correos Telecom, S.A., S.M.E., M.P.	4,245	1,513	5,758	1,632	7,390
Nexea Gestión Documental, S.A., S.M.E.	(7,367)	(1,155)	(8,522)	(821)	(9,343)
Correos Express Paquetería Urgente, S.A., S.M.E.	(201,556)	991	(200,565)	7,623	(192,942)
	(204,678)	1,349	(203,329)	8,434	(194,895)



This heading also includes the Parent Company's Other Reserves, reflecting the reserves generated by certain consolidation adjustments in the past for 118,637 thousand euros (213,429 thousand euros in the 2017 financial year), and particularly the elimination of the provision for impairment of financial investments and accumulated amortisations of consolidation goodwill, resulting from the acquisition of 100% of Correos Express Paquetería Urgente, S.A., S.M.E.

e) Consolidated results of Correos Group

Correos Group's consolidated profits for the 2018 and 2017 financial years are as follows:

Financial year 2018			
	Individual results	Consolidation adjustments	Consolidation results
Correos y Telégrafos, S.A., S.M.E.	(142,841)	(17,078)	(159,919)
Correos Telecom, S.A., S.M.E., M.P.	1,740	-	1,740
Nexea Gestión Documental, S.A., S.M.E.	(440)	-	(440)
Correos Express Paquetería Urgente, S.A., S.M.E.	5,659	-	5,659
	(135,882)	(17,078)	(152,960)

Financial year 2017			
	Individual results	Consolidation adjustments	Consolidation results
Correos y Telégrafos, S.A., S.M.E.	(60,727)	(94,673)	(155,400)
Correos Telecom, S.A., S.M.E., M.P.	1,632	-	1,632
Nexea Gestión Documental, S.A., S.M.E.	(821)	-	(821)
Correos Express Paquetería Urgente, S.A., S.M.E.	7,623	-	7,623
	(52,293)	(94,673)	(146,966)





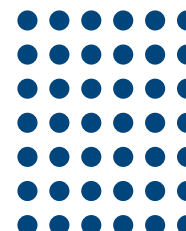
14. Grants, donations, bequests and compensations received for costs derived from providing the UPS

The detail of movements during financial years 2018 and 2017 of compensations received as capital subsidies is as follows:



	Financial year 2017 (Thousands of euros)
INITIAL BALANCE AT 1 JANUARY 2017	267,837
Grants, donations and bequests recognised	-
Tax effect	-
Allocation of the profit and loss account:	
- due to amortisation	(12,018)
- due to adjustments for impairment	(385)
- due to disposals	(374)
Tax effect	3,186
FINAL BALANCE AT 31 DECEMBER 2017	258,246

	Financial year 2018 (Thousands of euros)
INITIAL BALANCE AT 01 JANUARY 2018	258,246
Grants, donations and bequests recognised	22
2004-2010 UPS compensation (Note 17 h))	(11,495)
Tax effect 2004-2010 UPS compensation (Note 17 h))	2,874
Allocation of the profit and loss account:	
- due to amortisation	(10,543)
- due to adjustments for impairment	(219)
- due to disposals	(642)
Tax effect	2,806
FINAL BALANCE AT 31 DECEMBER 2018	241,049



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 reversed, as per the applicable regulation at 31 December 2018, and acknowledges this change in the Company's net equity (see Note 5q) and 18)).

15. Non-current and current provisions

The itemised list of non-current and current provisions for the 2018 and 2017 financial years is as follows:

Non-current provisions						Current provisions
	Provision for taxes	Provision for claims from the staff	Provision for court actions	Other provisions	Total	
BALANCE AT 01 JANUARY 2017	4,558	7,376	18,024	519	30,477	1,843
Provisions	609	5,073	9,864	120	15,666	1,878
Applications / payments	(1,540)	(4,141)	(11)	(55)	(5,747)	(481)
Reversals / excesses	(394)	(347)	(9,119)	(141)	(10,001)	(349)
BALANCE AT 31 DECEMBER 2017	3,233	7,961	18,758	443	30,395	2,891
Provisions	694	3,563	191	-	4,448	1,170
Applications / payments	(419)	-	(4,800)	-	(5,219)	(728)
Reversals / excesses	(12)	(242)	(27)	(35)	(316)	(316)
Reclassifications	-	408	-	(408)	-	-
BALANCE AT 31 DECEMBER 2018	3,496	11,690	14,122	-	29,308	3,017



Non-current provisions for the financial year, amounting to 4,448 thousand euros, have been charged to the consolidated profit and loss account according to their type (15,666 thousand euros in 2017).

The origin of the application of non-current provisions lies in court decisions that have been unfavourable for Correos Group during financial year 2018 and which have involved the actual payment of certain amounts.

The reversals of non-current provisions for the financial year, amounting to 316 thousand euros, have been charged to the consolidated income statement (10,001 thousand euros in 2017).

Provision for claims from the staff

The balance of this provision as of 31 December 2018 records the estimated sums to be paid for claims and court actions in labour-law proceedings against Correos Group.

Provision for court actions

The balance of this provision as of 31 December 2018 and 2017 records the sums to be paid by the Parent Company for penalties imposed by the CNMC which the former has appealed against.

On 5 February 2018, the Supreme Court confirmed the ruling in favour of the Parent Company, and overturned the appeal filed by the Central Government of Spain against the sentence passed by the National Court of 1 July 2015, relating to the narrowing of margins of the postal operators. This event has resulted in the Parent Company recognising a reversal to the provision with a credit to the heading 'Provision surpluses' of the profit and loss account of 8,179 thousand euros in financial year 2017.

On 8 March 2018, the CNMC issued a resolution in which it fined Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company) for a total

of 19,635 thousand euros for alleged infringements of the fair competition regulations.

Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company) obtained in May 2018, the precautionary suspension of the payment of the fines imposed, demonstrating that the payment thereof may result in harm to the company that may be difficult or impossible to remedy; also, it appealed the National Court against the above mentioned resolution.

The Directors of the Parent Company and of Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company), based on the assessment and opinions of external legal advisers and the legal department of the Group, consider that it is likely that the National Court shall uphold the appeal, and that there will be a reduction of the penalty of at least 50%, therefore the provision registered by Correos Express Paquetería

Urgente S.A., S.M.E. (Sole Shareholder Company) in financial year 2017 amounted to 9,818 thousand euros, and has not changed in the present financial year as a consequence of the estimates made by the Directors of Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company) and based on the assessment of experts.

16. Financial liabilities

The composition of Correos Group's long-term and short-term financial liabilities as of 31 December 2018 and 2017, including balances with government bodies not considered financial instruments, is as follows:

	Balance at 31/12/2018	Balance at 31/12/2017
Non-current payables:		
Creditors for fixed assets	5,505	5,876
Deposits and guarantees	1,157	1,221
Financial lease creditors	563	-
Other non-current payables	179	810
TOTAL NON-CURRENT PAYABLES	7,404	7,907
Current payables:		
Creditors for fixed assets	20,471	11,100
Money order deposits	3,429	4,838
Deposits and guarantees	6,629	6,228
Financial lease creditors	415	-
Other current payables	1,534	3,247
TOTAL CURRENT PAYABLES	32,478	25,413
SHORT-TERM DEBTS WITH GROUP COMPANIES AND ASSOCIATES (NOTE 20))	1,285	878
Trade and other payables:		
Suppliers	3,196	2,842
Suppliers, group companies and associates (Note 20))	-	3
Sundry creditors	241,312	230,517
Staff (unpaid wages)	38,951	18,394
Other debts with public administration (Note 18))	55,885	50,074
Customers advances	139,676	100,692
TOTAL TRADE AND OTHER ACCOUNTS PAYABLES	479,020	402,522



The headings for financial instruments in the table above are considered 'Debits and accounts receivable'.

'Money order deposits' include money orders accepted prior to 31 December 2018 and pending payment by the Parent Company to their recipients at that date.

The 'Sundry creditors' heading includes amounts received by the Parent Company from third parties totalling 27,439 thousand euros (23,546 thousand euros in the 2017 financial year).

The heading 'Staff (unpaid wages)' of the Parent Company includes 21,000 thousand euros corresponding to the remuneration increases accrued but not paid in accordance with the provisions of Act 6/2018, of 3 July, on State General Budgets for the year 2018, and the joint resolution of 17 July 2018, of the State Secretariat of Budgets and Expenditures and the State Secretariat of Public Function, dictating the instructions on the payment to the State Public Sector

officials of the arrears corresponding to the increases foreseen in Act 6/2018. The payment of these arrears was made in February 2019.

Also, the headings 'Sundry creditors' and 'Customers advances' include 191,889 thousand euros whose origin lies in pending payments to different third-country postal operators for postal services received from them (150,319 thousand euros at 31 December 2017). The heading 'Customers advances' also includes the amounts received by Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company) from third parties when carrying out the service of delivery with refund at the request of customers, of 1,668 thousand euros (1,116 thousand euros in financial year 2017).

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 2018 is as follows:



	Financial year 2018	Financial year 2017
	Days	Days
Average settlement period for supplier invoices	23	28
Ratio of paid transactions	24	29
Ratio of outstanding transactions	15	16
	Thousands of euros	Thousands of euros
Total payments made	435,590	438,943
Total outstanding payments	28,580	45,620



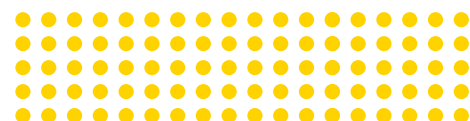
17. Income and expenses

a) Revenue

The distribution of Correos Group's revenue corresponding to its ordinary activities by activity category, as well as by geographical markets, for the 2018 and 2017 financial years, is as follows:

	Financial year 2018	Financial year 2017
Segmentation by origin-		
Customers with contract	1,411,209	1,242,712
Cash collections	381,367	387,964
Franking machines	42,871	38,701
International	133,954	120,927
Others	66,231	69,161
TOTAL	2,035,632	1,859,465
Segmentation by geographical markets-		
National	2,020,459	1,843,305
International – ETOE (Extraterritorial Office of Exchange)	15,173	16,160
TOTAL	2,035,632	1,859,465

The heading 'Clients with contract' is shown net of the figure for volume discounts granted by the Correos Group to its clients during the financial year for the sum of 2,835 thousand euros (this figure is 2,534 thousand euros for the year 2017).





b) Supplies

The breakdown of the heading 'Supplies' in the attached consolidated income statement during the 2018 and 2017 financial years is as follows:

	Financial year 2018	Financial year 2017
National purchases of merchandise-		
Stamps and other franking signs	4,978	5,664
Other products	11,042	9,656
Changes in inventories	(988)	(1,574)
Merchandise consumed	15,032	13,746
Impairment of merchandise, raw materials and other supplies	631	1,951
Work carried out by other companies	278,976	255,844
Supplies	294,669	271,541

'Work carried out by other companies' includes the 'International mail expenditure' of the Parent Company, which includes the costs that the postal operators of different countries invoice to the Company in relation to the provision of postal and telegram services whose recipients reside in these countries, amounting to 55,356 thousand euros in 2018 (55,650 thousand euros in 2017). It also includes transport expenses contracted with third parties, 81,406 thousand euros in financial year 2018 (77,616 thousand euros in financial year 2017).

c) Compensations received for costs derived from provision of the UPS

In financial year 2018, the *Ministerio de Fomento* [Public Works Ministry] transferred to the Treasury 120,000 thousand euros, corresponding to the amount assigned to the Parent Company in the Public Works Ministry's budget for the provision of the Universal Postal Service within programme 491 Universal

Postal Service, in the National Budget for financial year 2018. Pursuant to the above, in financial year 2018 the Parent Company recorded revenue of 120,000 thousand euros for this concept, as established in Note 5-r) (in financial year 2017, 58,700 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 2017, which the Parent Company entered into the accounts as revenue in financial year 2017).

However, on the date these annual accounts were drafted, the resolutions on the determination of the net cost of the Universal Postal Services for the years 2011 to 2018 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 made by the Public Works Ministry cannot be considered as a final settlement, although, as established in

Note 5-r) to this Report, it is considered that an individual agreement for granting exists, all the conditions for such granting are met and there are no reasonable doubts about their receipt.

It is possible that if the CNMC resolution on the calculation of the net cost of the UPS in the financial years 2011 to 2018 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, which is being developed by the Spanish Government and is currently being processed and negotiated with the European Commission, comes into force. If the methodology and the concepts for the calculation of the net cost are approved in the terms that are being negotiated, the Parent Company Directors consider that there is a remote risk of a negative impact in the financial statements for the year 2018 and subsequent years, regarding the calculation of the net cost of UPS from 2011 to 2018.



		Compensation for provision of the UPS pending collection as of 1 January 2017 (Deposited in the Treasury)	258,926
Financial year 2017	UPS Treasury compensation - pending payment		58,700
	UPS compensation collected by the Treasury		(292,731)
		Compensation for provision of the UPS pending collection as of 31 December 2017 (Deposited in the Treasury)	24,895
Financial year 2018	UPS Treasury compensation - pending payment		120,000
	UPS compensation collected by the Treasury		(144,895)
		Compensation for provision of the UPS pending collection as of 31 December 2018 (Deposited in the Treasury)	-



Over the course of financial year 2018, the Parent Company has collected 144,895 thousand euros as compensation for costs derived from provision of the UPS (292,731 thousand euros in financial year 2017). The amount pending collection for this item at the end of financial year 2018 was zero euros (see Notes 11.1.), 11.3.1)) (24,895 thousand euros at the close of the 2017 financial year).

The Parent Company received other subsidies during financial year 2018, worth 208 thousand euros (193 thousand euros in financial year 2017).

d) Staff costs

The breakdown of the heading 'Staff costs' for the financial years ending on 31 December 2018 and 2017 is as follows:

	Financial year 2018	Financial year 2017
Salaries, wages and similar	1,205,302	1,169,211
Social Security contributions	296,039	275,025
Other expenses	9,947	8,256
	1,511,288	1,452,492

Social security contributions for the financial years 2018 and 2017 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-p)).

e) External services

The breakdown of the heading 'External Services' for the financial years ended at 31 December 2018 and 2017 is as follows:

	Financial year 2018	Financial year 2017
Leases	44,158	42,559
Repairs, preservation and maintenance	80,890	76,499
Security	23,385	21,091
Fees from sales	12,890	27,450
Supplies	43,124	39,715
Advertising, marketing and public relations	12,405	15,634
Communications	12,163	10,419
Cleaning	26,960	26,938
Other expenses	56,280	42,496
	312,255	302,801

The costs derived from the maintenance and management services provided by third parties for the Group's data processing centres, legal expenses and advisory and consultancy services are included under 'Other expenses'.

As of 31 December 2018 and 2017, 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 2018	Financial year 2017
Up to one year	14,845	13,913
Between one and five years	19,611	26,473
More than five years	32,467	21,406
	66,923	61,792

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 of previous financial years and the restatement effect of the definitive pro rata of the 2018 financial year (see Note 5-t)). These restatements led to an expenditure of 102 thousand euros and an income of 2,081 thousand euros respectively in financial year 2018 (in financial year 2017 the expenditure was 462 thousand euros for the restatement of capital goods from previous financial years and an income of 4,434 thousand euros for restatement of the definitive pro rata of the financial year).

Other taxes, such as the property tax cost represented an expenditure of 5,705 thousand euros in financial year 2018 (5,804 thousand euros in financial year 2017).





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

The detail of the balances held by the Group with government bodies as of 31 December 2018 and 2017 is as follows:

Financial year 2018				
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	-	8,587	-	8,587
Reversals	-	(7,142)	-	(7,142)
Reclassifications	-	-	-	-
-	1,445	-	-	1,445
Income from disposals and other results:				
Profits	-	(5,650)	(728)	(6,378)
Losses	-	527	180	707
-	(5,123)	(548)	-	(5,671)
-	(3,678)	(548)	-	(4,226)

		Financial year 2017			
		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	-	384	-	-	384
Reversals	-	(3,321)	-	-	(3,321)
Reclassifications	-	-	-	(9)	(9)
	-	(2,937)	-	(9)	(2,946)
Income from disposals and other results:					
Profits	-	(4,232)	(335)	-	(4,567)
Losses	-	599	230	-	829
	-	(3,633)	(105)	-	(3,738)
	-	(6,570)	(105)	(9)	(6,684)





h) Other results

On 11 February 2016 the European Commission (hereinafter, the EC) initiated 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 (currently UPS) awarded to the Parent Company under the Postal Act of 1998, the exemptions from the Property Tax (IBI) and the Economic Activity Tax (IAE), 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 and which ended with the EC decision dated 10 July 2018.

The EC, in its Decision, has considered the existence of illegal state aid in relation to compensation for UPS for the period 2004-2010, IBI exemptions for the period

2008-2013, IAE exemptions for the period 2004-2017. The amounts to be returned by the Parent Company for each of the measures are:

- Return to the Kingdom of Spain due to 2004-2010 UPS compensation of 134,419 thousand euros, where 19,903 thousand euros are included for interests for delays (see Note 17 i)).
- 2008-2013 IBI of 753 thousand euros to be paid to Local Entities, plus the corresponding interests for delays agreed upon with the EC (Note 12, restricted amount in cash flows).
- 2004-2017 IAE of 114 thousand euros to be paid to the Spanish Tax Agency, plus the corresponding interests for delays agreed upon with the EC.

Upon implementation by the Parent Company of all the obligations arising from the Decision, the European Commission announced on 5 November

2018 that it will proceed to the provisional administrative closure of the procedure.

The Parent Company has allocated to the consolidated income statement, on a proportional basis, the amount of the UPS refund that had been transferred to the consolidated income statement up to the resolution date (103,021 thousand euros recorded under 'Other results') and has derecognized from equity the part pending transfer to the profit and loss account (11,495 thousand euros recorded under 'Grant, donations and bequests received', see Note 14)), correcting its tax effect (2,874 thousand euros, see Note 14)). Also, it has recorded the financial expenses agreed upon with the EC (19,903 thousand euros, see Note 17 i)).

Regarding IAE and IBI, the Parent Company recorded the returned amount in the consolidated profit and loss account, under 'Taxes'.



i) Financial income and expenses

The breakdown of this heading for the 2018 and 2017 financial years is as follows:

	Financial year 2018	Financial year 2017
Financial income-		
From group companies:		
Short-term deposits (Note 20)	75	61
From third parties:		
Other financial income	2,171	642
	2,246	703
Financial expenses-		
From third parties:		
Other financial expenses	20,253	115
	20,253	115

Over the course of the 2018 financial year, the Parent Company also lent cash flow to its Sole Shareholder (SEPI), payable in less than one month at 0.1% rate. At the close of financial year 2018 cash flow loans totalling 20,000 thousand euros were made (70,000 thousand euros at 31 December 2017) (See Notes 11.3.1 and 20)). The consequent revenue generated stood at 75 thousand euros in the 2018 financial year (61 thousand euros in financial year 2017).

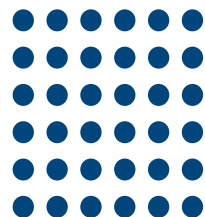
The interest the Parent Company earned from the management of the cash flow surplus in its current accounts is recorded in 'Other financial income' (see note 11.3.1)).

The Parent Company recorded financial expenses for the state aid for a total of 19,972 thousand euros (see Note 17 h)).

18. Tax situation

The detail of the balances held by the Group with government bodies as of 31 December 2018 and 2017 is as follows:

	Balance at 31/12/2018	Balance at 31/12/2017
Non-current assets-		
Deferred tax assets	36,890	33,246
TOTAL NON-CURRENT ASSETS WITH PUBLIC ADMINISTRATION	36,890	33,246
Current assets-		
Sundry debtors - UPS compensation (Note 11.3.1)	-	24,895
Others (Note 11)	253	178
TOTAL CURRENT ASSETS WITH PUBLIC ADMINISTRATION	253	25,073
	(Note 11)	(Note 11)
Non-current liabilities-		
Deferred tax liabilities	79,562	85,399
Current liabilities-		
Personal Income Tax – [IRPF in Spanish]	18,211	18,844
Value-added tax - VAT	6,009	1,370
Social security	29,073	27,488
MUFACE (public employee mutual soc.) and liability fees	1,669	1,880
Others	923	492
TOTAL CURRENT LIABILITIES WITH PUBLIC ADMINISTRATION	55,885	50,074
	(Note 16)	(Note 16)





In the 2011 financial year Correos Group paid its taxes under the fiscal consolidation regime. The number of the Fiscal Group is No. 38/11 and comprises all the companies of Correos Group with Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company) as the Parent Company.

