














Integrated Annual Report 2017



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

	Link to related web content		Internal reference within the Report		Link to related audiovisual content		Reported indicator in accordance with GRI Guidelines, 2016 version		Contribution to the SDGs
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Integrated Annual Report 2017

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 the Correos Group for the 2017 financial year.



Chairman's statement

The needs of society and of the various stakeholders are changing at an accelerated pace and the position of companies within this environment is more dynamic than ever. The new social and consumer habits, the globalisation of supply and demand, the technification and digitalisation of all spheres of daily life, require companies to continually 'reinvent' themselves, to provide solutions to the requirements of the present and to anticipate those of the future.

In this context, a customer-oriented approach is essential. For this reason, the Correos Group has adapted its commercial offer and its operating model to the new demands of companies and individuals.

In an increasingly digitalised society, our value proposition is to offer multi-channel communication services and trusted electronic solutions, offering the same levels of effectiveness and security for both the physical and electronic environment.

Furthermore, the Correos Group has become the natural partner for companies wanting to sell on the Internet, due to its



Our professionals play a major role in the daily transformation of the Correos Group

value-added parcel services, its options for facilitating returns and its flexibility in delivery. Also due to its comprehensive offer for the entire e-commerce value chain, with solutions to sell online, increase web visibility, manage secure payments and access international markets.

Our guideline is 'we deliver when you want and where you want'. In order to meet this commitment, we have increasingly automated our logistics centres with greater processing capacity, which allow us to be more efficient in meeting all delivery time requirements. We have updated technological tools and processes that allow us to gradually improve the tracking information we provide to our customers, so that they can manage their volumes in real time.

The extensive coverage of our nearly 2,400 post offices, more than 3,100 *CityPaq* parcel automatic lockers and a distribution network with a presence throughout the country, is also the best option for the admission, collection and delivery of postal and parcel items.

The post office network has also undergone a transformation with the incorporation of a new customer service model. In doing so, there are more and more business spaces, but also more points of access to all kinds of services that make life easier for customers, from the sale of tickets for any event, to the marketing of prepaid cards for the secure payment of online purchases.

However, we have not forgotten our commitment to achieving the highest social return and the lowest environmental impact. Our operations are increasingly sustainable, incorporating cleaner vehicles and improving our energy efficiency. Correos also supports entrepreneurs providing the best way to contribute to competitiveness and the strengthening of Spain's economy. Through the

new CorreosLabs centre, we promote internal and external innovation, thus favouring the generation of new business opportunities.

Our employees play a major role in the daily transformation of the organisation. They are the main reflection of the changes addressed by the Correos Group. That's why we increase their focus on new businesses through specialised training and a diverse and talent-enhancing work environment.

I would like to thank them in particular for their efforts and involvement. The quality of their work, especially that of those who maintain a daily relationship with customers in the post offices, in the logistics centres and in their delivery tasks, has been crucial in improving the company's value.

We must continue in this direction, strengthening teamwork and mutual commitment, to encourage diversification, income growth and employment creation, and thus contribute to building a sustainable future for everyone.

Lastly, I would like to thank our customers for the trust they place in the Correos Group and for the opportunity they give us to work with them to create the best solutions tailored to their communication, parcel and business needs. Their satisfaction drives us to improve our performance every day and take on new business challenges, with the aim of generating long-term value for society as a whole.

Javier Cuesta Nuin



Highlights 2017



We facilitate
the development
of e-commerce



We promote
the internationalisation
of companies



We are open
to innovation and
entrepreneurship



We increase
the visibility of projects
that benefit society



We are committed to
improving the environmental
quality of the cities



We work to encourage
talent and professional
development



We transform the post offices into
new spaces for business and the
marketing of leisure options



We facilitate the development of e-commerce

- Correos marketed new **national and international parcel solutions**, especially adapted to the demands of e-commerce.
- The **CityPaq** parcel automatic lockers were expanding into supermarkets, municipal markets, car parks, companies and petrol stations throughout the country.
- The **Comandia** platform included the **Crea tu App** [Create your App] service to help companies selling online to design their own mobile apps in an easy and customised way.
- Correos became a **partner for all types of online sellers**, such as platforms for sales between individuals, for the **home delivery** of their orders at the greatest convenience.
- **Correos Express** launched the **Entrega Flexible** [Flexible Delivery] solution, where the addressees can select the date, time and place of delivery of their parcels.
- **Correos Express** opened centres in Barcelona and Ávila and expanded another six facilities **to address the growth in e-commerce**.



We promote the internationalisation of companies

- Correos opened its **store in Tmall Global**, Alibaba group's cross-border e-commerce platform, facilitating the sale and delivery of Spanish products in China.
- The company reached an **agreement with the Instituto Español de Comercio Exterior** [Spanish Institute for Foreign Trade] (ICEX) to provide consultancy services to companies and to encourage their internationalisation through e-commerce.



We are open to innovation and entrepreneurship

- **CorreosLabs**, Correos' centre for innovation, **began its activity** to foster external and internal entrepreneurship.
- Correos' **'Reto Lehnica'** [Lehnica Challenge] assisted entrepreneurs in the development of their **innovative business ideas**.



We transform the post offices into new spaces for business and the marketing of leisure options

- The post offices included the **Verificación de identidad presencial** [In-person identity verification] service for the secure delivery of goods or the identification of the end customer in online contracting processes.
- Correos' post offices consolidated themselves as the **largest physical network** in Spain for the **sale of tickets** to events and shows.



We work to encourage talent and professional development

- Correos recruited **1,606 permanent employees** as part of the employment consolidation process.
- The **accident rate** at Correos **fell 5.2%** thanks to the improvement in the management and the awareness measures implemented for risk prevention in the workplace.
- The company **developed internal talent** with initiatives such as the '**Clic**' **Program** or replacements for positions of responsibility in the operational area.



We are committed to improving the environmental quality of the cities

- Correos added 203 new electric vehicles to form **the largest own electric fleet** in the parcel sector.
- Correos participated in **European projects experimenting with less polluting fuels**, to contribute to a more sustainable delivery.
- 66% of the **contracts** entered into by Correos established **environmental sustainability criteria**.
- **81% of the electric energy consumed** by Correos came from 100% **renewable** resources.



We increase the visibility of projects that benefit society

- The '**XTUMIRADA**' **photo exhibition**, in partnership with **Down España** [Spanish Down's Syndrome Foundation] at the main post offices around the country helped to raise social awareness.
- Correos promoted **campaigns to raise awareness**, especially among youngsters regarding **gender violence** and **gender equality**.
- Correos lent its **support** to the *Fundación CRIS contra el cáncer* [CRIS foundation **against cancer**] through the sale of customised packaging with emoji[®] emoticons.
- **Correos volunteers** worked with the WWF for the **reforestation** of the Mediterranean forest next to the Doñana marshland.



Recognitions in 2017

Best global logistics operator

Recognised as the 'Best Global Logistics Operator' by the e-commerce company Alibaba group.

Crea tu App, the most innovative project for the Postal Union for the Mediterranean

The *Crea tu App* service was the 'Most innovative project of 2017' for the Postal Union for the Mediterranean (PUMed/ Euromed).

Most digitally transformed company

OMExpo 2017 award for the 'Most digitally transformed company'. Finalist in the 'Best mobile app' category.

Most attractive logistics company in Spain for employees

For the second year running, Correos was named 'the most attractive logistics company in Spain for employees' according to the consultancy Randstad.

Company with the best practices in diversity

Correos was once again included among the top 30 companies in Spain with the best practices in diversity, according to the VariableD Report by the consultancy Intrama.

Most meaningful brand of the Spanish market

Correos was included among the 10 most meaningful brands on the Spanish market according to the 'Meaningful Brands' study by the company Havas Group.

Nexo, best contribution to the development of the information society

Autelsi Award 2017 - 'Development of the Information Society' to Correos Nexea, for the *Nexo* multichannel communications platform.

Digital leadership in the public sector

Correos received the Digital Leadership Award in the 'Public Sector' category from CIONET, for its contribution to the country's digital transformation and innovation.



Recognitions in 2017

Correos Express, customer service of the year

For the second year running, Correos Express was named 'Customer Service of the Year' according to the consultancy Sotto Tempo.

Best contribution to awareness raising about down's syndrome

Correos' role in the "XTUMIRADA" awareness-raising campaign received the *Trébol* prize for Solidarity 2017 from Down España.

Best sustainable life in cities project

The 'Sustainable mobility in the last mile' project was recognised by Forética, as part of its 'Sustainable Life in Cities' initiative.

Most innovative promotional action

The Eventoplus 2017 awards recognised the Department of Extraordinary Deliveries Christmas action, for best decoration, best celebratory event and best space.

Best press campaign

Correos received third place in the *Control de Publicidad* Award, awarded by the magazine Control, in the best press campaign category.

Best stamp intaglio printing in Europe

For the third consecutive year, Correos received the first prize in the *Grand Prix de L'art Philatelique Belge et Européen*, for its stamp dedicated to Salamanca, part of the 'World Heritage' series.





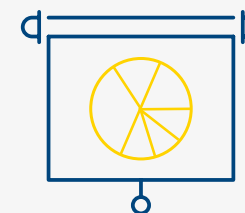
Key figures

Main figures of Correos Group

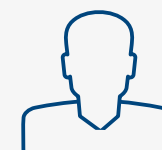
🌐 (GRI 102-7)

Correos Group	2016	2017
Revenue (thousand euros)	1,761,145	1,859,465
Result before tax (thousand euros)	(48,560)	(187,877)
Investments (thousand euros)	86,034	85,951
Employees (FTE)	51,027	52,476
Diversity men/women (%)	50/50	50/50
Emissions (scope 1/2/3) (tCO ₂)	165,175	175,124
Energy consumption (Gj)	499,564	507,382
Proportion of electricity consumption with certificate of renewable energy (%)	76	81

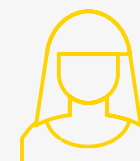
6%
increase
in revenue



86
million euros
in investment



52,476
employees
(FTE)





Sociedad Estatal Correos y Telégrafos, S.A. , S.M.E.



51,205
Employees (FTE)



2,637 millions
Postal items



1,750
Delivery
units



101
Special
service units



18
Automated postal and
parcel processing centres



13,991
Vehicles



3,110
CityPac parcel
automatic lockers



2,396
Post offices



6,273
Rural services



8,669
Service points



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



1,047
Employees (FTE)



54
Operating centres



3,600
Distribution and hauling routes



131,609 m²
Operating area



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



179
Employees (FTE)



2
Operating centres



7,552 m²
Operating area



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



46
Employees (FTE)



1.5 million metres
Marketed fibre optic network



127
Marketed telecommunications sites



Strategic vision

Correos Group

Vision and values

Business model

Business environment

Global trends

Future strategy and outlook

Main associations in which the Correos Group participates



Correos Group

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.



*grupo***Correos**



 **Correos**

Correos
Express

Correos
Nexea

Correos
Telecom



Physical
communication
solutions



Digital
communication
solutions



Parcel
services



The parent company of Correos Group is one of **Spain's leading companies** by size, territorial presence, human capital and physical and digital infrastructures.

It is also the **designated operator by law to provide the Universal Postal Service** throughout Spain, under criteria of efficiency, quality and affordability, contributing to the sustainability of postal communications for all citizens.

Correos is the **leading company in the Spanish postal market and one of the main parcel operators, especially for the e-commerce sector**, due to its excellence, trustworthiness and

reliability and for its global, physical and digital range of services, to meet the demands of each customer segment.

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





Parcel services

**Correos
Express**

It is the Correos Group company that specialises in **urgent parcel deliveries**. Its business model, based on its own centres, provides a high level of **speed** in the service, as well as **security and quality in its management**.

Through its network of centres and the latest technology applied to sorting and delivery, it guarantees total **traceability** of parcels and their **effective delivery** with the **highest convenience** for the addressee.

It also has an extensive portfolio of services designed to satisfy all its customers' requirements for timely delivery, as well as **specific solutions** for sectors that require flexibility and full adaptation to their value chains.



Physical
communication
solutions

**Correos
Nexea**

It is the Correos Group company dedicated to offering **customised services in document management** for the mass communications of companies with their customers.

To this end it develops technological solutions that are tailor-made for documentary processes, through a **multichannel communications model**, using all types of supports and formats.

The company provides its customers **maximum assurances of information security**, document traceability, complete integration with their technological systems and reliability in the delivery of all its communications.



Digital
communication
solutions

**Correos
Telecom**



Digital
communication
solutions

It manages the **telecommunications network of Correos Group** and markets the excess capacity of these infrastructures.

The company specializes in providing high capacity **connectivity services, communications and telecommunications infrastructures**, thereby adding value to its customers' activities, through flexibility and innovation.

It also provides technological support to the other companies of the Correos Group to improve their operational processes and the development of **new digital services**.



Vision and values

The **Correos Group's** vision is to become **the leader in physical and digital communications, parcel and proximity services in Spain**, based on its recognised values of security, closeness, trust and innovation

Correos Group Values



Feel

Face challenges as a united and integrated team.



Lead

Be benchmark leaders, motivating and encouraging others to develop and achieve professional and personal success.



Achieve

Take risks to achieve competitive results and visualise future scenarios that guarantee sustainable growth.



Innovate

Evolve swiftly, anticipating changes both internally and in society.



Commitment to customers

Ensure growth through the improvement of the customer experience, developing a culture of excellence, based on honesty, sustainability and corporate social responsibility.



Business model

grupo **Correos**



Vision

Page 17

To become the leader in physical and digital communications, parcel and proximity services in Spain, based on its recognised values of security, closeness, trust and innovation



Values

Page 17



Feel



Lead



Achieve



Innovate



Commitment to costumers



Strategy

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Preservation of the postal business



Diversification



Internal transformation



Flexibility of the business model



Correos Group operates through...

Physical and digital infrastructures.
A workforce of more than 52,400 employees.
Closeness and trustworthiness.
Innovation.
Excellence and social commitment.

Page 19



And with its business model...

Offering global services for all the communication and business needs of its customers.

Page 21



Creates value...

Correos Group's activity is designed to offer an excellent service, while providing value to shareholders, customers and society.

Page 23



Benefiting society

Correos Group aims to actively contribute to economic and social development by promoting the best practices in the public sector.

Page 24



Stakeholder expectations

Page 129

Global trends


Page 30



Correos Group operates through...



Physical and digital infrastructures

- With more than **8,700 service points**, including 2,396 post offices, of which 280 operate with the new *Tu Correos* format.
- 105 automated processing lines at **78 logistics centres** (18 Correos automated processing centres and 6 mass admission centres and 54 Correos Express centres) located throughout Spain.
- A fleet of about **17,600 vehicles**, own and leased.
- 263 million visits a year to **www.correos.es website** and  1.2 million registered users.
- More than half a million visits to the **Tu Correos online shop**, with 25,000 registered users during its first year.





The Correos Group operates through...



A workforce of more than 52,400 employees

- The largest public company in terms of employees. The Group employs **52,476 staff** (FTE) of which **50% are women**.
- Highly qualified and specialised employees, with around **1.6 million hours of training** per year.



Closeness and trustworthiness generates our brand

- One of only two **Spanish brands** to be included among the 10 **most meaningful** brands on the Spanish market according to the 'Meaningful Brands' study by the company Havas Group.
- **35% of customers rated us as 'excellent'**, nearly 5 points more than the previous year, according to the latest Net Promoter Score.



Innovation applied to efficiency

- **3,110 CityPaq** parcel automatic **terminals** throughout Spain.
- **14 million electronic transactions** managed **daily**.
- Nearly **32,000 smart mobile devices (PDA)** used every day for the home delivery of items with traceability.



Excellence and social commitment

- As the operator in charge of providing the Universal Postal Service, **we deliver 11 million postal items every day** to 18 million homes and 3.2 million companies.
- We are the parcel company with the **largest own fleet of electric vehicles** in Spain.
- Our **corporate responsibility projects** have contributed to social development and integration for **more than three decades**.



Correos Group business model

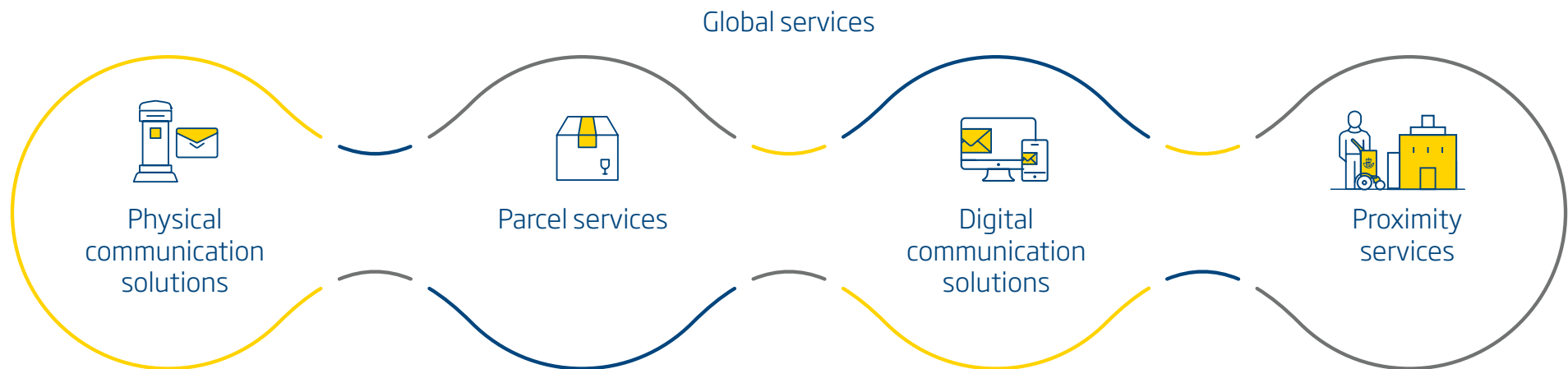
The aim of Correos Group is to **provide a global service** to its customers, which will satisfy the communication, parcel services and business requirements, through **any channel and within any delivery time**, with the **support and trust** offered by the parent company for more than 300 years.

To this end, **Correos**, the main company in the Spanish postal market and one of the main operators in the services for e-commerce sector, complements its activity with that of its subsidiaries:

- **Correo Express**, dedicated to the urgent delivery of parcels for the B2B and B2C segments.

- **Correos Nexea**, specialised in multichannel solutions for mass physical and digital corporate communications.
- **Correos Telecom**, responsible for the management and marketing of telecommunications infrastructures, providing technological support to the other companies of the group.

The aim of Correos Group is to **provide a global service** to its customers, which will satisfy the communication, parcel services and business requirements





The **main value created by Correos** is based on **meeting the postal communication needs** of all citizens, regardless of their place of residence or income, with a service that offers guaranteed quality and is cost efficient.

In a setting experiencing a continual decline in mail items in Spain and an increase in the delivery cost per postal item, the obligations deriving from the provision of the Universal Postal Service implies the maintenance of distribution networks and service points that are not always profitable. Correos **fulfils the mission of public service undertaken with the required efficiency and geographical coverage**, without this increase in delivery costs being passed on to the general public.

To this end, it must obtain **economies of scale between the postal and parcel activities**, which allow it to maintain accessibility and quality of service, and at the same time, **ensure future sustainability**. In this manner, the company will be able to ensure long-term profitability, which allows reinvestment in infrastructures and new businesses

The company adapts its business model to the **new consumption and communication habits of its customers**

and the **generation of value for its shareholder**, the Government, and by extension, **all of society**.

The activity of the Correos Group subsidiaries focuses on addressing the new demands deriving from the digitalisation of communications and society, complementing the range of services offered by Correos with **solutions that combine physical and electronic delivery**. This business model, founded on **trust, ethics and a recognised brand and valued** by the general public, aspires to attaining long-term sustainability.

In short, the company adapts its business model to the new consumption and communication habits of its customers, without detriment to the fulfilment of its public mission.





How our business creates value

🌐 (GRI 203-2)

- **We connect people** every day through physical and digital networks.
- We offer **increasingly more efficient services** and with a higher quality to all our customers.
- We **provide comprehensive parcel solutions** and with a greater ease of delivery for the addressees.
- We provide a **sustainable public service**, maintaining its net cost in spite of a decline in volumes of over 50% during the last decade.
- **We strive for diversification and a growth in revenue** (up 5.6% in 2017) for corporate sustainability.
- **We invest 86 million euros** in operational efficiency and the development of new businesses.
- **Our logistics centres are increasingly more automated**, with a higher processing capacity and with more optimised processes.
- **We create employment** to strengthen our highly qualified, specialised and digitalised workforce.
- We contribute to the Spanish economy: **99% of contracts are with domestic suppliers**.
- 66% of our **contracts** contain **environmental criteria**.



Benefiting society

🌐 (GRI 203-2)

As a public company, Correos hopes to attain a social return from its activities by contributing to the economic development of the Spanish businesses. With this in mind, Correos and its subsidiaries promote **efficient and sustainable operations**, a **personnel management** that prioritises stability, talent and diversity, as well as a policy of corporate responsibility that promotes **values and solidarity**.

- We contribute to the **success of companies** within and beyond our borders.
- We promote **economic progress in rural areas**, contributing to social cohesion and development.
- We facilitate **e-Government and the digital inclusion** of the whole population.
- We promote **e-commerce**, especially between **SMEs**.
- We encourage a **safe and inclusive working environment, which develops talent**.
- We organise our activity to achieve **the highest social benefit and lowest environmental impact**.
- We contribute to a **low-carbon economy and improved air quality** with new, more efficient vehicles.
- We encourage **entrepreneurship and innovation** inside and outside of our organisation.
- We contribute to **public sector good practices** with the fulfilment of payment periods to suppliers.
- We promote **integrity, transparency and good governance**.
- **For decades** we have been one of the most active companies in **collaboration with the third sector**.





Business environment

🌐 (GRI 102-15)

Growth in the parcel sector and e-commerce

Over the last decade **e-commerce has grown by an average of 26%¹ in Spain**. In financial year 2017, the sector's turnover is expected to have exceeded 30 billion euros, meaning that the online sector has almost tripled in size over the last five years.

A number of studies² rank Spain as fourth in Europe by volume of e-commerce and one of the countries that will see the strongest growth over the next few years because of higher average spending per consumer³, so long as the economic recovery continues to consolidate.

The growth in the e-commerce sector has been **reflected in the growth of the parcel sector** which has taken off again in the last few years. In the first half of 2017, 90% of online shoppers received a parcel bought through e-commerce and **87% of these deliveries were made to the customer's address⁴**.

Therefore, delivery has become a differentiating element in consumers' online shopping experience and, consequently, the success of any digital business.



¹[Comisión Nacional de los Mercados y la Competencia \(2017\)](#)

²[EcommerceEurope \(2017\)](#)

³[ONTSI \(2017\). Estudio sobre comercio electrónico B2C 2016](#)

⁴[Comisión Nacional de los Mercados y la Competencia \(2017\) Panel de Hogares CNMC. Primer semestre de 2017. Sector Postal](#)



Correos Group's activity is benefiting from this. There has been double digit growth in parcel volumes from e-commerce over the last few years, with this positive trend intensifying in 2017.

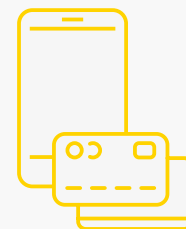
This intense growth in volumes is both a business opportunity and an operational challenge, especially in meeting activity peak periods during the last few months of the year, when most demand for delivery of online orders (as a result of Black Friday, Cyber Monday and the Christmas period) is concentrated.

This considerable seasonality means parcel companies require greater labour flexibility and the ability to adapt their operational resources to meeting specific e-commerce requirements.

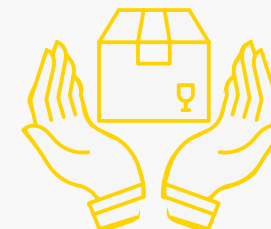
Furthermore, although there have been significant increases in parcel volumes, the revenue per unit in the sector has been falling steadily as a result of competitive pressure and the strong bargaining power of major e-commerce vendors, who demand faster delivery times at lower cost.

In Spain there has been strong competition for many years, both from other European postal operators, represented by their parcel subsidiaries, and major global players, who are battling national operators to gain greater B2C volumes (deliveries from companies to individuals)⁵.

These increased B2C volumes entail changes in demand, with more small, lighter and low-cost parcels mainly being delivered to residential addresses.



42.6 %
of **internet users**
make **purchases**
online



88.7 %
of online shoppers
have received
an **e-commerce parcel**



87 %
of recipients prefer
to receive their
parcels at home⁵

⁵ [Comisión Nacional de los Mercados y la Competencia \(2017\) Panel de Hogares CNMC. Primer semestre de 2017. Sector Postal](#). ONTSI (2017). Op. cit.



There is also increased need for a **full range of logistics services for e-commerce**, with optimal management of the entire value chain, from sale and processing of orders to delivery and collection of returns.

The demand for **more efficient delivery costs and enhanced customer experience** (both sender and recipient) requires more effective deliveries, fundamentally by using digital tools. For this reason, **the Correos Group makes use of the latest technologies for sorting and monitoring**, providing recipients with full traceability, real time information and flexibility to manage where and when they receive their parcels.

Furthermore, Correos and Correos Express have their own (non-franchised) distribution networks, allowing them to offer greater flexibility and control throughout the logistics chain, broad capillarity and the greatest possible convenience for senders and recipients, via different delivery options (at home, at the post office network and *CityPaq* lockers).



Moreover, although most parcels delivered in Spain are sent within the country, in 2017, the proportion of inbound volumes continued to increase in accordance with the trend seen in other

European countries, driven mainly by the effect of trade with China.

In December 2017 the European Union passed new rules **on collection of VAT**

on low value items from e-commerce arriving from non-European countries. The new rules come into force in 2021. The measures set out in this regulation could increase both the customs management times and the final cost to consumers, which could have an impact on international flows from outside the EU.

Equally, **the new European regulation on cross border parcel services**, which is scheduled to come into force in 2019, aims to increase controls on the parcel prices as a way of boosting online sales across the continent. In this regard, Correos has expressed its commitment to transparent pricing and continuous improvement of transport and delivery operations, in accordance with its goal of furthering the development of e-commerce.



Drop in postal market

In recent decades, information technologies have resulted in a major substitution effect in traditional postal communications. The factors that have driven this trend most have been digitalisation of business communications (transactional and advertising), the widespread use of electronic invoicing and the increase in e-Government, promoted by Act 39/2015⁶.

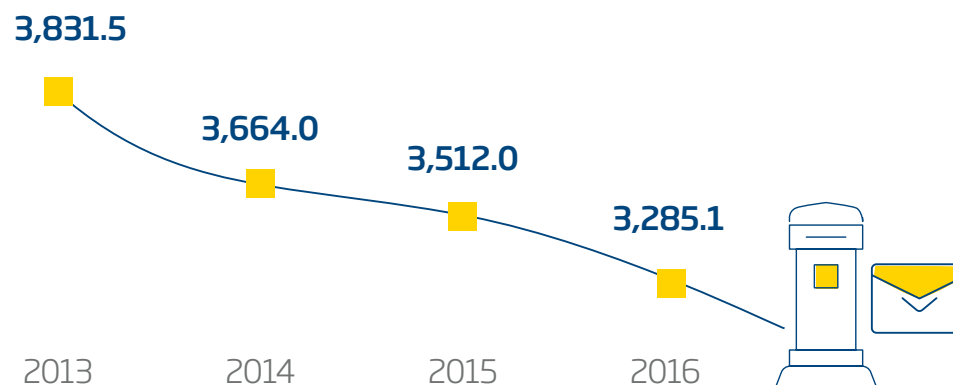
This decrease in postal activity has had a clear repercussion on the postal volumes managed by Correos, the main company in the Spanish postal sector, but also on competitors.

Furthermore, although **direct marketing remains an important tool in the advertising sector**, companies are increasingly adopting communication strategies that combine physical and digital channels to achieve greater customisation, visibility and impact.

In this context, Correos Group's strategy is to offer **efficient, adaptable, multichannel solutions** that can be integrated into the customer's value chain, in addition to continuing with its strategy to diversify its activities to meet demand from emerging markets.

Evolution of volumes in the traditional postal sector in Spain⁷

(millions)



⁶ Act 39/2015, of 1 October, on the Joint Administrative Procedures of Public Bodies.

⁷ Comisión Nacional de los Mercados y la Competencia (2017). *Análisis del sector postal y del sector de la mensajería y la paquetería*.



Digital services for secure communications

Given the rapid rise of digital communications, the public, companies and government bodies are increasing their demand for identity management and authentication services in online environments, secure electronic inboxes and e-health solutions, for government and private administrative procedures.

Correos, which currently **provides this sort of trusted services in the physical world** (certified mail, notifications...) **is also prepared to play this role in the digital world**, with the same reliability and efficiency.

To that end, the company provides a range of digital services in accordance with the eIDAS regulation on trusted electronic services, and has a network of highly capillary post offices which can securely verify individuals' identity when required for certain digital transactions or to provide e-Government services.

Furthermore, the expansion of Big Data and the Internet of Things will also generate opportunities to develop new services. One example is the use of Big Data to personalise direct marketing, or the use of geolocation technologies for commercial promotions differentiated by areas.

Moreover, the European Digital Agenda has set the goal of making broadband internet available in all regions, both urban and rural. In this regard, action is being taken

in Spain to promote the development of telecommunications networks that improve coverage in rural areas while reducing the costs associated with expanding these networks.

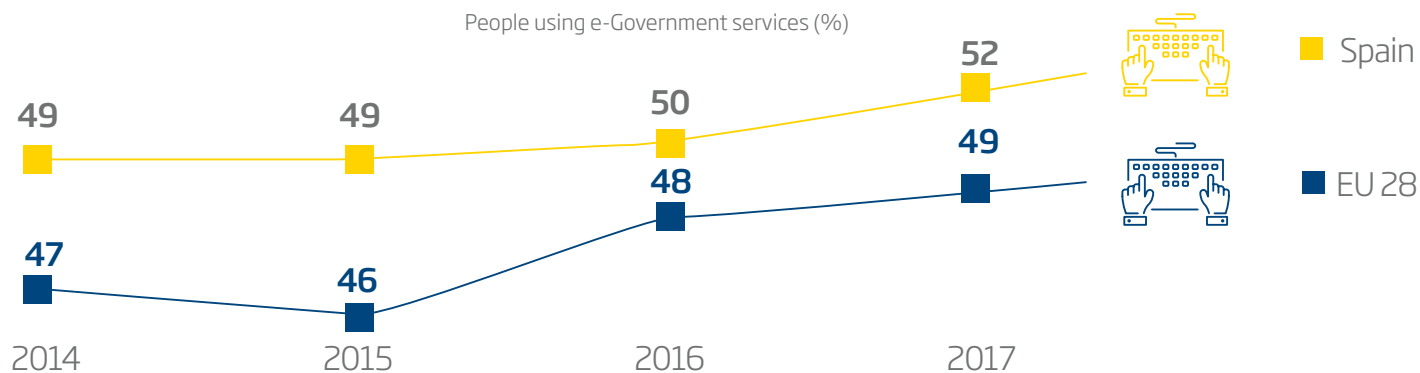
Correos Telecom, whose commercial activity consists of the provision of telecommunications infrastructure to other market operators, contributes towards this goal by marketing dark fibre optic networks, preventing companies

from having to install new cables in rural areas.

Likewise, with the development of cloud computing services, both the companies providing these services and their users are demanding high capacity optical connectivity of the sort that Correos Telecom provides.

Evolution of e-Government⁸

People using e-Government services (%)



⁸ ONTSI (2018). *Indicadores destacados de la sociedad de la información. Marzo 2018.*



Global trends

🌐 (GRI 102-15)





Global trends

🌐 (GRI 102-15)

Correos Group's contribution

Provide proximity services through delivery staff and the post office network

Offer solutions for smartcities: sustainability mobility, environmental monitoring, smart logistics models...

Facilitate financial accessibility, particularly for senior citizens and people in rural areas, via the post office network

Promote the use of renewable energies, apply circular economy criteria and encourage responsible procurement

Check and share best practices on the use of fuels and alternative transport technologies that have a lower environmental impact

The need to guarantee quality of life in an increasingly urban world

Increase in urban population which, according to the World Bank's forecast, will reach 60% of the global total by 2030

Ageing population. By 2050 more than 30% of Spain's population will be aged over 65

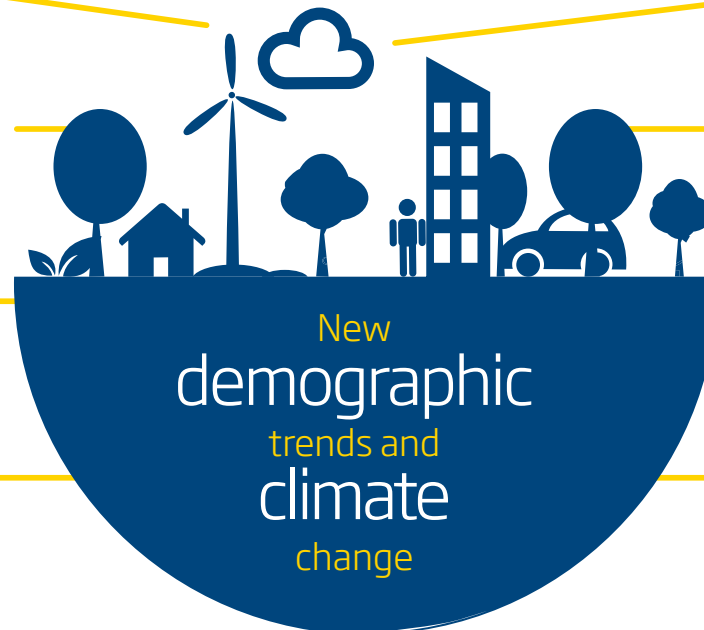
Exponential growth in e-commerce and greater demand for efficient urban logistics in cities

The Spanish population has an environmental footprint almost 2.4 times greater than its biocapacity (availability of natural resources)

Depopulation and disappearance of services in rural areas

Encourage environmentally-friendly public procurement, as recommended by Spain's circular economy strategy

More municipal regulations and bylaws restricting car access to city centres



New demographic trends and climate change



Future strategy and outlook

🌐 (GRI 102-15)

Rapid technological evolution is transforming society on a daily basis, changing the way in which we communicate, work and relate with one another. In order to continue being a significant actor in this new dynamic and global society of information, the Correos Group has permanently adapted its value proposition.

In recent years, it has made a significant effort to making a gradual change towards a new business model based on **long-term sustainability and a customer-oriented approach**.

This requires:

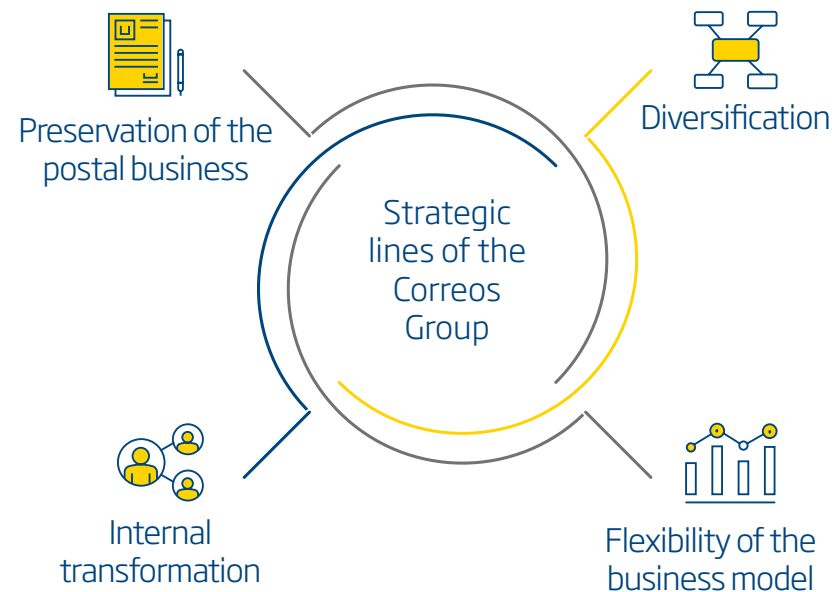
- Significant investments in equipment, technology and innovation.
- Transformation of the corporate culture and business structure.

- Flexibility to develop new businesses that respond to customers' changing demands.
- Adaptation of material and human resources, prioritising flexibility, efficiency and quality.

Subsequently, Correos has managed to increase the revenue of the last two financial years, as a result of the diversification measures it has implemented. However, the speed with which it has adapted its business model has not been fully satisfactory. Nevertheless the aforementioned public character makes the social return of its activity as important as its economic profitability.

The strategy that the Correos Group will implement over the coming years addresses this social and economic duality, through actions where the

essential purpose is to generate **value for shareholders, customers, employees and society as a whole** all at the same time.





Preservation of the postal business

Objectives

- **Adapt and expand the value proposition** to customers of postal services through comprehensive, multichannel and reliable solutions.
- **Optimise** the admission, transport and delivery **networks and processes** to continue driving efficiency.

What we achieved in 2017

- **Transformation of 280 post offices** to the new **Tu Correos** model, aimed at improving the customer experience.
- **Improvement of the tracking information** of national and international items and **customs processes**.
- Expansion of the portfolio of services available on the **Nexo multichannel platform**.

What we propose for 2018

- **Adapt the resources and operations** related to the provision of Universal Postal Service to the conditions established in the **Provision Plan**, pending approval by the government.
- **Maintain activity and revenue levels** of the postal business.



Diversification

Objectives

- **Lead the Spanish parcel market** by offering more competitive services.
- Maximise revenue from the provision of **new financial, retail and digital services**.

What we achieved in 2017

- Be the **selected parcel group** for the **e-commerce** sector.
- Improve the **automated admission and processing of parcels** with new technological equipment and the implementation of a **new delivery model**.
- Facilitate the delivery of parcels with a network of **CityPaq terminals** at a variety of public locations **throughout Spain**.

What we propose for 2018

- **Adapt the offer** to customers' new **digitalisation** demands and **expand** the network of **CityPaq** terminals.



Internal transformation

Objectives

- Adapt the **organisational structure** to the **diversification** of the business.
- Continue promoting **cost efficiency**, with the assistance of **more advanced technology and improvements to processes**.
- Reinforce the **digital transformation** of the company and **its employees**.

What we achieved in 2017

- Increase the **focus** on **new businesses** through specialised training.
- Reinforce the **technological transformation** of our staff with the **latest digital tools**.
- **Encourage talent**, applied to the **development of new activities**.

What we propose for 2018

- **Promote respect for diversity and encourage inclusion** within the workforce, as a reflection of the society we serve.
- **Adapt the workforce** in terms of number of employees and professional profiles in line with the **growing needs of the business**.



Flexibility of the business model

Objectives

- Achieve greater **agility in strategic decision-making** and making new services available to the market.
- Promote **long-term sustainable management**.
- **Management of the brand as an intangible asset**.

What we achieved in 2017

- Encourage **internal and external innovation** and extend it to all areas of the company.
- **Adapt internal processes** in a flexible manner to **new regulations**, such as, communications and digital billing, electronic identification and trust services, the protection of personal data and recruitment in the public sector.
- Promote **an operating model** in line with a **low-carbon economy**.

What we propose for 2018

- **Adapt the operating model** to the forthcoming **regulatory requirements** for the cross-border parcel sector.
- Manage the **development of the brand** with a short, medium and long-term plan.



Main associations in which the Correos Group participates

🌐 (GRI 102-12) (GRI 102-13)



Businesses

- **CEOE.**
- **Círculo de Empresarios.**
- **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).



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.
- **PUASP** (Postal Union of the Americas, Spain and Portugal). Correos is the co-chair of the Philately Work Group. Spain has also renewed its participation in the Management Board, this time as first vice chair until 2021.
- **PostEurop**. The company chairs the European Affairs Committee.
- **EPG Group** (E-Parcel Group). Group focusing on parcel services, mostly in Europe.



Corporate responsibility and good governance

- **Kahala Post Group**. Business alliance with postal operators from Australia, China, South Korea, Hong Kong, Japan, United States, United Kingdom, France, Thailand and Canada.
- **PuMed**. (Postal Union for the Mediterranean). Association of postal operators from Mediterranean countries.
- **'Network of companies for a society free of gender violence'**, of the Ministry of Health, Social Services and Equality.
- **United Nations Global Compact Network Spain**.
- **Forética**.
- **Institute of Internal Auditors**.



Value creation

Our team

Solutions for our customers

Excellent service

Innovation

Environmental sustainability

Social commitment

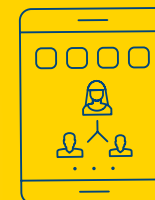


Our team

Incorporation of 1,606 permanent employees into Correos as part of the employment consolidation process



2,133 employees promoted within internal selection processes



Encouragement of training in digital skills, inclusive leadership and team work

51% of women in the Correos workforce, a pioneering company for gender equality



Reduction of workplace accidents in all the Correos Group companies

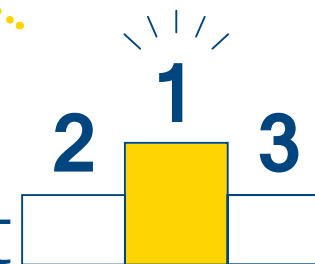


Employment
consolidation

New digital
work tools



New approach to
talent
management



Reinforcing the
transformation
of the company
and employees

Prevention
and promotion of
occupational
health



High impact
training
with results monitoring

Diversity
and inclusion





Management of human capital for business success

In 2017 the companies of the Correos Group employed an average of 52,476 employees (FTE). The parent company, Correos, had a staff of 51,205 employees, of which 77% were workers under ordinary employment contracts and 23% were civil servants.

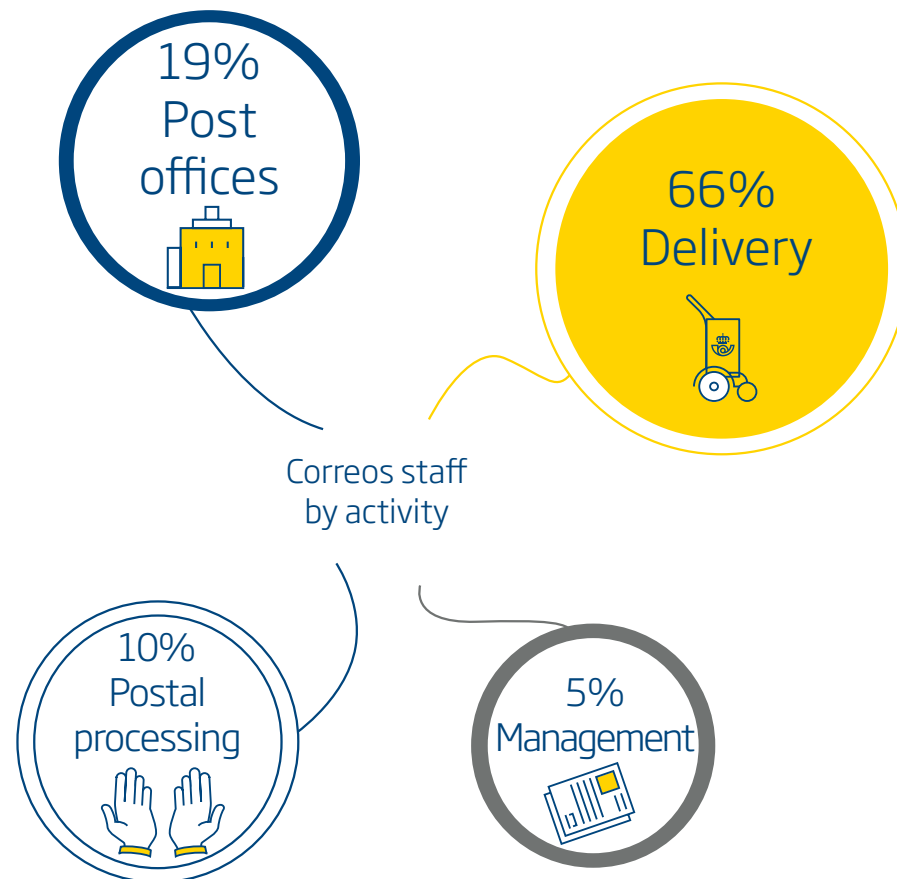
In contrast to the trend of recent years, in 2017 the Correos Group increased its workforce by 2.9%, in accordance with the conditions and limits established for the

public sector, in order to respond to the increase in activity during the year.

This growth made it possible to tackle the needs resulting from a substantial increase in parcel volumes and the new requirements for the delivery of administrative notifications, in compliance with Law 39/2015. Thus, the provision of the notifications delivery service involved hiring 2,268 part-time staff, essentially in delivery roles.

Average staff (FTE)	2016	2017
Correos	49,785	51,205
Correos Express	1,036	1,047
Correos Nexea	159	179
Correos Telecom	48	46

🌐 (GRI 102-8)





1,606 permanent employees added
during the second half of the year

Consolidation of stable, quality employment

In the second half of 2017, **1,606 permanent employees** joined the Correos workforce, coming from the temporary employment consolidation process of 2015, with almost 150,000 applicants signing up, in order to carry out logistics and delivery work in urban and rural areas.

Likewise, the foundations were laid for the subsequent consolidation of another **2,345 jobs** (in accordance with the provisions of Law 48/2015, of 29 of October, on General State Budgets for the year 2016), which will be implemented in 2018.

At the end of the year, the bases of a new call for the intake of permanent staff were also published, which will cover **1,869 operational positions** (in accordance with the provisions of Law 3/2017, of 27 June, on General State Budgets for the year 2017), with the aim of making progress on employment stability.

The conclusion of these three processes will enable the consolidation of employment for a total of 5,820 workers, in accordance with the company's aim of promoting stable, quality and sustainable employment, thus also ensuring the quality of service to customers and citizens.



Fostering talent and professional development

The objective of the Correos **talent management program** is to combine the needs of the business with those of employees, identifying people with the capacity and potential to hold key positions at the company, and to define actions for development and individual growth.

This model for the mobilisation of internal talent is firstly structured through the **'Clic' Program**, which in 2017 added a second group of 115 employees, following its launch in 2016. During the year, the participants carried out different dynamics in order to evaluate their areas of personal improvement, creating a **development plan** that was agreed with each of them, aimed at enhancing their growth with actions in their role.

Additionally, the **performance evaluation system** makes selection, promotion, training and professional development plans more effective, as well as helping

evaluate individual performance and its alignment with corporate objectives. This translates into an improvement of the Group's competitiveness.

In 2017 this system encompassed 1,598 people, 3.1% of the workforce, including all executives, technicians and middle managers. The most significant improvements made to the tool involved the incorporation of more information for the employees subject to evaluation, especially regarding the knowledge and skills needed for their role, or the inclusion of a training plan for managers, in order to make better use of the model.

The **subsidiaries of the Group** also have a model for evaluating performance, applied to the executives and middle management which, in the case of Correos Express, represents 12.4% of the total employees, at Correos Nexea it affects 3.4%, and at Correos Telecom it reaches 100%.





🌐 (GRI 404-3)

In order to share better practices in the business sector, Correos participated in the work group of the Advanced Centre for the Development of Organisational Talent Metrics (CAMTO), with the aim of designing standards for the measurement of organisational talent, using Big Data and predictive data analysis.

The company also has an **internship program** named **Young Talents**, which enables university students to complement their academic knowledge with practical experience in the business sector, thus encouraging the acquisition of essential skills for employability.

In 2017 this program for training and attracting young talent was extended

More than 2,000 employees were promoted through internal selection processes

to all of the company's territorial areas, incorporating a total of 77 students from different universities, as well as from the SEPI-Correos Foundation.

Correos continued to commit to **internal promotion and professional development** as a means of encouraging the retention of internal talent. During the year different internal selection processes were carried out, and as a result of them 2,133 candidates were promoted.

Of this number, 1,527 employees were added through the **replacements**

program which identifies and trains people in base positions in order to temporarily carry out leadership roles in post offices, delivery and logistics. Likewise, the company carried out a merit-based competition in order to make 1,564 **leadership roles** permanent, and this is expected to be completed in 2018.

A new curriculum management application was also launched named **eTalent**, in order to improve the access of internal candidates to the company's selection processes.

During the year, 687 people also took part in the **welcome and monitoring program**, aimed at training the employees that join or change roles within the company. This initiative makes it possible to support them during their initial months of adaptation and to address their development needs.

Lastly, the **permanent transfer system** was executed as a continuous process to address the expectations of territorial or geographical mobility of the employees located in post offices, delivery units and processing centres. The three selection processes carried out enabled the mobility and promotion of 2,233 people.



Innovative training for digital transformation

Correos training is aimed at addressing the strategic needs of the business and the professional development of its employees. The ultimate objective is to provide an excellent service and endorse the provision of new products, in accordance with the company's transformation plan

In 2017 the company carried out 366 training actions, increasing **the number of participants by 18%, to a total of 256,106**. 54.6% of them were women and the ratio of hours per employee was 29.4.

Moreover, 17,462 registrations were recorded for the ongoing training actions on the Virtual Campus e-learning platform. There were also 57,874 views of informal learning content, which is freely accessible for all employees.

In total, there were more than **one and a half million training hours** (76% of

which were online), mainly delivered by the **more than 1,100 internal trainers**, encouraging the use of innovative learning tools. Staff satisfaction levels increased, with an **overall score of 8.5 out of 10**.

During 2017 the company strengthened training in commercial, environmental and digital skills, team work, leadership and adaptation to the new regulations through specialised teaching areas. Thus, the **School of Products** was promoted. This is a space for self-learning about the commercial offer of Correos, in which more than 15,000 employees participate.

The main training actions carried out at the **Commercial School** focused on new products and negotiation skills. These actions contributed to improving the satisfaction levels of our customers, with an increase of more than 10 points in the recommendation rate of sales staff.

Training hours by employee	Women	Men
Correos	27.0	28.3
Correos Express	29.2	21.1
Correos Nexea	2.5	4.8
Correos Telecom	73.3	67.8

🌐 (GRI 404-1)

The company also improved the **Leadership School**, through the project '4 steps for leading', which provided practical tools to 2,502 team managers in order to improve their management.

In turn, the staff of the **post offices network** received training about the new customer service model *Tu Correos* and its

specific range of products. Also, a program for newly recruited temporary employees was started, in the customer service positions in post offices, which offered information with video tutorials about the processes to be carried out in the role, thus improving their adaptation.

The number of people attending training initiatives **increased by 18%**



The training programs aimed at digital transformation included:

- The **'I Am Digital'** project with more than 8,000 participants.
- The 'Diversification at Correos' and 'Transforming with Innovation' courses. The latter was carried out with 'gamification' techniques, through the mobile application CorreosPLAY.
- The 'Secure Management of Information', with more than 15,000 participants.

With the aim of encouraging new learning pathways, a **program of conferences** was launched about different matters of interest, in which 420 employees participated. These conferences were recorded and made available through the Virtual Campus e-learning platform, as well as on the company's intranet and social networks.



Lastly, in 2017 agreements were signed for the development of educational cooperation programs with the University of Valencia, the Polytechnic University of Barcelona, HTL Online Business School and MasterD.

Regarding to the Group's subsidiaries, **Correos Express** carried out 167 training actions aimed at promoting the improvement of processes and the skills of its workers in the areas of sales, environment, quality, financial management and human resources.

Correos Nexea held 11 training programs on technical knowledge, leadership skills and occupational risk prevention. In turn, the 18 courses offered by **Correos Telecom** focused on the acquisition of technical knowledge and skills to foster innovation and improve quality levels.



Improvement of internal communication and fostering team work

In 2017 Correos made a significant improvement to its internal communication channels, using the most effective and suitable channel for each message, campaign and target audience. The corporate intranet, *Conecta*, published **internal information memos** (252 on national scope and 249 on local field), which were also disseminated on notice

boards in the all operational centres in the seven zones that the company is structured around. Likewise, more than **50 videos** were circulated on different matters of interest to employees.

The company promotes the participation of its employees in continuous improvement through various **recognition**

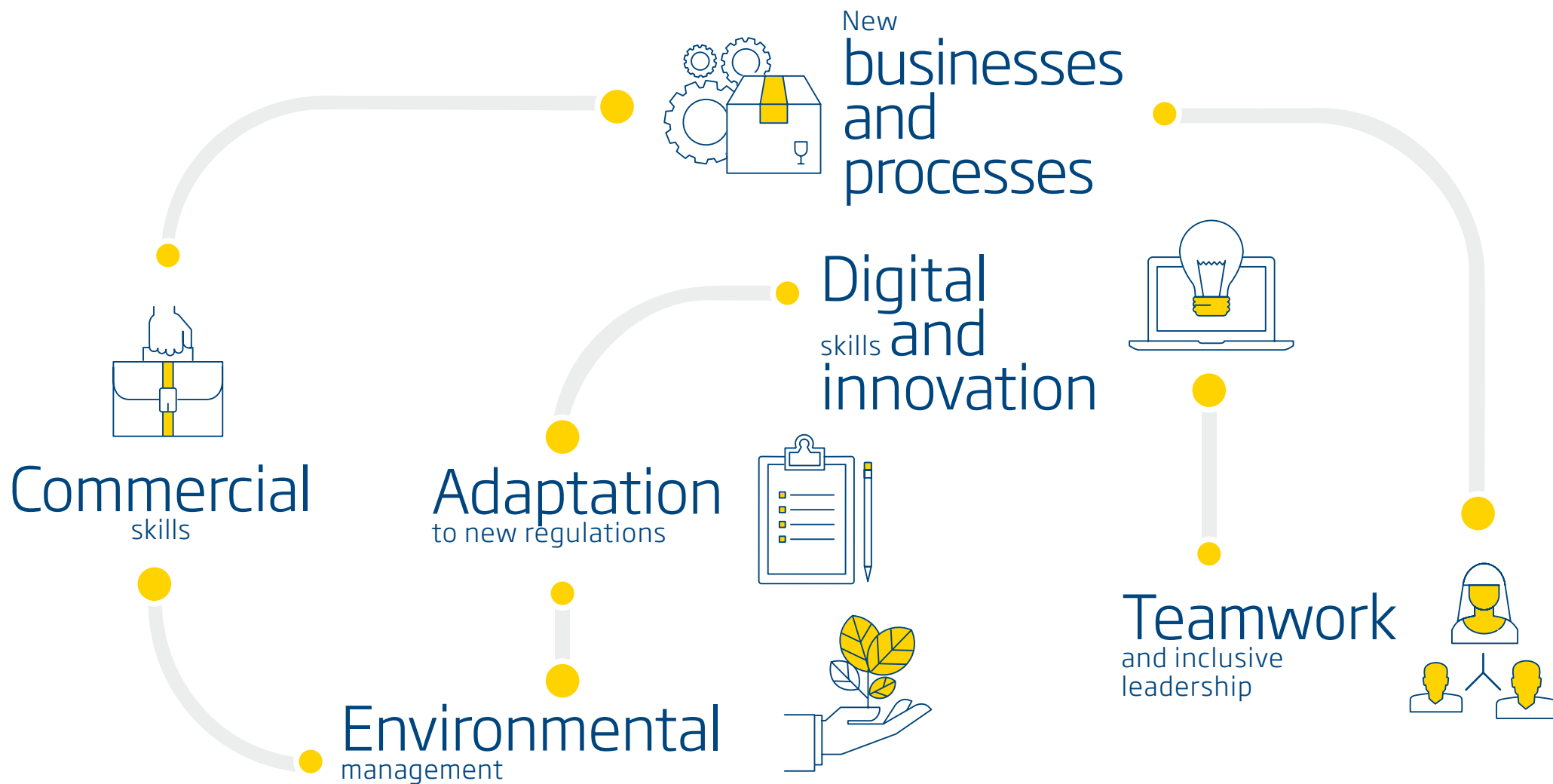
programmes, such as the 'National Award for Excellence', the 'Environmental Commitment Award', the 'Artemisa Award' for the best commercial management and the 'Atenea Award' for people and their best practices.

Within the area of **knowledge and cultural change management**, the

company launched the '*Proyecto comparte*' (**Share Project**), which is aimed at implementing virtual collaborative work spaces. To that end, communities were created with members of the seven territorial areas of Correos, promoting the transformation of the working model towards an open and shared framework and encouraging team work.



Training for new business challenges





Diversity and inclusion, pillars of people management policies

The Correos **Equality Plan** includes a **protocol against sexual, workplace or moral harassment**, in order to prevent and resolve situations of this nature that could arise.

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 consideration of the absences of the victim; leave as a result of gender-based violence and the guarantee of work relocation.

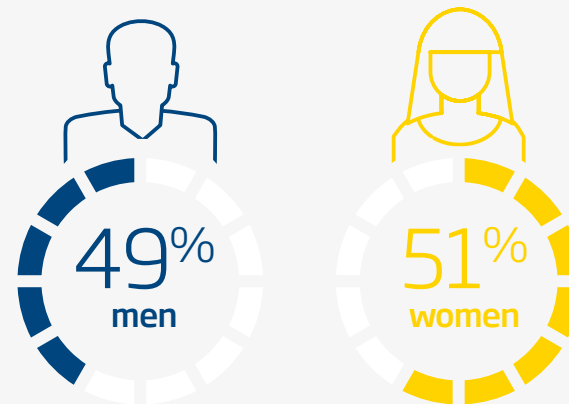
Likewise, since 2012 Correos has been a member of the 'Network of companies for

a society free of gender violence', of the Ministry of Health, Social Services and Equality in order to make society aware of this problem.

Correos encourages family, personal and professional reconciliation, via training and awareness actions, as well as through measures included in its internal regulations. The latter, applicable to the entire workforce, often involve improvements in relation to current labour legislation.

The **Correos Equality Plan** includes measures for the protection of the victims of gender-based violence

Distribution of Correos employees by gender





In turn, Correos Nexea and Correos Telecom have established measures in order to encourage reconciliation in special family situations, with flexible working days and, in some cases, teleworking based on project-based management.

Correos seeks to encourage a management model and a style of leadership among its employees that promotes the richness offered by the plurality of ideas, experiences and perspectives, as a true long-term competitive advantage. That is why it promotes diversity, especially in three action areas:

- **Gender diversity**, as a pioneering company and benchmark for effectively offering equal opportunities to men and women. In 2017, the percentage of women in the workforce increased. Therefore, both the parent company and the Group practically maintained gender parity for the second consecutive year.
- **Functional diversity**, by integrating people with physical and mental disabilities into its workforce, and by



Paternity or maternity leaving by gender women men

	Women	Men
Correos	283	104
Correos Express	11	11
Correos Nexea	1	2
Correos Telecom	1	1

100% of the employees who benefited from paternity/maternity leave returned to their job when it was completed

🌐 (GRI 401-3)

collaborating with Foundations, Special Employment Centres and Occupational Centres, that encourage their full integration into the workplace.

- **Generational diversity**, in accordance with the principles of the Code of the Generation and Talent Observatory, which promotes management of people based on respect, non-discrimination and equal opportunities, regardless of their age.



Correos stands with diversity

Each year the company convenes awards for employees and their good practices in different areas of action, one of which is the promotion of diversity.

This category is aimed at encouraging inclusion and raising awareness about functional, gender and generational diversity, and using diversity strategically for the benefit of innovation and the transformation of business.

The winning team in 2017 was the one formed by the employees of the main post office in Marbella, with the initiative *Comparte experiencias* (**Share experiences**). The project involved encouraging mutual learning, through the exchange of knowledge and experiences between the most senior and the youngest employees.



What makes us stand out

- Raising **awareness** among our employees, and by extension, among all of society, about the **work and personal benefits** that diversity offers.
- The promotion of **diversity among our teams**, in order to be able to meet the needs of a **society that is also diverse**.