In the 2012 financial year, following the transfer of the shares of the Company to 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 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 Corporation Tax Act.

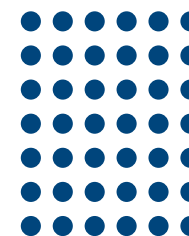
The Fiscal Group's taxable base is calculated by adding the individual tax bases of its constituent companies. In spite of this, all Group Companies submit their settlement separately.

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 affiliated 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.

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

	Financial year 2018	Financial year 2017
Temporary differences:		
Provision for risks and expenses	980	668
Amortisation of goodwill	2,697	3,155
Provisions related to staff	162	115
Provisions related to fixed assets	4,531	2,471
Amortisation of fixed assets	8,481	9,621
Others	492	183
	17,343	16,213
Adjustment due to change to tax rate	(195)	(209)
Credits for negative tax bases	10,648	10,473
Credits for deductions	9,094	6,769
DEFERRED TAX ASSETS	36,890	33,246
Temporary differences:		
Tax effect of UPS capital compensations received up to 2010	79,398	85,070
Other temporary adjustments	164	329
DEFERRED TAX LIABILITIES	79,562	85,399





The movement of assets due to deferred payment of the Corporation Tax during the 2018 and 2017 financial years is as follows:

	Balance at 01/01/2018	Additions	Adjustments	Reversal	Balance at 31/12/2018
Deferred tax base	100,759	33,253	-	(27,463)	106,818
Tax effect:					
Temporary differences	16,004	7,817	(195)	(6,478)	17,148
Credits for losses to be compensated	10,472	563	-	(387)	10,648
Credits for deductions	6,769	2,363	288	(326)	9,094
TOTAL ASSETS FOR DEFERRED TAX	33,245	10,743	93	(7,191)	36,890

	Balance at 01/01/2017	Additions	Adjustments	Reversal	Balance at 31/12/2017
Deferred tax base	50,834	66,320	-	(16,395)	100,759
Tax effect:					
Temporary differences	14,205	5,995	(209)	(3,987)	16,004
Credits for losses to be compensated	-	10,584	-	(112)	10,473
Credits for deductions	3,538	3,256	(25)	-	6,769
TOTAL ASSETS FOR DEFERRED TAX	17,743	19,836	(234)	(4,099)	33,246



The movement of liabilities due to deferred payment of the Corporation Tax during the 2018 and 2017 financial years is as follows:

Financial year 2018					
	Balance at 01/01/2018	Additions	Exchange rate adjustment	Reversal	Balance at 31/12/2018
Liabilities due to deferred taxed compensation UPS capital	85,069	-	-	(5,671)	79,398
Temporary differences	1,315	-	-	(658)	657
Temporary differences tax effect	329	-	-	(165)	164
TOTAL LIABILITIES FOR DEFERRED TAX	85,398	-	-	(5,836)	79,562

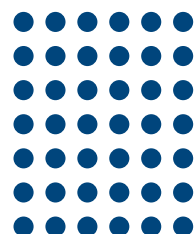
Financial year 2017					
	Balance at 01/01/2017	Additions	Exchange rate adjustment	Reversal	Balance at 31/12/2017
Liabilities due to deferred taxed compensation UPS capital	88,247	-	-	(3,178)	85,069
Temporary differences	1,803	-	-	(489)	1,314
Temporary differences tax effect	451	-	-	(121)	330
TOTAL LIABILITIES FOR DEFERRED TAX	88,698	-	-	(3,299)	85,399



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

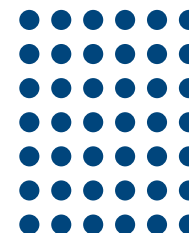
	Financial year 2018	Financial year 2017
	Consolidated Profit and Loss Account	Consolidated Profit and Loss Account
AGGREGATE RESULTS BEFORE TAXES	(150,885)	(93,213)
Consolidation adjustments	(17,069)	(94,664)
Aggregate results before taxes	(167,954)	(187,877)
Breakdown of aggregate results before taxes:		
- Positive accounting basis	8,591	2,178
- Negative accounting basis	(159,476)	(95,391)
- Non-taxable accounting basis	(17,069)	(94,664)
	(167,954)	(187,877)
Theoretical tax charge	(2,148)	(544)
Tax credit	39,869	23,848
Non-calculable income	480	2,496
Non-deductible expenses	(26,169)	(2,961)
Deductions	2,231	3,256
Effective aggregate taxable income / (expense)	14,263	26,095

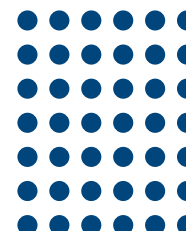
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	Financial year 2018	Financial year 2017
	Consolidated Profit and Loss Account	Consolidated Profit and Loss Account
Breakdown of effective aggregate taxable income / (expense):		
Current taxes	(1,415)	(739)
Tax credit	12,508	26,171
Deferred taxes	3,170	663
TOTAL EFFECTIVE AGGREGATE TAXABLE INCOME / (EXPENSE)	14,263	26,095
Adjustment due to change to tax rate	(195)	(209)
Adjustment previous financial year Corporation Tax	390	(25)
Activation of negative tax bases and temporary differences	545	15,059
Consolidation adjustment	(8)	(9)
AGGREGATE CORPORATION TAX INCOME / (EXPENSE)	14,995	40,911





The calculated Corporation Tax pending payment and collection as of 31 December 2018 and 2017 is as follows:

	Financial year 2018		Financial year 2017	
	Debtor current tax	Creditor current tax	Debtor current tax	Creditor current tax
Aggregate current tax	12,508	(1,285)	26,171	(878)
Tax withholdings and prepayments	427	-	469	-

The conciliation of the consolidated book result with the taxable base for income tax as of 31 December 2018:

	Increases	Decreases	Total
Aggregate result	-	-	(150,885)
Consolidation adjustments	-	-	(17,069)
Permanent differences:			
- of each company	104,678	(1,834)	102,844
Temporary differences:			
- of each company			
- Arising in the year	15,531	(15)	15,516
- Arising in previous years	658	(9,647)	(8,989)
TAXABLE BASE (TAX RESULT)	-	-	(58,583)





In fiscal year 2018, the Parent Company made a positive adjustment to the accounting result in the amount of 103,021 thousand euros, which corresponds to the amount paid by Correos as a refund to the Kingdom of Spain for 2004-2010 UPS compensation minus the tax burden borne prior to receiving the aforementioned aids, pursuant to the provisions of art. 6 of the Decision of 10 July 2018 of the EC (see Note 17.h). This adjustment is considered a permanent positive difference originated in the fiscal year.

The main temporary differences for the year 2018 correspond, on the one hand, to the corrections of value due to deterioration of assets (8,495 thousand euros) recorded by the Parent Company, as well as to the provisions for risks and expenses made by Correos Express Paquetería Urgente, SA. S.M.E. (Sole Shareholder Company), highlighting in this case the provision to cover claims and insolvency of debtors (2,306 thousand euros). The indicated expenses are

considered as non-deductible expenses in accordance with the provisions of Corporation Tax Act and, therefore, they have meant an increase in the positive temporary differences originated in the 2018 fiscal year.

On the other hand, the amount of the temporary differences recoveries recorded in the year 2018 corresponds mainly to the reversal of the temporary measures established by Act 16/2012, establishing various tax measures aimed at the consolidation of public finances and to the boost of the economic activity, by virtue of which the deductibility of the depreciation expense of the fixed assets in 2013 and 2014 was limited to 70%, establishing its recovery in the years beginning on or after 1 January 2015. The amount corresponding to such recovery in 2018 is 3,904 thousand euros for the Parent Company, and 252 thousand euros for all Subsidiaries. Also, derived from the tax depreciation of the Goodwills of the subsidiary Correos Express Paquetería Urgente, SA. S.M.E. (Sole Shareholder

Company), said entity reduced its tax base amount by 1,565 thousand euros. All these adjustments made on the tax base have meant a reduction of the temporary differences originated in previous years.

On 27 November 2014, the Act 27/2014 on Corporation Tax was published in the *Boletín Oficial del Estado* [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 Transitory 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 2017 at a rate of 25%, which is the expected rate at which the assets will revert.

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, as SEPI, the Parent Company of this consolidated fiscal group, allows it. In any case, and in accordance with the Fifteenth Additional Provision of Act 27/2014 after the approval of the Royal Decree Act 3/2016, the maximum compensation limit will be applied, by virtue of which the companies whose net revenue in the 12 months prior to the start date of the tax period is greater

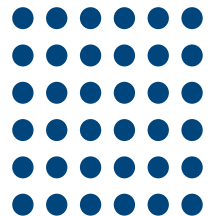
than 60,000 thousand euros may offset a maximum of 25 percent of the previous positive taxable base.

In financial year 2018 Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company) offset 1,553 thousand euros (447 thousand euros in 2017) from the negative tax base generated by said subsidiary prior to its inclusion within the SEPI Fiscal Group.

As of 31 December 2018, the Group's companies have negative tax bases of 196,635 thousand euros to offset against future tax benefits (198,188 thousand euros in financial year 2017). These tax bases correspond to Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company) (193,934 thousand euros) and to Nexea Gestión Documental S.A. S.M.E. (Sole Shareholder Company) (2,701 thousand euros) and are detailed below:



Financial year	Correos Express Paquetería Urgente S.A, S.M.E.	Nexea Gestión Documental S.A. S.M.E.
1997	-	-
1998	1,188	-
1999	2,426	-
2000	1,801	-
2001	11,138	-
2002	19,350	-
2003	52,569	83
2004	38,670	135
2005	22,011	-
2006	11,179	-
2007	9,769	-
2008	1,475	-
2009	6,134	947
2010	6,933	115
2011	9,291	1,421
	193,934	2,701





On the other hand, there is a tax credit derived from tax deductions generated and not applied by the Group's Parent Company as well as by Correos Express Paquetería Urgente S.A., S.M.E amounting to 9,094 thousand euros (8,962 thousand euros and 132 thousand euros respectively). The amount to be applied to future full dues of the Corporation Tax corresponds mainly to deductions generated by Technological Innovation (3,762 thousand euros, 3,630 thousand of which correspond to the Parent Company), investments made in the Canarias (3,243 thousand euros generated by the Parent Company), investments in events of exceptional public interest (1,000 thousand euros, generated by the Parent Company) and deduction for reversal of temporary measures derived from Act 16/2012 (1,000 thousand euros, also generated by the Parent Company).

Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder

Company), after having reported profits starting in financial year 2016, activated from financial year 2017 the tax bases of the corporation tax which can be offset for the next 10 years, in addition to the existing temporary differences and deductions, thus generating a corporation tax revenue of 871 thousand euros in 2018 (in financial year 2017, the first year of activation of tax credits, the generated income was 15,059 thousand euros).

Current laws and regulations establish that taxes may not be deemed finally settled until filed tax statements have been inspected by the tax authorities or a statute of limitations of four years elapses. At 31 December 2018, the companies that make up Correos Group had all applicable taxes since 1 January 2014 open to inspection by the tax authorities. The Parent Company's Directors do not expect significant additional liabilities to accrue in any inspection procedure.

19. Other information

a) Number of employees

The breakdown of the Group's average workforce (Full Time Equivalent) by number of employees during the 2018 and 2017 financial years was as follows:

	Financial year 2018	Financial year 2017
Management Committee	15	14
Rest of workforce:		
Civil servants	10,582	11,969
Employees	43,008	40,493
	53,605	52,476



As of 31 December 2018 and 2017, the number of employees of Correos Group broken down by job categories and gender was as follows:

	Data at 31/12/2018				Data at 31/12/2017		
	Men	Women	Total Staff		Men	Women	Total Staff
Management Committee	13	2	15		13	1	14
Rest of workforce:							
Civil servants	6,851	3,121	9,972		7,877	3,477	11,354
Employees	20,841	25,463	46,304		18,152	23,201	41,353
	27,705	28,586	56,291		26,042	26,679	52,721

The average workforce (Full time equivalent) of the Group with disabilities of 33% or more during the 2018 and 2017 financial years was as follows:

	Financial year 2018	Financial year 2017
Civil servants	266	298
Employees	653	575
	919	873

b) Commitments and contingencies

At 31 December 2018, the guarantees provided on behalf of Correos Group by various banks came to 75,818 thousand euros (53,107 thousand euros at 31 December 2017). The Directors of



the Parent Company believe that any additional liabilities that may arise from the guarantees provided to third parties will not be in any way significant.

c) Fees for accounts auditors and group and associated companies

The amounts accrued during the financial year 2018 by Grant Thornton

S.L.P. for auditing accounts and other verification services totalled 143 thousand euros (the amounts accrued during the financial year 2017 by PricewaterhouseCoopers Auditores, S.L. for auditing accounts and other verification services totalled 132 thousand euros).

Furthermore, fees accrued during financial year 2018 by other companies

in the Grant Thornton, S.L.P. amounts to zero euros (during financial year 2017 by other companies in the PwC network totalled 83 thousand euros).

The fees accrued by the Parent Company include the expense accounted for by the non-deductible input VAT.

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 2018 and 2017 are as follows:

Clients, companies of the Group			Suppliers, companies of the Group		
	31/12/2018	31/12/2017		31/12/2018	31/12/2017
SEPI	-	-		-	-
SEPI Group, remainder	57	70		-	3
	57	70		-	3
	(Note 11)	(Note 11)		(Note 16)	(Note 16)
InterSEPI cash flows and interests					
	31/12/2018	31/12/2017			
SEPI	20,000	70,000			
SEPI Group, remainder	-	-			
	20,000	70,000			
	(Note 12)	(Note 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			
	Debtors, companies of the Group		Debts, companies of the Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
SEPI	12,934	26,640	1,285	878
	12,934	26,640	1,285	878
	(Note 18)	(Note 18)	(Note 18)	(Note 18)

The transactions with the companies of the SEPI Group in the 2018 and 2017 financial years are as follows:

	Income from provision of services		Operating expenses	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
SEPI	2	3	-	-
SEPI Group, remainder	300	258	37	52
	302	261	37	52
	Financial income			
	31/12/2018	31/12/2017		
SEPI	75	61		
	75	61		
	(Note 17h)	(Note 17h)		



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 2018 and 2017 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 2018 financial year by members of the Parent Company's Governing Board and Management Committee totalled 2,156 thousand euros (1,932 thousand euros in 2017), 163 thousand of which correspond to assistance fees paid to members of the Governing Board of the Parent Company for attending Board meetings (164 thousand in 2017); the rest was paid as salaries and/or other pay items (including compensation) to the members of the Management Committee of the Parent Company.

As of 31 December 2018, no member of the Parent Company's Governing Board or Management Committee had receivable or payable balances with the Parent Company, nor did the Company have obligations contracted

with them concerning pensions and/or life insurance.

Other information regarding the Governing Board

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 financial statements, the Governing Board of the Parent Company was made up of 8 men and 7 women.



21. Segment results

Correos Group's segment results for the 2018 and 2017 financial years, as well as the balance sheet and the statement of cash flows are as follows:

Financial year 2018				
	Postal, telegraphs and parcels	Urgent parcels and others	Portfolio Adjustment and Participative P.	Total
Revenue	1,784,267	251,365	-	2,035,632
Supplies	(148,786)	(145,883)	-	(294,669)
UPS compensation	120,000	-	-	120,000
Staff costs	(1,462,305)	(48,983)	-	(1,511,288)
2004-2010 UPS overcompensation	(124,009)	-	-	(124,009)
Other results	(328,096)	(50,053)	(15,472)	(393,621)
RESULT BEFORE TAX	(158,929)	(6,446)	(15,472)	(167,955)





Financial year 2017

	Postal, telegraphs and parcels	Urgent parcels and others	Portfolio Adjustment and Participative P.	Total
Revenue	1,641,871	217,594	-	1,859,465
Supplies	(145,841)	(125,700)	-	(271,541)
UPS compensation	58,700	-	-	58,700
Staff costs	(1,407,101)	(45,391)	-	(1,452,492)
Other results	(235,337)	(53,487)	(93,185)	(382,009)
RESULT BEFORE TAX	(87,708)	(6,984)	(93,185)	(187,877)





Balance at 31/12/2018				
	Postal, telegraphs and parcels	Urgent parcels and others	Homogenisations and eliminations	Total
Fixed assets and investment property	1,386,223	37,611	-	1,423,834
Non-current investments in Group companies	114,781	-	(114,781)	-
Other non-current assets	1,130	1,076	12)	2,194
Deferred tax assets	22,183	14,707	-	36,890
NON-CURRENT ASSETS	1,524,317	53,394	(114,793)	1,462,918
Trade and other receivables	432,435	57,874	(3,876)	486,433
Other current assets	16,488	2,935	(12,258)	7,165
Cash	125,643	2,475	-	128,118
CURRENT ASSETS	574,566	63,284	(16,134)	621,716
TOTAL ASSETS	2,098,883	116,678	(130,927)	2,084,634





Balance at 31/12/2018				
	Postal, telegraphs and parcels	Urgent parcels and others	Homogenisations and eliminations	Total
Shareholder's equity	1,296,536	18,114	(109,922)	1,204,728
Grants, donations and bequests received	239,526	-	1,523	241,049
EQUITY	1,536,062	18,114	(108,399)	1,445,777
Non-current provisions	19,299	10,009	-	29,308
Deferred tax liabilities	79,943	-	(381)	79,562
Other non-current liabilities	6,852	7,747	(6,012)	8,587
NON-CURRENT LIABILITIES	106,094	17,756	(6,393)	117,457
Current payables	31,425	1,063	(10)	32,478
Trade and other payables	416,865	66,021	(3,866)	479,020
Other current liabilities	8,437	13,724	(12,259)	9,902
CURRENT LIABILITIES	456,727	80,808	(16,135)	521,400
TOTAL EQUITY AND LIABILITIES	2,098,883	116,678	(130,927)	2,084,634





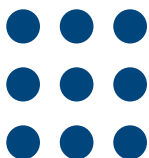
Balance at 31/12/2017				
	Postal, telegraphs and parcels	Urgent parcels and others	Homogenisations and eliminations	Total
Fixed assets and investment property	1,400,652	33,402	-	1,434,054
Non-current investments in Group companies	99,308	-	(99,308)	-
Other non-current assets	2,110	1,010	(14)	3,106
Deferred tax assets	18,658	14,588	-	33,246
NON-CURRENT ASSETS	1,520,728	49,000	(99,322)	1,470,406
Trade and other receivables	433,339	60,812	(4,531)	489,620
Other current assets	28,659	2,933	(12,947)	18,645
Cash	197,904	2,038	-	199,942
CURRENT ASSETS	659,902	65,783	(17,478)	708,207
TOTAL ASSETS	2,180,630	114,783	(116,800)	2,178,613





Balance at 31/12/2017				
	Postal, telegraphs and parcels	Urgent parcels and others	Homogenisations and eliminations	Total
Shareholder's equity	1,439,377	12,787	(94,476)	1,357,688
Grants, donations and bequests received	256,689	-	1,557	258,246
EQUITY	1,696,066	12,787	(92,919)	1,615,934
Non-current provisions	20,578	9,817	-	30,395
Deferred tax liabilities	85,788	-	(389)	85,399
Other non-current liabilities	7,524	6,990	(6,014)	8,500
NON-CURRENT LIABILITIES	113,890	16,807	(6,403)	124,294
Current payables	24,524	898	(9)	25,413
Trade and other payables	336,436	70,608	(4,522)	402,522
Other current liabilities	9,714	13,683	(12,947)	10,450
CURRENT LIABILITIES	370,674	85,189	(17,478)	438,385
TOTAL EQUITY AND LIABILITIES	2,180,630	114,783	(116,800)	2,178,613



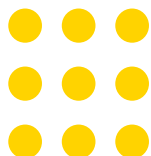


Financial year 2018

	Postal, telegraphs and parcels	Urgent parcels and others	Homogenisations and eliminations	Total
Operating activities				
RESULT FOR THE FINANCIAL YEAR BEFORE TAXES	(158,929)	8,043	(17,069)	(167,955)
Adjustments to the result	81,992	9,549	16,652	108,193
Changes in current capital	158,180	(1,885)	(674)	155,621
Other cash flows from operating activities	(104,320)	(805)	(1,708)	(106,833)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	(23,077)	14,902	(2,799)	(10,974)
Investing activities				
Payments for investments	(58,535)	(11,764)	98	(70,201)
Proceeds from disposals	9,351	(179)	179	9,351
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	(49,184)	(11,943)	277	(60,850)
Financing activities				
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	-	(2,522)	2,522	-
Net variation in cash or cash equivalents	(72,261)	437	-	(71,824)
Cash and cash equivalents at the start of the financial year	197,904	2,038	-	199,942
Cash and cash equivalents at the end of the financial year	125,643	2,475	-	128,118



Financial year 2017				
	Postal, telegraphs and parcels	Urgent parcels and others	Homogenisations and eliminations	Total
Operating activities				
RESULT FOR THE FINANCIAL YEAR BEFORE TAXES	(87,708)	(5,504)	(94,665)	(187,877)
Adjustments to the result	(92,331)	18,096	94,475	20,240
Changes in current capital	309,346	7,062	(8,469)	307,939
Other cash flows from operating activities	5,524	4	(1,526)	4,002
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	134,831	19,658	(10,185)	144,304
Investing activities				
Payments for investments	(76,392)	(7,444)	194	(83,642)
Proceeds from disposals	11,327	1,860	(1,860)	11,327
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	(65,065)	(5,584)	(1,666)	(72,315)
Financing activities				
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	2,000	(13,885)	11,851	(34)
Net variation in cash or cash equivalents	71,766	189	-	71,955
Cash and cash equivalents at the start of the financial year	126,138	1,849	-	127,987
Cash and cash equivalents at the end of the financial year	197,904	2,038	-	199,942



22. Environmental information

The itemised details of the Parent Company's investments and costs in environmental protection and improvement in financial years 2018 and 2017 are as follows:

	Financial year 2018	Financial year 2017
-Investments	4,191	1,843
-Costs		
Environmental protection services	145	111
Environmental management costs	88	208
Environmental taxes	922	608
Clean-up costs	89	47
Prevention costs	312	209
Total expenses	1,556	1,183

Environmental subsidies were received during the financial year amounting to 501 thousand euros.