Greater social benefits for employees

The Correos social action program also contributes to increasing the socio-occupational wellbeing of staff and to facilitating personal conciliation. In 2017, employees and their families were able to access 12,457 grants for health treatment, university studies, child education and care for children with disabilities or death. Permanent staff were also provided with advances and interest-free loans.

Also, the range of life and accident insurance policies was improved, with favourable conditions for employees, and they were extended to subsidiary companies. Lastly, Correos extended the range of promotions and discounts available on its web platform on different products and leisure services, culture, health, sports material and consumer goods. In 2017 there were already more than 28,000 workers registered.

🌐 (GRI 401-2)



Safe and healthy work environment

The crucial pillar of good occupational risk management is the integration of a model of a preventive culture into all levels of the organisation, through information and the continuing training of its workers.

In this manner, the company contributes to occupational health via an integrated approach that not only involves providing a healthy and secure working environment, but also covers all aspects relating to the physical, mental and social wellbeing of its staff.

Within the '*Empresa saludable*' (**Healthy company**) project, Correos promotes lifestyle habits that contribute to improving the health of its employees, with a multidisciplinary policy.

As part of this initiative, in 2017, the **program to reduce cardiovascular risk factors** successfully proved in Alicante, was extended to the province of Granada.

Additionally, a pilot project was carried out at the Correos headquarters in Madrid for the **early detection of colon cancer**, coinciding with the annual campaign of medical examinations for employees.

Another of the actions undertaken was the **healthy eating campaign**, through infographics published on the intranet and conferences delivered by nutrition experts, with the aim of raising awareness about the importance of adopting good eating habits.

In this area, employees and their families also have the 'wellbeing and health channel', a free telephone service for information, guidance and medical, social, psychological, legal and dietary advice, available 24 hours a day, 365 days a year.

Furthermore, through workshops and conferences, the **emotional wellbeing program** offered workers tools for

self-knowledge, handling emotions, motivation and the positive management of change. Lastly, **awareness campaigns**

were carried out about road safety and occupational risk prevention in adverse weather conditions.



The emotional wellbeing program provided tools for the positive management of change



- Commitment: police and integrated approach
- Safe and healthy work environment
- Management system
- Training
- Control, planning and digital tools
- Awareness campaigns
- Award to innovation



Prevention of occupational risks

Physical wellbeing

- Raising awareness about the importance of physical activity
- Healthy eating habits

Health



- Reduction of cardiovascular risk
- Early detection of colon cancer
- Vaccination campaign



Emotional wellbeing

- Happiness increase
- Commitment and personal involvement



Digital information

- 'Wellbeing and health channel' telephone service
- Corporate intranet and web

Correos,
Healthy
Company



Efficient preventive management

Correos commits to a largely internal preventive management policy, through its own occupational risk prevention service, which involves all levels of the organisation and is present in all the territorial areas of the company.

The main actions carried out during 2017 for the identification and prevention of occupational risks included:

- Carrying out 17,490 preventive medical examinations, adapted to the different jobs and personal circumstances, and also implementing the annual flu vaccination campaign.

- Holding 37 meetings with the State Commission for Occupational Health and the Provincial Health and Safety Committees.
- The creation of 631 general technical studies and 81 specific studies about risks in centres, 765 emergency plans, as well as the implementation of 25 risk assessments for potential exposure to explosive atmospheres and 21 for work equipment.
- Specific training on prevention, with 48,562 participants and 166,524 contact hours, and the provision of

64,842 health and safety sheets to 26,258 employees, with information on risks, prevention and measures for emergency situations, tailored to each job and work centre.

- The creation of an action protocol for adverse weather conditions.
- More extensive information provided to employees via the internal communication tools and participation in the 'Atenea Award', in the occupational risk prevention category.

The commitment of Correos to the health and safety of its workers was recognised with the renewal of its certification as a Healthy Company. Likewise, the actions carried out helped to reduce accidents (incidence rate) by 5.2%, thus consolidating the downward trend of recent years.

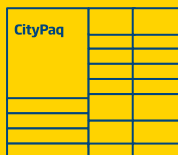
The Group's subsidiaries also maintained positive development. Correos Telecom once again retained its 0 rate of occupational accidents. Correos Express improved the accident rate of its workforce by 34%, also reducing the number of days missed due to leave by 27%.

Occupational accident by gender	Correos		Correos Express		Correos Nexea		Correos Telecom	
	Women	Men	Women	Men	Women	Men	Women	Men
Accidents with sick leave	2,014	1,784	2	25	6	11	0	0
Minor accidents	2,011	1,774	2	25	6	11	0	0
Serious accidents	3	8	0	0	0	0	0	0
Very serious accidents	0	0	0	0	0	0	0	0
Deaths	0	2*	0	0	0	0	0	0

*Deaths due to traffic accidents *in itinere* and due to natural causes in the workplace



Solutions for our customers



3,110 *Citypac*

parcel automatic lockers available in all kinds of locations, both public and private, for the fast and convenient delivery of parcels

700 apps created by e-commerce companies with

Comandia Crea tu App

during its first months of operation



Prize for the physical and digital communications platform
Nexo for its contribution to the development of the information society



280 *Tu Correos* post offices established throughout the country, with a new customer service model and a wider range of products and services



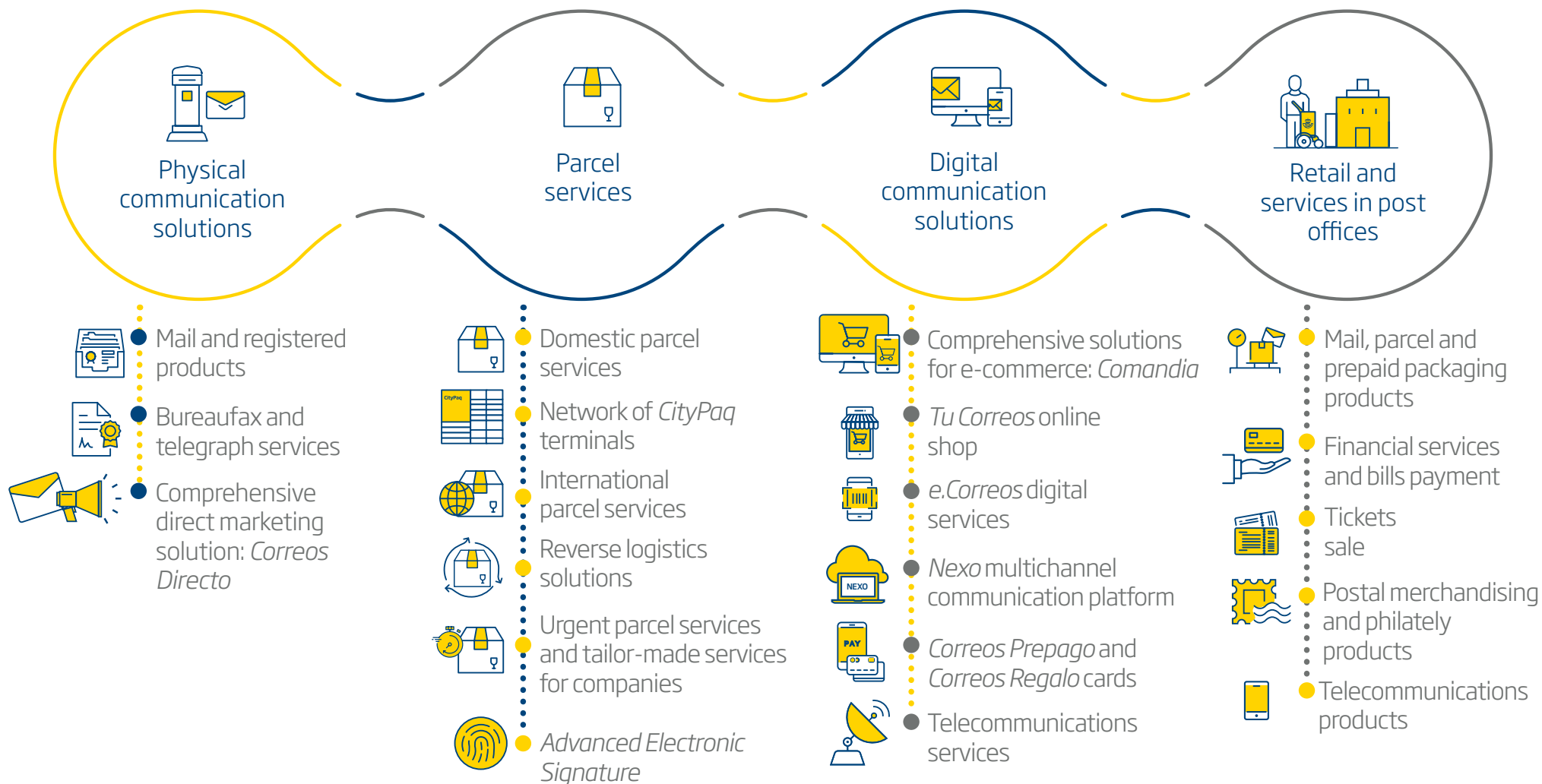
The special issue stamp devoted to Star Wars was very well-received by fans of the saga





The Correos Group's portfolio of products and services

🌐 (GRI 102-2) (GRI 102-6)





The most comprehensive range of parcel services

Correos is a benchmark in the parcel market and especially for the e-commerce sector. The company provides access to **the best parcel solutions**, in order to facilitate its customers to grow and have success in a globalised, digital and competitive world.

The Correos services are also aimed at satisfying the new demands of online buyers, by offering them **flexibility to manage their shipments, greater capillarity and the best actual delivery ratios**.

The company has thus adapted its commercial range in order to address the different needs for delivery times and locations and to improve the quality perceived by customers. In short, in order to provide the sender with greater added value and traceability, while providing the recipient with **greater control over where, when and how to receive their items**.





The extensive range of services of Correos, both national and international, includes everything from the express to the most personalised options, offering solutions for:

- **Different delivery times**, with **Paq Standard**, for the cheapest shipments with delivery in 48/72 hours; **Paq Premium**, especially suitable for the e-commerce sector, with delivery in 24/48 hours depending on the destination and greater added value; and **Paq Today**, with collection and delivery on the same day within the same province.
- **New demands of reverse logistics** for the returns of e-commerce orders, with **Paq Retorno** and **Paq Retorno Premium**, which offer companies an optimum solution for getting goods back from their customers, at no additional cost to them.
- **Specific needs**, for example, by accompanying customers on their trips with the **Puerta a Puerta** service, which transports the suitcases of long-distance train Renfe users, and **Paq Mochila**, **Paq Bicicleta** and **Paq Peregrino**, which facilitate the transportation of the pilgrims' luggage on the *Camino de Santiago* (Way of St. James).
- **International delivery**, with a new range that includes the preferential delivery services of **Paq Premium International**, for the most urgent consignments, and **Paq Standard International**, with home delivery and the recipient's signature; **Paq Light International**, for light consignments that do not require a signature, with total traceability and at very competitive rates; and solutions for cross-border reverse logistics.



The new **Paq Premium** service, the great partner of online sellers

This range is complemented with **added values** that offer customers greater information and flexibility, adapted to suit their needs. These attributes include **selecting a time slot** or the number of

delivery attempts and keeping the goods at the post office, as well as **electronic proof of delivery**, generated and transmitted by smart mobile devices (PDA) used by delivery staff.



Effective deliveries at any time

Delivery is one of the most significant aspects of e-commerce, due to its relevance for both sellers and buyers. To that end, **CityPaq parcel automatic lockers**, available at any time and in places always close to the customer, offer them the required flexibility in terms of times and locations.

CityPaq network provides maximum convenience, as it enables recipients to receive consignments at the terminal of their choice and, since 2017, also **send parcels and return online purchases**. Also, by avoiding transport and multiple delivery attempts, it reduces the carbon footprint of parcels.

More than **90,000 customers** registered on the **CityPaq** application

By the end of 2017 there were **3,110 terminals**, located in neighbourhood communities as well as in business centres, car parks, petrol stations and public transport stations. Also, other locations were added such as the **main**

The number of **consignments delivered through CityPaq** network has multiplied five-fold since its implementation in 2016

supermarket chains, municipal markets and associations.

Likewise, with the option of **Entrega Directa**, online customers can select their favourite parcel terminal for delivery, even for e-retailers not included in the *CityPaq* network of partners.

The data quality also contributes to a better customer experience during delivery. That is why Correos released a new **Tracker tool**, available on the website and on the mobile application *Correos Info*. It provides customers **greater detail about the journey of their mail and parcels, using different languages**, as well as access to information about customs procedures and the nearest post offices.





Urgent parcels, always located

Correos Express offers tailor-made solutions for urgent deliveries, which satisfy the demands of immediacy, flexibility, quality and full adaptation to customers' value chain.

The company has a commercial portfolio, aimed at both B2B and B2C segments in order to satisfy all their needs in terms of:

- **Urgent deliveries**, with **Paq 10**, **Paq 14** and **Paq 24**. 🖱️
- **Special types of consignments**, with **EquiPaq 24**, for the collection, transport 🖱️ and next day delivery of baggage weighing up to 25 kg.
- **Wide international coverage**, with **International Express**, for urgent air 🖱️ transport and delivery to any country; **International Standard**, for less urgent delivery in Europe; and the new

Two out of every three **Correos Express** customers require deliveries in less than 24 hours

international pre-paid product, available at Correos post offices.

Correos Express also has **specialised services** for different types of recipients, such as **Paq Empresa 14**, for business customers, with guaranteed delivery before 2pm; and **ePaq24**, especially suitable for the delivery of **online purchases to individuals**. 🖱️

Additionally, there are **tailor-made options for specific sectors**, such as **OptiBox10** and **Optibag15**, for 🖱️ optical companies, and **Valija Dental12** and **Paq Dental24**, for the dental industry.



The company offers added value in order to **improve the customer experience** such as **Flexible Delivery**, which enables recipients to manage their deliveries with any device. With this option, customers can select and modify the delivery window, date or delivery address and, even, re-send the parcel to one of the more than 2,300 Correos post offices.

The objective is to reduce delivery times and provide alternative delivery points. This tool is also assisted by the services for the **immediate location of the recipient** 🖱️ in the event of their absence, the **proactive incident-management**, and **Advanced Electronic Signature**, for companies that need to validate the signature of their customers on electronic documents of legal value.



Correos: making e-commerce easier

Correos has an overall portfolio of services for the **entire e-commerce value chain**, from the online sale of products, the management of orders, payment methods and marketing, to final delivery, which represents a key factor in the success of e-commerce.

The **Comandia** platform includes all the digital solutions for e-commerce, aimed at supporting small companies during the digitalisation process of their businesses. Using simple tools, they can create online shops and/or access the main worldwide marketplaces. They can also avail of the service and the logistics experience of Correos.

Comandia unveiled a new design in 2017 along with a revamped business proposal that includes:

- **Crea tu tienda online.** It facilitates the **design of the sales website**,

guaranteeing the best purchasing experience for the user.

- **Vende en marketplaces.** It makes it possible to **publish and manage products on the main national and international marketplaces**, from a single platform in a convenient and simple way.

- **Crea tu App.** Companies can **create and publish the mobile application of their business**, without the need for technical knowledge, thus integrating m-commerce (commerce via mobile phone) into their businesses and diversifying their sales channels.

The *Comandia* solutions are suitable for **all kinds of businesses**, from the smallest, which can use the **Free plan** to begin selling at no cost, to larger companies that require more features and which can avail of the **Basic** and **Premium** plans for that purpose,



More than 700 apps created for online businesses through *Crea tu App*

depending on whether their sales are aimed at a national or international markets.

Correos also provides free marketing and training resources via video-tutorials, in order to help companies increase their visibility on the internet.

Moreover, the company promotes e-commerce among SMEs and

entrepreneurs, through **specific agreements with local producers** in order to deliver their products (such as the national distribution of chestnuts from El Bierzo and oranges from Valencia), as well as with councils, in order to provide local businesses with access to the online channel with personalised solutions for their businesses.



Security of online transactions

E-commerce requires appropriate technological, marketing and payment tools that guarantee the efficiency, simplicity and security of online sales.

Bearing this in mind, in 2017 Correos integrated more than 100 **additional payment methods into Comandia**. Thanks to an agreement with the Paysafe gateway, users can receive instant international payments, through the methods used most worldwide by consumers.

The company also offers the **Correos Prepago** card, an optimum solution for the **secure payment of physical and digital purchases**. This card does not need to be linked to a bank account and can be topped up on the website or at the post office network. At the start of 2018 the **Correos Regalo Mastercard** was also launched, which can be used by a person other than the buyer with an amount loaded onto



it beforehand, with all the benefits and guarantees of a Mastercard card.

Correos also facilitates **payment and reliable delivery of online purchases through post offices**. That is why the company was chosen as logistics partner by Wallapop, the main application for geolocation-based buying and selling

among individuals. For that purpose, Correos offers the coverage of its post office network and distribution services.

Close to 20% of the sales made via Wallapop are now made remotely. The **Correos' post offices, thanks to their extensive capillarity**, represent the most convenient and secure method for sellers

to deposit their items. These articles are subsequently delivered at no additional cost. Thanks to the mediation of Correos, the buyer's privacy remains intact, as the sender does not need to find out the delivery address to send the product.

Lastly, **Correos has its own online shop, Tu Correos**, which sells more than 700 items, with all the guarantees and convenience of home delivery. Its range, which is also available at the post office network, includes mail and parcel products, merchandising, philatelic and collecting items, computing devices, audio and telephony accessories and **tickets** for all kinds of events.

More than **half a million visits** to the **Tu Correos** online shop and 25,000 customers **registered** during its first year of activity



China: the great e-commerce gateway

Correos aims to become a **facilitator of cross-border e-commerce**, by providing Spanish companies, especially SMEs, with access to the markets with most international growth, with a special emphasis on China, the origin and destination of a large part of global trade flows.

In response to the growing demand for Spanish goods from Asian consumers, **in 2017, Correos opened its own shop on Tmall Global**, the international e-commerce platform of the Chinese Alibaba group.

The **Correos Tmall** web represents the ideal **'showcase' for the promotion and sale** of the products of Spanish small and medium-sized enterprises. It currently offers clothing and footwear goods, food supplements, olive oil and wines **by recognised Spanish brands**. Also, thanks to the company's international partnerships, deliveries take an average

time of 9 days, from the warehouse of the seller to the address of Chinese customers.

One of the main obstacles for cross-border e-commerce is that customs processes are not well-adapted to international retail sales. Correos offers its international expertise and competitive rates for the **management of cross-border flows and customs procedures**, providing customers with a comprehensive logistics service that facilitates the international shipping of their goods.

As a promoter of the Spain brand (*Marca España*), the company also reached an **agreement with ICEX** (Spanish Institute for Foreign Trade) in order to encourage the **internationalization of SMEs through e-commerce**. This collaboration includes engaging in joint information, advice and training actions, aimed at helping companies to take their products across borders.

The **Correos Tmall** shop is visible to
600 million
potential Chinese customers





The gateway to new markets

Correos Tmall: access to China
Agreements with ICEX and other leading companies from the sector



Visibility and commercial effectiveness

Comandia: Comprehensive sales solutions
Tu Correos online shop
Direct marketing

Secure payments

Comandia
Correos Prepago and *Correos Regalo* cards
Post office network



Overall management

Reverse logistics
International advice
International networks and experience



Correos is the perfect **e-commerce** partner, providing solutions for its entire value chain

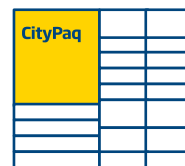
Multiple delivery solutions

Paq Premium and *Paq Standard*
International offer
Stock management and logistic integration



Convenient delivery

Home delivery
Post office network
CityPaq network





Ensuring physical and digital communications

Correos guarantees the effectiveness of personal, commercial and advertising communications, whether physical or electronic, with the same levels of security, reliability and continuity.



The objective is to increase the customer's ability to choose, through a multi-channel offer, which optimally combines physical and digital solutions. The company thus ensures **universal access to traditional postal services**, for citizens who prefer it, while simultaneously adapting to the needs

of those who require **electronic communications**.

Thus, Correos is incorporating the benefits offered by new technologies into its traditional postal services. One example is the implementation of **electronic proof of delivery** in all products and channels and the integration of new features into the *Online Bureau* service.

In 2017 the **e.Correos digital offer** redirected its proposal towards the

provision of digital trust solutions. As part of this repositioning, the *My Identity* service was complemented with *Correos ID* (management of the digital identity of citizens) and incorporated improvements to the unified registration system, thus making it possible to integrate the different Correos' applications into a single interface (such as free WiFi connectivity in different company centres). Likewise, the *My Notifications* service added new features for its full adaptation to the requirements of Law 39/2015 and for its use by large companies.

Within the domain of promotional communications, **Correos Directo** is  the **comprehensive direct marketing solution** for companies. With this range of services, customers can segment, personalise and optimise their advertising campaigns, in order to inform, acquire and retain customers. In 2017 *Correos Directo* incorporated the **new tool of mapping**  **layer, based on geomarketing**, which enables it to chart divisions in each post code and create different advertising strategies according to the geographic area.



Multi-channel services for business communications

Correos Nexea develops tailor-made technological solutions for the **integrated management** of the **mass communications** of companies, via a **multi-channel model**, on all kinds of channels and formats.

The company provides its customers **maximum assurances of information security**, document traceability, complete integration with their technological systems and reliable delivery of all communications. Its range of services encompasses all the phases of the documentation cycle:

- Consultancy, design and engineering of documents.
- Transmission of digital data, creation, printing of physical communications and inserting for postal distribution.

- The management of returns, digitalisation and certified destruction of documents.

The accelerated digitalization of business relations has driven a demand for communication solutions via multiple channels, especially in the banking, utilities and Public Administration sectors. Correos Nexea offers large customers generating transactional communications the **Nexo** platform, a solution for the comprehensive management of their physical and electronic communications.

Nexo facilitates the mass mailing and filing of documents in any format (letters and notifications, bureaufaxes and telegrams, sms and email), as well as the management and traceability of the communications carried out via each channel.



In 2017 the company was **approved** as a **Printing and Enveloping Centre** (CIE) of the *Notific@* platform of the General Administration of the State, providing services to different Administrations for the **management of their physical notifications**. Correos Nexea also

collaborates with the Department of Justice of the Autonomous Community of Madrid, creating a specific platform in order for 580 courts to issue bureaufaxes and monitor them, thus facilitating their custody and online access during a period of five years.



Offer for the telecommunications sector

The current development of **new technologies and services** (FTTH, FTTN, 5G mobile networks, etc.) in the telecommunications market requires the deployment of new infrastructures, in order to provide support to new coverage needs. This development provides an **opportunity for the Correos Group**, and especially for Correos Telecom, which specialises in the telecommunications and digital services sector.

In addition to **managing the telecommunications network of the Correos Group**, 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,

etc.). In 2017 it also added the **provision of Internet access services and the rental of IPV4 addressing to its range**.

As part of this commercialisation activity, the company continued to address the growing demand for the **rental of** piping and dark optical fibre **infrastructures** through long-term irrevocable rights of use (IRU) by the main companies on the Spanish telecommunications market.

Correos Telecom also extended its coverage at neutral data centres and the processing centres of private data in the provinces of Madrid and Huesca, in order to **supply fibre optic channels and capacity circuits** for the transmission of data and Internet access to large companies.





Post offices, meeting points with our customers

The **2,396 Correos post offices** provide **the greatest territorial coverage** to all citizens. This network offers personalised attention, with a commercial offer that aims to make life easier for its customers. Likewise, post offices sell postal products and services, philatelic, convenience, finance and telecommunications products that **satisfy a wide range of communication and business management needs**.

In fact, post offices have consolidated their position as the **largest physical network for the sale of tickets** for cultural and musical shows in Spain. In 2017 they sold almost 100,000 tickets, for more than 3,000 shows, which could also be purchased through the *Tu Correos* online shop and the website www.entradascorreos.com, tripling the demand for this service over the last two years.

The 2,396 Correos post offices, **the largest physical network for the sale of tickets** in Spain

On the other hand, the **new format of post offices, *Tu Correos***, implemented progressively since 2015, has made it possible **to improve the customer experience**, by providing a broader range of products and services, personalised advice and swifter intake, thanks to the use of digital devices, self-service sale or the new online form.

The **280 *Tu Correos* post offices** already **operating** sell a large part of the portfolio of the products and services of the Correos Group, also including leisure products, postal merchandising, stationery, sports and travel items.





More digital post offices


In 2017 post offices incorporated the **Verificación de identidad presencial**, [In-person identity verification] service, an ideal option for **contributing adding value to the secure delivery of goods** and the **personal identification** of the end customer in the **online contracting processes**. This option provides assurance and security for high value transactions in the banking, telecommunications and car rental sectors, among others.

Post offices staff carry out the **validation** of the personal identity document of the customers of these companies, **using fraud detection technology**, and process the image **using specific software**, for the subsequent digital sending of documentation.

Correos already provides this service to telecommunications companies and financial institutions, as it is authorised



by SEPBLAC (Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences) in order to carry out the personal identification process for third parties.

Post offices also implemented a new **online form**, especially useful for the  SMEs and freelance workers who regularly deposit consignments. Customers thus **speed up the processes for the**

admission of their mail, parcel and bureaufax items, with no additional costs or registrations, by accessing the Correos website from their home or using the digital tablets provided at the post offices.



Correos with its customers

The **new *In-person identity verification service*** provided at the post offices has satisfied the needs of a large telecommunications operator for the control of fraud on the delivery of high value mobile devices.

Correos facilitates the delivery of telephones through its parcel services and post office network. The post office staff verify the identity of the recipient and send the documentation to the company, which can thus activate the telephone service instantly, improving their customer experience.

Since its launch in June 2017, Correos has carried out more than 60,000 identity validations for this customer.

What makes us stand out

- **Multi-channel nature** of the entire management and delivery process.
- **Effectiveness** for the customer, verifying and sending the necessary legal information in order to complete their commercial process.
- **Simplicity for the recipient**, who is able to choose where to collect the consignment and not worry about registration procedures.





Philately, a channel for culture and innovation

The philatelic activity of Correos underlines the significance of stamps, not only as a postage system, but also as a printed record of the culture, history and values of a country.

104 stamps were issued in 2017, some of which incorporated especially **innovative materials and production techniques**, such as:

- The fold-out die-cut stamps devoted to the 25th anniversary of the Spanish High Speed train (AVE), which formed a locomotive with two carriages.
- Stamps produced on wood paper, with the theme 'Discoverers of Oceania'.
- The origami stamp, which consisted of a bird that could be assembled by following some instructions.

- The mini-sheet devoted to the first Spanish video game, which combined a die-cut with thermochromic ink.

The most sought-after **collecting items** included the series of etchings 'Art in stamps', the series of stamp Christmas baubles and themed books, such as the one devoted to cinema ('Film stamps') and the Land, Sea and Air military forces.

Likewise, one of the most demanded issues was that devoted to the Star Wars film, to mark its 40th anniversary. More than 210,000 of these commemorative stamps were sold, along with 20,000 limited edition of *Correos Prepago* cards depicting characters from the saga and a line of prepaid envelopes and packaging.

The company continued to boost the **spreading of philately** with the creation of a blog and a quarterly newsletter. Furthermore, it promoted collecting among the youngest generations through the subscribers sponsorship campaign, the *Disello* (Stamp Design) competition and collaboration with the Spanish Federation of Philatelic Societies (FESOFI) to organise exhibitions at 35 educational institutions.

As in previous years, Correos took part in the National Stamp Fair and other national events such as *Exfilna* (National Philatelic Exhibition), ECC2017 and *Juvenia* (where the 'Super Philately' mystery video game was presented). On an international level, it attended the stamp fairs held in Essen (Germany), Prague (Czech Republic), Nanjing (China) and Paris (France).

In 2017 the **number of visitors** to the Postal and Telegraph Museum **rose by 5%**, welcoming more than 8,600 groups of school children, university students, cultural associations and different professional sectors. An innovative activity started in 2017, was the **guided tours around 'Postal and Telegraph Madrid'** for the dissemination of postal history, in which almost 200 people participated.

Likewise, its associated documentation centre and library continued to digitalise their collections, thus making it possible to offer universal access to the important collections they preserve.



Excellent service

Investment in new equipment
has increased the
**automated
processing of
parcels**



Correos has adopted new
technologies and tools for the
**efficient delivery
of parcels**



The incorporation of the customer's
voice in the design of the commercial
offer contributed to improving

**customer
satisfaction with
Correos' services**

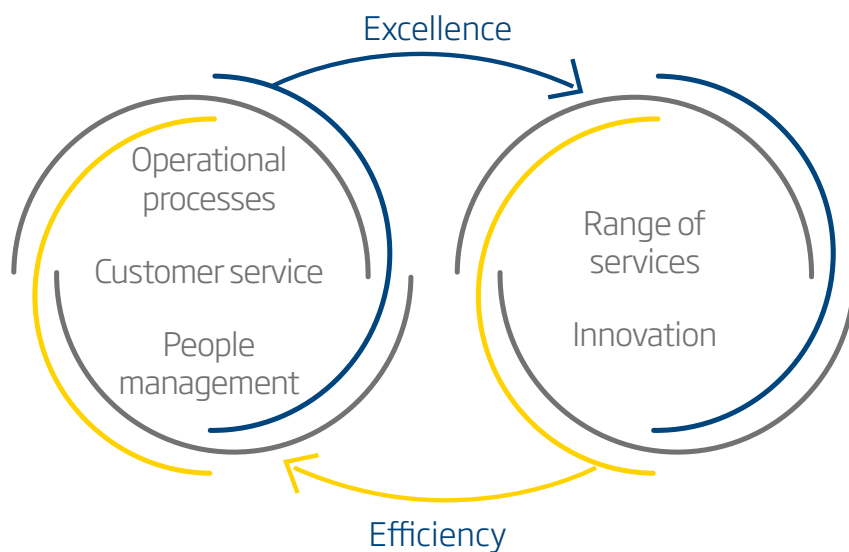


Logistics adapted to the market's demand for agility

For the Correos Group, **operational excellence and efficiency** are the levers that enable it to provide a highest quality service. To this end, in addition to **the capillarity of its centres, post office and distribution networks**, in recent years the Group has adjusted its

production model to the new needs arising from the expansion of national and international parcel services, transforming its processes and resources and incorporating new technologies to improve the processing, transport and effective delivery of parcel items.