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 expenses as of 31 December 2018.

23. Contingent liabilities

In December 2018 Nexea Gestión Documental S.A. S.M.E. (Sole Shareholder Company) received a notification in relation to the alleged violation of Article 10 of Organic Law

15/1999 of 13 December. This procedure is in a very preliminary stage, so it is difficult to estimate the possible risk to the Company.

Correos Group believes that it does not have significant contingent assets or liabilities, other than those mentioned, at the close of the 2018 financial year.

24. Subsequent events

The Parent Company has paid the remuneration increases mentioned in Note 16) of this Report in February 2019.

No subsequent events occurred after 31 December 2018 which may significantly affect these annual accounts.

Management Report Financial Year 2018

(Expressed in thousands of euros)



1. Business model and evolution

Correos Group operates in the physical and digital communications sector and in the parcel market, leading the non-urgent segment and being a benchmark for the e-commerce sector.

Correos is the leading company in the Spanish postal market and one of the main parcel operators, due to the excellence, trustworthiness and reliability of its service. It is also the operator designated by law to provide Spain's Universal Postal Service, with criteria of efficiency, quality and affordability, contributing to the sustainability of postal communications for all of the general public.

Correos complements its activity with that of its subsidiaries:

- Correos Express, dedicated to the express delivery of parcels for the B2B (business-to-business) and B2C (business-to-consumer) segments.

- Correos Nexea, specialised in multichannel solutions for physical and digital mass company communications.

- Correos Telecom, responsible for the management and marketing of telecommunications infrastructures. It also provides technological support to the other companies of the Group.

In 2018, the parcel services were was one of the most dynamic business segments thanks to the expansion of e-commerce, whose turnover has been growing annually in Spain at rates close to 30%. These online purchases generate a delivery in 9 out of 10 transactions, contributing to the significant increase in the distribution sector and also boosting the activities of Correos and Correos Express, which both ended the year with record growth in parcel deliveries.

In the postal market, volumes continued to fall, mainly due to the electronic substitution of new forms of communication. In the coming years, this

mature market is expected to continue declining both in terms of revenues and volumes.

Correos, the market leader in the postal sector, continued to play an important social role as the operator designated by law to provide the Universal Postal Service. This obligation involves offering coverage throughout Spain and meeting certain requirements of quality, affordability and accessibility in order to ensure territorial cohesion and equal opportunities.

The revenue of Correos Group in 2018 amounted to 2,036 million euros, 176 million more than in the previous year, which represents a 9.5% increase. This increase in revenues is based on the strong growth of the parcel segment and the capture of important volumes in the traditional postal sector. These two business lines' revenues increased by 21.2% and 5.7%, respectively. In 2018 there was a record in the parcel activity of the Group after having made the greatest





logistical effort in recent years, thanks to which the Correos Group has exceeded 195 million parcels distributed throughout the year. In the last quarter of the fiscal year, parcel revenues have exceeded 150 million euros, and were decisive in the growth in this segment in 2018 with respect to 2017.

The significant growth in activity, together with the substantial improvement in the efficiency ratios (4%) and turnover per employee (7.2%), have allowed a positive operating profit (Ebitda, understood as result before interests, taxes, depreciations, amortizations, gains of fixed assets and other results), of 26.1 million euros, compared to the operating losses of 107.8 million euros, reached in 2017.

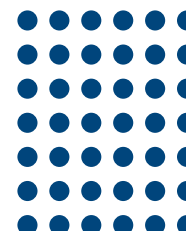
At the end of 2018, Correos Group has a workforce of more than 56,000 people, having reached in the Parent Company a multi-year agreement that lays the foundations of the labour relations of the company until 2020.

Expenses directly linked to operations, such as supplies and transport costs, have improved in efficiency and their growth is below the global increase in volumes.

A significant and atypical event that had a negative impact on the result before taxes of the Parent Company was the refund to the Kingdom of Spain of 134 million euros. With this amount, the investigation procedure opened by the European Commission in 2016, in relation to the state aid executed in favour of Correos corresponding to the 2004-2010 period, is closed. If we do not take into account the effect of the total refund (124 million euros in the profit and loss account for the year 2018), the result before taxes would be a loss of 43.9 million euros, very far from the loss of 187.9 million euros in 2017.

The Parent Company has received training subsidies for employment, as well as grants linked to European projects for the promotion of safety, efficiency and





sustainability for a total amount of 709 thousand euros in 2018. The Group's subsidiaries received no grants during financial year 2018.

Consolidated Profit and Loss Account (thousands of euros)	2018	2017	Variation %
Revenue	2,035,632	1,859,465	9.5
UPS compensation	120,000	58,700	104.4
Supplies	(294,669)	(271,541)	8.5
Staff costs	(1,511,288)	(1,452,492)	4.0
Other operating expenses	(329,934)	(314,350)	5.0
Other results	(172,701)	(26,748)	545.7
Proceeds from income tax (thousand of euros)	25,635	3,528	626.6





2. Risk management

Correos Group's risk analysis and management system aims to identify, manage, prevent and ensure an adequate response to risks that arise. In 2018, a review of the Group's main risks was initiated in accordance with the COSO methodology, identifying the main impacts (including those of a social, environmental and employment nature) and those responsible for their control or mitigation. This review will be completed in 2019 with an updating of the policies of the Group for the prevention and mitigation of risks and significant impacts.

The activities of the different companies of the Group are conditioned by factors that are common to their sectors and by exclusive impacts that only affect each one of them. The most significant ones are market, operational, employment, environmental, reputational, legal, tax or financial risks.

The market risks derives from, among other factors, the progressive decline in postal activity due to electronic substitution, an increased competition and the emergence of new technologies causing rapid change in demand.

The operational and technological risk responds to the structural complexity of the Group, to the need for an agile incorporation of new technologies to increase efficiency in the distribution and delivery processes and to the challenges of cybersecurity. Likewise, Correos, as employer of more than 52,000 professionals, faces the employment risks inherent to the need 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

Group has always had among its various stakeholders.

To these risks we must add the legal risks from possible changes to market legislation and how the Company operates.

Finally, the companies included in the Group are exposed to financial risk, which includes:

- 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.
- Liquidity risk, which refers 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.



- 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. This includes the interest rate risk, exchange rate risk and other price risks.

The exposure of Correos Group to the risk of exchange rate fluctuations is due primarily to transactions 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.

3. Staff

As of 31 December 2018, the Group had a total of 56,291 employees (52,721 employees as of 31 December 2017).

The average workforce (Full Time Equivalent) of the Group in 2018 was 53,605 employees (52,476 in 2017).

As for the composition of the workforce by gender, men represent 49.2% and women 50.8%.

The information about the workforce is included in Note 19) to the Annual Accounts Report of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company) and its subsidiaries corresponding to the financial year ended 31 December 2018.

4. Environment protection

The information about environmental activities is included in Note 22) to the Annual Accounts Report of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company)

and its subsidiaries corresponding to the financial year ended 31 December 2018.

5. Subsequent events

The Parent Company paid the remuneration increases mentioned in Note 16) to the Annual Accounts Report of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company) and its subsidiaries corresponding to the financial year ended 31 December 2018.

No subsequent events occurred after 31 December 2018 which may significantly affect these annual accounts.

6. Others

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 2018 is as follows:

	Financial year 2018	Financial year 2017
	Days	Days
Average settlement period for supplier invoices	23	28
Ratio of paid transactions	24	29
Ratio of outstanding transactions	15	16
	Thousands euros	Thousands euros
Total payments made	435,590	438,943
Total outstanding payments	28,580	45,620

Correos Group holds no treasury shares, nor did it conduct transactions with financial products during the 2018 financial year.

Correos Group made investments in R&D&i during the 2018 financial year.

7. Non-financial information statement

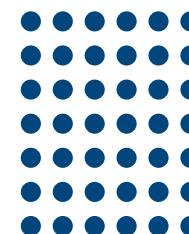
7.1. Correos Group's business model

Correos Group operates in the physical and digital communications and parcel sectors, leading the non-urgent segment and being a benchmark for the e-commerce sector.

Correos is the main company in the Spanish postal market and one of the most important in the parcel sector for the excellence and reliability of its service. It is also the operator designated by law to provide Spain's Universal Postal Service, with criteria of efficiency, quality and affordability, contributing to the sustainability of postal communications for all of the general public.

Correos complements its activity with that of its subsidiaries:

- Correos Express, dedicated to the express delivery of parcels for the





B2B (business-to-business) and B2C (business-to-consumer) segments.

- Correos Nexea, specialised in multichannel solutions for physical and digital mass company communications.
- Correos Telecom, responsible for the management and marketing of telecommunications infrastructures, as well as providing all other Group companies with technological support.

7.2. Market and business environment

• Parcel market

In 2018, the parcel services were one of the most dynamic business segments thanks to the expansion of e-commerce, whose turnover has been growing annually in Spain at rates close to 30%. These

online purchases generate a delivery in 9 out of 10 transactions¹, contributing to the significant increase in the distribution sector and also boosting the activities of Correos and Correos Express, which both ended the year with record growth in parcel deliveries.

The increase in volumes was parallel to the increase in the complexity of demand. Customers requested increasingly shorter delivery times – 24-hour delivery is now the standard – and more custom and flexible options² in an omnichannel environment of business relationships.

The seasonality of business, with very pronounced demand peaks at specific times of the year, also continued to determine the operations of the sector. This concentration requires temporarily increasing productive capacity and having maximum capillarity to ensure a swift

response. The appearance of diminishing marginal returns, however, leads companies in the market to simultaneously adopt efficiency measures.

Recent years have also seen the emergence of new types of competitors whose common denominator is the intensive use of technology. Their business models are based on direct collaboration with online sales companies through mobile applications, specialisation in specific delivery niches and the creation of collaborative economy platforms.

In addition to growing competition, the existence of customers with great negotiating power again contributed to increasing pressure on prices and margins. These characteristics inherent to the market reinforced the need to generate synergies, reduce costs and incorporate new technologies (robotics,

¹ Comisión Nacional de los Mercados y la Competencia (CNMC) (2018). *Panel de Hogares CNMC. Primer semestre de 2018. Sector Postal.*

² ONTSI (2018). *Estudio sobre comercio electrónico B2C 2017.*



artificial intelligence, Big Data, etc.) to optimise processes and improve customer experience.

In 2018, the challenges of last-mile delivery also intensified, not only because of the need to increase the effectiveness of the first delivery attempt, but also due to the gradual implementation of environmental restrictions in Spain's main cities. This, together with increased demand for home deliveries, prompted companies in the sector to expand their fleets of vehicles powered by alternative energies and to invest in new infrastructures to consolidate deliveries in towns and cities.

• **Postal market**

In the postal market, volumes continued to fall, mainly due to replacement by new forms of electronic communication.

In the coming years, this mature market is expected to continue declining both in terms of revenues and volumes.

During the first half of the year, however, coinciding with the entry into force of the new European General Data Protection Regulation³, companies in the services and banking sectors increased their postal communication campaigns to customers, resulting in a significant increase in the number of deliveries and reduction in the rate of decline.

In addition, despite reduced business, customers continued to demand more complex postal services with greater added values. The evolution of the business continued to tend towards the rapid digitisation of services and processes, which is why Correos and Correos Nexea focused on offering multichannel services that optimally

combine communications in different formats, systems and media.

Correos, the market leader in the postal sector, continued to play an important social role as the operator designated by law to provide the Universal Postal Service. This obligation involves offering coverage throughout Spain and meeting certain requirements of quality, affordability and accessibility in order to ensure territorial cohesion and equal opportunities.

The provision of the Universal Postal Service, which involves having a wide human and infrastructure network, requires sufficient and regular funding. In order to adequately define the allocation of the necessary resources and levels of service required, the Public Works Ministry began drafting its Universal Postal Service Plan, scheduled for 2019.

³ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).



• *Telecommunications and digital services market*

In the field of telecommunications, aspects such as the new 5G environment, gradual development of the Internet of Things and cloud computing emphasised the need for greater availability of new infrastructures to serve the millions of connected devices and enormous amounts of data traffic they generate. This circumstance led to new opportunities to make the fibre-optic networks, FTTH roll outs, conduits and facilities that Correos Telecom offers to large companies in the sector profitable.

The unstoppable digitisation of society also continued to drive greater demand for identity management and authentication services in the online environment, secure electronic mailboxes and digital solutions for the processing of public and private procedures and formalities, which Correos Group's new range of services addresses.

• *Future challenges*

Innovations such as augmented reality, drones, autonomous vehicles, blockchain, robotics and artificial intelligence are also helping to transform business models in almost all sectors, promoting greater efficiency and quality of service to the customer.

Correos Group conducts its activities in this dynamic business environment in which proper management of change is a priority, so it is essential to have well-trained, customer-orientated employees, anticipate new demands and accelerate the technological development that an interconnected world requires.

7.3. Goals and strategy

Correos Group has a business model based on excellence in the provision of a public service, long-term business sustainability and customer orientation, with the ultimate goal of generating

value for the shareholder, customers, employees and society as a whole.

The principles on which Correos Group's strategy is based are the strengthening of public service; diversification, mainly through the parcel services, digital services and retail business; and international expansion, especially in the markets of Portugal, Asia and Latin America.

The achievement of these objectives is articulated through the following strategic lines:

- Strengthening of the public service provided by Correos
- International expansion
- Redefinition of the logistics model
- Improvement of efficiency
- Redefinition of the products and services portfolio



- Stabilization of employment and improvement of training

7.4. Future trends

Correos Group has identified several factors with potential short, medium or long-term impact on the markets in which it operates. These trends, which represent both a challenge and an opportunity, depending on the response provided by the Correos Group, include the following:

In the short term:

- Gradual reduction of postal communications, the development of e-Government and the increased challenges for the efficient provision of the entrusted public service
- Growing digitalisation of the economy and society, which requires new mechanisms to ensure the security of electronic transactions

- New consumer habits, with the development of e-commerce, mobile payment or collaborative economy, among other phenomena

- Fast emergence of new technologies that improve operational efficiency, customer experience and/or the range of products and services

- New demographic trends, marked by the ageing of population, the increase in urban population and rural depopulation

- Growing competitiveness of markets

- Importance of retaining talent
- Greater social demand for diversity, inclusion and sustainability policies by companies

In the short term, but also in the mid/long term:

- Evolution of the European and Spanish regulatory framework

- Rapid changes in companies and general public demands

- Transformation of the world geopolitical landscape and international trade traffic

- Climate change and new energy framework, including its impact on the economy, mobility, public procurement or the quality of life of general public

7.5. Main economic results

The revenue of Correos Group in 2018 amounted to 2,036 million euros, 176 million more than in the previous year, which represents a 9.5% increase.

The significant growth in activity, together with the substantial improvement in the efficiency ratios (4%) and revenue per employee (7.2%), have allowed



a positive operating profit (Ebitda, understood as result before interests, taxes, depreciations, amortizations, gains of fixed assets and other results), of 26.1 million euros, compared to the operating losses of 107.8 million euros, reached in 2017.

A significant and atypical event that had a negative impact on the result before taxes of the Parent Company was

the refund to the Kingdom of Spain of 134 million euros. With this amount, the investigation procedure opened by the European Commission in 2016, in relation to the state aid executed in favour of Correos corresponding to the 2004-2010 period, is closed. If we do not take into account the effect of the total refund (124 million euros in the profit and loss account for the year 2018), the result before taxes would be a loss of 43.9 million euros, very

far from the loss of 187.9 million euros in 2017.

The Parent Company receives training subsidies for employment, as well as grants linked to European projects for the promotion of safety, efficiency and sustainability for a total amount of 709 thousand euros. The Group's subsidiaries received no grants during financial year.

Consolidated Profit and Loss Account (thousands of euros)	2018	2017	Variation %
Revenue	2,035,632	1,859,465	9.5
UPS compensation	120,000	58,700	104.4
Supplies	(294,669)	(271,541)	8.5
Staff costs	(1,511,288)	(1,452,492)	4.0
Other operating expenses	(329,934)	(314,350)	5.0
Other results	(172,701)	(26,748)	545.7
Proceeds from income tax (thousand of euros)	25,635	3,528	626.6





7.6. Risk management

Correos Group's risk analysis and management system aims to identify, manage, prevent and ensure an adequate response to risks that arise. In 2018, a review of the Group's main risks was initiated in accordance with the COSO methodology, identifying the main impacts (including those of a social, environmental and employment nature) and those responsible for their control or mitigation. This review will be completed in 2019 with an updating of the policies of the Group for the prevention and mitigation of risks and significant impacts.

The activities of the different companies of the Group are conditioned by factors that are common to their sectors and by exclusive impacts that only affect each one of them. The most significant ones are market, operational, employment, environmental, reputational, legal, tax or financial risks.

The market risks derives from, among other factors, the progressive decline in postal activity due to electronic substitution, an increased competition and the emergence of new technologies causing rapid change in demand.

The operational and technological risk responds to the structural complexity of the Group, to the need for an agile incorporation of new technologies to increase efficiency in the distribution and delivery processes and to the challenges of cybersecurity. Likewise, Correos, as employer of more than 52,000 professionals, faces the employment risks inherent to the need to maintain a presence across the entire country.

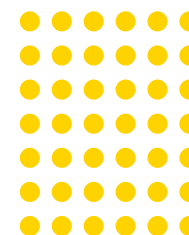
Equally significant are the environmental risks generated by the impact of a large infrastructure network and fleet of vehicles, and the reputational risks that can come from unpredictable changes in the positive perception the

Group has always had among its various stakeholders.

To these risks we must add the legal risks from possible changes to market legislation and how the Company operates.

Finally, the companies included in the Group are exposed to financial risk, which includes:

- 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.
- Liquidity risk, which refers 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.





- 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. This includes the interest rate risk, exchange rate risk and other price risks.

The exposure of Correos Group to the risk of exchange rate fluctuations is due primarily to transactions 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.