Excellent service for our customers





Network of specialised and automated centres

The **18 automated processing centres** that Correos has throughout the country mechanically sort 96% of mail. In order to also increase the capacity for automated processing of parcels and thus support the growth of this activity, the main investments made in 2017 were aimed at expanding the sorting equipment.

Thus, the company implemented **two new systems for the mechanised sorting of small parcel items** at the Madrid automated processing centre and at the premises adjoining the Madrid-Barajas international processing centre (CI3), which can handle 7,000 packages per hour.

This action helped improve the processing capacity of inbound e-commerce volumes in Madrid, and especially during the last Christmas campaign.

In the same centre in Madrid-Barajas, 12



new systems were introduced for the **processing of inbound items through voice recognition**.

In addition, the processing equipment for non-standard format (flat) postal items

incorporated a new bar code reading feature, facilitating automated admission and traceability of this type of volumes.

These actions were complemented by the **acquisition of new logistics equipment**,

including 3,300 transport trolleys, 585 cages, 53 electric stackers and pallet trucks, as well as 60,000 trays and 3,000 folding containers for small-format parcels.



Logistical presence of Correos Group



18
 Automated postal and parcel processing centres

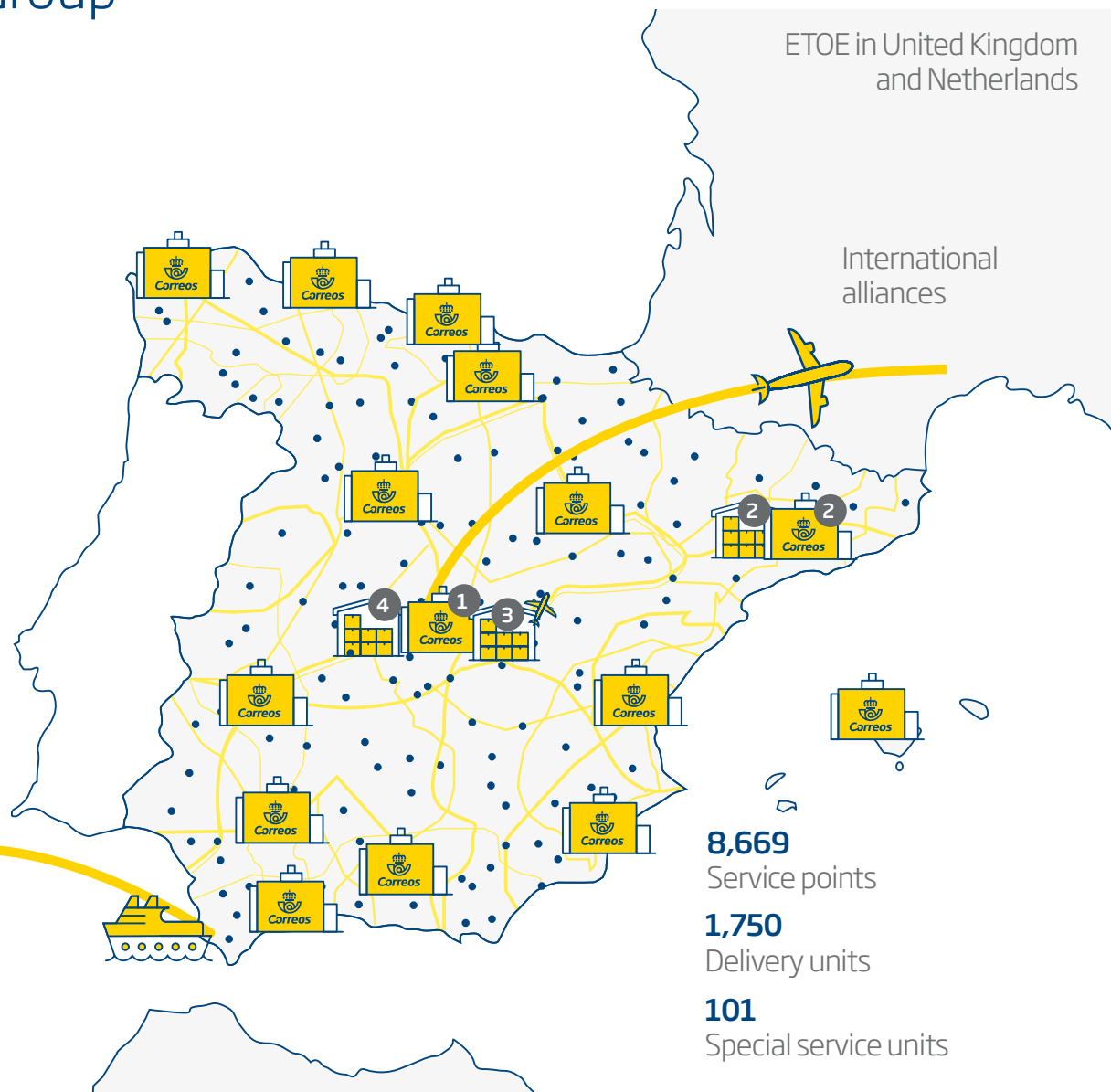
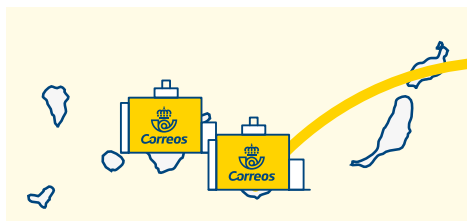
6
 Mass admission centres

3
 International processing centres

**Correos
Express**

54
Operating centres throughout Spain

Agreements for transport by air and sea



ETOE in United Kingdom and Netherlands

International alliances

8,669
Service points
1,750
Delivery units
101
Special service units



New delivery model to meet the growth of parcel services

Correos has a **transport network** made up of 13,030 vehicles of its own and 961 external means, which allows it to connect the entire territory, covering nearly 550,000 kilometres daily.

In order to **adapt the network to the new, more urgent parcel services** provided by the company, overnight transport routes were implemented in 2017, using light vehicles, from Madrid to different cities. New next day delivery routes, between Barcelona and the autonomous communities of Galicia, the Basque Country and Andalusia, were also added, with high-capacity vehicles.

On the other hand, the introduction of a **combined distribution model**, in which parcel delivery has become increasingly important, has led to a growing specialisation of delivery networks (ordinary and special) by format rather than by delivery time.

Thus, ordinary distribution units deliver both ordinary and express postal and small parcel volumes, while special service units (previously specialised in express delivery) deliver the larger parcels.

These units also reinforced their **equipment** with the addition of 517 motorcycle boxes, 1,000 folding carts and

7,500 specific delivery carts **for parcel delivery**, as well as 400 new carts to support parcel sorting in the special service units.

In addition, new models of electric tricycles, large motorcycle boxes and motorised delivery carts with greater capacity were tested in sections delivered on foot to assess their contribution to the efficiency and sustainability of operations.

With regard to the delivery of other types of products, in 2017 the new **evening delivery of administrative notifications**

was consolidated, which covers the entire national territory and allows the second delivery attempt to be made, at least three hours after the first and on a different shift, in compliance with Law 39/2015.

Fleet of vehicles owned by Correos

Motorcycles and bicycles	8,698
Cars	311
Vans	3,968
Lorries	53



Efficient processes through the use of information

Correos was the first national operator to provide all its delivery staff (urban and rural) with **smart mobile devices (PDAs)** to manage the delivery digitally and **provide an increasing number of services**.

In 2017, the company began to incorporate these devices into new processes to improve admission processes in centres and delivery at post offices through new uses:

- In **mass admission centres**, they allow the reading of the codes of postal items on pallets or in transport trolleys. Data is sent directly to the technological systems, avoiding the dangers associated with the movement of loads and speeding up both the admission and the communication of any incident to customers.

Mobile RFID readers were also incorporated into these terminals to control logistical elements, such as cages, both inside and outside these centres, allowing for greater efficiency in their processes.

- In the **post office network**, these speed up the attention and delivery of products purchased and prepaid on the Correos website, allowing employees to register the transaction without having to be at a fixed post.
- In **delivery**, the terminals use GPS geolocation to optimise delivery routes and manage future incidents. They also introduced the function of automatic call to the parcel recipient, in case of absence, to increase the success of the first delivery attempt, as well as the management of delivery by time slot.





Solutions for large e-commerce platforms

With the aim of responding to the increase in the number of parcels coming from the **large e-commerce generators** during peak periods and at the same time maintaining its quality commitments, Correos has undertaken a notable process of **logistical integration with these customers in recent years**.

In 2017, **new delivery injection points** were opened, with schedules specially adjusted to the delivery times required by the customer and with levels of classification by destination of the highest detail. **Specific transport routes** were also established, from the storage centres of large online shops in Madrid and Barcelona, with direct destination to the Correos' automated processing centres, thus shortening the final delivery deadlines.

The company also undertook a project to **trace** volumes of a large e-commerce



customer **using RFID technology**. To this end, radio frequency tags were installed on a wide range of parcels to

assess the level of service provided throughout the logistics chain, especially during specific campaigns such as the

Christmas period. This initiative improved both the quality perceived by the customer and the efficiency of internal processes.

Correos also made progress in the **integration of its information systems** with those of the large online sales companies, allowing sellers and recipients more agile access to the traceability of their items.

The new Information Logic for External Communications System (LINCE), implemented in 2017, sends information on status of consignments, both to national customers with contracts and to international organisations, in a flexible and efficient manner. The application reports data to customers, in the format they choose, allowing them to receive, almost in real time, the traceability events of the international objects.



Growth in international activity

Correos continued to increase its international activity by attracting new customers and direct injection volumes from European and Asian countries. These customers, mainly large retailers and e-commerce platforms, are increasingly demanding cross-border solutions tailored to their business.

To meet their requirements, Correos has an extensive international coverage, not only through its ETOEs (Extraterritorial Offices of Exchange) in the UK and the Netherlands, but also through a number of alliances.

The company maintains an active participation in the **Kahala Post Group**, focusing on the Asian business and the continuous improvement of the quality of express postal parcel services. In 2017, the members of this group improved the international exchange of customs information as an essential element



of the logistical process for exporting outside the European Union.

In Europe, Correos also collaborates with the International Post Corporation in the development of the **Interconnect**

project, aimed at providing international postal services especially oriented to e-commerce.

In order to facilitate the management of cross-border items originating from

non-European countries and destined for the Canary Islands, a new **customs processing** system was also introduced in 2017, with improved processes and reduced handling and delivery times.



Correos Express invests in automating the sorting process at its centres in Seville and Valencia

Operational expansion of Correos Express

In 2017, Correos Express strengthened **its operations throughout the country** with the aim of responding to the strong growth in its activity, to which the expansion of e-commerce contributes.

In addition to implementing new haulage routes, the company increased its network, with **new centres in Barcelona and Ávila**, to a total of 54. It also moved

its operations to **higher-capacity infrastructures** in Ibiza, San Sebastian, Murcia, Palencia, Vigo and Granada, while expanding its centres in Alcalá de Henares (Madrid), Tarragona, Oviedo, Toledo, Valladolid and Almería.

As part of the 2017-2021 investment plan, Correos Express continued to **incorporate technologies** applied to

the improvement of the processing of parcels and efficiency in their delivery. The company improved its mechanisation processes in order to increase the production capacity of its centres by installing two **medium production automated sorting systems** in the Valencia and Seville centres, as well as two additional sorting units capable of sorting up to 6,000 postal items per


hour in the San Boi de Llobregat and Santa Perpètua de Mogoda centres (Barcelona). As a result, the express parcel subsidiary increased its capacity to respond to the peaks of activity in the e-commerce sector at certain times of the year, offering the immediacy, agility and flexibility demanded by these customers.



Excellent customer service throughout all stages of customer relations

The Correos Group offers commercial advice and **specialised attention** through different channels, such as the commercial, after-sales and post office networks, the corporate website, the telephone channel and social networks, with the aim of providing a service with the same levels of excellence at all times during the relationship with customers.

In 2017, the number of queries received by Correos increased significantly as a result of the growth in the parcel volumes. Despite this increase, the company **improved response times in all customer service channels**, especially in the resolution of national complaints (-18%) and inbound volumes queries (-50%).

The www.correos.es website, which  has nearly 263 million annual visits and 1.2 million registered users, also received nearly 8% more requests for



information, while telephone enquiries increased by 29%.

During this year, **the website incorporated a chatbot (SARA)**, a

tool based on artificial intelligence technologies, which allows the customer to solve queries without leaving the website and store the answers obtained, **providing a better experience. Correos**

@CorreosAtiende consolidated itself as a **leading channel for customer service on social networks**

Nexea also launched a new website, promoting optimal customer access to digital channels.



Effective communication with customers

The presence of Correos in the media during 2017 resulted in 5,223 reports, of which 62% were positive, with a notable increase in radio and television notoriety.

Regarding **social networking activity**, the number of followers of the company grew by 28%, thanks to the good performance of all corporate profiles, and especially on YouTube and Instagram. On Twitter, the specific profile for customer service, @CorreosAtiende, consolidated itself as a benchmark for immediate and personal response to commercial queries.

The most relevant issues for Correos followers during 2017 included:

- The '**Algo muy nuestro**' (Something very much ours) brand campaign, which received over 40 million views on YouTube.

- The inauguration of CorreosLabs and the launch of the '*Reto Lehnica*'.
- The Department of Extraordinary Deliveries during the Christmas season.
- The creation of the limited edition of the *Correos Prepago* card dedicated to the film *Star Wars* to mark its 40th anniversary.
- The Expedition to the peak of Dhaulagiri by veteran mountaineer Carlos Soria, with the support of Correos.
- Services for pilgrims on the *Camino de Santiago* (Way of Saint James).

With regard to the latter and in view of the growing interest in the range of Correos services for pilgrims, the corporate profile on Facebook ***El Camino Con Correos***, with 7,534 followers, was complemented by new profiles on Twitter

Correos social media	Followers	Variation %
Facebook	113,526	20.2%
Twitter	37,769	18.2%
Linkedin	13,731	34.6%
@CorreosAtiende	9,180	111.0%
Instagram	5,795	68.7%
YouTube	5,669	391.2%
Google+	1,710	50.0%

187,380 followers of Correos on social networks, a growing community

(with 1,504 followers) and Instagram (with 2,338 followers).

Also, the **new Comandia blog**, created to advise and support customers using

this platform, was added to the Correos e-commerce blog, which is already a benchmark in the e-commerce sector.



Correos increases the confidence of its customers

The greater implementation of the new customer service model, based on the **customer experience**, and the incorporation of the customer's voice into management contributed to improving the **assessment of Correos** in the various recommendation studies. Thus, the score achieved in the 2017 satisfaction index increased by half a point to an overall score of 7.1 out of 10.

The Net Promoter Score (NPS), which provides information on the extent to which customers would be willing to recommend the company and its

services, broadened its scope in 2017, incorporating the opinion of non-contract customers (mainly users of the post office network) as well as the recipients of postal items.

The overall result showed that the proportion of 'prescriber' customers (those rated between 9 and 10) of Correos' services grew to 35%. The company also obtained a net recommendation rate of 17.2 points, 6 points above the 2016 result, among contract customers. The valuation of parcel services also increased by 10.4 points.

Excellence in management

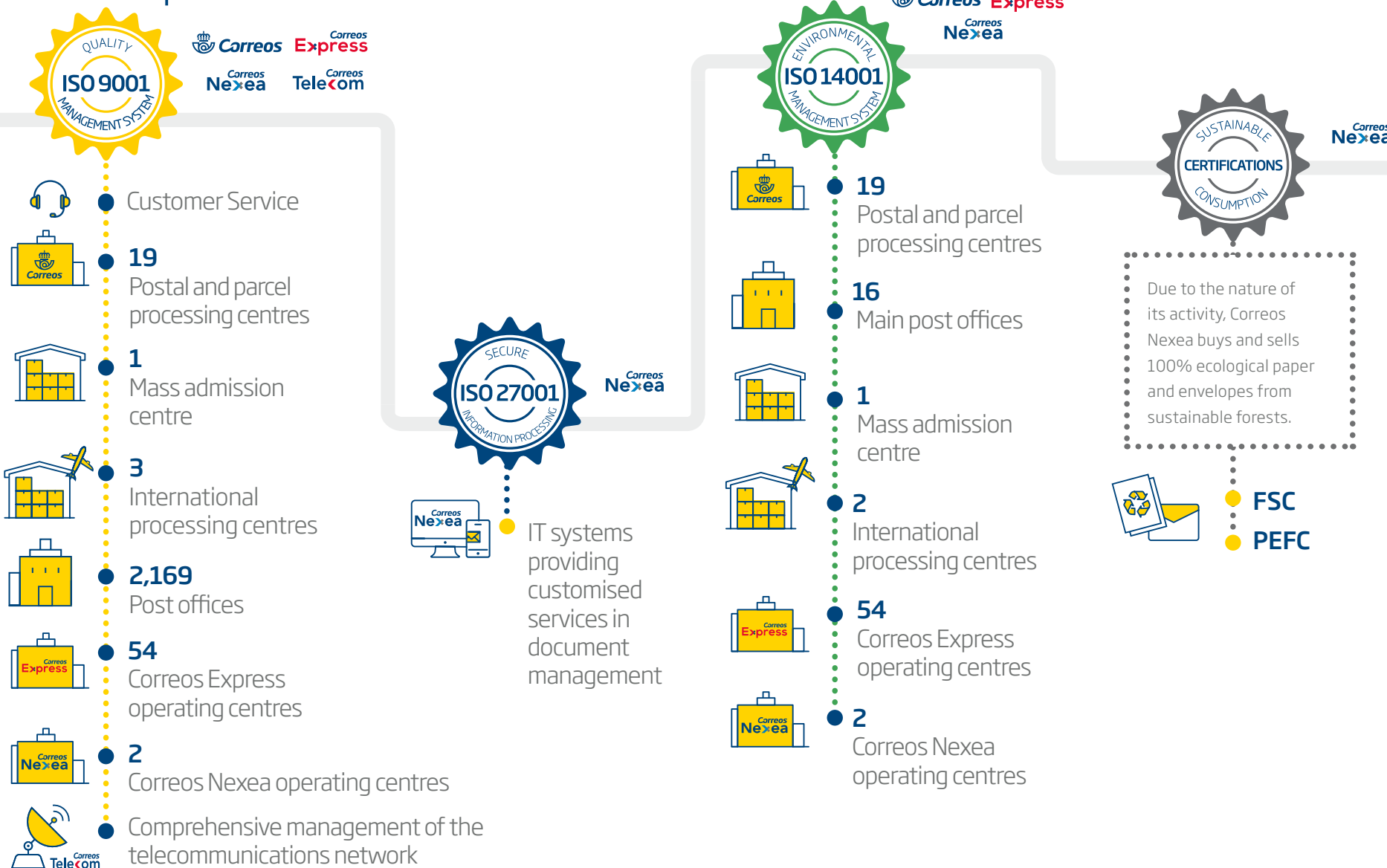
The Correos Group has a **quality management system** based on the UNE-EN ISO 9001 standard, which applies the cycle of continuous improvement to all the activities and areas of the organisation.

Within this framework, Correos uses the **League of Excellence** as a tool to evaluate the performance of the operating units and to inform them of their contribution to the improvement of quality and the achievement of business objectives.

It also applies the LEAN continuous improvement system, aimed at achieving maximum efficiency in processes and providing maximum value to customers in various operating units. In 2017, the customer service processes were re-engineered using this methodology, which also contributed to the improvement of the company valuation in the different satisfaction studies.



Correos Group's certifications





Innovation



Five emerging companies
were selected in the
'Reto Lehnica'
to develop their
business ideas



CorreosLabs: 12 months
driving external and internal
entrepreneurship



Nearly 100 employees
have participated in the
**Innovation
Teams** to promote
internal creativity



Correos inaugurates its innovation centre CorreosLabs

Correos focuses on **innovation and the culture of entrepreneurship** as the best way to contribute to the competitiveness and strengthening of Spain's economy.



With this purpose, in January 2017 the company opened **CorreosLabs**, an incubator for business projects stemming from external and internal entrepreneurship.

This **multidisciplinary working area** has all the resources to encourage the **exchange of knowledge** between employees from Correos and the entrepreneurial sector, thus favouring creativity and the transformation of the latest technological advances in commercial solutions.

Informative and work sessions were carried out at its facilities together with emerging companies (startups) and other companies

and organisations to **encourage the generation of ideas and co-creation**.

Within this setting of **collaborative innovation**, Correos also has agreements with:

- Companies such as Amazon Web Services, Microsoft, SAS, IBM, Banco Sabadell (BStartup) and Telefónica (Open Future).
- Entrepreneurs and emerging companies such as Freedom & Flow, SkinPro, Luraki, PowerUp, PersonDoc and BlueSingularity.
- The DInN support network for entrepreneurs, which comprises more than 30 large corporations.

In its first year, CorreosLabs also participated in the 2017 edition of 4FYN, one of the largest international entrepreneur events, held in the city of Barcelona.





Objective

This is Correos' new incubator to encourage the **innovation**

Impulse in



Correoslabs

5 startups develop their business projects

Innovation


Correos supports acceleration of business proposals stemming from external and internal entrepreneurship

'Reto Lehnica'

New acceleration programme for the best **entrepreneurial projects** in experience, logistics and society transformation



Spanish entrepreneurs join 'Reto Lehnica'

One of the main activities developed in CorreosLabs in 2017 was the **first edition of 'Reto Lehnica'**, Correos' new **acceleration programme for entrepreneurial projects**. 

Its objective is to identify and promote the best business proposals, which have

potential **synergies with the company's activity** in the areas of **logistics** (new delivery models, traceability or energy efficiency), **local services** (e-health, smartcities or collaborative economy) and **digitalisation** (digital identity, artificial intelligence and blockchain technology).

The initiatives selected as part of 'Reto Lehnica' receive **support for the development of their business project**, including a workspace at CorreosLabs, training, coaching, as well as tutoring for one year.

Correos assigns these entrepreneurs **an internal expert**, who will provide them with **commercial, legal, operational, technical, and financial advice**, in collaboration with other large companies belonging to its entrepreneurial ecosystem.

The five winning projects of this first edition were:

▪ **Tripacto:**

Intermediation tool for second-hand sales, through classified advertisement portals. It ensures secure payments and delivery of the product.



open garage or house's doors, facilitating the secure delivery of parcels, among other services.

▪ **Dsign-Cloud:**

Digitalisation tool for property assets, using BIM (Building Information Modelling) technology, which generates a three-dimensional plan with all the building's basic



information. It enables savings on maintenance, conservation and renovation costs of the properties.

▪ **DelSuper.es:**

Supermarket aggregator located in the area close to the customer, which takes charge of doing the shopping, collecting the order and having it transported to the



home address in one-hour delivery windows.

▪ **Goi Travel:** B2B and B2C Internet and mobile phone multi-

platform that connects customers with self-employed transporters to send bulky objects to urban areas. It allows the planning of the collection and delivery and even the assembly and installation.





Internal innovation model

Correos is a **leader in the public sector due to its innovation management**, one of the cornerstones of its strategy since 2012. Its application to operational processes or the commercial offer have allowed the development of new business which **offer greater value**

to customers and strengthen competitiveness.

The company has been operating an **intrapreneurship programme**, in which employees from different areas and geographical regions participate in

transversal projects involving creativity and digital transformation, forming **Innovation Teams**. Its main objectives are:

- Work together to define and **develop new business models.**

- Identify **sources of financing** for the new innovation projects.
- Establish relationships with the entrepreneurial sector, with a focus on **'open innovation'**.



Correos also promotes R&D&i, by contributing to development plans that generate talent and long-term value in the public sector. To do so, it plays a significant role in **innovation projects of national and international scope** such as the following:

- **Transport and communication: Correos Chair**

The Correos Chair is carried out in the Centre for Transport Research (Transyt) attached to the Polytechnic University of Madrid. Its purpose is to collaborate in teaching activities, **generate knowledge, and disseminate and transfer technology** relating to the transportation of documents and goods, physical or electronic communications and postal services. The work carried out in 2017 in this area focused on the identification of policies to **renew fleets**.

- **Environmental measurement: CURMOS Project**

Resuming the collaboration initiated in 2015, Correos works alongside the Málaga City Council and the company Urban Clouds on the CURMOS Programme (Correos Urban Mobile Sensors). This project, which falls under the scope of the smartcities initiative, provides **measurements of the city's air quality, by using a sensor installed on the delivery carts** of the postal carriers.

- **'Entrepreneur Drive' programme**

The company participated for the fifth year in the 'Entrepreneur Drive' programme, of the *Centro Europeo de Empresas e Innovación de Navarra* (CEIN) [Navarran European Business Innovation Centre], to **contribute to the acceleration of business projects**. In 2017, the tutored initiative contemplated the design, production,

logistics and distribution for a brand of 'fifth range' food for the nautical sector.

- **Security of electronic transactions: LIGHTest Project**

The **LIGHTest Project** forms part of Horizon2020 for the financing of R&D&i of the European Commission. Its aim is to create an infrastructure based on Internet DNS protocol, which permits the verification of the digital identity and guarantees the **reliability of electronic transactions in Europe**. Correos is collaborating through the development of a pilot programme, in which it uses **this infrastructure to provide the Mi Buzón and Mis Notificaciones** [My Postbox and My Notifications] digital services, in accordance with the

regulations on electronic identification and trust services (**eIDAS**).

- **Electronic identification: LEPS Project**

The **Leveraging eID in the Private Sector** (LEPS) project promotes the **use of the European infrastructure for personal digital identification (eID)**, managed by the public bodies for the identification and authentication of users in the private sector. Correos participates, together with the Ministry of Finance and Public Administration, and its respective Greek counterparts, facilitating **access by European citizens to their digital services through this network**, thereby evaluating its use by the private sector.

Correos promotes R&D&i, by contributing to development plans that generate talent and long-term value in the public sector



Environmental sustainability



The companies of the Correos Group renewed all the

UNE:EN ISO 14001
certifications for their environmental management systems



Correos added 203 new
electric vehicles
to its distribution fleet



Offsetting of all the
CO₂ emissions
generated by annual employee recognition day



The company is developing a new

model for efficient waste management



Correos has signed up to different
environmental initiatives and commitments in order to share best practices with companies from all over the world





Correos' environmental policy

Nowadays society faces major environmental challenges, such as rising CO₂ emissions, which contribute to global warming and urban congestion, which really threaten the quality of life of urban population.

Aware of this reality, Correos prioritises making a positive contribution to the environment in which it carries out its activity, thus reducing its environmental impact. This results in:

- Improving the quality of air in cities (by reducing NOx emissions and PM10 particles).

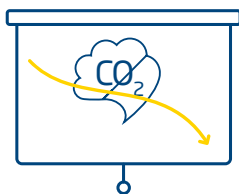
- Fighting climate change (reducing CO₂ emissions),
- Consuming in a sustainable way (using resources efficiently).
- Promoting a circular economy (increasing the percentages of recycling and reducing the waste produced).

The **2014-2020 General sustainability plan** outlines the measures, indicators and management mechanisms for attaining these overall goals and it also includes specific objectives for some lines of action:





Environmental action lines



Reduction of CO₂ emissions

Objective for 2020: Ensure that emissions per item do not increase by more than 2% in relation to 2013, considering the effect of the increase in parcels, which means higher unitary emissions.

Measures: The promotion of a **more efficient distribution model using new technologies and fuels. Raising awareness** among employees and **reducing transport kilometres.**



Energy efficiency

Objective for 2020: Reduce energy consumption in the company's buildings by 25% compared to 2009.

Measures: The **optimisation of energy consumption** in centres.

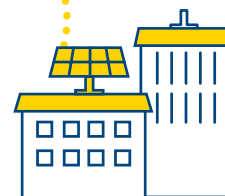


Waste management

Objective for 2020: Improve waste management in the main operating centres.

Measures: Implementation of centralised model, **improving waste segregation and recycling.**

The annual monitoring of projects, prioritisation of actions and monitoring environmental risks and opportunities is carried out via an **environmental management system**, certified in accordance with the **UNE:EN ISO 14001:2015** standard.





More efficient delivery through new technologies

One of the objectives of the Correos environmental policy is to reduce emissions (NO_x, particles and CO₂) of the company. Given that one of the main impacts resides in last mile delivery, the main actions are targeted at **reducing transport and delivery kilometres and making these kilometres more environmentally friendly**.

Correos is the Spanish company with most delivery kilometres on foot. However, reducing the transport and delivery distances also depends on the use of route optimisation systems, training initiatives on efficient driving and new services that increase effective delivery, such as the *CityPaq* parcel terminals.

The kilometres travelled are also more environmentally friendly thanks to the incorporation of 203 new electric vehicles, which have been added to the company's sustainable transport fleet. Thus, Correos is the parcel company with **the largest own electric fleet in Spain**. These 438 electric vehicles are preferably used to carry out home deliveries in urban and historic centres, where there are increasing restrictions on the traffic of vehicles that use traditional fuels.

Other projects carried out to contribute to sustainable delivery include:

- **The pilot program** for the use of electric assisted tricycles in **Seville**,

which facilitate the urgent distribution of mail and parcels in the city centre.

- The pilot experience with the Council of **Valladolid**, as part of the **European project REMOURBAN**, in order to boost electric mobility and optimise delivery

routes. The collaboration involved assessing the efficiency of these vehicles for delivery in areas with a high level of traffic congestion. This test will be extended to 2018, with the assignment of the data provided by the electric vehicles that Correos uses in this city.

Atmospheric emissions (Kg)	2016	2017
SO _x	129	143
NO _x	58,244	62,133
Particles	5,050	5,521

Emissions are calculated using the CORINAIR methodology based on invoiced consumption.

🌐 (GRI 305-7)





Low-emission delivery zones

Correos is improving the quality of air in cities with the incorporation of vehicles that **use alternatives to petroleum-based fuels**. This measure is strengthened through the purchase of **100% renewable energy**, for the electricity supply of delivery units that use electric vehicles.

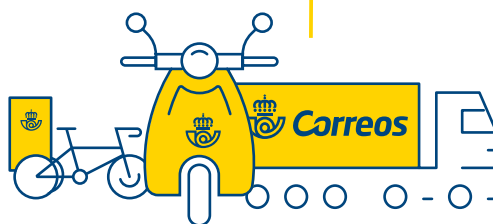


Correos contributes to improving the air quality of cities by reducing polluting gases and particles.



More sustainable buildings

Energy efficiency and the purchase of clean energy for electricity supply to centres that have eco-efficient vehicles.



Low-emission vehicles

The incorporation of less polluting vehicles powered by electricity and other alternative fuels.



Greendelivery in cities

- Less kilometres travelled
- Delivery mostly on foot
- Efficient driving measures
- Routes' optimisation



In addition to assessing the potential electrification level of its fleet, the company is experimenting with other technologies and fuels that can also contribute to reduce the impact of delivery. Some of them are liquefied petroleum gas (LPG) and compressed natural gas (CNG), used both for the long-distance transport as well as last mile delivery.

The main developments for the use of these fuels included:

- The **POSTLowCIT Project**, led by **Correos** along with the University of Deusto and the vehicle modifier Evarm. This program, co-funded by the European Union as part of the CEF program 'Connecting Europe Facility', is aimed at **reducing the environmental impact of the transport of goods**, with vehicles powered by alternative energies.

The tests carried out within the framework of this project include the use of 73 **electric vehicles** for last mile delivery and 4 long-distance vans adapted for the use of **autogas (LPG)**,



that cover routes between Barcelona, Madrid, Seville and Valencia.

Through its development, Correos will be able to define the most efficient mix for each logistical scenario, based on actual experience.

- The **ECO-GATE Project**, led by Gas

Natural Fenosa with the European Union funding. **Correos is participating as the end user**, testing out the use of vehicles that use **compressed natural gas (CNG)**, modified or native, **for last mile delivery**.

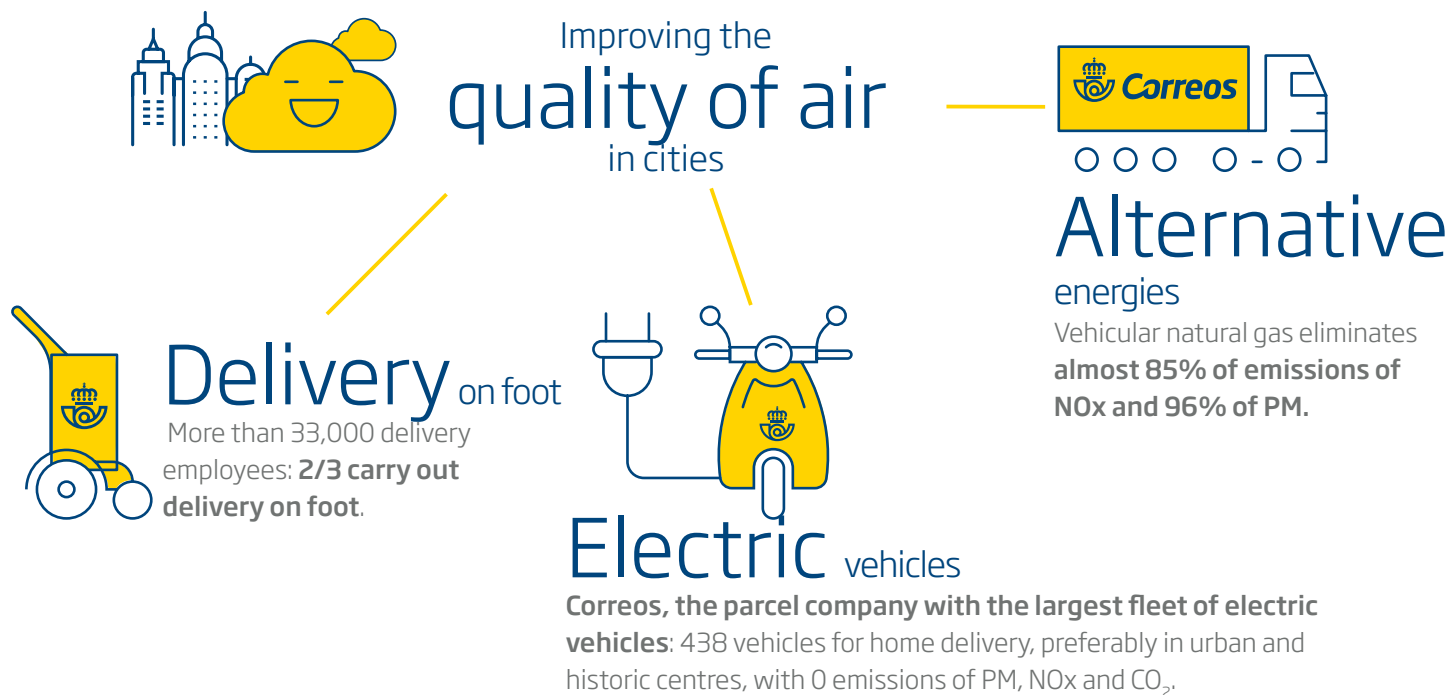
The vehicles will work alongside other conventional vehicles, which will make

it possible to extract comparative data about the efficiency of the different types of technologies.

As part of this program, two vans were also adapted for the use of **compressed natural gas (CNG)**, which will be used on the delivery routes within the city of **Barcelona**.



Sustainable transport fleet



European projects
for the validation of alternative transport technologies



 **Co-financed by the European Union**
Connecting Europe Facility

Liquefied petroleum gas (LPG) and electricity



 **Co-financed by the European Union**
Connecting Europe Facility

Compressed natural gas (CNG)



Reduction of CO₂ emissions

Correos contributes to the transition towards a low-carbon economy with measures aimed at the reduction and/or compensation of CO₂ emissions mainly generated via the sorting, transport and delivery of postal and parcel items:

🌐 (GRI 305-5)

- **81% of the electrical energy** consumed by the company is **100% renewable**.
- The sale of **envelopes, boxes and packaging from the Línea Verde (Green Line)**, made from 100% recyclable paper and cardboard and with non-polluting inks. Part of its price is allocated to funding reforestation projects, in collaboration with the **Forest Landscape Restoration Program** of WWF Spain.

🌐 (GRI 304-3)





- The **offsetting of the CO₂ emissions** generated by annual employee recognition day. All the greenhouse gas emissions deriving from its organisation (trips, lighting, sound, etc.) were compensated via the purchase of carbon credits on the voluntary carbon emissions market. These credits were linked to a **conservation project in the Peruvian Amazonia**, while acting at the same time against climate change and poverty.

- The use of 100% renewable electricity and biomass for the heating and hot water systems of the integrated logistics centre in Barcelona (CLI), the first zero emissions operating centre.

The monitoring and evaluation of these measures is based on:

- The annual **verification** for the carbon footprint calculation method, in compliance

with the **UNE-EN ISO 14064-1:2012** 'Greenhouse gases' standard. This facilitates the monitoring of the degree of compliance with the objectives to reduce greenhouse gases and comparability with the other companies from the sector.

- Participation in the **EMMS project of International Post Corporation**, to monitor emissions in the postal sector and exchange best practices in order to reduce them.

- The renewal of registration in the '**Register of Carbon Footprints, Offsetting and Carbon Dioxide Absorption Projects**' of the Ministry of Agriculture and Fishery, Food and Environment.

- The voluntary **reporting of greenhouse gases emissions to CDP**, the international framework for measuring performance in climate change management.

	2016	2017
Greenhouse gas emissions (tCO ₂)	165,175	175,124
Direct (Scope 1)	38,301	46,696
Indirect (Scope 2)	10,079	9,800
Other indirect emissions (Scope 3)	116,795	118,628
Emissions per item (g CO ₂ /item)	17.44	21.34

CO₂ emissions are calculated by the GHC Protocol and verified according to UNE-EN ISO 14064 standard.

🌐 (GRI 305-1) (GRI 305-2) (GRI 305-3)



Sustainable buildings

🌐 (GRI 302-4)

Correos has operating centres throughout the country, dedicated to both customer service and postal sorting and administrative tasks. The **optimisation of the energy consumption** of these buildings is therefore also essential in order to reduce the company's environmental footprint.

The main actions carried out for this purpose are:

- The application of the **energy efficiency in the work place system**, which monitors the status of IT equipments connected to the network, in order to find out its consumption and apply energy saving policies (switching off/sleep/hibernation). This program has resulted in a **42% reduction** in the energy consumption of computers, since its launch in 2015.
- The **optimisation of the electric power contracted** in buildings and the



upgrading of air conditioning equipment to more efficient models.

- The implementation of **Plan 100** to reduce the impact of **buildings with the greatest consumption of electricity**

and gas, making it easier to consult the energy consumption reports for each centre, via corporate intranet.

- Raising **awareness among employees** through:

- The '**Environmental Commitment Award**' in order to identify the best practices for mobility and energy efficiency in the company's buildings.

- The dissemination of the **savings and energy efficiency guide** and recommendations through the internal communication channels.

- Participation in the '**Earth Hour**' initiative, the biggest global event to defend the environment, supported by WWF under the slogan 'The Planet first. Let nobody stop you'. Correos contributed with the symbolic switching off of its buildings and dissemination through internal and external communication channels.

- **Training on Energy Audits** for specialised staff.





Energy consumption (Gj)	2016	2017
Electricity	491,823	498,405
Natural gas	68,911	69,088
Gasoil	55,650	42,835
Automotive diesel	329,730	340,451
Petrol	51,615	56,873
Carbon, butane and propane	333	61

Consumptions are calculated from the billing amount and the certificates that guarantee renewable origin.

🌐 (GRI 302-1)

	2016	2017
Water withdrawal (m ³)	315,699	312,516

Water consumption is calculated based on the amount invoiced.

🌐 (GRI 303-1)





Circular economy

Although waste generation does not constitute one of Correos' greatest environmental impacts, the activity of the high number of post offices, administrative buildings and logistics centres makes it necessary to optimise the management and recycling of waste.

Correos supporting the environment

In 2017 a pilot project was carried out in Zaragoza in order to create an **effective model for the management of paper and cardboard waste** produced by the units in this province, through centralisation in an automated processing centre.

Among other benefits, the new system developed has made it possible to improve waste segregation and increase the proportion of waste that is recovered, contributing to cost savings.

The company plans to extend the experience to other cities from 2018 on. The model, initially focused on the segregation, concentration and collection of paper by an authorised manager, can also be extended to other types of waste (cardboard, pallets and shrink-wrapped plastic).

What makes us stand out

- The **incorporation into daily operations of the circular economy** objectives supported by Spain and the European Union, thus increasing the recycling percentage of most of the waste generated.
- The protection of forest areas, contributing to the objective of the '*Línea Verde-Bosques de Correos*' (**Green Line-Forests of Correos**) program with the recycling of paper.





Environmental commitments voluntarily acquired by Correos



Correos was one of the first companies to join the 'Register of Carbon Footprints, Offsetting and Carbon Dioxide Absorption Projects' of the Ministry of Agriculture and Fishery, Food and Environment, following its creation in 2014. This register encourages organisations to measure and reduce their carbon footprint, and promotes projects that improve their ability to fight climate change.



Since 2013, the company has voluntarily disclosed its main environmental indicators to CDP, the international organisation that produces performance indexes for the management of climate change, by evaluating the performance and disclosures of more than 5,600 companies around the world.



Since 2008 the company has participated in the Environmental Measurement and Monitoring System (EMMS) program of International Post Corporation, aimed at quantifying and reducing the emissions of CO₂ in the postal sector. Within this scheme, in 2017 Correos attained 11th place, achieving a score of 85% for the management of its emissions (which equates to a 7% improvement in comparison with 2016).



Since 2016, Correos has reported the data of its environmental performance to the Universal Postal Union, through its diagnosis and monitoring tool Online Solution for Carbon Analysis and Reporting (OSCAR).



Since 2015 the company has adapted its environmental reports to the standards of this international consortium.



Since 2016, Correos has been a member of the Business Association for the Development and Promotion of Electric Vehicles (AEDIVE).



The company participates in the Forética Climate Change Cluster, a business meeting point for leadership, knowledge, exchange and environmental dialogue.



In 2017 Correos joined the Iberian Natural Gas Association for Mobility, aimed at encouraging the use of natural gas for mobility, both on land and sea, in all economic sectors.



Social commitment

'Correos Solidaridad'



volunteers took part in Great Collection by the Spanish Federation of Food Banks (FESBAL)

The #NOESNORMAL

social media campaign helped raise youth awareness about gender violence



Correos 'Department of Extraordinary Deliveries,

welcomed more than 15,000 visitors to share the good cheer of the Three Wise Men

Correos renewed its support

of the **Spanish Olympic Team** through the ADO and ADOP programmes





Generating almost
1.9 billion euros of
economic value, 0.2%
of Spain's GDP

For more than three decades, Correos' corporate social responsibility programmes have been contributing towards social cohesion and progress. Their aims also promote the United Nations' Sustainable Development Goals, which the company has incorporated into its medium and long-term corporate responsibility management.

Beyond being a State-owned company and providing a public service, Correos is committed to defending solidarity values, social integration and the protection of children and other vulnerable groups in society. Our employees, many of whom participate in the corporate volunteer programme '*Correos Solidaridad*', share this commitment.

Correos stands with society

🌐 (GRI 304-3)

In 2017, the programme '*Línea Verde - Bosques de Correos*', run in cooperation with WWF Spain, saw **81 volunteers** (employees and their relatives) work to restore 20 hectares of Mediterranean forest in Vera del Arroyo de la

Rocina, in the **Doñana National Park (Huelva)**.

This revegetation work helped to improve the conservation of the main fluvial channel running through the Doñana marshland.

Since the inception of the programme, 17 depleted areas across various provinces have been reforested, planting more than 84,800 native trees.



What makes us stand out

- Protecting nature and biodiversity by recovering forest environments. .
- The commitment of '*Correos Solidaridad*' volunteers to the United Nations' Sustainable Development Goals.





Our staff, serving society

'Correos Solidaridad', the **company's corporate volunteer programme** founded in 2014, combines Correos staff, who generously give their time and efforts, with resources and coordination provided by the company, in keeping with its tradition of solidarity. This synergy **further boosts the programme's benefits to society.**

In 2017, as part of this programme, volunteers from every province, organised into **'Solidarity Teams'**, participated in **a range of initiatives** to support projects by an array of NGOs and other third sector bodies.

The contribution made by 'Correos Solidaridad' volunteers



Parties as part of the programme **'Correos reparte sonrisas'** (Correos delivers smiles) with the NGO *Payasos sin Fronteras*, and trees planted in the *Bosques de Correos*.



The **Great Collection** by the Spanish Federation of Food Banks (FESBAL) with the slogan **'There's a cure for hunger'**. Volunteers helped collect donations in participating supermarkets while **Correos lent its logistics for the transport of the products handed in** and delivery to participating municipalities.

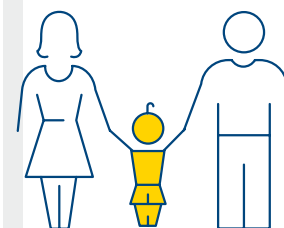
'Carrera contra el Hambre' (Race against Hunger), promoted by *Acción contra el Hambre* to raise awareness among children about the causes and consequences of this global scourge. **More than 140,000 children took part in this year's edition**, at which volunteers raised funds for projects in 45 countries.



International corporate volunteering week (Give & Gain Day 2017), was held between 21 and 28 April. The participation was channeled via the programme **'Correos reparte sonrisas'**.



The sporting and solidarity event **Trail Walker**, organised by *Oxfam Intermon*. With the slogan 'My kilometres change lives', **four teams of volunteers completed the 100 kilometre courses** in Madrid, Vitoria and Girona, to fight against poverty and for the right to water. **Post office employees in Zaragoza also took part in collecting toys** for this NGO.



The event organised by the *Asociación de Padres San Vicente de Paúl* (Málaga), which assisted 70 people with learning disabilities.





Opportunities for children and young people

As part of its commitment to ethical values and **creating opportunities for children and young people**, the company helps **to ensure all children** in particularly challenging situations **have access to education, healthcare and protection**.

To this end, Correos cooperated with a range of associations and organisations by **marketing charity products** in post offices and at *Tu Correos* online shop.



Making children smile

As in previous years, **at Christmas** Correos installed around 1,000 **special post boxes** at post offices throughout the country for children to post their letters to the Three Wise Men.

'Solidarity Teams' also visited children in hospitals, care centres and associations

for the disabled, taking their **letters to the Royal Postman** and bringing the children little gifts. More than 500 volunteers and 150 company's vehicles also took part in **parades** in different towns and cities.







For the second year, the **Department of Extraordinary Deliveries** gave children and adults alike an insight into the

magical path their letters take between being written and reaching the Three Wise Men. This exhibition, on display at the 'La Arquería' room at the Ministry of Public Works (Madrid), attracted **more than 15,000 visitors**.





Projects for children

Cooperation partners	Goal	Correos' contribution
 <p>PALLASOS serie Patafios PATAFIOS los Patafios CLOWNS without borders Ayuda Humanitaria desde las Armas Canónicas</p>	'Correos reparte sonrisas' improve the quality of life of children in hospital or in particularly difficult circumstances using 'laughter therapy'.	Holding 20 parties in 4 hospitals, 14 special education facilities and 2 penitentiaries, benefiting 1,500 children.
 	Support the creation of the Advanced Treatment Unit for Childhood Cancers at Madrid's Hospital de La Paz. This unit will improve current treatments and develop innovative therapies better suited to individual patients.	Selling boxes and envelopes personalised with Emoji® emoticons in post offices since late 2017.
	Provide support to children whose families are going through economic hardship can start the school year with all the materials they need.	Marketing more than 60,000 charity bookmarks in post offices with children's poems by Gloria Fuertes.
	Support a range of projects to protect and defend children's rights.	The sale of almost 95,000 charity items at post offices and on the <i>Tu Correos</i> online shop, such as Christmas cards, calendars and bracelets.
	Provide toys to poor children in 21 countries in Latin America, Africa and the Middle East and set up play centres, schools, hospitals and other community centres.	Marketing more than 61,000 charity pens and notebooks in post offices.
	Support the programmes this organisation runs in developing countries.	Selling more than 1.5 million tickets for the <i>Sorteo Extraordinario de Navidad</i> (Special Christmas Lottery) and <i>Sorteo de Oro</i> (Golden Lottery).
	Promote this NGO's activities supporting social and family integration for vulnerable children and young people.	Space in post offices to promote their activities.



Support for vulnerable people

Correos is a member of the 'Network of companies for a society free of gender violence', of the Ministry of Health, Social Services and Equality. It raises social awareness on the need to eradicate this sort of behaviour.

To mark the 'International Day for the Elimination of Violence against Women' (25 November), the company helped raise awareness with the slogan 'Don't allow gender violence. There's a way out', which it disseminated across various channels:

- On the company's internet and intranet sites, displaying a purple ribbon as a symbol of its commitment against gender violence.
- In its busiest post offices, where it handed out bracelets to customers and employees with the 016 hotline number that victims can call.

- On 12,200 delivery carts that could be seen in streets across the country every day and carried the campaign's image.
- On its social media profile and corporate communications channels, where it promoted the awareness raising campaign #NOESNORMAL ('It's not normal'), targeting young people. This initiative included an infographic and video explaining gender violence situations that focused on teenagers, in order to raise awareness from an early age.

In addition to this commitment, the company has had internal organisation measures in place for several years to support any female employees who are the victims of abuse.



Promoting social and employment inclusion

🌐 (GRI 203-2)

Correos works with foundations and special employment centres as well as occupational centres to **promote the holistic development of people with disabilities** through ordinary work that is consistent with each individual's abilities.

The company buys goods and services from bodies such as the *Fundación A la Par*, the *Asociación Catalana de Integración y Desarrollo Humano (ACIDH)*, *Prodis* and *Fundación Dales la Palabra*, among others. It also takes part in the programme '*Incorpora*' (Incorporate) by La Caixa, which integrates people with disabilities and provides work experience.

In 2017, Correos, along with other public companies, joined the '**XTUMIRADA**' **awareness raising campaign run by Down España**. Post offices in 11 cities played host to a roving photography exhibition featuring images of almost 150 well-known people from a range of

professions, whose eyes were switched with those of people with Down's syndrome. The exhibition's promotional poster was also visible on 3,000 delivery carts.

Other initiatives to support the work done by these organisations included:

- The **donation of 477 IT systems** to foundations, non-profit entities and schools working in fields such as international cooperation or integrating people with disabilities and groups at risk of social exclusion. This step also extends the equipment's useful lifespan, reducing resource consumption and waste.
- Holding **solidarity flea markets** in Correos' Madrid facilities to support foundations such as *A la Par*, *Prodis*, *Juan XXIII*, *Aprocor* and the *Asociación Khetpa* for children in the Himalayas.





Correos backing culture and sport

Correos thinks that **culture, art** and supporting the values of **sport** are **the best ways to promote awareness-raising, solidarity and social inclusion**.

The programme **'Correos con el Arte' (Correos and Art)** supports local artists, making space available for them in post offices to exhibit their artwork so it can be enjoyed daily by the public. In 2017, painting, sculpture and photography displays were organised in Madrid, León, Ronda, Murcia and Fuengirola, among other cities.

Likewise, the sculpture **exhibition 'Pedro García & adELA, Pliegues'**, organised at the main post office at Cibeles (Madrid) **to support adELA (the Spanish Amyotrophic Lateral Sclerosis Association)** also helped draw greater attention to and raise awareness of this disease.



Correos and the Camino de Santiago

Every year, pilgrims set out on the various paths that make up the Camino de Santiago and use **the website www.elcaminoconcorreos.com** for all sorts of advice and useful information that enriches their experience.



In addition to explaining the various Correos products designed especially for pilgrims, the website provides travellers with a virtual meeting place where they can share their stories in the *'Postales del Camino'* (Camino Postcards) blog.

Furthermore, thanks to the **new postmark for the French part of the route**, the pilgrims can now collect 15 special postmarks as proof of their progress on this journey until they finish at the main post office in Santiago de Compostela.



Postal communication in films

The '*Concurso de cortometrajes postales de Correos*' (**Correos' short film postcard contest**) aims to spread the postal service's values of proximity, security and trust through films.

Being held for the third time last year, it featured 37 entries from both professional directors and employees. The **competition was rolled into** the programme of the **Almería International Film Festival (FICAL)**, which drew 10,000 visitors in 2017.



- The **national women's and men's handball teams**, which it has supported since 2014.
- The **Spanish Olympic Team**, via cooperation with the ADO and ADOP Programmes, to prepare sportspeople participating in the 2020 Tokyo Olympic Games.

Correos was also the main sponsor of the **Dhaulagiri expedition by the mountaineer Carlos Soria**, who was aiming to become the first octogenarian sportsman to climb the Earth's 14 highest peaks. He has already completed twelve of them.

Philately with values

Correos also encourages **the spreading of values** and social awareness via the stamps. In 2017 issues included:

- The commemoration of the **International Year of Sustainable Tourism for Development**.
- The **United Nations Humanitarian Air Service** as part of the World Food Programme.
- The **70th anniversary of UNICEF**.
- The **National Day of Spanish Sign Languages**, as part of the stamp series 'Civic values' which featured stamps with words written in sign language.

Overcoming obstacles and teamwork in sport

Effort, teamwork and discipline, values represented daily by Spanish sport, are an inspiration to Correos's employees. That is why, in 2017, the company renewed its commitment to:

Despite not reaching the summit, Correos welcomed Carlos Soria and his expedition when they returned home, recognising his **example of valor, tenacity and devotion to overcoming obstacles**.



Corporate governance and compliance

Structure and organisation
Transparency and good governance
Risk management
Responsible supply chain
Providing the Universal Postal Service



Structure and organisation

Correos' governing bodies

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

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

🌐 (GRI 102-5)

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**. 🖱️

🌐 (GRI 102-18) (GRI 102-23)

General Meeting of Shareholders

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.

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.

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.

Committees of the Board

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 and on risk control and internal auditing.



Correos Governing Board



On 31 December 2017 the **composition of the Governing Board** of Sociedad Estatal Correos y Telégrafos, S.A. S.M.E. was as follows:

🌐 (GRI 405-1)

- Francisco Javier Cuesta Nuin
Chief Executive Officer and Chairman
- David Benito Astudillo
Independent External Director
- Ana Bosch Jiménez
Independent External Director
- Luis de Burgos Buil
Independent External Director

■ Carmen Castaño Laorden
Independent External Director

■ Manuel David Delacampagne Crespo
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

■ Alberto Requena Navarro
Independent External Director

■ Mercedes Rodríguez Arranz
Independent External Director

■ Belén Villar Sánchez
Independent External Director

■ Álvaro Botella Pedraza
Secretary not member of the Board

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 462/2002¹ and the **legislation applicable to public bodies and corporations**. In accordance with Act 3/2015², the allowances of the senior management directors are paid into the Public Treasury. The **Chairman does not receive attendance allowances**.

The **Regulations of the Correos' Governing Board**, in force since 2013 and revised in 2015, constitute an additional commitment to apply best practices and good governance standards in the Board. 📄

¹ Royal Decree 462/2002, of 24 May, on remuneration for services

² Act 3/2015, of 30 March, regulating senior management positions in the National Government Administration



Governing bodies of Correos Group subsidiaries

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

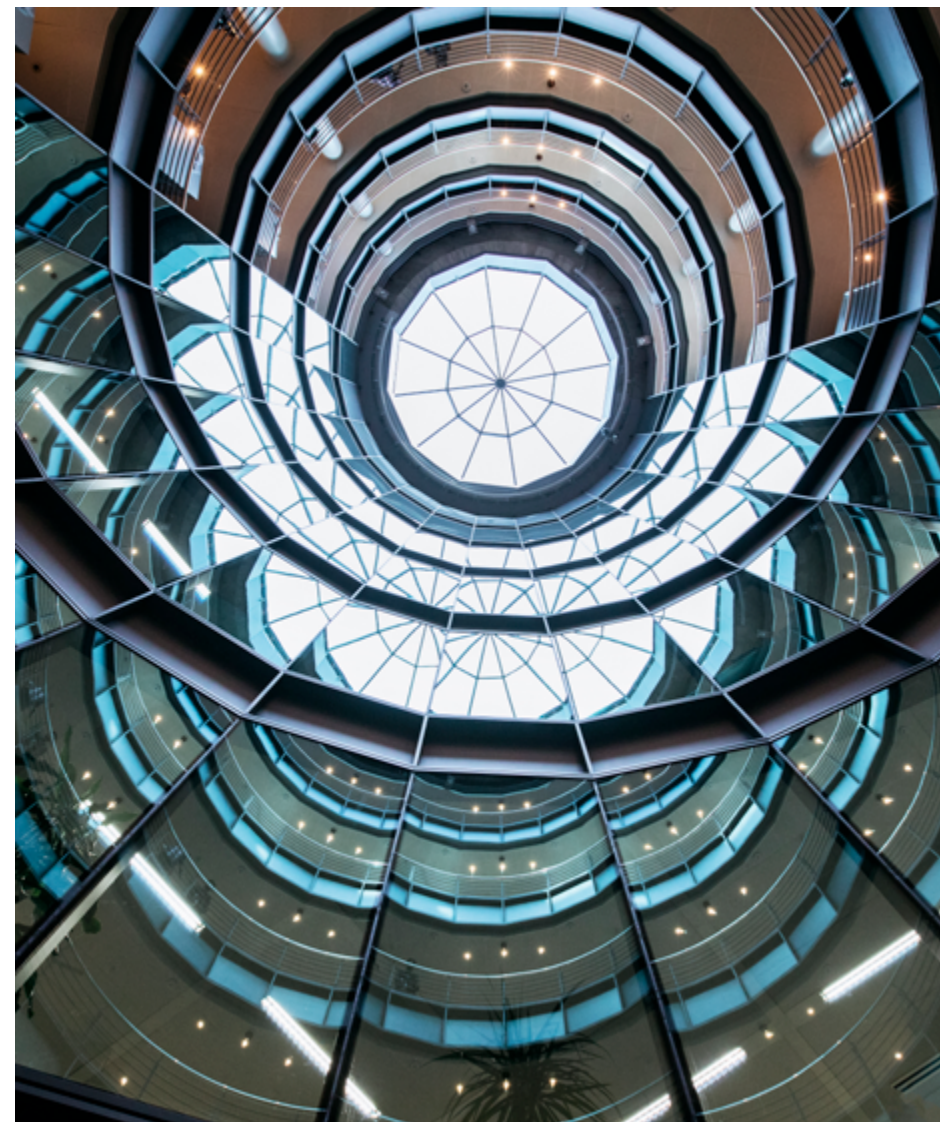
The minimum and maximum number of members of the Governing Boards of each of the subsidiaries is: 6 to 12 in Correos Express, 4 to 12 in Correos Nexea and 4 to 8 in Correos Telecom. The **members** are

elected from the Correos management team and SEPI Group. The directors do not receive attendance allowances.