7.7. Main products and services

The Correos Group operates in the fields of communications and parcel products. Through a multi-channel and integral offer, it combines physical and digital solutions, ensuring effectiveness and reliability of communications and

personal, commercial or advertisement transactions.

• Physical communication solutions

With more than 300 years of history, Correos provides postal services to Spanish society, ensuring the highest efficiency and quality in their provision.

The company's catalogue of postal solutions includes mail and registered products, bureaufax services, distribution of books and publications and direct marketing comprehensive solutions.

• Retail sales and post offices services

Correos Group's post office network provides broad geographical coverage, offering personalised attention and a wide variety of products and services to meet all kinds of communication and business management needs.

Its offer includes postal and parcel services and products, prepaid packaging, financial services, bills payment, philatelic products, merchandising and convenience products, telecommunications services, ticket sales (also available through entradascorreos.com), services for the Administration or face-to-face verification of identity for digital transactions.

• Parcel services

Correos and its subsidiary Correos Express represent a benchmark in the parcel market and especially in the e-commerce services segment. Its catalogue of products provides customers with total flexibility to manage their deliveries, the greatest capillarity and the best ratios of effective delivery either at home, in the post office or through the *Citypaq* network of automated parcel terminals.

Correos Group's national and international parcels solutions range from maximum urgency (same-day delivery) to



more custom options (reverse logistics, luggage transportation, customised services for companies and flexible delivery).

- **Digital and e-commerce solutions**

Correos also has a global portfolio of e-commerce services that range from online sales and order management to methods of payment and digital marketing, as well as logistics.

The Comandia platform includes different solutions to facilitate the e-commerce of small businesses, while Correos' prepaid cards allow the secure payment of physical and digital purchases.

It also has its own web store, which sells a wide range of packaging, merchandising, philatelic and collecting items or environmental stickers of General Directorate for Traffic. Likewise,

the Correos store in Tmall Global, the e-commerce platform of Alibaba Group, enables Spanish SMEs to sell and deliver their products to China.

In the field of electronic communications, Correos solutions simplify the management of the digital identity of citizens or the reception of notifications, with full adaptation to the requirements of Act 39/2015⁴. In addition, digital postal products allow personalizing messages with audiovisual content and augmented reality.

Likewise, the services offered by the subsidiary Correos Nexea encompasses all the phases of the company's documentation cycle, from consultancy, design and engineering of documents, to the digitalization, data transmission, creation, printing of physical communications and inserting for postal distribution. Correos Nexea also offers an omni-channel management

system for generating physical and digital documents through an unified platform.

For its part, Correos Telecom markets the surplus capacity of Correos Group's telecommunications network through high-capacity connectivity rental; infrastructure for laying cables; collocation for radioelectric emissions (mobile network, radio, DTT, etc.); IPv4 address rental and provision of own Internet access services.

7.8. Relationship with customers

In compliance with current regulations, the Correos Group has procedures that allow customers to exercise their right to submit complaints and claims, as well as to consult on any matter related to the provision of services.

The Group companies offer commercial guidance and specialised attention through



⁴ Act 39/2015, of 1 October, on the common Administrative Procedure of Public Administration.



different channels, including commercial and after-sales networks, the telephone channel, mobile applications for customers, social media and the corporate website.

Correos Group's post office network also makes available to users, besides its own electronic customer service forms, official consumer complaints and claims forms from the respective Autonomous Communities.

The Correos customer service system makes a distinction between:

- Service claims, which include enquiries and complaints related to deliveries or service in post offices.
- Product claims, relating to delays, damage, loss or other incidents relating to a product, which are subject to compensation.

During the last financial year, Correos received and handled 93,174 service claims and 232,521 product claims. Of the latter, 27% were resolved with compensation.

The subsidiaries of the Group have their own customer service systems and complaints and claims procedures. Correos Nexea, for example, classifies

incidents, complaints and claims received according to their seriousness and impact on the continuity of the service, striving to resolve the most serious within 24 hours.

The indicators of the management of the Group companies in this matter are the following:

	Correos		Correos Express		Correos Nexea		Correos Telecom	
	2018	2017	2018	2017	2018	2017	2018	2017
Complaints and claims	325,695	292,850	265,797	248,642	235	116	4	ND
Complaints (Service claims)	93,174	79,613	1,170	1,250	227	110	4	ND
Claims (Product claims)	232,521	213,237	264,627	247,392	8	5	0	ND
Claims resolved with compensation	27%	ND	9%	ND	63%	ND	0%	ND



- **Improvement of the customer service channels**

In 2018, the website www.correos.es received around 383 million visits. Through this channel, 455,817 enquiries were dealt with, 28% more than in the previous financial year.

Despite this notable increase in the number of queries received on the web, as well as through social media, Correos improved response times in these channels by 50% (with an average time of 5 minutes).

The company also streamlined its other service channels with measures such as the use of semantic optimisation technology in email responses and the creation of a specific team to manage and resolve incidents with deliveries at *Citypaq* automated lockers in real time.

The subsidiary Correos Express, in turn, developed a new mobile application for customers, equipped with a sophisticated

tracking system. This app is especially useful for SMEs to immediately know the status of their goods, request pickups and manage any incident, from all types of devices.

7.9. Staff

- **Personnel management**

In 2018, Correos Group employed 53,605 full-time equivalents. Most of

them corresponded to Correos, which had a staff of 52,259 employees, of whom 80% were non-civil servant staff and 20% were civil servant staff. (The indicators included in this section always refer to the parent company, unless it is expressly stated that they include the Group or its subsidiaries, since it is the Group company that employs 97% of the total workforce.)

Average staff (Full Time Equivalent)	2018	2017
Correos	52,259	51,205
Correos Express	1,108	1,047
Correos Nexea	193	179
Correos Telecom	45	46

Correos, one of the largest public enterprise groups in terms of dimensions and workforce, undertakes the management of people as an essential part of its strategy.

The main employment impacts of the company on society are related to the employment quality and stability, training and professional development, talent attraction and retention, diversity and occupational health and safety.

Correos manages these impacts through a global policy, whose lines of action and monitoring indicators are designed in accordance with current employment legislation and with the main reference frameworks in the Spanish public sector and in the international postal sector. This personnel management policy also applies in the Group's subsidiaries, in those aspects that are applicable to them, due to their different dimensions and legal requirements.



The main parameters of Correos' staff are the following:

	2018	2017
Employees by gender		
Women	26,918	26,084
Men	25,341	25,121
Employees by age		
until 35	6,550	6,264
from 36 to 45	12,307	11,684
from 46 to 60	30,830	30,924
more than 61	2,572	2,333
Employees by nationality		
Spanish	52,113	51,093
Not Spanish	146	112
Employees by professional category		
Managers/deputy managers	45	42
Technicians and middle managers	6,545	6,391
Administrative staff	1,195	1,150
Operational staff	44,474	43,623

	2018	2017
Employees by contract type and gender		
Permanent staff		
Women	17,574	17,695
Men	17,417	18,226
Temporary staff		
Women	9,344	8,389
Men	7,924	6,895
Employees by type of work day and gender		
Full-time		
Women	24,157	23,559
Men	23,234	23,165
Part-time		
Women	2,761	2,526
Men	2,107	1,956

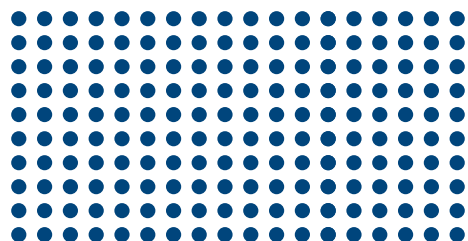


	2018	2017
Employees by contract type and age		
Permanent staff		
until 35	1,504	1,655
from 36 to 45	6,675	6,799
from 46 to 60	24,595	25,472
more than 61	2,217	1,994
Temporary staff		
until 35	5,046	4,609
from 36 to 45	5,632	4,885
from 46 to 60	6,235	5,451
more than 61	355	339
Employees by type of work day and age		
Full-time		
until 35	4,796	4,603
from 36 to 45	10,874	10,397
from 46 to 60	29,269	29,504
more than 61	2,452	2,220

	2018	2017
Part-time		
until 35	1,755	1,661
from 36 to 45	1,433	1,287
from 46 to 60	1,561	1,419
more than 61	120	114
Employees by contract type and professional category		
Permanent staff		
Managers/deputy managers	43	41
Technicians and middle managers	6,411	6,180
Administrative staff	1,123	1,123
Operational staff	27,413	28,577
Temporary staff		
Managers/deputy managers	2	1
Technicians and middle managers	134	171
Administrative staff	72	77
Operational staff	17,061	15,035



	2018	2017
Employees by type of work day and professional category		
Full-time		
Managers/deputy managers	45	42
Technicians and middle managers	6,543	6,349
Administrative staff	1,192	1,199
Operational staff	39,610	39,135
Part-time		
Managers/deputy managers	0	0
Technicians and middle managers	2	2
Administrative staff	3	1
Operational staff	4,863	4,478





As all the indicators referring to the staff of the Group's subsidiaries were not available at the date of preparation of

this management report (as their labour management systems are being adapted to the new non-financial reporting

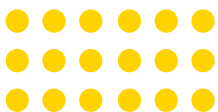
requirements), below are shown the most relevant ones:

	Correos Express		Correos Nexea		Correos Telecom	
	2018	2017	2018	2017	2018	2017
Employees by gender						
Women	320	309	80	76	10	9
Men	788	738	113	103	36	37
Employees by nationality						
Spanish	1,076	1,022	193	179	45	46
Not Spanish	32	25	0	0	0	0
Employees by professional category						
Managers/deputy managers	15	14	5	5	1	1
Technicians and middle managers	184	193	21	16	43	44
Administrative staff	296	279	16	15	1	1
Operational staff	612	561	151	143	0	0





	Correos Express		Correos Nexea		Correos Telecom	
	2018	2017	2018	2017	2018	2017
Employees by contract type and gender						
Permanent staff						
Women	261	267	121	124	8	8
Men	646	657	51	52	29	32
Temporary staff						
Women	58	42	72	55	1	1
Men	142	82	29	23	7	4
Employees by type of work day and gender						
Full-time						
Women	239	234	79	75	10	9
Men	728	693	107	103	36	37
Part-time						
Women	81	74	1	1	0	0
Men	60	45	6	0	0	0



• **Employment**

In 2018, Correos expanded its workforce by 2.1%, in accordance with the conditions and limits set for it as a state-owned company. These additions to the workforce were a response to new needs resulting from a notable increase in parcel volumes and greater activity in the traditional postal sector due to market concentration.

Also, with the aim of improving employment stability, a process was implemented to fill 2,295 permanent positions in urban and rural delivery, sorting and customer service, for which 116,699 candidates applied. Provincial recruitment campaigns were undertaken and entry tests were conducted simultaneously in 30 cities, organised by around 3,000 members of Correos staff. By 1 March 2019, all new employees selected for the different provinces had begun work.

Within the framework of this process of employment consolidation, the company carried out an operational training programme for temporary staff, in which 556,905 teaching hours were taught to a total of 20,500 participants.

• ***New 2018-2020 multi-year agreement for the improvement of employment and salary and work conditions***

In December 2018, Correos and the trade unions CCOO, UGT, CSIF and Sindicato Libre (which hold more than 80% of the trade union representation in the company) signed a multi-year agreement which sets the basis for labour relations until 2020.

The commitment was part of the Second Collective Bargaining Agreement for Improved Public Employment and Working Conditions signed by the Government and the trade unions CCOO, UGT and CSIF on 9 March 2018.

This 2018-2020 multi-year agreement, which will enable Correos to acquire the necessary resources to face the strategic challenges of the future, includes the following main points:

- Wage increases within the framework established by the aforementioned Government-Union Agreement and the Budget Laws. The remuneration increases fixed for 2018 were 1.95%.
- Employment quality, which includes the stabilization and replacement of 11,200 positions (coverage of the replacement rate for the period 2017-2020, together with the consolidation of 4,574 additional positions), reduction of temporary employment, improvement in the management of the employment cycle and internal promotion of civil servant staff (395 positions).
- Improvement in working conditions, in aspects such as workday, partial retirement, new equality and diversity



plan or comprehensive programme on management of absenteeism.

In application of this agreement, the end of the financial year saw the publication of the general principles for the filling of 4,055 permanent positions of professional group IV (operational staff), with selection tests to be conducted in 2019. This recruitment campaign integrates coverage of the replacement rates for 2017 and 2018, as well as the posts included for those years in the employment stabilisation plan.

- ***Social dialogue***

Correos has a 'Framework agreement on labour relations', in force since March 2000, which establishes, among other aspects, the essential criteria for permanent dialogue between trade unions and companies.

This agreement regulates dialogue with union sections at the state level,

implemented throughout the State, through its general secretaries and state executives and, in the territorial scope, through the provincial secretaries and executive bodies, in addition to the unitary organs (Works councils and Staff boards).

The document also states to the composition of the highest workforce bargaining bodies of workers under ordinary employment contracts (the Negotiating committee, made up of 12 members) and civil servants contracts (the Sectoral committee, made up of 18 members).

For its part, the collective agreement of the Correos workforce includes the general principles of union participation and collective bargaining, and the functions of central joint committees (for central employment, social action, training, equality, working time, transfer system and occupational health) and provincial joint committees (on employment and working time, together with the provincial

committees for security and health). In 2018, the percentage of workers under ordinary employment contracts covered by collective agreement was 79% (100% in the case of Correos Express and 97% in Correos Nexea).

The agreement contains a specific section on the safety, health and occupational risk prevention policy, the own prevention plan and service, the prevention delegates and the information and consultation rights in this matter (channelled through the occupational health state committee and provincial health and safety committees, with joint representation of the company and unions).

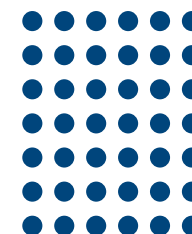
Regarding the organization of working time, in Correos there is a great diversity of working days, given the heterogeneous nature of the services provided. In order to achieve a proper reconciliation of personal and professional life and the development of



efficient work, the collective agreement includes the negotiation, participation and information competencies of the working time committee. Likewise, any substantial

modification of the days, schedules and/or shifts, is subject to examination by the central employment committee or the provincial employment committees.

	2018	2017
Percentage of dismissals by gender		
Women	0.05%	0.05%
Men	0.12%	0.08%
Percentage of dismissals by age		
up to 35	0.11%	0.05%
36 to 45	0.07%	0.06%
46 to 60	0.09%	0.07%
from 61	0.04%	0.04%
Percentage of dismissals by professional category		
Managers/deputy managers	13.22%	4.81%
Technicians and middle managers	0.09%	0.09%
Administrative staff	0.17%	0.00%
Operational staff	0.07%	0.06%





Correos' remuneration policy guarantees wage equality between women and men in jobs of equal value. In this sense, there is no salary gap. The salary scale and concepts of civil servants

are those set for the rest of the public sector and published annually, which are reflected in the remuneration tables of workers under ordinary employment contracts.

According to said salary scales, in 2018 the average remunerations of the company's professionals, according to their professional classification, gender and age (not including personal salary

concepts, such as those relating to seniority, residence, annual campaigns or vehicle contribution, to name a few) were the following:

	2018		
	Men	Women	Women remuneration compared to men remuneration
Average remuneration by professional category and gender (thousands of euros)			
Deputy managers/technicians*	49,260	44,699	90.7%
Middle managers	26,063	25,178	96.6%
Administrative staff	20,369	19,968	98.0%
Operational staff and team managers	18,353	18,248	99.4%
Average remuneration by age and gender (thousands of euros)			
until 35	18,947	18,862	99.6%
from 36 to 45	19,713	19,284	97.8%
from 46 to 60	19,340	18,792	97.2%
more than 61	20,084	18,364	91.4%

*Calculation made with real remunerations, for not having direct equivalence in salary scales of the public sector.



These remunerations include an average increase of 1.8% regarding financial year 2017.

- ***Promotion of talent and professional development***

Correos has a talent management programme whose purpose is to identify employees with the capacity and potential to assume certain positions in the company and contribute to their development and personal and professional growth in line with business objectives.

This model for the attraction and promotion of internal and external talent is firstly structured through:

- 'Clic' programme, made up of 400 people. Its lines of action during the year included the execution of individualised action plans to enhance professional profiles and the organisation of training

activities and workshops on skills with a total of 15,200 teaching hours.

- The performance assessment system, which promotes greater alignment of individual performance with the company's objectives, and also ensures greater effectiveness of selection, promotion, training and professional development plans. In 2018, 1,598 Correos employees took part in this programme, 3.1% of the total, including all managers, technicians and middle managers. The main improvements introduced were aimed at providing more training and self-assessment tools to team leaders.

- The 'Young Talents' work experience programme, aimed at university students who wish to complement their academic training with practical work experience, thereby increasing their employability and allowing the Group companies to enrich themselves with new knowledge and ideas.

In 2018, this project reinforced its presence in social media and digital platforms with 86 students from 14 different nationalities, various universities and the SEPI Foundation.

Last fiscal year, the programme was also extended to the Group's subsidiaries, which reached other agreements with vocational training centres and social entities to carry out work practices.

- ***Internal promotion***

The company's professional development plans include internal promotion as the main component to promote and retain talent. In 2018, new mechanisms were introduced to ensure candidate diversity and equal opportunity and selection regardless of age, nationality or gender (in that financial year, for example, 56% of the selected candidates were women).



The selective and labour mobility processes developed last year included:

- The internal promotion of 487 workers.
- The provision of 1,548 team leader positions in post offices, delivery and logistics to reinforce the structure of operational management. This process was complemented with more than 40,200 training hours on the responsibilities of that positions, attended by 2,600 workers.

Also, 1,763 employees participated in the replacements programme which trains professionals in operational positions to temporarily carry out not covered leadership roles in post offices, delivery and logistics.

- The coverage of middle manager positions, with a 7.5% increase in the number of women selected.

- The permanent transfer system to address the expectations of functional or geographical mobility of the employees located in post offices, delivery units and processing centres. The selection processes carried out in 2018 enabled the mobility and promotion of 2,029 people.

The welcoming and monitoring programme, designed to provide training to new employees or those changing posts within the company, saw the participation of 955 employees.

Correos also made available to temporary staff and new employees the Colearning platform, an online environment that provides information about processes and applications related to operational positions to assist them in their first months of adaptation and meet their development needs. During the financial year, 8,500 employees accessed this space.

• ***Innovative training for transformation***

Correos Group's training policy is aimed at responding to the strategic business needs and professional development of its employees, with the aim of providing excellent service and supporting its range of new products and services.

In 2018, the company organised 486 training activities, mainly taught by its more than 770 internal trainers. The ratio of training hours per employee was 28, with a total of 322,576 participants (54.6% of them were women), 26% more than in 2017.

43% of the employees were trained online using the Virtual Campus e-learning platform in support of a good work-life balance. The remaining 57% received face-to-face, distance and on-the-job training.

During the last financial year, Correos offered more than 100,000 places for five online training activities related to the commercial field and digitisation, organising more than 986,000 hours. The company also offered its employees specialised teaching areas, such as:

- The Products School: this is a space for self-learning about the commercial offer of Correos, in which 20,775 employees participated during the fiscal year.

- The Sales School, mainly aimed at the training of sales managers.

- The Leadership School, where the programme 'four steps to lead' was provided to 885 team managers and participants of the 'Clic' programme.

- Accompaniment in post offices programme, to promote the adoption of best management practices by their directors.

- The 'I Am Digital' self-learning project with more than 10,810 participants, who developed their digital competences.

- The 'Managerial environment' platform, with contents on management, personal development, competences and strategy, from recognized authors and business universities. This space is available to all the executives and participants of the 'Clic' talent programme.

In addition, the performance assessment system includes a specific training programme consisting of skills (orientation towards excellence, objectives, teamwork and innovation) and knowledge courses (products and

services, sector and regulation), which was taught in 2018 to 1,039 employees and contained 9,938 teaching hours.

The company continued to organise its monthly talks programme 'Learning together with Correos' on matters of interest to employees ('For a society free of gender-based violence,' 'Agenda 2030: A change in people and the planet,' to name some of them). These information sessions, which were attended by more than 700 people, were also disseminated on video through various channels (the Virtual Campus, intranet and corporate social media).