🌐 (GRI 102-18)

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

	Governing Board meetings	Audit and Control Committee meetings
	14	6
	11	2
	12	2
	12	2





Governing Boards of Correos Group subsidiaries

The **composition of the respective Governing Boards** at 31 December 2017 is as follows:

🌐 (GRI 405-1)



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

- Magín Blanco González
Chairman
- Alberto Alonso Poza
- Lourdes Fernández de la Riva Gozávez
- Óscar Medina Martín
- Carlos Millán Ruiz
- Jesús Moreno Vivas
- Domingo Sebastián Bello
- Álvaro Botella Pedraza
Secretary not member of the Board



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

- Óscar Medina Martín
Chairman
- Alberto Alonso Poza
- Lourdes Fernández de la Riva Gozávez
- Carlos Millán Ruiz
- Jaime Sanz García
- Álvaro Botella Pedraza
Secretary not member of the Board

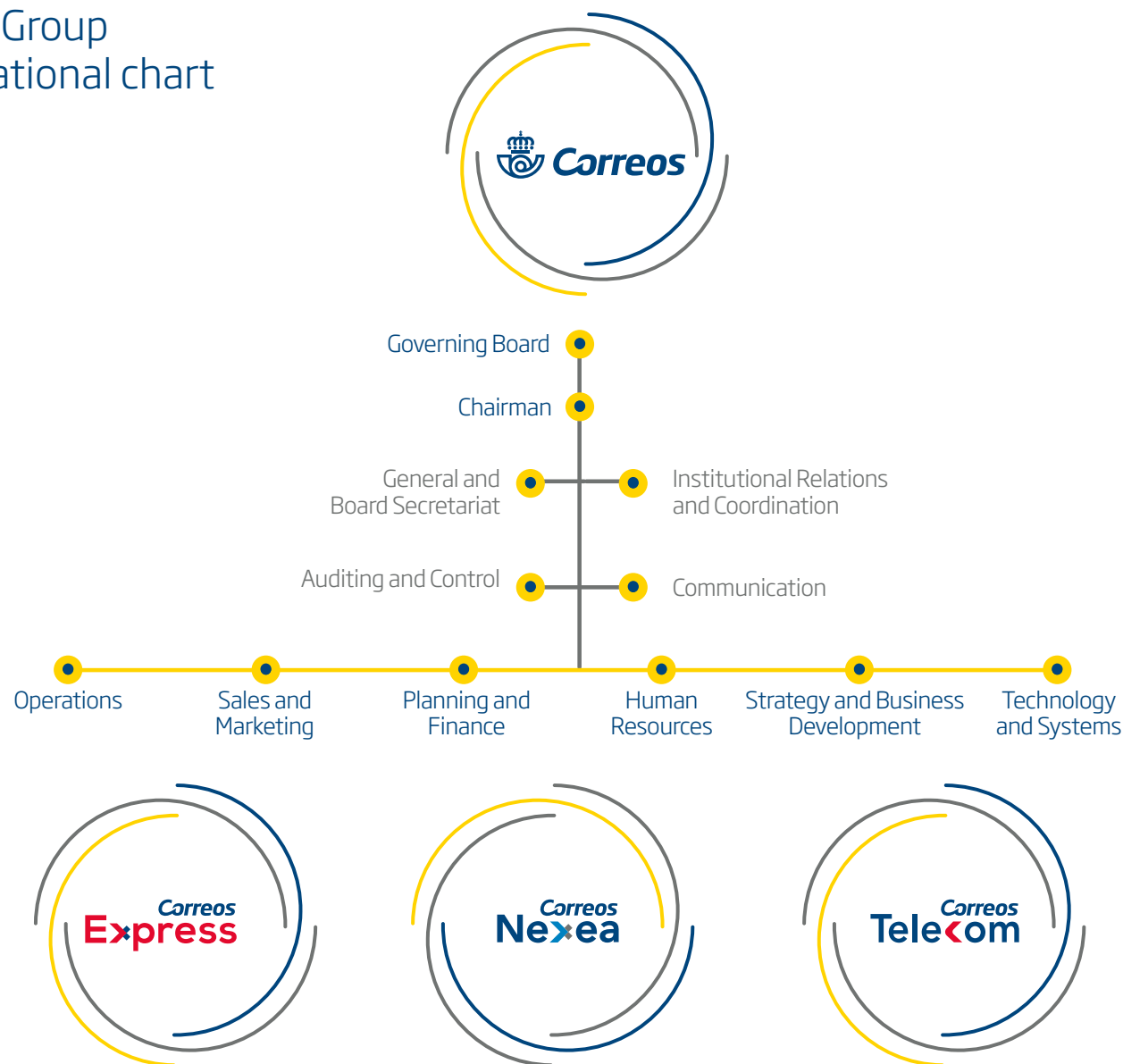


Correos Telecom, S.A., S.M.E., M.P.

- Jaime Sanz García
Chairman
- Alberto Alonso Poza
- Álvaro Botella Pedraza
- Óscar Medina Martín
- Juan Risquete Fernández
Secretary not member of the Board



Correos Group organizational chart



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 Directors of Correos and the General Directors of Correos Express and Correos Nexea**, it meets weekly at the request of the Chairman. The **members of the Management Committee** do not receive a specific remuneration for attendance.



Transparency and good governance

🌐 (GRI 102-16) (GRI 102-17)

Correos Group has procedures in place to **promote good governance and internal control** in order to prevent, detect and, where applicable, eliminate practices that infringe business ethics.

The Group's companies have the **necessary mechanisms in place to comply with** the reporting obligations laid down in **Act 19/2013**³. 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.

Since 2014, the Correos Group has operated a **'Criminal Risk Prevention Programme'**. This includes the **General Code of Conduct**, which contains the reference values that govern the actions of all employees. Internal and external stakeholders can view this document.

The 'Criminal Risk Prevention Programme'

has been updated to comply with the Letter of the Prosecutor's Office 1/2016 and the requirements of Art. 31 bis 2 of the Criminal Code (stemming from the amendments to Organic Law 1/2015⁴).

The Group also has a **Compliance Committee**, a collegiate body whose main function is to evaluate 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 2017, this channel received and studied 113 notifications, 30 queries and 10 complaints, and took action in accordance with its Rules of Procedures.

Correos' **commitment to achieving excellence** in its service and to



sustainability is also specifically reflected in the **declaration signed** by the Chairman with **the stakeholders**. **This document can** be viewed at all post offices and on the corporate website.

³ Act 19/2013, of 9 December, on transparency, access to public information and good governance

⁴ Organic Law 1/2015, of 30 March, amending Organic Law 10/1995, of 23 November, of the Criminal Code



Risk management

🌐 (GRI 102-15) (GRI 205-2)



The Correos Group **risk analysis and management system** is designed to identify, manage, prevent and ensure a suitable response to risks that arise.

Key risks include market, operational, employment, environmental, reputational, legal, tax or financial risks, as described in the **Management report**.

Security in operating processes

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 2017, 289 million items were examined. As a result, 588 postal items were detected with supposedly illegal content. These were handed in to the relevant authorities.

Correos **works closely with** several bodies, such as the Postal security group of the Universal Postal Union, and the **National security forces and law-enforcement agencies**, such as the Spanish National Police Corps through the

Blue Network (*Red Azul*), the Spanish Civil Guard through the Coopera Portal.

Last year this resulted in 2,603 instances of cooperation with the National security forces **and courts** to support them performing their duties.

Correos is also authorised to accept and 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), and successfully passed an audit performed by the Spanish Customs Administration in 2017. The purpose of this certificate is to guarantee the reliability and security of goods being imported and exported.



Improving IT security

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**.

In accordance with the operational challenges as a result of **new personal data protection legislation**, the company reviewed the processes relating to **information system lifecycles**. Furthermore, it promoted **a security-based culture internally**, adapting risk management to each employee's specific job and level of responsibility. The company also **expanded training** to all employees whose role involves processing personal information.


Moreover, in the light of **new cybersecurity challenges**, additional procedures and resources were assigned to tackle such threats.

Application of internal auditing procedures

Through internal audits, Correos Group checks **compliance with the principles of good governance in its ordinary activities as well as company management**, to reduce risks related to achieving the Group's corporate objectives.

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**. 

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).

Last year **fifteen audits were conducted** within the annual Internal Audit plan, and **1,366 economic-accounting and quality control audits were performed in post offices, processing centres and ordinary and urgent delivery units**.

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

With regard to the obligations derived from Act 10/2010 and its Regulations⁵, Correos has an internal prevention manual. **It audits the money laundering prevention unit annually** and conducts continuous control on the application of due diligence measures in the post office network.



21,106 employees trained in **prevention of money laundering**, 11,000 in **ethical commitment** and 15,377 in **secure information management**

⁵ Act 10/2010, of 28 April, on the prevention of money laundering and terrorist financing, and Royal Decree 304/2014, of 5 May, approving the Regulation of Act 10/2010, of 28 April, on the prevention of money laundering and terrorist financing



Responsible supply chain

🌐 (GRI 102-9)

Owing to the 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 2017 **Correos awarded contracts worth 457.6 million euros** which were executed by 7,686 suppliers (363 investment contracts and 7,323 purchase contracts).

In turn, the subsidiaries awarded contracts worth 174.5 million euros. Correos Express worked with 1,783 suppliers, most of them transport related. Correos Nexea had 170 paper, envelope and equipment maintenance suppliers; and Correos Telecom had 116 operational services and telecommunications asset maintenance or equipment suppliers.

99% of these contracts were with **Spanish suppliers**.

The Group's contractual activity is **subject to the principles of publicity, competition, transparency, equality and non-discrimination**. The Group contracting regulatory framework consists of:

- Legislative Royal Decree 3/2011⁶
- Directive 2014/24/EU⁷
- Directive 2014/25/EU⁸
- Act 31/2007⁹
- Internal contracting instructions.

The **Investments Committee** is the body that studies, approves and, where

necessary, refers to the Governing Board the procurement provided in the Internal Contracting Instructions.

The Group announces the tenders and awards of its contracts, according to their amount, in **the Contractor's Profile**, on  🌐 (GRI 408-1) (GRI 409-1) the Public Sector Procurement Platform, in the Official State Gazette and in the Official Gazette of the European Union.

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

🌐 (GRI 102-12)

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.

Also, in the common and technical specifications, the **incorporation of social, environmental, safety and occupational health criteria is given special importance**. In this way, 66% of procurement in 2017 included environmental sustainability criteria. Similarly, successful bidders for contracts **must understand and accept the principles contained in the General Code of Conduct** of the Correos Group.

⁶ Royal Legislative Decree 3/2011, of 14 November, on Public Sector Contracts, in force until 8 March 2018, at which date Act 9/2017, of 8 November, on Public Sector Contracts came into force

⁷ Directive 2014/24/EU of the European Parliament and the Council, of 26 February 2014, on public procurement and repealing Directive 2004/18/EC

⁸ Directive 2014/25/EU, of 26 February, on procurement by entities operating in the water, energy, transport and postal services sectors

⁹ Act 31/2007, of 30 October, on procurement procedures in the water, energy, transport and postal services sectors



Providing the Universal Postal Service

The **Spanish postal** market has been fully **liberalised since 1 January 2011** following the entry into force of **Act 43/2010¹⁰**. Consequently, all postal activities are open to competition. However, some segments of the Spanish market had already been liberalised for decades, unlike other European countries.

By virtue of this regulation, **Correos is the operator designated to provide the Universal Postal Service in Spain** for a period of 15 years from its effective date. **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.

At this time, **both the Service Plan and a new postal regulation**, provided for in Act 43/2010, are **awaiting 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 sector. Equally, the provision of electronic communication services by

Correos and Correos Telecom is regulated by Act 9/2014¹¹.

Since 2013, 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) and the **Ministerio de Fomento** (Ministry of Public Works). The CNMC also governs the parcel service and telecommunications markets in which the Group subsidiaries operate.

¹⁰ Act 43/2010, of 30 December, on the universal postal service, user rights and the postal market

¹¹ Act 9/2014, of 9 May, General Law on Telecommunications



Services covered by the Universal Postal Service

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

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

2017, Correos delivered 92.8% of letters in D+3 and 98.1% in D+5. These are consolidated statistics and thus subject to a margin of uncertainty.

Correos regularly assess the level of compliance with these goals and possible areas for improvement via the **SPEX quality monitoring system**. This model is **audited annually by the** regulatory body, in accordance with the Standard UNE-EN 13850¹², for the assessment of quality compliance in letter delivery.

Prices of postal services provided under the public service obligations **must be affordable, transparent and**

non-discriminatory and be set taking into account the actual costs of the service. The **National Commission of Markets and Competition oversees that these rates are in accordance** with these principles.

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

net cost of each financial year to the National Commission of Markets and Competition for verification.

The CNMC publishes the results of the various **audits** carried out **of the analytical accounting** on its website.

Nevertheless, the **net cost of the Universal Postal Service** presented annually by Correos **has not been audited since 2011**. Until this net cost is determined, the amounts entered in the National Budget are on account pending a subsequent settlement of the amounts due to the designated operator for the service provided.

¹² UNE-EN 13850 'Postal Services. Quality of services. Measurement of the delivery time (delivery quality) of end-to-end services for priority mail and first class mail'



Stakeholders relations

Regarding the Integrated Annual
Report 2017 of Correos Group

Materiality matrix

Our contribution to the SDGs

GRI Content Index



Regarding the Integrated Annual Report 2017 of Correos Group

The content of the Integrated Annual Report 2017 of Correos Group corresponds to the period between 1 January and 31 December 2017 and covers the main activities of Correos and its subsidiaries Correos Express, Correos Nexea and Correos Telecom.

This Report has been prepared in accordance with the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, 2016 version, Core option. 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 (the fifth consecutive one since 2013) gives 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. 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 2016 for the

seventh consecutive year. The report is available on the pages at [Global Compact](#), the [Spanish Global Compact Network](#) and [Correos](#).

In this Report, 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 terms of environmental performance, the perimeter solely includes Correos, as it is the company that has the major proportion of buildings and vehicles, and these are the resources that generate the Group's main environmental impact.



In order to facilitate the understanding of the Correos Group business model, the content of the Report includes forward-looking information based on the Group's situation at the end of 2017 and its foreseeable future development, subject to the risks and uncertainties that could affect its attainment.

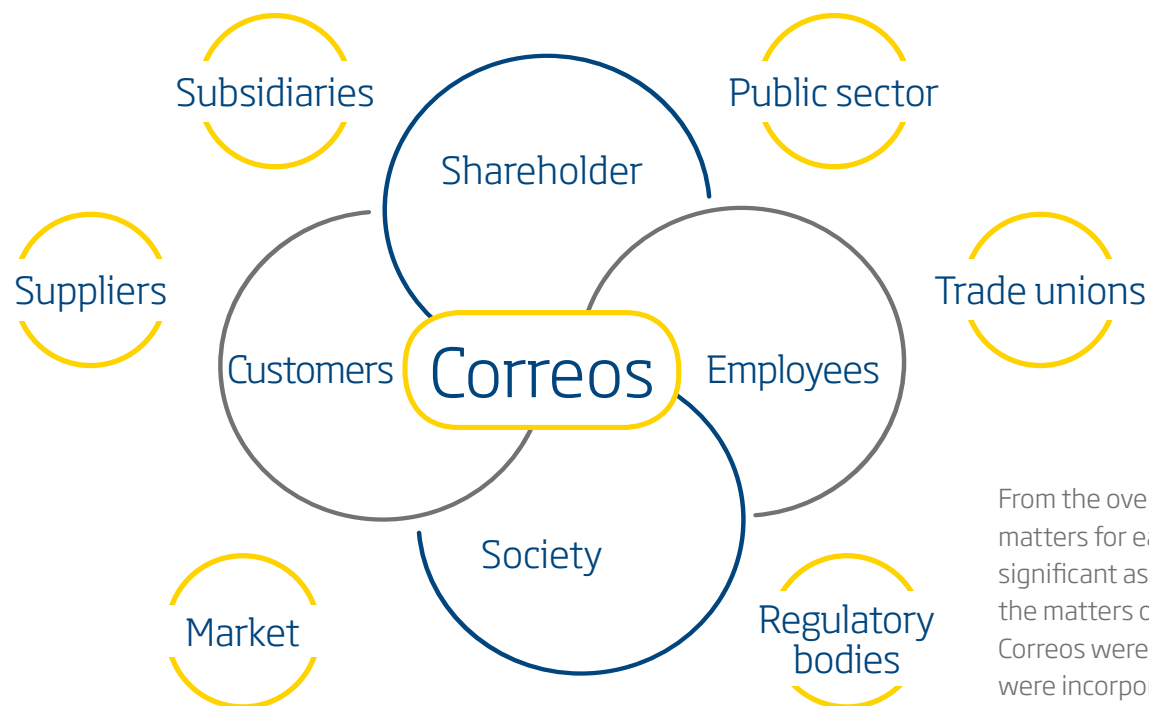


Determination of content and scope

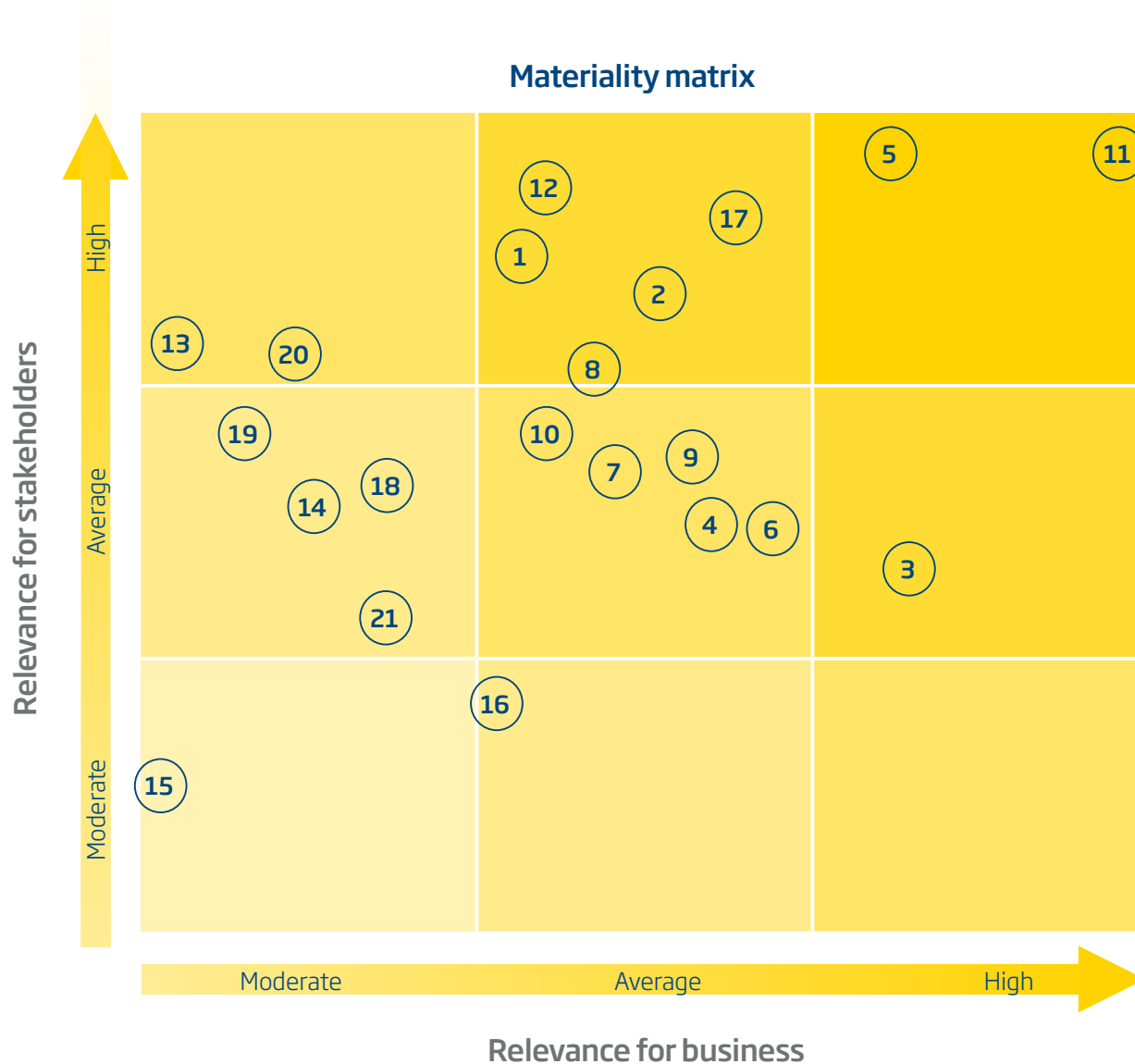
The content, structure and scope of this report was determined through a process of internal and external reflection, which made it possible to identify and prioritise matters with a greater impact and importance for the business and/or stakeholders.

This analysis was also based on the preparatory work for the new Correos' corporate responsibility plan, for which the company carried out a study of the most relevant issues in terms of sustainability. To do so, the information published in the press and on social networks was reviewed and interviews and consultations were carried out with executives and internal experts, both from Correos and its subsidiary companies, as well as with representatives of shareholders, customers, employees, associations and sector bodies, suppliers, consumer influencers and other companies from the markets that the Correos Group operates in.

The main Correos stakeholders



From the overall assessment of the critical matters for each stakeholder and the most significant aspects for business activity, the matters of greatest influence for Correos were extracted. These matters were incorporated, to a greater or lesser extent, in the content of the Integrated Annual Report 2017 of Correos Group.



Relevant matters	
1	Legal framework and adaptation to regulatory changes
2	Risk management
3	Business sustainability
4	Transparency and good governance
5	Innovation and new technologies
6	Diversification
7	Safety, health and wellbeing
8	Diversity and inclusion
9	Training and development
10	Pride in belonging
11	Customer satisfaction and adaptation to their needs
12	Security and cybersecurity
13	Contribution to the local economy
14	Support for vulnerable groups and social cohesion
15	Promotion of art, culture and sport
16	Strategic partnerships and international participation
17	Emissions and climate change
18	Energy efficiency and energy consumption (eco buildings)
19	Eco products and circular economy
20	Green and responsible purchasing
21	Collaborative projects



Relevant matters outlined in the 2017 Integrated Annual Report

Page

Level of relevance for the company/stakeholders

Customer satisfaction and adaptation to their needs maximum	56, 73	Maximum
Innovation and new technologies maximum	73, 86	Maximum
Business sustainability	18, 32, 114	High
Emissions and climate change	93, 99	High
Diversification	34, 57	High
Transparency and good governance	120	High
Training and development	44, 46	High
Risk management	121	High
Safety, health and wellbeing	53	High
Diversity and inclusion	50	High
Security and cybersecurity	121	High
Legal framework and adaptation to regulatory changes	25, 36, 124	High
Pride in belonging	40	High
Strategic partnerships and international participation	37, 80, 104	Average
Green and responsible purchasing	23, 96	Average
Energy efficiency and energy consumption (eco buildings)	93, 101	Average
Contribution to the local economy	24, 62	Average
Collaborative projects	105	Average
Support for vulnerable groups and social cohesion	110	Average
Eco products and circular economy	99, 103	Average
Promotion of art, culture and sport	112	Moderate



Our contribution to the SDGs



17 goals to transform our world

On 25 September 2015, the world leaders adopted 17 Sustainable Development Goals (SDG) in order to end poverty, protect the planet and ensure the prosperity of everyone as part of Agenda 2030.

Correos, through its different activities, partnerships and projects, intensely endorses 8 of these 17 goals:

Environment



- Plan 100 for energy efficiency
- Energy efficiency in the workplace system
- Employee awareness



- Reduction of polluting emissions
- Purchase of renewable energy
- Use of alternative fuels
- Electric vehicles



- Efficient waste management model
- Circular economy



- Línea Verde (Green Line)
- Offsetting of emissions
- Bosques de Correos (Forests of Correos)

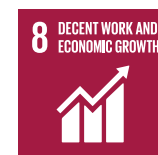
Persons



- Supporting health
- Healthy lifestyle habits



- Equality plan
- #NOESNORMAL awareness campaign



- Projects for the integration of people with disabilities
- Internal training

Innovation



- CorreosLabs
- Smartcities



GRI Content Index

Global Compact Principle

GRI Standar	Disclosure	Page number	Omission
GRI 102: General Disclosures			
1. Organizational profile			
102-1	Name of the organization	259	General information
102-2	Activities, brands, products and services	14, 57	General information
102-3	Location of the headquarters	259	General information
102-4	Location of operations	214	General information
102-5	Ownership and legal form	115	Strategy and governance
102-6	Markets served	25-29, 57	General information
102-7	Scale of the organization	10-12	General information
102-8	Information on employees and other workers	42	6
102-9	Supply chain	123	-
102-10	Significant changes to the organization and its supply chain	-	-
102-11	Precautionary Principle or approach	93-94	7, 8
102-12	External initiatives	37-38, 104, 109, 123, 127	Global Compact objectives and subjects
102-13	Membership of associations	37-38	-
2. Estrategy			
102-14	Statement from senior decision-maker	3-4	General information
102-15	Key impacts, risks and opportunities	25-36, 121, 251	General information



GRI Content Index

Global Compact Principle

GRI Standar	Disclosure	Page number	Omission
3. Ethics and integrity			
102-16	Values, principles, standards and norms of behavior	17, 120	10
102-17	Mechanisms for advice and concerns about ethics	120	10
4. Governance			
102-18	Governance structure	115-119	Strategy and governance
102-23	Chair of the highest governance body	115	Strategy and governance
102-25	Conflicts of interest	235	Strategy and governance
5. Stakeholder engagement			
102-40	List of stakeholder groups	128	General information
102-41	Collective bargaining agreements	Each company's collective agreements or the general agreement of civil servants of Correos are applicable to practically the entire workforce of Correos Group	
102-42	Identifying and selecting stakeholders	128	General information
102-43	Approach to stakeholder engagement	128	Strategy and governance
102-44	Key topics and concerns raised	129-130	Strategy and governance
6. Reporting practice			
102-45	Entities included in the consolidated financial statements	167	General information
102-46	Defining report content and topic boundaries	127-128	General information
102-47	List of material topics	129	General information
102-48	Restatements of information	-	-
102-49	Changes in reporting	-	-
102-50	Reporting period	127	General information



GRI Content Index

Global Compact Principle

GRI Standar	Disclosure	Page number	Omission
102-51	Date of most recent report	127	General information
102-52	Reporting cycle	127	General information
102-53	Contact point for questions regarding the report	259	-
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	132-137	General information
102-56	External assurance	Self-assessment has been made, no external assurance	-
201: Economic Performance			
GRI 103: Management Approach		23, 32, 128	
201-1	Direct economic value generated and distributed	156-157	-
203: Indirect Economic Impacts			
GRI 103: Management Approach		18-24, 128	
203-2	Significant indirect economic impacts	22-24, 30-31, 43, 51, 62-66, 87-91, 106, 111	-



GRI Content Index

Global Compact Principle

GRI Standar	Disclosure	Page number	Omission
205: Anti-corruption			
GRI 103: Management Approach		120-122, 128	
205-2	Communication and training about anti-corruption policies and procedures	120-122	10
302: Energy			
GRI 103: Management Approach		93-104, 128	See page 127
302-1	Energy consumption within the organization	102	7, 8
302-4	Reduction of energy consumption	101	7, 8
303: Water			
GRI 103: Management Approach		93-104, 128	See page 127
303-1	Water withdrawal by source	102	7, 8
304: Biodiversity			
GRI 103: Management Approach		99-100, 106, 128	See page 127
304-3	Habitats protected or restored	99-100, 106	7, 8



GRI Content Index

Global Compact Principle

GRI Standar	Disclosure	Page number	Omission
305: Emissions			
GRI 103: Management Approach		93-104, 128	See page 127
305-1	Direct (Scope 1) GHG emissions	100	7, 8
305-2	Energy indirect (Scope 2) GHG emissions	100	7, 8
305-3	Other indirect (Scope 3) GHG emissions	100	7, 8
305-5	Reduction of GHG emissions	95-100	7, 8, 9
305-7	NOx, SOx and other significant air emissions	95	7, 8
401: Employment			
GRI 103: Management Approach		41-55, 128	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	52	6
401-3	Parental leave	51	6
403: Occupational Health and Security			
GRI 103: Management Approach		41-55, 128	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism and number of work-related fatalities	55	-



GRI Content Index

Global Compact Principle

GRI Standar	Disclosure	Page number	Omission
404: Training and Education			
GRI 103: Management Approach		41-55, 128	
404-1	Average hours of training per year per employee	46	6
404-3	Percentage of employees receiving regular performance and career development reviews	44	-
405: Diversity and Equal Opportunity			
GRI 103: Management Approach		41-55, 128	
405-1	Diversity of governance bodies and employees	42-50, 116, 118	6
408: Child Labour			
GRI 103: Management Approach		123, 128	
408-1	Operations and suppliers at significant risk for incidents of child labour	123	1, 2, 5
409: Forced or Compulsory Labour			
GRI 103: Management Approach		123, 128	
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	123	1, 2, 4
Awards			
-	Awards	8-9	General information



Consolidated annual accounts of Correos Group



Auditors' report of the consolidated financial statements issued by an independent auditor



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

Opinion

We have audited the consolidated financial statements of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (the Parent Company) and its subsidiaries (the Group), which comprise the balance sheet at 31 December 2017, the income statement, the statement of total changes in equity, the cash flows statement and the notes to the financial statements, all consolidated, corresponding to the financial year ending on said date.

In our opinion, the attached consolidated financial statements express, in all

significant aspects, a true and fair image of the equity and financial situation of the Group as at 31 December 2017, and of its results and cash flows, all consolidated, corresponding to the financial year ending on said date, in accordance with the applicable regulatory financial reporting framework (identified in Note 3 of the consolidated report) and, specifically, with its accounting principles and criteria.

Basis of opinion

We have conducted our audit in accordance with the applicable audit regulations in Spain. Our responsibilities in accordance with the said regulations are detailed below in the section "Auditor responsibilities in relation to the audit of the consolidated financial statements" in our report.

We are independent of the Group in accordance with ethical requirements, including those of independence, which

are applicable to our audit of the financial statements in Spain pursuant to that set forth in the regulating legislation on accounts audits. In this regard, we have not provided services other than that of the audit of accounts nor have situations or circumstances arisen which, in accordance with the provisions of the aforementioned regulating legislation, may have affected the necessary independence in such a manner that it would have been compromised.

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

Most relevant aspects of the audit

The most relevant aspects of the audit are those which, in our professional opinion, have been considered as the most significant risks of material inaccuracies in our audit of the consolidated financial statements of the current financial

year. These risks have been addressed within the context of our audit of the consolidated financial statements in their entirety and in the formulation of our opinion thereof, and we do not express a separate opinion regarding these risks.



Auditors' report of the consolidated financial statements issued by an independent auditor

Risk in the recognition of revenue of the Parent Company / **Most relevant aspects of the audit**

As detailed in Note 5.n) of the notes to the attached consolidated financial statements, the Group recognises revenue from the sale of goods and the provision of services at fair value of the balancing entry deriving from the same less the amount of any discount.

As indicated in Note 17.a) of the notes to the attached consolidated financial statements, revenue is divided mainly between the following activities:

A. Sales from customers with a contract

The heading "Net business turnover" includes the amount of 1,242,712 thousand euros, of which 1,025,118 thousand euros come from the Parent company, corresponding to the sales from corporate customers, which represents 67% of the item's total.

B. Sales from cash invoices

The heading "Net business turnover" includes the amount of 387,964 thousand euros, corresponding to the sales from cash invoices carried out wholly by the Parent Company, which represents 21% of the item's total.

C. Sales from franking machines

The heading "Net business turnover" includes the amount of 38,701 thousand euros, corresponding to sales from franking machines of the Parent Company, which represents 2% of the item's total.

D. Sales from the international unit

The heading "Revenue" includes the amount of 120,927 thousand euros, corresponding to sales from international unit of the Parent Company, which represents 7% of the item's total.

The heading "Supplies", as indicated in Note 17.b) of the notes to the attached financial statements, includes the amount of 55,650 thousand euros corresponding to the costs for the services provided by other foreign postal companies to the Parent Company, which represents 20% of the total for supplies.

Whereas the headings "Customer receivables for sales and services" in current assets for the amount of 160,491 thousand euros and "Other creditors" and "Customer advances" of current liabilities for a total amount of 150,319 thousand euros, include balances receivable and payable corresponding to the activity of the international unit, as indicated in Notes 11.3.1) and 16 of the notes to the attached consolidated financial statements.

We have focused on this area due to the fact that the revenue of the Parent Company is made up of a significant number of transactions of differing types in which multiple IT and accounting management systems are involved along with their corresponding data entry methods.



Auditors' report of the consolidated financial statements issued by an independent auditor

Risk in the recognition of revenue of the Parent Company / **Manner in which these have been addressed in the audit**

Within the scope of the audit, checks have been performed on the general controls of the IT management (IRIS and OCA) and accounting (SAP) systems, verifying the existence and implementation of policies and procedures relating to the management of the information systems, the maintenance of an access restriction policy and the implementation of passwords, the existence of procedures for logging and monitoring incidents on the systems and of the modifications registered on the systems themselves as well as the information contained thereon, the existence of suitable physical security measures of the physical elements, the formalisation of automated procedures for the control of interfaces and the definition of a business continuity plan in the event of an IT disaster.

Our work has also included the verification of the revenue cycles via the IT management systems (IRIS and OCA) verifying the efficiency of the different automated and manual controls considered as essential and the automated transfer of revenues recognised in the management system to the accounting system.

The work carried out on each of the activities of the Parent Company were as follows:

A. Sales from customers with a contract

- We have obtained all accounting entries that have generated the revenue recognised for the financial year, verifying whether the balancing entry follows logical accounting criteria.

- We have obtained confirmation of the balance and invoicing for the financial year for a series of customers selected at random, whom we have contacted by letter. In the event of any differences with the reply received, an analysis of the reconciliation between both balances has been performed. In the event of no reply being received the balance has been verified through the review of the previous payments received of the invoices.

B. Sales from cash invoices

- We have obtained all accounting entries that have generated the revenue recognised for the financial year, verifying whether the balancing entry follows logical accounting criteria.
- We have extracted all the revenue recognised on the IT management

system (IRIS) confirming that this matches the revenue figure recognised in the accounting system.

C. Sales from franking machines

- We have obtained all accounting entries that have generated the revenue recognised for the financial year, verifying whether the balancing entry follows logical accounting criteria.
- We have checked the payments received, for a sample selected at random, for the prepaid franking services by verifying bank statements.
- We have extracted all the revenue recognised on the IT accounting system, verifying, for a random sample, that said revenue matches the issued delivery note.



Auditors' report of the consolidated financial statements issued by an independent auditor

Risk in the recognition of revenue of the Parent Company / **Manner in which these have been addressed in the audit**

D. Sales from the international unit

- We have obtained all accounting entries that have generated the revenue recognised for the financial year, verifying whether the balancing entry follows logical accounting criteria.

- We have verified the calculation of the valuation made by the accounting system of the services provided and received through the request of records of services selected at random, by comparing the services provided or received with the corresponding delivery notes and rates applied (denominated in Special Money Order Rights) with those included in the general agreements with the Universal Postal Union and/or other specific agreements between countries and

the corresponding trading price for the day of said Special Money Order Rights.

- We have verified that the advance payments received from the different postal companies with which there is a commercial activity and the advance payments made by the Company, for a sample selected at random, by checking bank statements.

- We have verified, for a random sample, the compensations of advance payments received and made with the balances of invoices pending issue and receipt through the compensation agreements signed with other postal companies.

Lastly, we have checked the adequacy of the information revealed in the

consolidated financial statements in relation to the revenue.

Based on these procedures, and within the context of our audit, we consider that the accounting records and information revealed concerning the revenue of the Parent Company is consistent with the evidence obtained in our work.



Auditors' report of the consolidated financial statements issued by an independent auditor

Evaluation of the risk in the recognition of the operating subsidies / **Most relevant aspects of the audit**

As indicated in Note 17.c) of the notes to the attached consolidated financial statements, the Parent Company recognised under "Other operating income" the amount of 58,700 thousand euros corresponding to the compensation for the provision of the Universal Postal Service (UPS). The Parent Company also maintains a balance receivable from the Public Treasury for this item under "Other debtors" for the amount of 24,895 thousand euros.

As detailed in Notes 4.q) and 17.c) of the notes to the attached consolidated financial statements, the compensations for the costs deriving from the provision of the UPS are recognised as revenue in the consolidated income statement for the period in which they are recognised, regardless of the effective collection.

Due to the fact that the Provision Plan, which defines the methodology and the concepts of the calculation of the aforementioned compensations, has not been implemented for the financial years 2011 and thereafter, the Parent Company recognises as revenue for the financial year the amount of the compensations recognised in the National Budget, as indicated in Note 17 of the notes to the attached consolidated financial statements.

We have focused on this area due to the complexity of the accrual criteria of the compensations and the lack of implementation of the Provision Plan establishing the methodology and the concepts for the calculation of the net cost.



Auditors' report of the consolidated financial statements issued by an independent auditor

Evaluation of the risk in the recognition of the operating subsidies / **Manner in which these have been addressed in the audit**

Our auditing work includes the verification of the amount recognised under the heading "Other operating income" of the consolidated income statement through the amount included as compensation for the provision of the Universal Postal Service in the National Budget for the corresponding financial year.

In addition, by means of a letter addressed to the Public Treasury, which receives the amount of the compensations recognised in the National Budget, prior to the Parent Company being able to withdraw such when it has need for liquidity, we have obtained confirmation of the total amount received from the Government during the financial year for compensations for the provision of the Universal Postal Service which coincides with the recognised accounting revenue and the balance

pending withdrawal by the Company at 31 December 2017 which amounts to 24,895 thousand euros.

We have held conversations with the Management Committee of the Parent Company with the aim of evaluating and understanding the situation of the Provision Plan which, at the date of our opinion, is pending implementation and entry into force, in which they stated the impossibility of calculating the total amount of the compensations to which they may have a right to receive for each financial year.

As indicated in Note 5.q) of the notes to the attached consolidated financial statements, the approval of a Provision Plan for the financial years between 2011 and 2017 could have a positive or negative effect on the amounts recognised.

Lastly, we have evaluated the adequacy of the information revealed in the consolidated financial statements in relation to operating subsidies.

Based on these procedures, and within the context of our audit, we consider that the accounting records and information revealed concerning the revenue of the Parent Company is consistent with the evidence obtained in our work.



Auditors' report of the consolidated financial statements issued by an independent auditor

Evaluation of the impairment to the value of the land and buildings of the Parent Company / **Most relevant aspects of the audit**

As indicated in Notes 7, 8 and 9 of the notes to the attached consolidated financial statements, the Group recognises the book value of the land and buildings of the Parent Company under the headings "Property, plant and equipment", "Investments property" and "Non-current assets held for sale" according to the use or expected use of the asset for a net amount of 1,179,392, 15,970 and 11,986 thousand euros, respectively. These headings include a provision for impairment of the value for the amounts of 106,316, 137 and 2,735 thousand euros, respectively.

As regards the impairment of the assets recognised, as detailed in Note 2 of the notes to the attached consolidated financial statements, 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, by which 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.

The Parent Company requested an external appraiser to value a selection of a total of 608 sites by applying the methodology required in Order EHA/733/2010, of 25 March, with reference to the depreciated replacement cost of each asset. This valuation corresponds to the replacement value of the asset taking into account the location without considering the current status thereof nor any renovation work carried out.

This selection was performed taking into account those properties with a significant risk of impairment due to being

acquisitions performed at high prices during the years prior to the property crisis in Spain, those with a significant asset value compared to the average of the assets and those assets that maintained a provision for impairment at 31 December of the previous financial year.

We have focused on this area due to the significance of the value of the land and buildings with regard to the total of the assets, which amounted to 55%, and to which the impairment recognised on certain assets is based on evaluations performed by an independent expert appraiser.



Auditors' report of the consolidated financial statements issued by an independent auditor

Evaluation of the impairment to the value of the land and buildings of the Parent Company / **Manner in which these have been addressed in the audit**

We have requested the Parent Company to provide appraisal reports performed by the independent expert. The procedures that we have performed based on said information have been as follows:

- Verification of the competence, capacity and independence of the expert by means of written confirmation.

- Verification that the appraisals were performed in accordance with the accepted methodology, via the documentation facilitated regarding their work.

- Enquiries into the composition of the site selected for the evaluation, verifying that the Management Committee of the Parent Company had followed a clearly documented process to identify the assets with a higher risk of impairment

to the value or the need to reverse the impairment provision.

- Comparison, for a random sample of individual sites selected, of the book value of the assets with the appraisal value obtained for each asset, increased by the cost of the renovations performed for their commissioning and less the accumulated amortisation that may have been generated since acquisition confirming, where applicable, the impairment or reversal of the impairment provision made by the Parent Company.

- For the remainder of the assets not selected for their valuation due to the Management Committee of the Parent Company deeming it unlikely that there would be a high risk of impairment to their value at 31 December 2017, a selection of those assets whose value is more

significant and whose acquisition was near the time of the property crisis in Spain has been made, verifying that the book value of the square metre of these assets is lower than the market value obtained from the different property portals currently existing.

We have evaluated the adequacy of the information revealed in the consolidated financial statements in relation to the valuation of the impairment to the value of the land and buildings.

Based on these procedures, and within the context of our audit, we consider that the accounting records and information revealed concerning the impairment of the value of the land and buildings recognised by the Parent Company are consistent with the evidence obtained in our work.



Auditors' report of the consolidated financial statements issued by an independent auditor

Evaluation of the existence and valuation of provisions and contingent liabilities / **Most relevant aspects of the audit**

As detailed in Note 5. k) of the notes to the attached consolidated financial statements, the Group recognises provisions on its balance sheet when it currently has an obligation (whether due to a legal or contractual obligation) or arising from past events (whether due to an implicit or tacit obligation), when that obligation can be reasonably estimated and when it is likely to involve a future outlay of resources for its settlement.

As detailed in Note 15 of the notes to the attached consolidated financial statements, the Group has recognised the amount of 33,286 thousand euros under "Non-current and current provisions" corresponding to litigation and claims of varying natures.

Also in Note 23 of the notes to the attached consolidated financial statements, it states those contingent

liabilities for which the Group's Management Committee considers it is highly unlikely that there will be a future outlay of resources for their settlement or that the situation of the litigation does not allow for a reliable quantification thereof, with the foregoing based on the appraisals carried out by the internal legal department of the Group and other external advisers.

We have focused on this area due to the fact that the recognition of the provisions or their consideration as contingent liabilities is based on the estimates made by the Management Committee.



Auditors' report of the consolidated financial statements issued by an independent auditor

Evaluation of the existence and valuation of provisions and contingent liabilities / **Manner in which these have been addressed in the audit**

Within the scope of the audit, the Group provided us with the breakdown of the different litigation and claims, together with the relevant movements for the financial year.

Using this information as a basis, we have carried out the following audit procedures:

- By sending letters to legal and fiscal advisers, both internal and external, we have obtained confirmation of the litigation and claims open at 31 December 2017, together with their valuation, and of those that have been closed during the financial year. It has been verified that the probable risk of said litigation and claims have been provided for in the consolidated financial statements.

- With regard to the litigation and claims considered to be of greater significance,

we have requested the supporting documentation, such as court actions, rulings, etc., both for those that are currently open as well as those closed during the financial year. With regard to said documentation, it has been verified that the amounts claimed correspond to the information included in the replies received from the legal and fiscal advisers.

- We have held a meeting with the internal legal department of the Group to understand the nature of the different litigation and claims and to verify the valuation performed by the advisers in the letters issued in order to recognise them as provisions or contingent liabilities.

Lastly, we have evaluated the adequacy of the information revealed in the consolidated financial statements in

relation to the existence and valuation of the provisions and contingent liabilities.

Based on these procedures, and within the context of our audit, we consider that the accounting records and information revealed concerning the existence and evaluation of provisions and contingent liabilities are consistent with the evidence obtained in our work.



Auditors' report of the consolidated financial statements issued by an independent auditor

Other information: Management Report

Other information comprises exclusively the consolidated management report for 2017, whose preparation is the responsibility of the directors of the Parent Company and does not form an integral part of the consolidated financial statements.

Our opinion of the audit on the consolidated financial statements does not include the consolidated management

report. Our responsibility regarding the consolidated management report, in accordance with the provisions established in the regulating legislation on accounts audits, consists of evaluating and informing on the consistency of the consolidated management report with the consolidated financial statements, based on the knowledge of the Group obtained during the performance of the audit of the above-

mentioned accounts and without including information other than that obtained as evidence during the performance thereof. Similarly, our responsibility consists of evaluating and reporting on whether the content and presentation of the consolidated management report is in accordance with the applicable legislation. If, based on the work we have performed, we conclude that there are material

inaccuracies, we are obliged to report this.

Regarding the work carried out, as described in the preceding paragraph, the information contained in the consolidated management report is consistent with that of the consolidated financial statements for 2017 and their content and presentation are in accordance with the applicable legislation.

Responsibility of the directors and Audit and Control Committee in relation to the financial statements

The Parent Company's directors are responsible for the preparation of the attached consolidated financial statements and must ensure that they represent true and fair view of the assets, financial situation and results of the Group, in accordance with the regulatory framework on financial information applicable to the

entity in Spain, and the internal control they deem necessary to ensure that the consolidated financial statements are free of any material inaccuracies due to fraud or error.

In the preparation of the consolidated financial statements, the Parent

Company's directors are responsible for the evaluation of the capacity of the Group to continue as a going concern, revealing, where relevant, the issues relating to the company as a going concern and using the accounting policies of the going concern unless the directors have the intention of winding up the Group or ceasing its

operations, or there is no other realistic alternative.

The Audit and Control Committee is responsible for the supervision of the process for preparing and presenting the consolidated financial statements.



Auditors' report of the consolidated financial statements issued by an independent auditor

Responsibilities of the auditor in relation to the audit of the financial statements

Our objectives are to reasonably ascertain that the consolidated financial statements as a whole are free of material inaccuracies, due to fraud or error, and to issue an audit report that contains our opinion.

Reasonable certainty is a high degree of certainty but does not guarantee that an audit carried out in accordance with the regulating legislation on accounts auditing in force in Spain always detects a material inaccuracy when one exists. Inaccuracies may be due to fraud or error and are considered significant if, individually or as a whole, it may be reasonably expected that they would affect the economic decisions taken when such are based on the consolidated financial statements.

As part of an audit on the compliance with the regulating legislation on accounts

auditing in force in Spain, we apply our professional opinion and maintain an attitude of professional scepticism throughout the whole audit. Furthermore,

- We identify and assess the risks of material inaccuracy in the consolidated financial statements, due to fraud or error, we design and apply auditing procedures to respond to such risks and we obtain sufficient and appropriate evidence from the audit to provide a basis for our opinion. The risk of not detecting a material inaccuracy due to fraud is higher than in the case of a material inaccuracy due to error, given that the fraud implies collusion, falsification, deliberate omissions, intentionally erroneous statements, or the evasion of internal control.
- We obtain knowledge from internal control relevant to the audit with the aim

of designing auditing procedures that are appropriate to the circumstances, and not with the aim of expressing an opinion regarding the efficiency of the internal control of the Group.

- We evaluate whether the accounting policies applied are adequate and also the fairness of the accounting estimates and corresponding information revealed by the Parent Company's directors.
- We conclude whether the use of the accounting principle of going concern used by the Parent Company's directors is appropriate and, based on the evidence obtained from the audit, we conclude whether there is or not a material uncertainty relating to the facts or the conditions that may generate significant doubts on the capacity of the Company to continue as a going concern. If we conclude

that there is a material uncertainty, we are required to highlight this in our audit report indicating the corresponding information revealed in the consolidated financial statements or, if said disclosures are not adequate, that we express a modified opinion. Our conclusions are based on the evidence from the audit obtained up to the date of our audit report. However, future events or conditions may be the reason why the Group ceases to be a going concern.

- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the information disclosed, and whether the consolidated financial statements represent the transactions and underlying events in a manner which are representative of a true and fair view.



Auditors' report of the consolidated financial statements issued by an independent auditor

Responsibilities of the auditor in relation to the audit of the financial statements

- We obtain sufficient and suitable evidence in relation to the financial information from the entities or business activities within the Group to express an opinion regarding the consolidated financial statements. We are responsible for the management, supervision and performance of the audit of the Group. We are solely responsible for our opinion of the audit.

We communicate with the Audit and Control Committee of the Parent Company in relation to, among other matters, the scope and time of the performance of the audit scheduled and the significant findings from the audit, as well as any significant deficiency in the internal control that we identify during the performance of the audit.

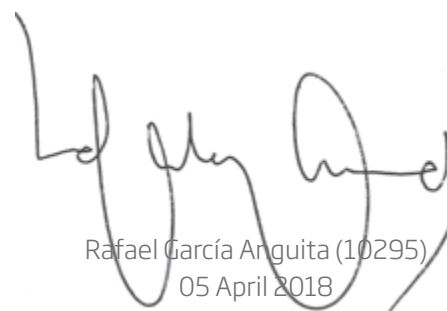
We also provide the Audit and Control Committee of the entity with a statement

that we have complied with the applicable ethical requirements, including those of independence, and we have informed the latter of those issues that may reasonably constitute a threat to our independence and, where applicable, the corresponding safeguards.

Among the significant risks that have been the object of communication to the audit and control committee of the Parent Company, we have determined those that are of greater significance during the audit of the consolidated financial statements of the current financial year and these are, as a result, the risks considered most significant.

We detail such risks in our audit report unless the legal or regulatory provisions prohibit the public disclosure of such matters.

PricewaterhouseCoopers Auditores, S.L. (S0242)


Rafael García Anguita (10295)
05 April 2018



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Consolidated balance sheet at the end of 2017

Expressed in thousands of euros

Assets	Notes	Balance at 31/12/2017	Balance at 31/12/2016
NON-CURRENT ASSETS		1,470,406	1,464,774
Intangible assets	6	32,962	35,640
Computer software		32,768	35,429
Other intangible fixed assets		194	211
Property, plant and equipment	7	1,387,948	1,392,420
Land and buildings		1,194,534	1,213,260
Technical installations and other items		169,750	159,895
Under construction and advances		23,664	19,265
Investments property	8	13,144	13,210
Non-current investments	11	3,106	5,761
Loans to third-parties		1,000	4,499
Other financial assets		2,106	1,262
Deferred tax assets	18	33,246	17,743
CURRENT ASSETS		708,207	795,387
Non-current assets held for sale	9	12,271	17,293
Inventories	10	4,660	5,008
Trade and other receivables	11	489,620	640,375
Clients from sales and provision of services		401,901	349,281
Clients, group companies and associates	20	70	61
Other debtors		53,706	278,747

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Consolidated balance sheet at the end of 2017

Expressed in thousands of euros

Assets	Notes	Balance at 31/12/2017	Balance at 31/12/2016
Debts, group companies and associates	20	26,640	4,209
Staff		7,125	7,658
Other receivables from government bodies	18	178	419
Current investments	11	903	4,064
Prepayments for current assets		811	660
Cash and cash equivalents	11,12	199,942	127,987
TOTAL ASSETS		2,178,613	2,260,161

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Consolidated balance sheet at the end of 2017

Expressed in thousands of euros

Equity and liabilities	Notes	Balance at 31/12/2017	Balance at 31/12/2016
EQUITY		1,615,934	1,772,491
Equity	13	1,357,688	1,504,654
Capital		611,521	611,521
Share premium		250,938	250,938
Reserves		632,095	683,342
Legal reserve		100,070	100,070
Statutory reserves		214,119	214,119
Voluntary reserves		317,906	369,153
Reserves in consolidated companies		10,100	2,031
Result for the year attributable to Parent Company	4	(146,966)	(43,178)
Subsidies, donations and bequests received	14	258,246	267,837
NON-CURRENT LIABILITIES		124,294	128,245
Non-current provisions	15	30,395	30,477
Non-current debts		7,907	8,421
Deferred tax liabilities	18	85,399	88,698
Non-current accruals		593	649
CURRENT LIABILITIES		438,385	359,425
Current provisions	15	2,891	1,843
Current debts	11, 16	25,413	19,914

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Consolidated balance sheet at the end of 2017

Expressed in thousands of euros

Equity and liabilities	Notes	Balance at 31/12/2017	Balance at 31/12/2016
Current debts with group companies and associates	11, 16, 20	878	492
Trade and other payables	11, 16	402,522	336,458
Suppliers		2,842	1,453
Suppliers, group companies and associates	16, 20	3	-
Other payables		230,517	192,428
Staff		18,394	17,938
Other debts with government bodies	18	50,074	51,713
Advances from customers		100,692	72,926
Current accruals		6,681	718
TOTAL EQUITY AND LIABILITIES		2,178,613	2,260,161



Consolidated income statement for the financial year ended 31 December 2017

Expressed in thousands of euros

Continuing operations	Notes	Financial year 2017	Financial year 2016
Revenue	17-a)	1,859,465	1,761,145
Supplies		(271,541)	(237,788)
Merchandise used	17-b)	(13,746)	(12,013)
Impairment of merchandise, raw materials and other supplies	10	(1,951)	120
Work carried out by other companies	17-b)	(255,844)	(225,895)
Other operating income		62,902	184,003
Non-trading and other operating income		3,906	3,948
Compensation for provision of the UPS	17-c)	58,700	180,000
Operating subsidies included in result of the financial year	17-c)	296	55
Staff costs	17-d)	(1,452,492)	(1,386,233)
Salaries and wages		(1,169,211)	(1,125,786)
Social security contributions		(275,025)	(251,860)
Other expenses		(8,256)	(8,587)
Other operating expenses		(314,350)	(304,658)
External services	17-e)	(302,801)	(285,982)
Taxes	17-f)	(4,997)	(11,361)
Losses, impairment and change in trade provisions		(82)	(1,838)
Other operating expenses		(6,470)	(5,477)

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Consolidated income statement for the financial year ended 31 December 2017

Expressed in thousands of euros

Continuing operations	Notes	Financial year 2017	Financial year 2016
Amortisation and depreciation	6, 7, 8	(92,938)	(90,365)
Non-financial and other capital subsidies	14	12,777	15,584
Excess on provisions	15	8,179	-
Impairment and loss/gain on disposal of fixed assets	17-g)	6,684	4,001
Impairment and losses		2,946	4,535
Result from disposals and others		3,738	(534)
Other results		(9,865)	(57)
OPERATING RESULT		(191,179)	(54,368)
Financial income	17-h)	703	846
From negotiable securities and other financial instruments:			
From group companies		61	97
From third-parties		642	749
Financial expenses	17-h)	(115)	(214)
Due to debts with third-parties		(115)	(214)
Exchange-rate differences		2,714	5,176
FINANCIAL RESULT		3,302	5,808
RESULT BEFORE TAX		(187,877)	(48,560)
Income tax	18	40,911	5,382
CONSOLIDATED RESULT FOR THE FINANCIAL YEAR		(146,966)	(43,178)



Consolidated cash flows statement for the financial year ended 31 December 2017

Expressed in thousands of euros

Operating activities	Notes	Financial year 2017	Financial year 2016
Result for the financial year before taxes		(187,877)	(48,560)
Adjustments to the result			
Amortisation and depreciation	6, 7, 8	92,938	90,365
Valuation adjustments due to impairment	7, 10, 11	(996)	(4,656)
Change in provisions		7,262	(193)
Allocation of capital subsidies	14	(12,777)	(15,584)
Acknowledgement of compensation for provision of the UPS	17-c)	(58,700)	(180,000)
Operating subsidies included in result of the financial year	17-c)	(296)	(55)
Result of removals and disposal of fixed assets		(3,738)	534
Financial income	17-h)	(703)	(846)
Financial expenses	17-h)	115	214
Exchange-rate differences		(2,714)	(5,176)
Other income and expenses		(151)	(4)
Changes in current capital			
Inventories		(1,602)	(2,112)
Trade and other receivables		234,285	194,372
Other current assets		3,487	785
Trade and other payable		65,528	(12,406)
Other current liabilities		9,702	(8,472)

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Consolidated cash flows statement for the financial year ended 31 December 2017

Expressed in thousands of euros

Operating activities	Notes	Financial year 2017	Financial year 2016
Other non-current assets and liabilities (+/-)		(3,461)	2,784
Other cash flows from operating activities			
Interest payments		(91)	(194)
Interest charges		565	794
Income tax collected		3,528	21,212
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		144,304	32,802
Investment activities	Notes	Financial year 2017	Financial year 2016
Payments for investments			
Intangible assets		(16,992)	(21,636)
Property, plant and equipment		(66,650)	(62,332)
Proceeds from disposals			
Property, plant and equipment		1,910	3,825
Non-current assets held for sale		9,417	1,340
TOTAL CASH FLOWS FROM INVESTMENT ACTIVITIES		(72,315)	(78,803)

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Consolidated cash flows statement for the financial year ended 31 December 2017

Expressed in thousands of euros

Financing activities	Notes	Financial year 2017	Financial year 2016
Charges and payments for equity instruments			
Subsidies, donations and bequests received		-	312
Collection and payment for financial liability			
Return and impairment of other debts		(34)	-
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		(34)	312
NET INCREASE/DECREASE IN CASH OR EQUIVALENTS		71,955	(45,689)
Cash and cash equivalents at the start of the financial year	12	127,987	173,676
Cash and cash equivalents at the end of the financial year	12	199,942	127,987



Statement of total changes in the consolidated equity corresponding to the financial year ending 31 December 2017

Expressed in thousands of euros

A) Statement of recognised income and expenses for the financial year ended 31 December 2017:

	Notes	Financial year 2017	Financial year 2016
Consolidated result for the financial year		(146,966)	(43,178)
Income and expenses directly attributed to consolidated equity:	14		
Subsidies, donations and bequests received		-	312
Tax effect		-	-
		-	312
Amounts transferred to the consolidated income statement:	14		
Subsidies, donations and bequests received:			
- due to amortisation		(12,018)	(13,422)
- due to adjustments for impairment		(385)	(1,781)
- due to disposals		(374)	(381)
Tax effect		3,186	3,887
		(9,591)	(11,697)
TOTAL RECOGNISED CONSOLIDATED INCOME AND EXPENSES		(156,557)	(54,563)



Statement of total changes in the consolidated equity corresponding to the financial year ending 31 December 2017

Expressed in thousands of euros

B) Total statement of changes in the consolidated net equity for the financial year ending 31 December 2017:

Reserves held by the Parent Company

	Capital	Share premium	Legal reserve	Voluntary statutory reserves	Other reserves	Reserves in consolidated companies	Consolidated result for the year	Subsidies, donations and bequests received	TOTAL
BALANCE START OF 2016 FINANCIAL YEAR	611,521	250,938	100,070	617,054	203,976	(201,629)	(34,098)	279,222	1,827,054
Total recognised consolidated income and expenses	-	-	-	-	-	-	(43,178)	(11,385)	(54,563)
Operations with partners or owners:									
Distribution of dividends	-	-	-	-	-	-	-	-	-
Other variations in the consolidated Equity	-	-	-	(33,782)	2,733	(3,049)	34,098	-	-
BALANCE START OF 2017 FINANCIAL YEAR	611,521	250,938	100,070	583,272	206,709	(204,678)	(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)	8,233	(164)	43,178	-	-
BALANCE END OF 2017 FINANCIAL YEAR	611,521	250,938	100,070	532,025	214,942	(204,842)	(146,966)	258,246	1,615,934



Report for the financial statement year 2017

Expressed in thousands of euros

1. Activities of the Parent Company

Sociedad Estatal Correos y Telégrafos S.A., State-Owned Trading 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 Royal Decree 1091/1988, dated 23 September, and additional item twelve of *Ley 6/1997, de 14 de abril, de Organización y Funcionamiento de la Administración General del Estado* [the Central Government Organisation Act, dated 14 April 1997], by a resolution of the Council of Ministers dated 22 June 2001, under article 58.1 of *Ley 14/2000, de 29 de diciembre, de Medidas Fiscales, Administrativas y del Orden Social* [the Tax, Administrative and Social Measures Act, dated 29 December 2000]. The Company is governed by *Ley de Sociedades de Capital* [the Capital Companies Act], by the rest of applicable

laws and regulations, and by its Articles of Association.