In fiscal year 2019, Correos plans to introduce training content on the right to digital disconnection and recommendations on the responsible and reasonable use of technology, in compliance with Organic Law 3/2018⁵.

⁵ Organic Law 3/2018, of 5 December, on the Protection of Personal Data and the Guarantee of Digital Rights.



Training hours by professional category	2018
Managers/deputy managers	1,419
Technicians and middle managers	435,529
Administrative staff	16,713
Operational staff	1,434,747

Average training hours by gender	Correos	Correos Express	Correos Nexea	Correos Telecom
Women	30.1	19.23	1.28	30.33
Men	25.1	16.94	2.08	32.60

• **Improvement of internal communication and fostering team work**

Correos Group's corporate intranet, *Conecta*, is the main communication channel for employees to consult and share relevant information about the company's management, business model, new plans and projects and corporate values.

In 2018, this channel published 276 items of national and 237 pieces of regional or local company news, which were also disseminated on bulletin boards in all operational centres.

The in-house magazine (which last year adopted a new interactive digital format and changed its name to *Conectad@s* after a vote by employees) continued to be a popular channel. Information on subjects related to people and business was also added to the back of monthly pay slips.

The company organised eight 'Meetings with the President,' in which employees had the opportunity to share their suggestions and concerns with the President. About 200 employees from different areas and fields of work (distribution, processing, post offices, innovation and customer service and experience) attended these meetings.

Also, in the 'Annual Recognition Day' more than 230 employees gathered under the slogan 'Our Success, Our Team.' In this event awards were given to the finalists of the recognition and continuous improvement programmes awarded annually: 'National Award for Excellence', the 'Environmental Commitment Award', the 'Artemisa Award' for the best commercial management and the 'Athenea Award' for people and their best practices. To these will be added, from 2019, the new award 'Sharing solidarity', to recognize the collaboration of employees with society.





Lastly, during the financial year, the company promoted new employee participation initiatives, such as:

- The 'My Postcard to China' campaign and the monthly photography contest 'Help them to know us' which promoted the Spanish culture and products, as well as the services of Correos online store in the Tmall Global marketplace, on Chinese social media.

- The 4th Short Postal Film Competition at the Almería International Film Festival (FICAL).

- ***Diversity and inclusion, pillars of people management policies***

In 2018 women represented 52% of the workforce. Correos, as a pioneering Spanish company and benchmark in equal opportunities between women and men, has in recent years practically maintained a situation of parity between both genders.

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

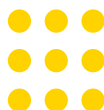
It also involves specific policies for helping and protecting the victims of gender-based violence, encouraging quick handling of incidents that guarantees confidentiality, with measures such as the reduction of the working day and special consideration of the absences of the victim; leave as a result of gender-based violence and the guarantee of work relocation.

Likewise, since 2012 Correos has been a member of the 'Network of companies for a society free of gender violence', of the *Ministerio de Sanidad, Consumo y Bienestar Social* (Ministry of Health, Consumption and Social Welfare) in order to make society aware of this problem.

The company promotes measures to reconcile family, personal and professional lives through training and awareness-raising activities, as well as through measures included in its internal regulations. The latter, applicable to the entire workforce, often involve improvements in relation to current employment legislation.

Additionally, to the extent that the organisation of work and the obligations of providing a public service permit, Correos enables employees to work continuously throughout the day from Monday to Friday in morning, afternoon or evening shifts, this being the most frequent working day option for employees.

The company seeks to ensure equal opportunities in both opportunities for internal promotion and in taking advantage of work-life balance measures.



	Correos		Correos Express		Correos Nexea		Correos Telecom	
Paternity or maternity leave by gender	2018	2017	2018	2017	2018	2017	2018	2017
Women	289	248	10	11	1	1	1	1
Men	482	453	20	11	2	2	0	1

100% of the employees who benefited from paternity/maternity leave returned to their job when it was completed. The data relating to male employees includes both paternity leave and assignment of maternity leave, with the 2017 data being reformulated according to this criterion.

• **Diversity policy**

Correos strives to promote among its employees a management model and leadership style that promotes the plurality of ideas, experiences and perspectives to respond to the needs of a diverse society.

In order to do so, it promotes equal opportunities at work with special attention to gender, the integration of people at risk of social exclusion and any kind of disability, as well as the enriching coexistence of different generations.

In addition to the measures included in the collective bargaining agreement, the General Civil Servants Agreement and the Equality Plan of the company, in 2018, Correos designed a Diversity and Inclusion Plan, based on seven lines of action.

- Promotion and selection
- Talent
- Communication and awareness-raising

- Corporate social responsibility
- Business culture
- Healthy company
- Training

The starting point of this programme was a diversity and inclusion assessment study which included identification of good practices, consultation with more than 500 employees with different profiles and the holding of work sessions with 12 groups



from all regions in which improvements were proposed for greater effectiveness in diversity management.

Diversity and inclusion plan is focused on the following priority areas:

- Gender diversity, developing actions focused on:
 - Equality plan
 - Female career plans
 - Visibility of female talent
 - Training and awareness raising
- Protocol against sexual, workplace or psychological harassment

- Functional diversity, by integrating people with physical and intellectual disabilities into its workforce (amounting to 901 professionals in 2018 in Correos and 919 in the Group) and by collaborating with Foundations, Special Employment Centres and Occupational Centres, that encourage their full integration into the workplace, as a measure included in regulations⁶.

- Generational diversity, in accordance with the principles of the Generation and Talent Observatory, which promotes management of people based on respect, non-discrimination and equal opportunities, regardless of their age. The main programmes in this line include:

- Inverse mentoring, a tool that facilitates the bidirectional transmission of knowledge between different generations,

fostering integration, collaboration and mutual enrichment.

- Collaborative work, by means of the '*Proyecto comparte*' (Share Project), which is aimed at implementing virtual spaces encouraging team work. Currently, there are more than 80 communities, with more than 2,000 users from the seven territorial zones and from the Correos' head office in Madrid.

- Leadership, through the programme 'four steps to lead', which has already trained more than 2,500 team managers in order to achieve more inclusive and transforming management models.

During the financial year, various awareness-raising activities were also held to mark the international women day and for

⁶ Royal Legislative Decree 1/2013, of 29 November, approving the consolidated text of the General Law on the Rights of persons with disabilities and their social inclusion.



the elimination of violence against women or the on European day of solidarity and cooperation between generations.

The initiatives carried out by Correos were recognised by the NGO *Red Acoge* in its 'II Diversity and inclusion management index', which awarded the company the ninth position among a selection of 36 for its good performance in all the categories assessed (corporate policy, internal and external measures and diversity map).

The company is also a member of the expert groups on generational diversity, *Observatorio 50+* and *Generacciona*, and was selected for inclusion in the 2018 edition of the 'VariableD Report: The TOP 30 Companies in Spain with Best Practices in Diversity and Equality,' published by the consulting firm Intrama.

Finally, four of Correos Group's good practices in the field of talent management, training, health promotion and inverse mentoring were included in the '*Estudio de los trabajadores senior en la empresa Española: realidad y retos*' (Senior Workers in Spanish Companies: Realities and Challenges Study) published by the IE Business School's Observatory of Demography and Generational Diversity.

- **Greater social benefits for employees**

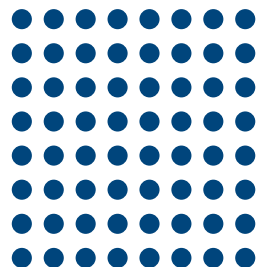
Correos Group's social action programme contributes to improving the social and professional well-being of its employees and work-life balance. In 2018, 14,000 employees and their families applied for financial assistance for medical treatment, university studies, early

childhood education, care for children with disabilities and death. Permanent staff were able to take advantage of advances and interest-free loans.

In addition, the range of preferential life and accident insurance policies for employees was improved and the web platform for employee promotions and discounts incorporated new products and services for leisure, culture, health, sports equipment and consumer goods. In 2018, more than 30,000 employees were registered with this platform.

Finally, Correos has a pension plan for its workers. However, since 2012, in compliance of Royal Decree 20/2011⁷, the company makes no contributions to that plan, although employees make them voluntarily.

⁷ Royal Decree 20/2011, of 30 December, on urgent budgetary, fiscal and financial measures for the correction of the public deficit





- **Safe and healthy working environment**

Occupational health and safety is a fundamental element of the company's corporate risk management policy, in which the integration of a preventative culture model at all levels of the organisation is prioritised through information and ongoing employee training.

In this way, the company contributes to occupational health with a comprehensive approach that not only provides a healthy and safe working environment, but also promotes all aspects related to overall well-being through three lines of action: physical well-being, emotional well-being and the health and safety employees.

Correos implements an essentially internal preventative management policy, with its own health and safety department employing more than 90 staff and equipped with a central and

peripheral structure in each of Correos Group's regions.

As part of its 'Healthy Company' project, Correos promotes life habits that contribute to improving the health of its employees from a multidisciplinary perspective. In 2018, this initiative's cardiovascular risk factor reduction programme was extended to the provinces of León and the Balearic Islands, after successful trials in Alicante and Granada. This awareness-raising and motivational activity to promote healthy practices saw 270 workers volunteer to take part.

The company also organised a healthy eating campaign and a physical exercise programme through the dissemination of awareness-raising infographics via the corporate intranet and displaying of posters in centres.

In addition, an emotional well-being programme, through workshops and talks, offered workers tools to help with self-knowledge, managing emotions,

motivation and the positive management of change.

Correos also joined the awareness campaign promoted by the association 'Stop strokes', the Spanish Society of Neurology and the Cerebrovascular Disease Studies Group, coinciding with the World Stroke Day. For this, the company included the messages 'Do you know how to prevent stroke?' and 'Choose Health' in more than 2,500 delivery cars, visible in 45 towns throughout Spain. Information leaflets were also distributed in the work centres and a small lecture was given at Correos' head office in Madrid, which was shared with all the employees in the Virtual Campus, the corporate intranet and social media.

Similarly, the company joined the world day against breast cancer, through the dissemination of the awareness campaign on social media, the corporate web and the intranet, and placing a large pink ribbon at the entrance to its headquarters in Madrid.



- ***Effective preventative management***

The main actions carried out in 2018 for the identification and prevention of occupational risks included:

- Approving the regulation on the operation of the national commission for occupational health and holding meetings of this commission, as well as the provincial committees for health and safety.
- Updating the occupational hazard prevention management system's procedures and protocols with respect to particularly sensitive workers, such as female workers who are pregnant, breastfeeding or have recently given birth.
- The creation of 521 general technical studies and 76 specific studies about risks in centres, 783 emergency

plans, as well as the implementation of 10 risk assessments for potential exposure to explosive atmospheres and 9 for work equipment. In 2018, Correos registered no occupational diseases.

- Specific training on prevention, with 46,573 participants and 162,264 training hours, and the provision of 76,179 health and safety sheets to employees, with information tailored to each job and work centre.
- The development of the road safety programme, with the development of audiovisual training materials for motorcycle delivery workers.
- Carrying out 16,151 preventive medical examinations, adapted to the different jobs and personal circumstances, and also implementing the annual flu vaccination campaign, and the extension of the project for the early detection of colon cancer to the whole company.

- The installation of semi-automatic external defibrillators in 13 work centres and the training of more than 100 workers in its operation.

- Carrying out awareness and information campaigns for employees, using internal communication tools and with the participation in the 'Atenea Award', in the occupational risk prevention category.
- The provision of new distribution uniforms, specially designed and made for the greatest safety and comfort in the different jobs.

The commitment to the health and safety of its workers was recognised with the renewal of its certification as Healthy Company. Correos, which was the first state-owned company to receive this recognition, obtained a score of 82.9 out of 100, surpassing by 12% the result of the previous external audit.



	2018	2017
Workplace accident frequency index	29.76	30.37
Workplace accident severity index	1.28	1.12
Absenteeism (thousands of days)	1,051.40	932.3

	Correos*		Correos Express		Correos Nexea		Correos Telecom	
Occupational accident by gender	2018	2017	2018	2017	2018	2017	2018	2017
Women								
Deaths	1	0	0	0	0	0	0	0
Very serious accidents	0	0	0	0	0	0	0	0
Serious accidents	1	3	0	0	0	0	0	0
Minor accidents	2,032	2,011	9	2	6	6	0	0
Accidents with sick leave	2,034	2,014	9	2	6	6	0	0
Men								
Deaths	2	2	0	0	0	0	0	0
Very serious accidents	0	0	0	0	0	0	0	0
Serious accidents	7	8	0	0	0	0	0	0
Minor accidents	1,769	1,774	33	25	7	11	0	0
Accidents with sick leave	1,778	1,784	33	25	7	11	0	0

*Deaths in 2018 due to traffic accidents in itinere and in the workplace.



7.10. Environmental sustainability

(The indicators included in this section always refer to the Parent Company, unless it is expressly stated that they include the Group or its subsidiaries, since it is the Group company that generates the main impact on this dimension).

- **Correos' environmental policy**

The European Union is committed to achieve a low carbon economy by 2050. This objective involves addressing an ambitious reduction in greenhouse gas emissions, with specific goals for each sector.

Thus, transport emissions (representing a fifth of the total) must be reduced by more than 60% by gradual replacement of vehicle fleets with hybrid, electric or biofuel-powered alternatives. Similarly, emissions from buildings could be reduced by 90% with improved energy efficiency and use of air conditioning systems powered by renewable energy.

Elsewhere, the Spanish Circular Economy Strategy, currently in its preparation phase, aims to promote the transition to this new economic model through actions such as the promotion of green public purchasing and the development of 'ecodesign,' among others, to maximise the use of materials and reduce the generation of waste.

Correos aims to contribute actively to these objectives and reduce its environmental impact, developing action policies that:

- Improve the air quality of cities (cutting nitrogen oxide (NOx) and PM10 particulate emissions), thus helping to protect the health of inhabitants
- Combat climate change (reducing carbon dioxide (CO₂) emissions)
- Consuming sustainably (making efficient use of resources)

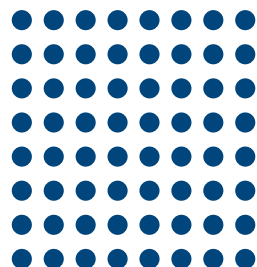
- Promoting a circular economy (increasing the percentages of recycling and reducing waste generated)

- **2014-2020 General Sustainability Plan**

The main impacts of Correos on the environment in the short, medium and long term are the generation of CO₂, NO_x and particulate emissions, energy consumption and waste generation.

These impacts are reviewed and evaluated on an annual basis and contrasted with the main international (COP, SDG, EU legislation) and national reference frameworks (new regulations and recommendations, main business forums). That way, policies and investments in this area can be orientated towards initiatives that are likely to enable greater risk mitigation, thus maximising the precautionary principle.

Correos' management of environmental hazards is articulated through its 2014-2020





General Sustainability Plan, which includes policies, preventative and repair measures and applied indicators, with priority given to three areas:

- Reduction of CO₂ emissions. 2020 objective: Ensuring that emissions per delivery do not increase by more than 2% with respect to 2013 in light of the exponential growth of parcel volumes, which represent higher unit emissions than postal items. Measures adopted: Promotion of a more efficient delivery model through new technologies and fuels. Awareness raising among employees. Reduction in necessary distances travelled for the service.

- Energy efficiency. 2020 objective: Reduction in the energy consumption of the company's buildings by 25% compared to 2009. Measures adopted: Optimisation of the energy needs of centres.

- Waste management. 2020 objective: Improvement in waste management in the

main operating centres. Measures adopted: Implementation of a concentration model that improves segregation and increases recycling rates.

- ***Environmental assessment and certification procedures***

Aspects such as project monitoring, prioritisation of actions and watchfulness over environmental hazards and opportunities are carried out through an environmental management system certified in accordance with standard UNE-EN ISO 14001:2015 'Environmental management systems' in 38 processing centres and post offices.

In addition, the monitoring of measures to reduce CO₂ emissions is based on:

- Participation in the Environmental Measurement and Monitoring System (EMMS) project of the International Post Corporation, whose purpose is to reduce the CO₂ emissions of the postal sector.

In 2018, Correos achieved a score of 87% in the management of its emissions within this model (representing an annual improvement of 7%).

- Voluntary disclosure of emissions to the CDP, an organisation that measures performance in climate change management and has disclosed environmental information from more than 7,000 companies worldwide.

- Environmental reporting of the company according to the standards of the international CDSB consortium.

- Environmental reporting to the Universal Postal Union through its Online Solution for Carbon Analysis and Reporting (OSCAR) assessment and monitoring tool.

- Verification of CO₂ emission management results in accordance with standard UNE-EN ISO 14064-1:2012 'Greenhouse gases' and registration in the





'Carbon Footprint, Offsetting and Carbon Dioxide Absorption Project Register' of the *Ministerio para la Transición Ecológica* [Ministry for Ecological Transition].

- **Reduction of emissions through more efficient delivery**

One of the main environmental impacts of the company is last-mile delivery, which involves the emission into the atmosphere of NOx, particulates and CO₂. Actions to mitigate these effects are aimed at reducing the number of kilometres travelled and making them greener.

Correos travels more kilometres on foot (deliveries with zero emissions) than any other Spanish company, thanks to its more than 34,000 postmen and women. In addition, it reduces distances travelled through the use of route optimisation systems, new services that facilitate effective delivery, such as parcel terminals *Citypaq* and efficient driving training for its delivery staff.

The pilot projects for efficient driving and improvement of road safety that began in 2018 included:

- **Movil eye.** Programme for the reduction of road accidents through the use of the Advanced Driver-Assistance System (ADAS) in 150 vehicles in Barcelona, contributing to driving efficiency and reducing polluting emissions.

- **ECOTRAFFIC.** Efficient driving project in collaboration with the Polytechnic University of Madrid, to which Correos will be providing data on the use of vehicles, in addition to contributing to the awareness-raising of its drivers.

Similarly, as in previous years, the company participated in the IPC Drivers' Challenge, a competition for postal drivers that the International Post Corporation organised at the Estoril circuit in Portugal. Selection of the team that would represent Correos was made through the Eco Challenge, a competition in which driving

efficiency and vehicle maintenance were assessed.

- **Electric vehicles**

The kilometres that Correos travels are also increasingly becoming greener thanks to the incorporation of vehicles that use alternative fuels to those derived from petroleum, generating 0 particle, NOx and CO₂ emissions.

Company's electric fleet is one of the largest in the sector, and its use is reserved to home deliveries in urban environments and historic centres, where the circulation of traditional combustion vehicles is increasingly becoming restricted by new municipal mobility regulations.

This measure is reinforced by the fact that the company only purchases 100% renewable energy for the electricity supply of those delivery units which use eco-efficient vehicles for their operation, thus contributing to creating areas of reduced emissions.



The company collaborates with a growing number of local authorities to ensure that its activities generate minimum environmental impact and contribute to achieving the emission reduction targets of Spain's main cities. During the past year, this cooperation translated into various initiatives for sustainable postal delivery:

- The use of pedal-assist electric tricycles for the express distribution of mail and parcels in urban centres. After a successful pilot scheme carried out in Sevilla in 2018, the initiative spread to the cities of Málaga, Córdoba and Granada.

- Assessment of an electric scooter prototype designed for the delivery of small parcels in city centres and areas with access restrictions in the localities of Las Rozas and Majadahonda (Madrid).

- The European project REMOURBAN in collaboration with Valladolid City Council to promote electric mobility in areas with high traffic congestion.

Correos also took part in events held in various Spanish cities to mark European Mobility Week, promoted by the European Commission and the Ministry for Ecological Transition in order to raise awareness among the general public, companies and Public Administrations.

- ***Other transport technologies***

The company also assessed other technologies such as liquefied petroleum gas (LPG) and compressed natural gas (CNG) for its long-distance and last-mile delivery fleets.

The main collaborations related to the use of these fuels included:

- The POSTLowCIT project, led by Correos in conjunction with the University of Deusto and the vehicle transformer Evarm since 2016. This programme, co-funded by the European Union within the framework of the 'Connecting Europe Facility' (CEF) programme, aims to reduce the environmental impact of freight

transport by using vehicles powered by alternative energies.

- The tests carried out involved 73 electric last-mile delivery vehicles and 4 long-distance lorries that had been adapted to use liquid petroleum gas (LPG) on routes between Barcelona, Madrid, Sevilla and Valencia.

- The ECO-GATE programme, also co-funded by the European Union, in which Correos has participated since 2017 for testing the use of transformed or native compressed natural gas (CNG) vehicles for last-mile delivery in the city of Barcelona.

The emission indicators, reported in accordance with the GRI standard, will be included in the integrated annual report of the Correos Group for 2018, whose publication is expected in June 2019. As the indicators referring to the year 2018 were not available at the date of preparation of this management report, (since the emission factors of 2018 were





not published in the latest version of the carbon footprint calculator, reported by the Ministry for Ecological Transition, for the inscription in the Carbon Footprint

Register, and which are used by the company for the calculation of its data⁸), the indicators of the last available year are included:

Greenhouse gas emissions (tCO ₂)	2017	2016
Total greenhouse gas emissions (tCO ₂)	175,124	165,175
Direct (Scope 1)	46,696	38,301
Indirect (Scope 2)	9,800	10,079
Other indirect emissions (Scope 3)	118,628	116,795
CO ₂ emissions per item (g CO ₂ /item)	21.34	17.44

CO₂ emissions are calculated using the GHC Protocol and verified in accordance with standard UNE-EN ISO 14064.

Atmospheric emissions (kg)	2017	2016
SOx	143	129
NOx	62,133	58,244
Particulates	5,521	5,050

Emissions are calculated using the CORINAIR methodology based on billed consumptions.

• **Sustainable use of natural resources**

Correos has work centres throughout Spain dedicated to serving the public as well as sorting and management tasks. Optimising the energy needs of these buildings is also essential to reducing the company's environmental footprint.

Since 2018, 100% of the electricity purchased by Correos has come from completely renewable sources (in 2017, it was 90%). The main energy efficiency measures implemented in 2018 were:

- Promotion of a sustainable purchasing policy, especially for the supply of energy and transport.
- Replacement of lighting systems in centres with LED technology.

- Implementation of the energy efficiency in the workplace system, which monitors the status of computer equipment connected to the mains to determine consumption and enable the application of energy saving policies.

- Awareness-raising among employees through:

- Organisation of an annual 'Environmental Commitment Award' to identify best practices in mobility and energy efficiency in the company's buildings.

- Dissemination of various recommendations through internal communication channels.

- Participation in the WWF's Earth Hour movement, the world's largest

⁸ Royal Legislative Decree 163/2014, of 14 March, creating the Carbon Footprint, Offsetting and Carbon Dioxide Absorption Project Register.



annual environmental protection event in which individuals, communities and businesses are encouraged to turn off non-essential electric lights.

—Energy Audit training for the company's specialised employees.

— Participation in the *#Cadagotasuma* campaign (every drop counts) through the company's corporate communication channels, almost 2,400 post offices and close to 12,000 delivery trolleys.

The fuel and energy consumption indicators, reported in accordance with the GRI standard, will be included in the Integrated Annual Report of the Correos Group for 2018, whose publication is expected in June 2019. As the indicators referring to the year 2018 were not available at the date of preparation of this

management report, (for not having, from the data provided by the energy supply companies, the necessary information for their verification), the data from the last verified year available are included (according to UNE-EN ISO 14064-1:2012 standard 'Greenhouse gases'):

Correos' consumption of raw materials*	2018	2017
Water (m ³)	336,291	312,516
Paper (Kg)	755,880	650,268
Ink (units)	14,614	27,190

*Calculated from the billing amount.

Resources destined by Correos for the prevention of environmental hazards (thousands of euros)	2018	2017
Environmental investments	4,191	1,843
Environmental expenses	1,556	1,183
Environmental grants	74	8

Energy consumption (Gj)	2017	2016
Electricity	498,405	491,823
Natural gas	69,088	68,911
Gasoil C	42,835	55,650
Automotive diesel	340,451	329,730
Petrol	56,873	51,615
Others (carbon, butane and propane)	61	333

Consumptions are calculated from the billing amount and the certificates that guarantee renewable origin.



- ***Circular economy and waste management.***

With the aim of promoting a circular economy, Correos is committed to optimising the management and recycling of waste generated by its post offices, administrative buildings and logistics centres.

The starting point was a pilot scheme successfully carried out in Zaragoza involving the creation of an efficient paper and cardboard waste management model and its centralisation in the automated processing centre in that area.

Its implementation made it possible to improve separation and the proportion of resources recovered, increasing cost savings, efficiency in use and the protection of forest areas through paper recycling. The experience gained during the pilot scheme will help to gradually extend it to the rest of Spain.

- ***Defending and protecting biodiversity***

Correos also promotes circular economy by promoting recycling and contributing to biodiversity protection projects. Through the '*Linea Verde-Bosques de Correos*' (Green Line-Forests of Correos) programme, the company's post offices sell envelopes, boxes and packaging made with paper from sustainable forests, 100% recycled cardboard with no contaminating inks, the proceeds of which go to financing reforestation projects in collaboration with WWF Spain's Forest Landscapes Restoration Programme.

In 2018, Correos and WWF Spain supported the restoration of a forest in the region of La Litera in the municipality of Peralta de Calasanz (Huesca), where intensive use of the land had displaced the original vegetation and a major forest fire in 2016 had caused widespread damage.

The company also participated in a project aimed at restoring abandoned natural spaces in Quintana Redonda (Soria) in order to contribute to rural development. This initiative, carried out with the Soria Forest Association (ASFOSO), local communities of livestock farmers and the region's municipal authorities, was selected as good practice by the Spanish Global Compact Network to mark World Environment Day. Correos also took part in school environmental awareness-raising and education days taught by forest engineers from ASFOSO.

Finally, the company offset the CO₂ emissions generated by the employee recognition event by purchasing carbon credits on the voluntary carbon market. These credits are associated with an Amazon conservation project in Peru and the fight against climate change and poverty as defined in the Sustainable Development Goals of the United Nations.



- ***Environmental policies of the Group's subsidiaries***

As all the indicators referring to the main environmental impacts of the Group's subsidiaries were not available at the date of preparation of this management report (as their management systems are being adapted to the new non-financial reporting requirements), below is shown the most relevant information on the management of these impacts.

As for biodiversity, the impact of operating centres of subsidiaries is limited and does not affect in any case to protected areas.

The subsidiary Correos Express assesses and monitors its main lines of environmental performance through its environmental management system, certified in accordance with standard UNE-EN ISO 14001:2015 in 3 of its

centres. Its main environmental impacts are the generation of CO₂, NO_x and particulate emissions, so its environmental management policy is articulated towards mitigating this kind of risk in order to maximise the precautionary principle.

Aware that the growth of parcel volumes directly affects the emissions generated and the consumption of energy and other natural resources, since 2017, the company has been executing its Environmentally Friendly and Sustainable Alternative Means of Delivery (MARES) scheme, aimed at developing and using alternative means of delivery to reduce the impact of its activity on the environment.

The first phase of this project included the use of electric and traditional bicycles and delivery on foot in urban environments in the Islas Baleares, Cataluña, Comunidad Valenciana, Madrid, Galicia, País Vasco and Andalucía. By the

end of last year, this model had been implemented in 34 operating centres of the company, with 445 active 'green routes' (11% of the total).

With these measures, in 2018, Correos Express prevented the emission into the atmosphere of around 955 tons of CO₂, with more than six million 'green deliveries.'

The project, which will be gradually extended to the rest of Spain, will include the introduction of other means of transport, such as electric motorcycles and vans or natural gas vehicles.

Correos Express also aims to reduce the use of natural resources through the implementation of an efficient energy policy. To that end, the company's new operating centres opened in 2018 were equipped with greater natural lighting and LED technology.



In 2018, Correos Express allocated 92.253 thousand euros to environmental expenses and investments.

Similarly, staff environmental training and awareness-raising days during the year, such as the 'Green October' campaign and the dissemination of the 'Good Environmental Practices Manual,' contributed to reducing the energy consumption of work centres.

For its part, Correos Nexea has a system for identifying, assessing and managing environmental hazards in order to monitor its main impacts on the environment: the use of natural resources (mainly paper) and the generation of waste. This system, certified in accordance with standard UNE-EN ISO 14001:2015 in all of its centres, is complemented by PEFC and FSC certification audits to ensure that the paper and cardboard it uses in its activities comes from sustainable wood sources.

The subsidiary has also initiated a project to reduce electricity consumption in its centres by raising awareness and disseminating recommendations to its employees.

Finally, Correos Telecom also implements an efficient energy policy in locations that it manages, but does not have its own environmental management system because of its small size, low impact on the environment and the fact that it shares most of its centres with Correos.

7.11. Social commitment

- **Correos Group's social contribution**

As a state-owned company that provides a public service, Correos strives to create a positive social return with its activities, supporting the economic development of Spanish businesses

and promoting entrepreneurship and innovation.

It also contributes to economic progress in rural areas, facilitating social cohesion and development; participates in the advancement of eGovernment, smartcities and digital inclusion of the entire population; and meets the postal communication and parcel needs of all of the general public, regardless of their place of residence or income, with an efficient and quality service.

The company's corporate responsibility policy is aligned with that same values and oriented to contribute to progress and social integration. The actions included in this policy also contribute to the achievement of the Sustainable Development Goals promoted by the United Nations, which Correos has incorporated into its management in the medium and the long term.



In this sense, Correos participates, within the framework of the association of corporate social responsibility and sustainability, Forética, in the Climate Change Cluster, in that of Transparency, Good Governance and Integrity and in the Action Group on Social Responsibility in Public Companies, whose works focus on the integration of the United Nations Goals in the corporate strategy of public companies.

- **Corporate responsibility policy**

The new corporate responsibility plan of the Correos Group, drawn up in 2018, identifies three priority action areas, based on the expectations expressed by the main stakeholders and the commitments acquired with them:

- Social innovation and responsible business. Development of products and services with social or environmental impact, such as *Correos Cash*, with which

citizens can make cash deposits and withdrawals in the post offices network, helping financial inclusion to address the digital divide or rural depopulation.

- Responsible management. Strengthening of corporate governance, transparency and diversity in the company through internal plans such as the 'Clic' and 'Young Talents' programmes or the introduction of social and environmental criteria in tenders.

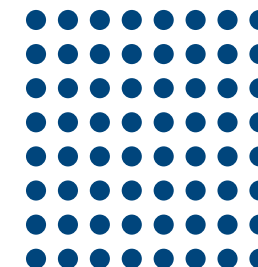
- Commitments to the community. Promotion of actions with local impact, such as the children programme '*Correos reparte sonrisas*' (Correos delivers smiles), the participation in the campaigns of the Spanish Federation of Food Banks, the exhibitions of local artists in post offices, or the volunteer programme '*Correos Solidaridad*' which, in collaboration with non-profit organizations, associations and local entities, promotes initiatives in the different areas.

- **Dialogue with local communities**

With the daily presence in Spain of its more than 34,000 postmen and women and almost 2,400 post offices, Correos is in constant contact with local communities.

The company maintains communication channels with local and regional authorities, professional and consumer associations, academic institutions and citizens' platforms in order to understand their needs and explore possible areas of collaboration.

All of this is carried out to provide a quality service to all of the general public and, at the same time, support initiatives that are related more to Correos' corporate purpose and its corporate responsibility objectives.





- **Contributions to foundations and non-profit entities**

In 2018, Correos contributed 99.838 thousand euros to foundations and non-profit entities, to collaborate with projects related to the defence of children, the integration of people with disabilities, the protection of the environment or social awareness. The Group subsidiaries did not make contributions to foundations and non-profit entities during the fiscal year.

Additionally, the company collaborated with different associations and organisations through the sale of charitable products in its post office network:

- UNICEF: Christmas cards, notebooks, pens and diaries. Objective: To support various projects for the protection of children's rights.
- Spanish Red Cross: shares in lottery tickets for the Spanish Christmas

Lottery and Golden Draw. Objective: To support the programmes carried out by this organisation in developing countries.

- *Fundación Crecer Jugando* (Grow Up Playing Foundation) and *Radio Nacional de España*: charity pens and notebooks from the 'A Toy, A Dream' campaign. Objective: To provide toys to poor children in Latin America, Africa and the Middle East and create children's play centres in schools, hospitals and other community centres.

- CRIS Cancer Foundation and Emoji®: personalised boxes and envelopes with Emoji® emoticons. Objective: To collaborate in the opening of the Childhood Cancer Advanced Therapy Unit at La Paz Hospital in Madrid.

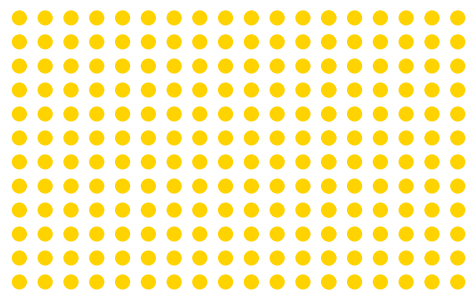
- Messengers of Peace Foundation: charity backpacks from the '*Ayúdales a volver al cole. ¡Llena sus mochilas de ilusión!*' (Help them back to school. Fill

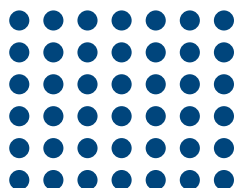
their backpacks with hope!) campaign. Objective: To help children whose families are experiencing financial difficulties to begin their studies with the necessary school material.

- *Aldeas Infantiles SOS* (SOS Children's Villages): provision of spaces in post offices to publicise its work. Objective: To disseminate the activities carried out by this NGO for the integration of children and young people in vulnerable situations into society and family.

Correos also contributed to promote the holistic development of people with disabilities through ordinary work that is consistent with each individual's abilities, by purchasing goods and services from 29 special employment and occupational centres.

With this same purpose, it continued to cooperate with La Caixa's '*Incorpora*' Programme for the integration of people with diverse abilities and the carrying





out of work experience, as well as with foundations such as *A la Par* (together along), Catalanian Association for Integration and Human Development (ACIDH), Prodis and *Dales la palabra* (give them the word), among others.

In addition, during 2018 charity markets were organized at the headquarters of Correos in Madrid in favour of foundations such as *A la Par* (together along), Prodis, Juan XXIII-Roncalli, Aprocor, *Juegaterapia* (Play therapy), Asperger Association and APAMA, as well as the associations EcoEko, Spain Due South Foundation, Telefónica Foundation and AECC.

The subsidiary Correos Express, in turn, hired part of its customer service with two special employment centres, while Correos Telecom has an agreement with *Fundación Down Madrid*, so that vocational training students can conduct professional internships to help with their occupational integration.

Regarding the universal accessibility of people with disabilities to the services provided, Correos has developed in recent years a policy of physical accessibility to its public service centres, whereby all its new post offices have been adapted to avoid the existence of architectural barriers. A large number of these premises also have assisted hearing devices for people who need it. The corporate website also conforms to Level AA of the W3C Web Content Accessibility Guidelines 1.0.

• **Sponsorships**

Correos thinks that supporting culture, art, the values of sport and entrepreneurship is also an effective instrument to promote awareness-raising, solidarity and social inclusion. In 2018, Correos and its subsidiary Correos Express backed several initiatives via:

- 17 sport sponsorships, highlighting the backup to the The Spanish Olympic Team, via the Association of Olympic Sports

(ADO), the Association of Olympic and Paralympic Sports (ADOP) and the Spanish Handball Federation.

- 4 cultural sponsorships, such as the contribution to the *Teatro Real* (Royal Theatre).
- 50 commercial sponsorships, of sectoral events devoted to parcel services, direct marketing or digital services, such as 4 YEARS FROM NOW (4YFN), *HOYES MARKETING*, OMExpo or eDelivery Barcelona Expo & Congress.

The Group's subsidiaries made no sponsorships during financial year.

• **Main associations in which the Correos Group participates**

During the last financial year, the companies of Correos Group participated in the following associations:



— **Businesses**

- *Fundación Consejo España China* [Spain China Council Foundation].
- AESPLA (*Asociación Española de Servicios de Prevención Laboral*) [Spanish Association of Occupational Health & Safety Services].
- PRL Innovation
- 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].

- Cloud Community Europe – EuroCloud España (association of companies offering products and services based on Cloud Computing and digital transformation technology).
- @asLAN (association of companies from the ICT sector).
- Silicon Alley Madrid (association of companies from the ICT sector).
- CEUSS (*Confederación Empresarial de Usuarios de Seguridad y Servicios*) [Business Confederation of Security and Services Users].
- AEA (*Asociación Española de Anunciantes*) [Spanish Advertisers' Association].

• **AUTOCONTROL**

- UNE (*Asociación Española de Normalización*) [Spanish Standardisation Association].
- DMAB (Direct Marketing Advisory Board).
- Internal communication forum.
- DEC (Association for the Development of the Customer Experience).
- UNO (*Organización Empresarial de Logística y Transporte*) [Transport and Logistics Business Organization].
- CEOE (not in force in 2019).
- *Círculo de Empresarios* (not in force in 2019)



— *International*

- UPU (Universal Postal Union). Correos belongs to the Postal Operations Council, holding the chair of the PPS*Clearing Group and the Remuneration Integration Committee, as well as the vice chair of the Task Force on Future Sustainability of the UPU Provident Scheme. It is also a member of the Management Boards of the Direct Marketing Advisory Board and POST Group

- IPC (International Post Corporation). Correos has been a member of its Governing Board since November 2017

- UPAEP (Postal Union of the Americas, Spain and Portugal). Correos co-chairs the Philately Work Group. Spain has also renewed its participation in the Management Board as first vice chair until 2021

- PostEurop. The company chairs the European Affairs Committee

- PuMed (Postal Union for the Mediterranean). An association of postal operators from Mediterranean countries

- EPG Group (E-Parcel Group). A group focused on European parcels services

- Kahala Post Group. A commercial partnership with the postal operators of Australia, China, South Korea, Hong Kong, Japan, the United States, the United Kingdom, France, Thailand and Canada

— *Corporate responsibility and good governance*

- 'Network of companies for a society free of gender violence', of the *Ministerio de Sanidad, Consumo y Bienestar Social*

[Ministry of Health, Consumption and Social Welfare].

- United Nations Global Compact Network Spain.

- Forética.

- Institute of Internal Auditors

- AEDIVE (*Asociación Empresarial para el Desarrollo e Impulso del Vehículo Eléctrico*) [Business Association for the Development and Promotion of Electric Vehicles]

- GASNAM (*Asociación Ibérica de Gas Natural para la Movilidad*) [Iberian Natural Gas Association for Mobility]

- *Club de Excelencia en Sostenibilidad* (Sustainability Excellence Club)



7.12. Corporate governance and ethical compliance

- **Correos Group's structure and organisation**

Sociedad Estatal Correos y Telégrafos S.A., S.M.E. (Sole Shareholder Company) (Correos) is a limited company under public ownership. Its sole shareholder is the *Sociedad Estatal de Participaciones Industriales* (SEPI), under the *Ministerio de Hacienda* [Ministry of Finance].

It is the parent company of the Correos Group and has a 100% holding in the subsidiaries Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company); Nexea Gestión Documental S.A., S.M.E. (Sole Shareholder Company);

Correos Telecom, S.A., S.M.E., M.P. (Sole Shareholder Company).

Correos is a limited company governed by private law, except in matters in which budgetary, accounting, financial control and procurement regulations apply to it as a company that is part of the public business sector⁹.

- **Governing bodies of Correos**

Governing bodies of Correos 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 Articles of Association:

- **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 re-election. They are appointed and removed by the General Meeting of Shareholders. The Governing Board usually meets monthly to oversee the management of the company. In 2018, the Board meeting was held 12 times.

- **Chairman.** 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.

⁹ In accordance with the provisions of Article 3 of *Ley 47/2003, de 26 de noviembre, General Presupuestaria* (General Budgetary Act 47/2003 of 26 November) in coordination with Article 166 of *Ley 33/2003, de 3 de noviembre, de Patrimonio de las Administraciones Públicas* (Act 33/2003 of 3 November on Public Authority Assets).

- **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 which, by law, cannot be delegated.

- **Audit and Control Committee.** Composed of three members of the Governing Board, the Audit and Control Committee has no executive functions. It is responsible for informing and advising the Board on economic and financial matters, on risk control and internal auditing.

- **Responsibilities of the Management Committee**

The Correos Group Management Committee is an internal collegiate body that aids the Chairman in his/her ordinary duties, developing and coordinating all key issues between the various units and subsidiaries.

Composed of the Chairman and managers of Correos and the general managers of the subsidiaries, it meets weekly at the request of the Chairman. The members of the Management Committee do not receive a specific remuneration for attendance.

- **Governing bodies of Correos Group subsidiaries**

The governing bodies of the subsidiaries are the General Meeting of Shareholders and the Governing Board.

Board members of the subsidiaries, whose positions are not remunerated,

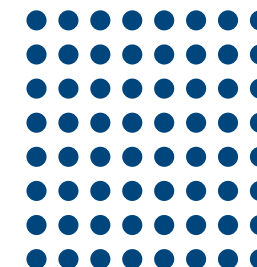
are chosen from among members of the management team of Correos and SEPI Group. The minimum and maximum number of members of the Governing Boards of each of the subsidiaries is:

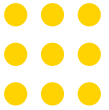
- From 6 to 12 in Correos Express
- From 4 to 12 in Correos Nexea
- From 4 to 8 in Correos Telecom

The subsidiaries also have their respective Audit and Control Committees for guidance on economic-financial matters, risk control and internal audit.



	Governing Board meetings	Audit and Control Committee meetings
Correos	12	5
Correos Express	13	2
Correos Nexea	12	1
Correos Telecom	10	1





- **Remunerations of the Governing Board and the Management Committee**

The members of the Correos Governing Board receive only attendance allowances, as approved by the General Meeting of Shareholders, under the provisions of Royal Decree 462/2002¹⁰ and the legislation applicable to public bodies and corporations. In accordance with Act 3/2015¹¹, the allowances of the senior management directors are paid into the Public Treasury. The Chairman does not receive allowances for attending the Governing Board.

Pay received for all items during the 2018 financial year by members

of Correos' Governing Board and Management Committee totalled 2,156 thousand euros, 163 thousand of which correspond to assistance fees paid to members of Correos' Governing Board for attending Board meetings (an average of 12 thousand euros per member); the rest was paid as salaries and/or other pay items (including compensation) to the members of the Management Committee of the Parent Company (average remuneration of 133 thousand euros per year).

- **Legal framework of Correos Group's activities**

The Spanish postal market was fully liberalised on 1 January 2011, following

the entry into force of Act 43/2010¹². By virtue of this law, Correos is the operator designated to provide the Universal Postal Service in Spain until 2025.

New postal regulations and a Universal Postal Service plan and its regulatory contract, as provided for by Ley 43/2010 (Act 43/2010) are still pending approval.

Correos and Correos Express also operate on the parcel delivery market, and are thus subject to legislation which applies to the land transport of goods sector¹³. Finally, the provision of services of electronic communications made by Correos and Correos Telecom is regulated by Act 9/2014¹⁴.

¹⁰ Royal Decree 462/2002, of 24 May, on remuneration for services

¹¹ Act 3/2015, of 30 March, regulating senior management positions in the National Government Administration

¹² Act 43/2010, of 30 December, on the universal postal service, user rights and the postal market

¹³ Act 16/1987, of 30 July, on the Land Transport and its Regulations, and Act 15/2009 of 11 November 2008, on Contracts for the Land Transport of Goods.

¹⁴ Act 9/2014, of 9 May, General Law on Telecommunications



- **Transparency in management**

The Correos Group's companies have the necessary mechanisms in place to comply with the reporting obligations laid down in Act 19/2013¹⁵. To this end, they have a transparency portal and various other access channels which the public can use to send requests for public information under the terms specified in such Act.

- **Ethical compliance and commitment**

The Governing Board of Correos has a Regulation whose application represents an additional commitment

to the integration of good practices and standards of good governance in the operation of this body.

Correos Group has a 'Criminal risk prevention programme'¹⁶, which includes the General Code of Conduct, which contains the reference values that govern the actions of all employees. The document, which is available for consultation by all internal and external stakeholders, contains among others, measures to prevent and eradicate corruption and bribery (including guidelines for equal treatment and opportunities, fair competition, prevention of conflict of interests and the use of privileged information).

Last year, more than 50,000 employees of the Group received training on the ethical commitment contained in the Code of Conduct and on the new European general data protection regulation¹⁷.

From 2014, the Group also has a Compliance Committee, a collegiate body whose main function is to evaluate subjects relating to this matter, and report biannually to Correos' Governing Board through the Audit and Control Committee, on the content and results of the resolutions issued.

The Committee also has a communication and whistle blowing

¹⁵ Act 19/2013, of 9 December, on transparency, access to public information and good governance

¹⁶ Adapted to the Circular of the Prosecutor's Office 1/2016 and the requirements of Art. 31 bis 2 of the Criminal Code (derived from the amendment introduced by *Ley Orgánica 1/2015, de 30 de marzo* [Organic Law 1/2015 of 30 March], which modifies *Ley Orgánica 10/1995, de 23 de noviembre, del Código Penal* [Organic Law 10/1995 of 23 November on the Criminal Code]).

¹⁷ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).



channel to facilitate compliance with the objectives of the General Code of Conduct. In 2018, the Compliance Committee received and analysed 182 validation communications, 56 enquiries and 8 complaints about possible incompatibilities with internal or external regulations, proceeding, in each case, as established in its operating regulation.

In addition, following the recommendations of the Audit and Control Committee, in 2018, the Committee initiated a procedure to review and adapt its prevention system, which will be carried out in 2019.

- ***Respect for human rights***

Since 2002, Correos has also been one of the companies that signed the United Nations Global Compact. Therefore the company undertakes to respect and promote the ten principles of the Global Compact in the fields of human and labour rights, the elimination of all

forms of forced labour, the eradication of child labour, the abolition of discriminatory practices in employment and occupation or the freedom of association and collective bargaining. This set of values has been assumed by the company as an integral part of the business strategy.

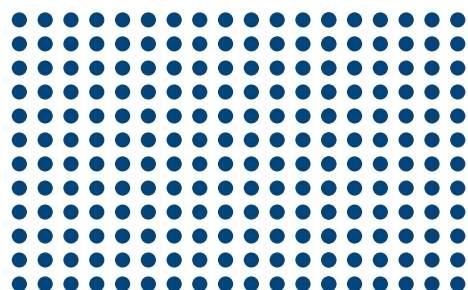
Correos' Group 'Criminal Risk Prevention Programme' includes the obligation to scrupulously respect fundamental rights and public liberties. During the year, no infringement of human rights was found in the companies of the Correos Group.

- ***Application of internal auditing procedures***

Through its internal audit function, Correos Group verifies compliance with the principles of integrity and good governance in ordinary activities and business management in order to prevent, detect and eradicate any practices that are contrary to business ethics, such as corruption and bribery.

The annual internal audit plan, approved by SEPI and whose results are regularly reported, as well as reporting to the Audit and Control Committee of the Governing Board and the management team, envisaged the completion of 17 audits:

- 1 regulatory compliance audit in relation to operations authorised by SEPI in accordance with its regulatory standards.
- 2 management audits on aspects related to procurement and commercial operations.
- 8 internal control audits, including one relating to compliance with the recommendations of the Court of Audit in its audit report of 30 March 2017 concerning sureties and guarantees granted.
- 5 specific audits on the regional managements of Correos and Correos





Express, the operation of the *Citypaq* network and the Correos Express collection service.

Monitoring of recommendations was also carried out to verify the degree of implementation of those formulated in 2018 and previous years, with 85 implemented during the financial year. Last year, 1,268 financial and quality audits were carried out in post offices, processing centres and ordinary and urgent delivery units.

The companies of the Correos Group are subject to the control of the General State Intervention Board (IGAE) and the Court of Auditors. Its audited annual accounts (consolidated and individual) are available in the IGAE's

Register of public accounts which can be accessed via the National Government Administration's Transparency portal. In addition, Correos was subject to a public spending and efficiency assessment by the Independent Authority for Spanish Fiscal Responsibility (AIReF).

Correos Group is also subject to public control via the supervision mechanisms applicable to its sole shareholder (more information on the website and in the SEPI Group annual report).

- ***Prevention of money laundering***

Regarding the obligations derived from Act 10/2010 and its Regulation¹⁸, Correos has an internal prevention manual. It also audits the money laundering

prevention area internally and externally on an annual basis, and carries out continuous monitoring of the application of due diligence measures in post offices, where the greatest risk exists, since they manage financial transactions on a daily basis. In 2018, more than 33,000 post offices and delivery staff received training in this area. The subsidiaries of the Group are not subject to these obligations

- ***Responsibility of contracting procedures***

Correos Group's procurement activities are subject to the principles of advertising, concurrence, transparency, confidentiality, equality and non-discrimination, guaranteeing compliance



¹⁸ *Ley 10/2010, de 28 de abril, de prevención del blanqueo de capitales y de la financiación del terrorismo* (Act 10/2010 of 28 April on the prevention of money laundering and financing of terrorism) and *Real Decreto 304/2014, de 5 de mayo* (Royal Decree 304/2014 of 5 May), approving the Regulation of *Ley 10/2010, de 28 de abril, de prevención del blanqueo de capitales y de la financiación del terrorismo* (Act 10/2010 of 28 April on the prevention of money laundering and financing of terrorism)



with the applicable procurement regulations:

- Directive 2014/25/EU¹⁹.
- Act 9/2017²⁰.
- Act 9/2017²¹.
- Correos Group's Internal Procurement Instructions.

In July 2018, Correos Group's new Internal Procurement Instructions entered into force as a result of a change in the legal status of Correos as a non-contracting authority and in accordance with the provisions of Act 9/2017, which empowers public sector entities that do not have the status of a contracting

authority to approve instructions that regulate procurement procedures.

Similarly, additional measures were implemented to increase the transparency of tenders in accordance with recommendations issued by the General State Intervention Board (IGAE), such as the creation of boards to assist the procurement body or the establishment of a financial and business committee to analyse the cost-effectiveness of the procurement proposals. In addition, Correos amended its asset rules that regulate the disposal, acquisition and encumbrance of property assets.

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

the Public Sector Procurement Platform, in the Official State Gazette and in the Official Gazette of the European Union. It also periodically sends information to the Court of Auditors and the Registry of Public Sector Contracts.

The Investments Committee is the body that studies, approves and, where necessary, refers to the Governing Board of Correos or its subsidiaries the procurement provided in the Internal Contracting Instructions.

- ***Good practices in the supply chain***

Correos Group contributes to the Spanish economy, as 99% of contracts are with domestic suppliers. All parties

¹⁹ Directive 2014/25/EU of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services

²⁰ *Ley 9/2017, de 8 de noviembre, de Contratos del Sector Público* (Act 9/2017 of 8 November on Public Sector Contracts), which entered into force on 8 March 2018.

²¹ *Ley 31/2007, de 30 de octubre, sobre procedimientos de contratación en los sectores del agua, la energía, los transportes y los servicios postales* (Act 31/2007 of 30 October on procurement procedures in the sectors of water, energy, transport and postal services)



interested in taking part in the contract procedures must guarantee compliance with the principles of the United Nations Global Compact. Due to its geographical scope of action and the nature of its activity, the Correos Group considers that none of its suppliers present a significant risk of breaching the principles of the Global Compact.

In addition, its specifications include clauses on environmental, social (such as gender equality and occupational health and safety), innovation and development criteria. These considerations are included as special execution conditions of mandatory compliance for all bidders or as bid evaluation criteria.

In all cases, the successful bidders for contracts must understand and accept the principles contained in the General Code of Conduct.

Owing to the dimensions and heterogeneity of activities carried out by the Group companies, these collaborate

with a large number of suppliers in different sectors, in all phases of the supply chain.

Correos awarded contracts in 2018 worth of 427.3 million euros which were executed by 7,734 suppliers (326 investment contracts and 7,408 purchase contracts).

In turn, the subsidiaries awarded contracts worth 207.2 million euros. Correos Express worked with 1,870 suppliers, most of them transport related. Correos Nexea had 177 paper, envelope and equipment maintenance suppliers; and Correos Telecom had 126 operational services and telecommunications asset maintenance or equipment suppliers.

- ***Operational and customer safety***

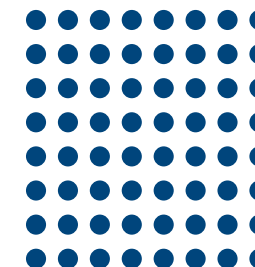
Correos has a security operating centre which receives signals and/or images from the security devices installed in over 2,600 post offices and centres throughout the

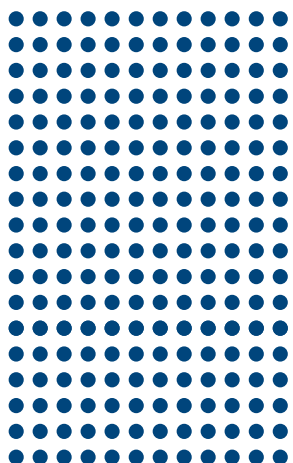
country, helping to contribute effectively to the security of people (employees and customers) and property.

The company also regularly uses scanners to inspect postal items requiring controls. In 2018, more than 284 million items were examined. As a result, 456 postal items were detected with supposedly illegal content. These were handed in to the relevant authorities. Also, 36,158 shipments with dangerous goods for air postal traffic were intercepted and withdrawn.

Correos works closely with several bodies, such as the Postal Security Group of the Universal Postal Union, with the National security forces and law-enforcement agencies, such as the Spanish National Police Corps through the the *Red Azul* (Blue Network), the Spanish Civil Guard through the Coopera Portal, as well as with judicial bodies for the exercise of their functions.

Correos is also authorised in 6 of its operational centres to accept, manage





and safely transport certain dangerous goods as airmail under the terms laid out in Order FOM/456/2014.

For its part, Correos Express has been awarded a Certificate as an Authorised Economic Operator for Customs simplification (AEOC). The purpose of this certificate is to guarantee the reliability and security of goods being imported and exported.

- **Privacy protection**

The new European regulation on data protection, which came into force in 2018, established new mechanisms for the protection of personal data. In compliance with this regulation, the Correos Group appointed its Data Protection Officer (DPO), a collegiate body whose function is to manage and advise the Group in this matter, as well as to evaluate the risks inherent to the treatment of this type of information.

Likewise, the new regulations also involved the adaptation of systems and

information technologies, to increase control and security on the use of personal data of customers and employees, by the Group companies and / or their suppliers.

Correos' information security policy prioritises optimal integration with business processes to ensure the company can carry out its business correctly while avoiding potential risks to customers.

Additionally, as a part of the process to obtain the certification according to the UNE-ISO / IEC 27001: 2014, Correos set up in 2018 an Information Security Committee, in charge of guaranteeing the adequate risk management and the necessary procedures to preserve the information, the systems that support it and the processes that treat it.

7.13. Reporting framework

The non-financial information included in this management report has been prepared based on the GRI standards for

the preparation of sustainability reports of the Global Reporting Initiative (GRI), 2016 version. This model makes it possible to show, in a simple way, the three-way perspective of the Group's economic, social and environmental performance.

The non-financial indicators included in this management report meet the requirements of the regulations on non-financial information, in accordance with Act 11/2018. The Correos Group Integrated Annual Report 2018, whose publication is scheduled for June 2019 and which contains this management report together with the Consolidated annual accounts of the Correos Group, offers broader information on the Group's sustainability, economic, social and environmental performance.

In the preparation of this report, the guidelines of the 'Conceptual Framework for the Preparation of Integrated Reports' of the International Integrated Reporting Council (IIRC) were followed. This way, the intention is to give stakeholders a transversal and relevant view of the



business model and the mechanisms for creating value in the short, medium and long term.

Since 2002, Correos has also been one of the companies that signed the United Nations Global Compact. For this reason, it commits to promote the ten principles of the Global Compact in the fields of human and labour rights, the environment and anti-corruption.

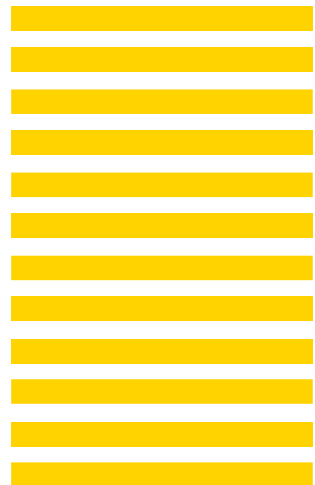
Every year the company prepares its progress report, which successfully retained its advanced level distinction in 2018 for the exhaustiveness of its information. The report is available on pages at Global Compact, of Global Compact Network Spain and Correos.

Likewise, the company has addressed the evaluation process of the United

Nations Sustainable Development Goals, in order to align its strategy with the achievement of those goals.

The most notable information and the most relevant quantitative indicators are presented, on a general basis, broken down according to the different companies that comprise the Group, in all the cases where the nature of the companies allows for this.

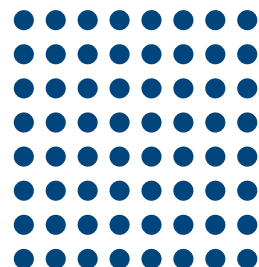
In order to better understanding the business model of the Correos Group, the contents include forward-looking information based on the Group's situation at the close of the 2018 financial year and its anticipated future evolution. Its materialization is subject to a certain degree of uncertainty, due to the possibility of unforeseen post-closure events.



Index of GRI indicators used in the management report

	GRI indicator
Market and business environment (Section 7.2)	GRI 102-6
Organisation and structure (Section 7.12)	GRI 102-18
Markets served (Section 7.1)	GRI 102-4; 102-6
Objectives and strategies (Section 7.3)	GRI 102-15
Factors and trends that may affect its future evolution (Section 7.4)	GRI 102-15
Policies that the group applies with respect to these issues, which will include the due diligence procedures applied for the identification, evaluation, prevention and mitigation of significant risks and impacts, and for verification and control, including what measures have been adopted (Section 7.6, 7.9, 7.10, 7.12)	GRI 103
Commercial relations, products or services that may have negative effects in these areas (Section 7.10)	GRI 102-15
How the group manages these risks (procedures used to detect and evaluate them in accordance with national, European or international reference frameworks) (Section 7.6, 7.10, 7.12)	GRI 102-11; GRI 103
Information on the impacts that have been detected, disaggregated, in particular on the main risks in the short, medium and long term (Section 7.4, 7.6, 7.9, 7.10)	GRI 103; 102-11
Environmental matters (Section 7.10)	
Detailed information about the current and foreseeable effects of the company's activities on the environment and, where appropriate, health and safety	GRI 103; 102-11
Procedures for evaluation and environmental certification	ISO 14001
The resources allocated to the prevention of environmental risks	
Application of the precautionary principle	GRI 102-11
The amount of provisions and guarantees for environmental risks	

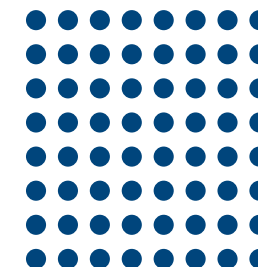
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Index of GRI indicators used in the management report

	GRI indicator
Pollution: measures to prevent, reduce or repair carbon emissions that seriously affect the environment; taking into account any form of air pollution specific to an activity, including noise and light pollution	GRI 305-5
Circular economy and waste prevention and management: prevention measures, recycling, reuse, other forms of recovery and waste disposal; actions to fight food waste	GRI 301-1; 306-2
Sustainable use of resources: water consumption and water supply according to local constraints; consumption of raw materials and the measures adopted to improve their use efficiency; direct and indirect consumption of energy, measures taken to improve energy efficiency and the use of renewable energies	GRI 301-1; 302-1; 302-4; 303-1
Climate change: the important elements of greenhouse gas emissions generated as a result of the company's activities; the measures adopted to adapt to the consequences of climate change; the reduction goals voluntarily established in the medium and long term to reduce greenhouse gas emissions and the means implemented for that purpose	GRI 305-1; 305-2; 305-3; 305-7
Protection of biodiversity: measures taken to preserve or restore biodiversity; impacts of activities or operations in protected areas	GRI 304-3
Social and staff matters (Section 7.9)	
Total number and distribution of employees by gender, age, country and professional classification	GRI 102-8; 405-1;
Total number and distribution of work contract modalities, annual average of permanent contracts, temporary contracts and part-time contracts by gender, age and professional classification	GRI 102-8
Number of dismissals by gender, age, country and professional classification	
Average remunerations and their evolution disaggregated by gender, age and professional classification or equal value	GRI 405-2

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Index of GRI indicators used in the management report

	GRI indicator
Salary gap, remuneration of equal positions or average company remuneration	GRI 405-2
Average remuneration of directors and executives, including variable remuneration, allowances, compensations	
Payment to long-term savings forecast systems and any other perception disaggregated by gender	GRI 401-2
Implementation of work disconnection	
Disabled employees	
Organization of working time	
Number of absenteeism hours	GRI 403-2
Measures aimed at facilitating conciliation and encouraging the co-responsible exercise by both parents	
Occupational safety and health at work conditions	
Work accidents, in particular their frequency and severity, as well as occupational diseases; disaggregated by gender.	GRI 403-2
Organization of social dialogue, including procedures to inform and consult staff and negotiate with them	
Percentage of employees covered by collective agreement	GRI 102-41
Balance of collective agreements, particularly in the field of health and safety at work	GRI 403-1
Implemented training policies	GRI 404-1
Training hours by professional category	GRI 404-1
Universal accessibility of people with disabilities	



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Index of GRI indicators used in the management report

	GRI indicator
Measures adopted to promote equal treatment and opportunities between women and men	GRI 401-3
Equality plans (Chapter III of Organic Act 3/2007, of 22 March, on effective equality for men and women)	
Measures adopted to promote employment	GRI 401-3
Protocols against sexual harassment and for gender reasons	
Universal accessibility and integration of people with disabilities (Section 7.9, 7.11)	
Policy against all types of discrimination and, where appropriate, on management of diversity	GRI 405-1
Respect for human rights (Section 7.12)	
Application of due diligence procedures in the field of human rights; prevention of the risks of infringement of human rights and, where appropriate, measures to mitigate, manage and repair possible abuses; complaints about cases of human rights violations	Global Compact / GRI 102-16; 412-2
Promotion and compliance with the provisions of the fundamental conventions of the International Labour Organization related to respect for freedom of association and the right to collective bargaining	Global Compact
Elimination of discrimination in work and occupation	Global Compact / GRI 405-2
Elimination of forced labour	Global Compact / GRI 409-1
Abolition of child labour	Global Compact / GRI 408-1
Fight against corruption and bribery	
Measures adopted to prevent corruption and bribery (Section 7.12)	GRI 102-16; 102-17; 102-25; 205-2



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Index of GRI indicators used in the management report

	GRI indicator
Measures to fight money laundering (Section 7.12)	GRI 102-16; 102-17; 102-25; 205-2
Contributions to foundations and non-profit entities (Section 7.11)	GRI 102-13
Information about the Company	
Impact of the company's activity on local development and employment (Section 7.9)	GRI 413-1
Impact of the company's activity on local populations and on the territory (Section 7.11, 7.12)	GRI 413-1
Relationships maintained with the actors of local communities and the types of dialogue with them (Section 7.11)	GRI 413-1
Partnership and sponsorship actions (Sections 7.11)	GRI 102-12; 102-13
Inclusion in the purchasing policy of social, gender equality and environmental issues (Section 7.12)	
Consideration in the relations with suppliers and subcontractors of their social and environmental responsibility (Section 7.12)	
Monitoring and audit systems and their results (Section 7.12)	
Measures for the health and safety of consumers (Section 7.10, 7.12)	
Claims systems, complaints received and their resolution (Section 7.8)	
Profits obtained by country (Section 7.5)	
Income tax paid (Section 7.5)	GRI 201-1
Public subsidies received (Section 7.5)	GRI 201-4



Governing Board statement

Consolidated annual accounts and management report for the financial year ended 31 december 2018 of Sociedad Estatal Correos y Telégrafos S.A., S.M.E.

The preceding **CONSOLIDATED** annual accounts of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. which comprise the balance sheet (on two sheets of ordinary paper), the profit and loss account (on one sheet of ordinary paper), the cash flows statement (on two sheets of ordinary paper), the statement of changes in the consolidated equity (on two sheets of ordinary paper), and the

report for the financial statement on the accompanying sheets of ordinary paper, numbered accordingly from 1 to 75 (both inclusive), corresponding to the financial year closed at **31 December 2018**, together with the management report corresponding to the same year issued on sheets of ordinary paper numbered 1 to 61 (both inclusive), were submitted for approval by the Governing Board on

28 February 2019. In accordance with current provisions, the Directors sign and give their conformity with all the abovementioned documents.

Madrid, 28 February 2018

Juan Manuel Serrano Quintana

David Benito Astudillo

Myriam Bonafé Tovar

+ Continued...

Consolidated annual accounts and management report for the financial year ended 31 december 2018 of Sociedad Estatal Correos y Telégrafos S.A., S.M.E.



Carmen Castaño Laorden

Aquilino González Hernando

Luis Gonzaga Serrano de Toledo

Isabel Eugenia Juliani
Fernández de Córdoba

José Ángel Partearroyo Martín

Jaime Pérez de la Cruz

María José Pérez Ruiz

Alberto Requena Navarro

Isabel Riaño Ibáñez

Tomás Suárez-Inclán González

Belén Triana Reyes

Belén Villar Sánchez

5. Regarding the Integrated Annual Report

Reporting framework

GRI Content Index, Global Compact Principles and SDG

External verification of non-financial information

Contact

Reporting framework



The content of the Correos Group Integrated Annual Report 2018 corresponds to the period between 1 January and 31 December 2018 and covers the main activities of Correos and its subsidiaries Correos Express, Correos Nexea and Correos Telecom.

This Integrated Annual Report (the sixth consecutive one since 2013) has been prepared in accordance with the **Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines**, 2016 version. This model makes it possible to show, in a simple way, the three-way perspective of the Group's economic, social and environmental performance.

Furthermore, the guidelines of the **'Conceptual Framework for Drafting the Integrated Report'** of the International Integrated Reporting Council (IIRC) were followed. This Integrated Report gives

stakeholders a transversal and relevant view of the business model and the mechanisms for creating value in the short, medium and long term.

In this Report, the content also meets new non-financial reporting requirements under Act 11/2018.

Since 2002, Correos has also been one of the companies that signed the **United Nations Global Compact**. Therefore the company undertakes to respect and promote the ten principles of the Compact in the fields of human

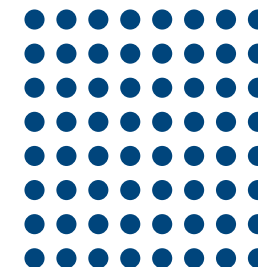
and labour rights, the environment and anti-corruption.

Every year the company prepares its progress report, which successfully retained its advanced level distinction in 2018 for the exhaustiveness of its information. The report is available on the pages at [Global Compact](#), the [Spanish Global Compact Network](#) and [Correos](#).

Moreover, Correos has completed an evaluation of UN's **Sustainable Development Goals**, focused on integrating them into the corporate strategy.

The most notable information and the most relevant quantitative indicators are presented, on a general basis, broken down according to the different companies that comprise the Group, in all the cases where the nature of the companies allows for this.

In order to facilitate the understanding of the Correos Group business model, the content includes forward-looking information based on the Group's situation at the end of 2018 and its foreseeable future development, subject to the uncertainties that could affect its attainment.



GRI Content Index, Global Compact Principles and SDG

GRI Content Index				Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission		
GRI 102: General Disclosures					
1. Organizational profile					
102-1	Name of the organization	Business model	-	General information	
102-2	Activities, brands, products and services	Solutions for customers	-	General information	
102-3	Location of the headquarters	Contact	-	General information	
102-4	Location of operations	Business environment. Report for the financial statement	-	General information	
102-5	Ownership and legal form	Correos Group's structure and organisation	-	Strategy and governance	
102-6	Markets served	Solutions for customers	-	General information	
102-7	Scale of the organization	Key figures	-	General information	
102-8	Information on employees and other workers	Human team	-	6	8
102-9	Supply chain	Responsible procurement	-	-	
102-10	Significant changes to the organization and its supply chain	-	-	-	
102-11	Precautionary Principle or approach	Environmental sustainability	-	7, 8	
102-12	External initiatives	Main associations in which Correos Group participates. Responsible procurement.	-	Global Compact objectives and subjects	17

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GRI Content Index				Global Compact Principle		Sustainable Development Goals
GRI Standard	Disclosure		Chapter	Omission		
GRI 102: General Disclosures						
	102-13	Membership of associations	Main associations in which Correos Group participates	-	-	17
2. Strategy						
	102-14	Statement from senior decision-maker	Chairman's statement	-	General information	
	102-15	Key impacts, risks and opportunities	Business environment. Objectives and strategy. Future trends. Application of internal audit processes	-	General information	
3. Ethics and integrity						
	102-16	Values, principles, standards and norms of behavior	Transparency and ethical commitment	-	10	
	102-17	Mechanisms for advice and concerns about ethics	Transparency and ethical commitment	-	1,2,10	
4. Governance						
	102-18	Governance structure	Governing bodies of Correos. Governing bodies of the subsidiaries	-	Strategy and governance	
	102-23	Chair of the highest governance body	Governing bodies of Correos. Governing bodies of the subsidiaries		Strategy and governance	
	102-25	Conflicts of interest	Report for the financial statement		Strategy and governance	
5. Stakeholder engagement						
	102-40	List of stakeholder groups	Materiality and stakeholders' relationships	-	General information	

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GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure		Chapter	Omission		
GRI 102: General Disclosures						
	102-41	Collective bargaining agreements	Human team	-	3	8
	102-42	Identifying and selecting stakeholders	Materiality and stakeholders' relationships	-	General information	
	102-43	Approach to stakeholder engagement	Materiality and stakeholders' relationships	-	Strategy and governance	
	102-44	Key topics and concerns raised	Materiality and stakeholders' relationships	-	Strategy and governance	
6. Reporting practice						
	102-45	Entities included in the consolidated financial statements	Report for the financial statement	-	General information	
	102-46	Defining report content and topic boundaries	Materiality and stakeholders' relationships	-	General information	
	102-47	List of material topics	Materiality and stakeholders' relationships	-	General information	
	102-48	Restatements of information	-	-	-	
	102-49	Changes in reporting	-	-	-	
	102-50	Reporting period	Reporting framework	-	General information	
	102-51	Date of most recent report	Reporting framework	-	General information	
	102-52	Reporting cycle	Reporting framework	-	General information	
	102-53	Contact point for questions regarding the report	Contact	-	-	

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GRI Content Index				Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission		
GRI 102: General Disclosures					
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option	-		
102-55	GRI Content Index	GRI Content Index, Global Compact Principles and SDG	-	General information	
102-56	External assurance	External verification of non-financial information	-	-	
201: Economic Performance					
GRI 103: Management Approach		Business model. Objectives and strategy			
201-1	Direct economic value generated and distributed	Non-financial information statement	-	-	8,9
201-4	Financial assistance received from government	Non-financial information statement	-	-	
203: Indirect Economic Impacts					
GRI 103: Management Approach		Business model. Objectives and strategy			
203-2	Significant indirect economic impacts	Objectives and strategy. Solutions for customers. Human team. Innovation. Environmental sustainability. Social commitment. Responsible procurement. Operational and customer safety	-	-	8
204: Procurement Practices					
GRI 103: Management Approach		Responsible procurement			
204-1	Proportion of spending on local suppliers	Responsible procurement	-	-	

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GRI Content Index				Global Compact Principle		Sustainable Development Goals
GRI Standard	Disclosure		Chapter	Omission		
205: Anti-corruption						
GRI 103: Management Approach			Transparency and ethical commitment. Application of internal audit processes			
	205-2	Communication and training about anti-corruption policies and procedures	Transparency and ethical commitment. Application of internal audit processes	-	10	
301: Materials						
GRI 103: Management Approach			Environmental sustainability. Non-financial information statement			
	301-1	Materials used by weight or volume	Environmental sustainability	-	7, 8	12
302: Energy						
GRI 103: Management Approach			Environmental sustainability. Non-financial information statement			
	302-1	Energy consumption within the organization	Environmental sustainability	-	7, 8	7, 12
	302-4	Reduction of energy consumption	Environmental sustainability	-	7, 8, 9	7
303: Water						
GRI 103: Management Approach			Environmental sustainability. Non-financial information statement			
	303-1	Water withdrawal by source	Environmental sustainability	-	7, 8	12

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GRI Content Index				Global Compact Principle		Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission			
304: Biodiversity						
GRI 103: Management Approach		Environmental sustainability. Non-financial information statement				
304-3	Habitats protected or restored	Environmental sustainability	-	7, 8		12
305: Emissions						
GRI 103: Management Approach		Environmental sustainability. Non-financial information statement				
305-1	Direct (Scope 1) GHG emissions	Environmental sustainability	-	7, 8		3,11,12,13
305-2	Energy indirect (Scope 2) GHG emissions	Environmental sustainability	-	7, 8		3,11,12,13
305-3	Other indirect (Scope 3) GHG emissions	Environmental sustainability	-	7, 8		3,11,12,13
305-5	Reduction of GHG emissions	Environmental sustainability	-	7, 8, 9		3,11,12,13
305-7	NOx, SOx and other significant air emissions	Environmental sustainability	-	7, 8		3,11,12,13
308: Supplier Environmental Assessment						
GRI 103: Management Approach		Environmental sustainability. Responsible procurement. Non-financial information statement				
308-1	New suppliers that were screened using environmental criteria	Responsible procurement	-	7, 8		13
308-2	Negative environmental impacts in the supply chain and actions taken	Environmental sustainability		7, 8		13

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GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure		Chapter	Omission		
401: Employment						
GRI 103: Management Approach			Human team. Non-financial information statement			
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Human team	-	6	8
	401-3	Parental leave	Human team	-	6	5,8
403: Occupational Health and Security						
GRI 103: Management Approach			Human team. Non-financial information statement			
	403-1	Workers representation in formal joint management–worker health and safety committees	Human team	-	3	3,8
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism and number of work-related fatalities	Human team	-	-	3,8
404: Training and Education						
GRI 103: Management Approach			Human team. Non-financial information statement			
	404-1	Average hours of training per year per employee	Human team	-	6	5,8
	404-3	Percentage of employees receiving regular performance and career development reviews	Human team	-	-	8

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GRI Content Index				Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission		
405: Diversity and Equal Opportunity					
GRI 103: Management Approach		Human team. Non-financial information statement			
405-1	Diversity of governance bodies and employees	Human team. Governing bodies of Correos. Governing bodies of the subsidiaries	6		5,8
405-2	Ratio of basic salary and remuneration of women to men	Non-financial information statement	-	6	5,8
408: Child Labour					
GRI 103: Management Approach		Responsible procurement. Non-financial information statement			
408-1	Operations and suppliers at significant risk for incidents of child labour	Responsible procurement. Non-financial information statement	-	1, 2, 5	8,17
409: Forced or Compulsory Labour					
GRI 103: Management Approach		Responsible procurement. Non-financial information statement			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	Responsible procurement. Non-financial information statement	-	1, 2, 4	8,17

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GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission			
412: Human Rights Assessment						
GRI 103: Management Approach		Transparency and ethical commitment. Non-financial information statement				
412-2	Employee training on human rights policies or procedures	Transparency and ethical commitment	-	1,2		
413: Local Communities						
GRI 103: Management Approach		Environmental sustainability. Social commitment				
413-1	Operations with local community engagement, impact assessments and development programmes	Environmental sustainability. Social commitment	-	-	11,17	
-	Awards	Highlights	-	General information		

External verification of non-financial information

Statement of Verification by the Spanish Association for Standardisation and Certification (AENOR) for Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. and its subsidiaries relating to the consolidated non-financial information statement in accordance with Act 11/2018 corresponding to the financial year ended 31 December 2018

FILE: 2001/1391/GEN/01

Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. and its subsidiaries commissioned AENOR to undertake a verification of the non-financial information statement (hereinafter NFIS) dated 20 February 2019 under a limited level of assurance in accordance with *Ley 11/2018 por la que se modifica el Código de Comercio, el texto refundido de la Ley de Sociedades de Capital aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio, y la Ley 22/2015, de 20 de julio, de Auditoría de Cuentas, en materia de información no financiera y diversidad* (Act 11/2018, amending the Commercial Code, the consolidated text of Capital Companies Act approved by Royal Legislative Decree 1/2010 of 2 July and Act 22/2015 of 20 July on Account

Auditing, regarding non-financial reporting and diversity) hereinafter Act 11/2018, for the financial year ended 31 December 2018, which is part of this Statement.

AENOR, in accordance with the aforementioned Act, performed this verification as an independent provider of verification services.

AENOR undertook this verification under the principles of integrity, independence, ethics, objectivity, competence and professional diligence, confidentiality and professional conduct required on the basis of the accreditations available, within the general scopes of application of Standards ISO/IEC 17021-1:2015 and ISO 14065, and particular scopes of application, such as the Accreditation granted by the United

Nations Framework Convention on Climate Change (UNFCCC) for verification and validation of Clean Development Mechanism (CDM) projects.

AENOR, as required by the aforementioned Act, states that it did not participate in processes prior to the verification of the NFIS.

Parent Company details: Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company) with registered address at: Vía Dublín 7, 28070 Madrid.

Representatives of the Organisation for the purpose of the non-financial information statement: Sonia Gómez Iglesias in the position of Head of the Studies Department.

AENOR

AENOR INTERNACIONAL S.A.U.
c/Génova 6, 28004 Madrid

Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. and its subsidiaries had the responsibility of producing a non-financial information statement in accordance with Act 11/2018.

Purpose

The purpose of the verification is to provide interested parties with a professional and independent appraisal of the information and data contained in the non-financial information statement of the aforementioned organisation, produced in accordance with Act 11/2018.

Scope of Verification

NFIS included in the consolidated Management Report dated 20 February 2019 corresponding to Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company) and its subsidiaries, which includes:

- Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company)
- Nexea Gestión Documental, S.A., S.M.E. (Sole Shareholder Company)
- Correos Telecom, S.A., S.M.E., M.P. (Sole Shareholder Company)

Materiality

For the verification, it was agreed to consider as material discrepancies, omissions, distortions or errors that can be quantified and result in a difference greater than 5% with respect to the total declared.

Criteria

The principles of reference used to undertake the verification were the following:

1) *Ley 11/2018 por la que se modifica el Código de Comercio, el texto refundido de la Ley de Sociedades de Capital aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio, y la Ley 22/2015, de 20 de julio, de Auditoría de Cuentas, en materia de información no financiera y diversidad* (Act 11/2018, amending the Commercial Code, the consolidated text of Capital Companies Act approved by Royal Legislative Decree 1/2010 of 2 July and Act 22/2015 of 20 July on Account Auditing, regarding non-financial reporting and diversity).

2) Standard ISAE 3000 (revised), relating to assurance engagements other than audits or reviews of historical financial information.

AENOR expressly disclaims any responsibility for decisions, investment or otherwise, based on this statement.

Verification process undertaken

During the verification process undertaken, under a limited level of assurance, AENOR conducted interviews with the staff responsible for compiling and preparing the non-financial information statement and reviewed evidence relating to:

- Activities, products and services provided by the companies within the scope of the verification.
- Consistency and traceability of the information provided, including the compilation process followed, with sampling of information with respect to that reported.
- Completion and content of the non-financial information statement in order to ensure the integrity, accuracy and veracity of its content.

Conclusion

Based on the above, in our opinion, there is no evidence to suggest that the information collected in the consolidated

non-financial information statement included in the Consolidated Management Report dated 20-02-2019 of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company) and its subsidiaries for the financial year ended 31 December 2018 is not a faithful representation of the performance of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. and its subsidiaries in relation to environmental, social and personnel matters, including the management of equality, non-discrimination and universal accessibility, human rights, combating corruption and bribery, and diversity, in accordance with Act 11/2018.

In Madrid on 13 March 2019



Rafael GARCÍA MEIRO
General Director of AENOR

Contact



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Designs of this Integrated Annual Report 2018 are suitable for viewing on smartphones and tablets. This Report is publicly accessible in the corporate [website](#). The reader also has an executive summary, printed and in electronic format, accessible through the same 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.