Under articles 58.2 and 58.3 of the aforementioned Tax, Administrative and Social Measures Act, the Company began its operations, and was automatically subrogated to the activities, assets, rights and obligations of the former *Entidad Pública Empresarial Correos y Telégrafos* (hereinafter, 'the Entity'), on 3 July 2001, the day of registration with the Companies Registry of the public deed of incorporation of the Company, dated 29 June 2001. From that day, the Company took over all the functions carried out by the former Entity and was subrogated to the status of authorised operator for the provision of the Universal Postal Service (hereinafter UPS) attributed to the latter in additional provision one of *Ley 24/1998, de 13 de julio, del Servicio Postal Universal y de Liberalización de los Servicios Postales*

[the Universal Postal Service and the Liberalisation of Postal Services Act, dated 13 July 1998], and subsequently for a period of 15 years under *Ley 43/2010, de 30 de diciembre, del Servicio Postal Universal, de los derechos de los usuarios y del mercado postal* [the Universal Postal Services, Users' Rights and the Postal Market Act, dated 30 December 2010].

Pursuant to article 58.4 of the Tax, Administrative and Social Measures Act, the Company owns, as of its incorporation, all the assets, rights and obligations of the former Entity. The state-owned assets transferred from the former Entity to the Company at the time of its incorporation were removed pursuant to section four of the aforementioned Act. Nonetheless, the Central Government, through the *Dirección General del Patrimonio del Estado* (Directorate General 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 the Tax, Administrative and Social Measures Act, civil servants who were actively employed by the former Entity at the time of registration of the public deed of incorporation of the Company became employees 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,



Report for the financial statement year 2017

Expressed in thousands of euros

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.

In addition, and pursuant to article 58.17 of aforementioned Tax, Administrative and Social Measures Act, any worker contracted by the Company from the date of the start of its activity shall be engaged under an ordinary employment contract.

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

Provision Plan and the contract regulating the Universal Postal Service (on the date of these 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, on the Creation of the National Markets and Competition Commission, hereinafter CNMC] explicitly repealed *Ley 23/2007, de 8 de octubre, de creación de la Comisión Nacional del Sector Postal* [Act 23/2007, of 8 October, on the Creation of the National Commission for the Postal Sector] and the creation of a single regulator centralising all functions regarding the correct function of

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

- Ensure that the UPS is respected, in compliance with postal regulations and 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 Management 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.



Report for the financial statement year 2017

Expressed in thousands of euros

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

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

Pursuant to the Postal Act the main sources of financing for the fund will be the budget assigned by the Central Government in its National Budget, the annual postal contribution of the postal operator and the bearers of individual licences, and fees for granting individual administrative licenses.

Article 26 of the Postal Act establishes the designated operator's (Correos) obligation to keep analytical accounts that make it possible to separate accounts for each

service and product of the UPS and any other services and products that are not part of it. In accordance with the Postal Act, the postal operator will submit for validation a calculation of the net cost of each financial year.

Similarly, the Postal Act guarantees access to the postal network for postal operators once they have been granted an individual administrative 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 Provision Plan and its regulating contract is approved.

The CNSP's Resolution of 27 July 2011, publishing Circular 1/2011, determines that, on a temporary basis and until the provisions contained therein are fulfilled, operators access to the postal network, as foreseen in article 45 of Act 43/2010, will be regulated as per the regime established in Royal Decree 1298/2006, of 10 November, regulating access to the public postal network and determining the conflict resolution procedure among postal operators and the conditions contained in the Resolution of 23 April 2007, from the *Subsecretaría de Fomento* (Under-



Report for the financial statement year 2017

Expressed in thousands of euros

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 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 Correos has been part of the group of companies called Grupo SEPI of which SEPI, a public law entity, is the parent company. SEPI is domiciled in Calle Velázquez no. 134 in Madrid, and is the sole shareholder, which means that the Company has a 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 *Ley de Sociedades de Capital* [the Capital Companies Act]. Pursuant to the provisions in article 136.4 of the *Ley 47/2003, de 20 de noviembre, de la Ley General Presupuestaria* [the Budget Act, dated 20 November 2003], SEPI is not obliged to submit its consolidated financial statements at the Companies Registry, as it is not a trading company.

The Company is the parent company of Correos Group. The financial statements of the Company corresponding to the financial year ended 31 December 2016, both individual and consolidated, were drawn up by the Governing Board of Correos on 09 March 2017, approved by the Sole Shareholder of the Parent Company on 23 June 2017. The financial statements are filed at Madrid's Companies Registry.



Report for the financial statement year 2017

Expressed in thousands of euros

2. Structure of the Correos y Telégrafos Group

The subsidiaries that comprise the Correos Group (hereinafter the Group) and which fall within the scope of consolidation as at 31 December 2017 are the following:

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

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

Paquetería Urgente, S.A., S.M.E., is the transport of corporate documents and small parcels, both nationally and internationally.

Correos Telecom, S.A., S.M.E., M.P. 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., has its registered address at Calle Rejas,



Report for the financial statement year 2017

Expressed in thousands of euros

9 in Madrid and its corporate purpose, coinciding with its principal activity, consists of providing hybrid postal services. Hybrid refers to postal services which allow the client to send documentation to Nexea Gestión Documental, S.A. telematically or electronically. The latter becomes responsible for printing the contents sheets which are subsequently sealed in envelopes and deposited in the Parent Company's admission centres for delivery to addressees.

All subsidiaries close their financial year on 31 December.

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 *Ley 40/2015, de 1 de octubre, de Régimen Jurídico del Sector Público* (Act 40/2015 of 1 October, on the Legal System for the Public Sector). According to these provisions the name of all Correos Group companies changed and are hereafter known as:

Name of the company

Sociedad Estatal Correos y Telégrafos, S.A., S.M.E

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

Nexea Gestión Documental, S.A., S.M.E

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

The Sole Shareholder's decision was passed by a public deed by each company, and recorded in the Companies Registry for all of the Group's companies.



Report for the financial statement year 2017

Expressed in thousands of euros

The statements corresponding to 31 December 2017 and 2016 for the equity instruments of the Parent Company held by Correos Group, before the standardisation and/or consolidation adjustments, are as follows:

	Financial year 2017			Financial year 2016		
	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	94,912	1,503	-	906	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	-	300	128
Other reserves	(560)	3,941	(60)	(560)	3,942	(60)
Results of previous financial years	(5,125)	-	(3,328)	(6,017)	-	(2,172)
Result of the financial year	7,623	1,632	(821)	991	1,513	(1,155)
TOTAL NET EQUITY	8,518	7,376	(3,107)	895	7,258	(2,285)
OPERATING RESULT	(6,508)	2,198	(827)	587	2,022	(1,283)



Report for the financial statement year 2017

Expressed in thousands of euros

3. Basis of presentation of the consolidated financial statements

When preparing these consolidated financial statements, 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 Financial Statements, and Royal Decree 602/2016, in addition to all other commercial legislation in force on 31 December 2017. Specifically:

- The financial statements 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 financial statements of the Group in a standardised manner.

- The different items on the previously standardised individual financial statements are aggregated according to item type.
- The representative book values of the capital instruments belonging to all of the Parent Company's subsidiaries are compensated with their net assets.
- The Inter-Group balances, transactions and cash flows between Correos Group companies have been eliminated in the consolidation process. Similarly, all results from internal operations are eliminated and deferred until performed for third parties which are not part of the Group.

- The variations in reserves belonging to different subsidiaries between their respective dates of coming under the control of the Parent Company or of first consolidation and 31 December 2017 are covered by the item 'Reserves in consolidated companies' on the consolidated balance sheet.

As regards the impairment of the assets registered under the 'Property, plant and equipment' heading, since the 2009 financial year the Parent Company has applied the stipulations of Order EHA/733/2010, of 25 March, approving accounting aspects for public companies operating in certain circumstances. The Order is mandatory on the member bodies of the public business sector at national, regional and local levels, regardless of their legal nature, which should apply the accounting principles and regulations in the Commercial Code and in the Generally

Accepted Accounting Principles (GAAP) and which, given the strategic or public 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 financial statements have been drawn up by the Parent Company Board of Directors in order to be submitted for approval by its Sole Shareholder. The Parent Company Directors believe that they will be approved with no modifications.

A. Fair presentation

These consolidated financial statements 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 2017, in order to



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provide a fair presentation of the assets, financial situation and results of the Group. The consolidated cash flows statement has been prepared with the aim of truthfully reporting the origin and the use of the monetary assets representing cash and other equivalent liquid assets of the Group.

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

B. Critical aspects of the valuation and estimation of uncertainty

In preparing the consolidated financial statements, the Parent Company Directors have had to use judgements, estimates and assumptions that have a bearing on the application of the accounting policies and the balances of assets, liabilities, income

and expenses and the breakdown of contingent assets and liabilities 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 financial statements.

The main judgements relating to future events and other sources of uncertain estimates on the date on which the consolidated financial statements 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 2017 there



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are no contingencies other than those recorded in these consolidated financial statements 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 financial statements are as follows:

- Deferred tax assets
The recognition of the deferred tax assets is made on the basis of the future estimates made by the Group Companies relating to the probability of future taxable gains being available, or the existence of deferred liability amounts to fund them during the same periods of time.
- Provisions
Correos Group recognises provisions for risks, in accordance with the accounting

policy stated in note (5-k) of this report on 'Provisions and contingencies liabilities'. 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 values that can be recovered
The calculation of reasonable values,

values in use, current values and values that can be recovered implies the calculation of future cash flows and assuming hypotheses relating to the future values of the flows, as well as the discount rates applicable to 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 financial statements', 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 financial statements, the Parent Company Directors have included descriptive information regarding the previous period.



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4. Application of the results of the Parent Company

The proposed use of profit for 2017 put forth by the Directors of the Parent Company and pending approval by the Sole Shareholder, as well as the proposal approved for the 2016 financial year, is as follows:

	Financial year 2017	Financial year 2016
Result for the financial year	(60,727)	(51,537)
Distribution base:		
Voluntary reserves	(60,727)	(51,537)
TOTAL	(60,727)	(51,537)

On 23 June 2017, the Parent Company's Sole Shareholder approved the proposed use of the profits from the 2016 financial year.

Limitations on the distribution of results and dividends

Pursuant to Article 274 of the *Ley de Sociedades de Capital* (Capital Companies Act) approved by Royal Legislative Decree 1/2010 of 2 July, companies are obliged to use 10% of the profits from each financial year to establish the Legal Reserve until the reserve reaches at least 20% of the Share Capital. This reserve cannot be distributed to the shareholders, and it can only be used to cover the negative

balance of the income statement in the event that other reserves are not available.

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



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5. Recording and valuation rules

The main recording and valuation criteria used by the Parent Company in preparing these consolidated financial statements, pursuant to the terms set out in the Spanish Generally Accepted Accounting Practices approved by Royal Decree 1514/2007 and the amendments incorporated by Royal Decrees 1159/2010 and 602/2016, are as follows:

A. Intangible assets

Intangible 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.

- 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), reduced by the accumulated amortisation and, as appropriate, by the accumulated amount of the recognised valuation adjustments for impairment. Indirect taxes

on property, plant and equipment are included in the purchase price when they cannot be recovered directly from the Tax Authorities.

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

Buildings and other constructions	35 - 75
Plant and machinery	3 - 33
Other installation, equipment and furniture	5 - 20
Information technology equipment	3 - 8
Motor vehicles	6 - 10
Other property, plant and equipment	3 - 11



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

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

Maintenance and repair costs for property, plant and equipment that do not improve their use or lengthen

their lifetime are entered in the income statement at the time of accrual.

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

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

C. Investments property

Investment property comprise land and buildings owned by the Parent

Company and leased to third parties to obtain long-term income. The items included under this heading are valued at their acquisition cost, minus their corresponding 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.

D. Operating and financial leases

Correos Group classifies leasing contracts as financial when it can be deduced from their economic conditions that all of the risks and benefits inherent in the ownership of the asset subject to the agreement are substantially transferred. The agreements that do not substantially transfer all of the risks and benefits and in which the lessor is only entitled to use

the asset for a certain period of time are classified as operating leases.

■ Correos Group as lessee

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

Payments for operating leases are recorded as expenses in the consolidated income statement based on their accrual on a straight-line basis of the total lease period.



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■ Correos Group as lessor

Earnings from operating leases are recorded in the consolidated income statement 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 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, in any event, for any intangible asset with an unlimited service life, if any, the value of these assets that can be recovered is estimated.

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

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

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



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F. Financial assets

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

Correos Group classifies its financial assets into the following categories for the purposes of their valuation:

- Loans and entries receivable: these include the financial assets which, not being negotiated in any organised 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 (i).

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

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

Following the initial recognition, 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 (i).

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

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

Correos Group cancels a financial asset, or a part thereof, when the contractual rights

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

G. Impairment of financial assets

The book value of the financial assets is corrected by debiting the consolidated income statement when there is objective evidence that an impairment loss has occurred. In order to determine impairment losses, Correos Group evaluates the possible losses of both the individual assets and the groups of assets with similar risk characteristics by the end of the financial year at the latest.



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

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

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

In the event of due debts from public clients, the impairment of the debt is entered for the amount obtained from applying the market interest rate 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 resources make up the cash and bank funds, and the deposits and other financial assets that can be converted into cash and whose maturity, at time of their acquisition, is no longer than three months, are not subject to a significant risk of change in value and that form part of the normal cash flows management policy of Correos Group.

J. Inventories

Inventories 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 income statement.

K. Provisions and contingent liabilities

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



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

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

L. Financial liabilities

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

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

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

Financial liabilities are initially valued

at their fair value which, unless there is evidence to the contrary, is the price of the transaction.

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

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

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

M. Foreign currency transactions

■ Monetary entries

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

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

N. Income and expenses

Income and expenses are allocated on the basis of actual movement of goods and



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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



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the 2012 financial year and has not made any contributions since then.

As of 31 December 2017, 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 investee company Correos Express Paquetería Urgente, S.A. provide that employees taking voluntary early retirement from age 60 to 65 must be paid a length-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 of (income from) the tax on earnings of the financial year is calculated with the sum of the current tax, which results from the application of the relevant rate of taxation on the taxable base of the financial year, after applying the existing allowances and deductions, and from the variation of the assets and liabilities for deferred taxes recorded. This is recognised in the income statement, except in those cases in which this tax is directly related to entries reflected explicitly in the net assets of Correos Group, in which case the tax is recognised, likewise, in the same item.

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 number 9/86 effective for the 2012 financial year.

For the purposes of Corporation Tax, the companies of Correos Group are part of Consolidated Fiscal Group 9/86, made up of 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* [the Corporation Tax Act].



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

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

Correos Group always recognises the corresponding liabilities from deferred tax when they arise.

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

With regard to the negative tax amounts generated by the Group Companies before they became part of the consolidated fiscal group No. 9/86, recorded in the item 'deferred tax liabilities', their recoverability is evaluated annually to determine future tax 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 income statement, except insofar as the assets and liabilities for deferred taxes affected have been charged or paid directly to the net assets.

In any case, the negative tax amounts generated by the Correos Group Companies starting from their incorporation in the consolidated fiscal group 9/86 were acquired by SEPI at a rate of 28% until

financial year 2015 and from financial year 2016 at a rate of 25%.

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

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

Government contributions, 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.



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Non-refundable compensations received by the Parent Company, up to the 2010 financial year, as capital contributions to offset the costs derived from provision of the UPS are allocated to the consolidated income statement during the period of time equivalent to the service life of the components of the fixed assets financed with said contributions, unless these assets are transferred, impaired or are eliminated, in which case they are allocated to the consolidated income statement, either totally or according to the theoretical percentage of the impairment of the assets covered by the contributions, at such time as this occurs. The allocation to the consolidated income statement of the compensations used for the financing of land is deferred until the financial year in which their transfer or impairment takes place.

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

It is possible that if the CNMC resolution on the calculation of the net cost of the UPS in the financial years 2011, 2012, 2013, 2014, 2015, 2016 and 2017 differs from the amounts assigned in the National Budget, there could be a positive or negative impact on the amounts recorded. Any such final impact cannot be calculated until the new Service Plan, to be developed by the Spanish Government, comes into force, which will establish the methodology and concepts to calculate the net cost.

As regards the considerations received up 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.

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 income statement.

Article 2 of the *Ley 23/2005, de 18 de noviembre, de Reformas en Materia Tributaria para el Impulso a la Productividad* [the Tax Incentives for Productivity Act, dated 18 November 2005], changed the value added tax rules applicable to the postal services provided by the Parent Company with effect from 1 January 2006. In particular, from 1 January 2006 the value added tax exemption for postal services was limited to universal postal services reserved to the operator designated to provide them, i.e., the Parent Company. This new scenario meant significantly increasing the deductible



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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 income statement.

Article 22.2 of Act 43/2010, of 30 December, on the Universal Postal Service, Users' Rights and the Postal Market, 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.



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6. Intangible assets

The detail of activity in the 2017 and 2016 financial years is as follows:

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

of updates for different software programs owned by the Group.

The registrations seen during the

financial year correspond in the main to investments made by the Parent Company to acquire user licences and new IT programs, in addition to the updates to

others, for the sum of 15,054 thousand euros (with the investment registered during the 2016 financial year being 13,901 thousand euros).



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Financial year 2016

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

The cost of the wholly amortised items that formed part of the intangible assets of the Correos Group at 31 December 2017 amounts to 198,689 thousand

euros (181,566 thousand euros in 2016).
At 31 December 2017, the Parent Company held binding agreements

for the acquisition of IT applications and evolutionary enhancements to IT systems for the sum of 8,261 thousand euros (10,134 thousand euros in 2016).

On that date there were no binding agreements of sale involving any intangible assets owned by Correos Group.



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7. Property, plant and equipment

The detail of activity in the 2017 and 2016 financial years is as follows:

Financial year 2017

	Balance at 01/01/2017	Additions 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 items	675,854	43,216	(41,141)	5,009	682,938
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 items	(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 items	(2,830)	-	9	(24)	(2,845)
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



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Financial year 2016

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



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The most significant additions made under the headings 'land and buildings', and 'Under construction and advances' during the financial year correspond to the Parent Company, and refer to the renovation and adaptation of existing premises and to the investments made at the logistics centres for the postal processing and delivery for sums of 9,964 and 317 thousand euros respectively (12,212 and 745 thousand euros respectively during the 2016 financial year).

The heading 'Technical installations and other items' includes the plant investments made at the properties used by the Group (whether or not it owns them), together with the investments made in machinery, IT equipment, motor vehicles and furniture. The most important recordings made under this heading during the financial year

correspond to the purchase by the Parent Company of motor vehicles, IT equipment, machinery and furniture for sums of 11,805, 8,232, 6,097 and 5,428 thousand euros respectively (in the 2016 financial year the amounts for motor vehicles, IT equipment, machinery and furniture were 9,060, 9,143, 9,796 and 6,719 thousand euros respectively).

Of the total sum for disposals of property, land and equipment, 39,549 thousand euros correspond to fully amortised elements that were disposed of by the Parent Company, mainly IT equipment, machinery, furniture and plant (the Parent Company disposed of wholly amortised material elements amounting to 35,483 thousand euros during the 2016 financial year).

As mentioned in Note 4.e) of this Parent Company report, in light of the

stipulations of Order EHA/733/2010, of 25 March which approved accounting aspects for public companies operating in certain circumstances, the impairment of the assets included under the heading property, 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', 'Investment property' and 'Non-current assets held for sale'



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of 3,315 thousand euros (allocation of 2,099 thousand euros and reversal of 5,414 thousand euros), which was recorded in the 2016 income statement. A net reversal for impairment of 4,024 thousand euros was recognised in 2016 (provision of 1,314 thousand euros and a reversal of 5,338 thousand euros).

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 (165 thousand euros in 2016).

As of 31 December 2017, the Parent Company had signed contracts to purchase Property, plant and equipment worth 45,072 thousand euros (30,623 thousand euros in the 2016 financial year). At the close of the financial year, the Company has no final commitments

involving sale of assets of significant net book value.

The cost of the wholly amortised items that formed part of the Property, plant and equipment of the Correos Group as of 31 December 2017 amounts to 432,245 thousand euros (424,297 thousand euros as of 31 December 2016).

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 41,107 thousand euros (43,439 thousand euros as of 31 December 2016), and their acquisition cost was 65,267 thousand euros (69,087 thousand euros at 31 December 2016).

Correos Group has insurance policies in place to cover those risks that could affect most of its Property, plant and equipment.



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8. Investments property

The detail of activity in the 2017 and 2016 financial years is as follows:

	Balance at 01/01/2016	Additions and Provisions	Disposals	Balance at 31/12/2016	Additions and Provisions	Disposals	Transfers	Balance at 31/12/2017
Cost-								
Land	3,069	-	1,014	4,083	-	(180)	198	4,101
Buildings	10,982	23	2,845	13,850	16	(271)	420	14,015
TOTAL COST	14,051	23	3,859	17,933	16	(451)	618	18,116
Accumulated amortisation-								
Buildings	(3,997)	(208)	(432)	(4,637)	(234)	138	(102)	(4,835)
Adjustments for impairment-								
Land and buildings	(89)	3	-	(86)	3	-	(54)	(137)
NET BOOK VALUE	9,965			13,210				13,144



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Investment property corresponds to premises that the Parent Company has leased to third parties. The income from these contracts recorded in the consolidated income statement amounted to 955 thousand euros in the 2017 financial year, (648 thousand euros in the 2016 financial year).

The costs associated with property investments mostly correspond to their annual amortisation and maintenance costs, and amounted to 517 thousand euros during the 2017 financial year (493 thousand euros during the 2016 financial year). All of these expenses were recorded in the consolidated income statement based on the accrual principle.

There are no restrictions on investment property or on the collection of revenue deriving from these or from the resources

obtained from their transfer or disposal by other means, apart from those mentioned in Note (1) of this report under 'Parent Company Activity'.

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

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

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

	Financial year 2017	Financial year 2016
Up to one year	1,032	924
Between one and five years	1,549	2,038
More than five years	514	984
TOTAL	3,095	3,946



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9. Non-current assets held for sale

The detail and movement under this heading during the 2017 and 2016 financial years is as follows:

	Balance at 01/01/2017	Additions 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



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At the close of 2017, the Parent Company classified 12,010 thousand euros (17,032 thousand euros in the 2016 financial year) under the heading 'Non-current assets held for sale', corresponding to

the investments in land, buildings and property assets owned by the Company included in a disposal plan approved by the Parent Company's Governing Board in the 2012 financial year or for which it

takes steps to achieve their sale.

In the 2017 financial year the Parent Company disposed of assets by sale worth 8,022 thousand euros and an accumulated

amortisation of 1,062 thousand euros (against 1,084 thousand euros and an accumulated amortisation of 253 thousand euros respectively in the 2016 financial year).

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



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10. Inventories

Details of this item as of 31 December 2017 and 2016 are as follows:

	Balance at 31/12/2017	Balance at 31/12/2016
Inventories valued at cost-		
Stamps in the possession of third parties	311	350
Stamps at Company's post offices and warehouses	1,734	1,493
Philately Stamps	4,329	3,400
Other stocks	2,615	2,905
	8,989	8,148
Valuation adjustments due to impairment-	(4,329)	(3,140)
	4,660	5,008

The movement of the valuation adjustments for impairment of inventories during the 2017 and 2016 financial years is as follows:

Valuation adjustments

	Stamps	Others	TOTAL
BALANCE AT 01 JANUARY 2016	3,101	711	3,812
Valuation adjustments due to impairment	170	-	170
Reversal of valuation adjustments	(219)	(71)	(290)
Application against cost of inventories	(539)	(13)	(552)
BALANCE AT 31 DECEMBER 2016	2,513	627	3,140
Valuation adjustments due to impairment	2,049	211	2,260
Reversal of valuation adjustments	(309)	-	(309)
Application against cost of inventories	(565)	(197)	(762)
BALANCE AT 31 DECEMBER 2017	3,688	641	4,329

Correos Group has maintained valuation adjustments for the impairment of stamps for a value of 3,688 thousand euros (2,513 thousand euros in 2016) 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 inventories of stamps whose age and/or the reason for their issue make their use impossible. For that reason, completely impaired stamps worth 762 thousand euros were destroyed over the financial year (552 thousand euros in 2016).



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11. Current and non-current financial assets

The composition of Correos Group current financial assets as of 31 December 2017 and 2016, 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 31/12/2017	Balance at 31/12/2016
Trade and other receivables-		
Clients from sales and provision of services	401,901	349,281
Clients, group companies and associates (Note 20)	70	61
Other debtors	53,706	278,747
Debtors, group and associated companies (Note 20)	26,640	4,209
Staff	7,125	7,658
Government Bodies (Note 18)	178	419
	489,620	640,375
Current investments-		
Deposits and guarantees	903	4,064

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

11.1. Trade and other receivables

The headings 'Clients from sales and provision of services' and 'Other debtors' include 160,491 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 149,405 thousand euros as of 31 December 2016).

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.

Other debtors includes 24,895 thousand euros (258,926 thousand euros in the 2016 financial year), corresponding to the balance at 31 December 2017 for compensation of costs derived from provision of the UPS

in previous financial years and pending payment and which the Parent Company expects to receive in the short term. According to a communication sent by the Directorate General of the Treasury and Financial Policy on 10 March 2009, the Treasury will adjust the issue of funds to Public Institutions according to their effective liquidity requirements and will withhold them if the recipients, based on their monthly treasury forecasts, have their liquidity requirements covered (see Notes 11.3.1) and 17.c)).



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The headings 'Clients from sales and provision of services' and 'Other debtors' are shown as net valuation adjustments for impairment, with their movements during the 2017 and 2016 financial years being as follows:

Valuation adjustments

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

Under the item 'Losses, impairment and change in trade provisions' of the consolidated income statement, the Correos Group recorded an expense of 1,864 thousand euros due to a direct

cancellation of defaulting debts (having registered an expense of 531 thousand euros for this same item during the 2016 financial year).



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11.2. Current investments

The current 'Deposits and guarantees' item mostly records court bonds with various labour courts for actions brought by the employees and former employees of the Parent Company.

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

The risk management policies of the Parent Company are laid down by the Management Committee, after having been approved by the Governing Board. On the basis of these policies, a set of procedures and

controls was established to make it possible to identify, measure and manage risks deriving from the financial instruments, which expose the Company to credit, market and liquidity risks:

11.3.1. Credit risks

A credit risk arises due to the possible loss caused by a breach of the

contractual obligations of the Parent Company's counterparts, that is, due to the possibility of not recovering the financial assets for the sum recorded in the set period.

The maximum exposure to credit risk of Correos Group at 31 December 2017 and 2016 is as follows:

	Parent Company		Rest of companies of the Group		Total Correos Group	
	Balance at 31/12/2017	Balance at 31/12/2016	Balance at 31/12/2017	Balance at 31/12/2016	Balance at 31/12/2017	Balance at 31/12/2016
Non-current investments	2,096	4,940	1,010	821	3,106	5,761
Clients from sales and provision of services	345,547	301,811	56,354	47,470	401,901	349,281
Other debtors (Note 11)	53,294	278,217	412	530	53,706	278,747
Current investments	883	4,045	20	19	903	4,064
Current deposits	70,000	-	-	-	70,000	-
Accrued interest not due	11	7	-	-	11	7
Banks and financial institutions	96,760	99,334	2,024	1,838	98,784	101,172
	568,591	688,354	59,820	50,678	628,411	739,032



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'Other debtors' is composed as follows:

	Balance at 31/12/2017	Balance at 31/12/2016
Trade and other receivables		
Other debtors - UPS compensation (Note 18)	24,895	258,926
Other debtors - rest	28,811	19,821
	53,706	278,747

In the 2017 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 58,700 thousand euros (in 2016 it recognised 180,000 thousand euros corresponding to the payment of compensation of costs derived from the UPS in previous years). As detailed in Note 11.1), under the heading 'Other

debtors', the Parent Company expects to receive in the short term the amount of 24,895 thousand euros outstanding at 31 December 2017, relating to the compensation of costs deriving from the UPS, (258,926 thousand euros in the financial year 2016).

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

'Non-current investments' comprises the following:

	Balance at 31/12/2017	Balance at 31/12/2016
Non-current investments		
Loans to third-parties	1,000	4,499
Other financial assets	2,106	1,262
	3,106	5,761

The heading 'Non-current investments' of the Parent Company includes a non-current loan of 999 thousand euros, for the sale with postponed payment of a building in financial year 2015 (1,999 thousand euros in financial year 2015), as well as long-term guarantees and deposits for 1,111 thousand euros. It

also includes 18 thousand euros, which correspond fully to the acquisition of shares in the International Post Corporation (IPC).

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



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The different companies in Correos Group perform a solvency analysis for each of their clients. These analyses are used for awarding or denying contracts

with postponed payment to clients. The authorisations for the signing of these contracts are classified according to the amount of the loan.

The breakdown of the concentration of credit risks per counterpart under the 'Clients from sales and provision of services' and 'Other debtors' sections of

Correos Group as of 31 December 2017 and 2016 is as follows:

Financial year 2017

	Parent Company		Rest of companies	
	Number	Thousand euros	Number	Thousand 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	-	-
Other debtors - UPS compensation (Note 11)	-	24,895	-	-
Other financial assets	-	20,694	-	415
		206,080		415
		398,841		56,766



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Financial year 2016

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



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At 31 December 2017 and 2016, the breakdown of the 'Clients' and 'Foreign postal operators' of Correos Group's companies by maturity is as follows:

	Financial year 2017			Financial year 2016		
	Parent Company		Rest of group companies	Parent Company		Rest of group companies
	Clients	Foreign postal operators	Clients	Clients	Foreign postal operators	Clients
Not due	107,984	67,405	37,623	97,653	71,040	35,070
Non-doubtful due:						
Less than 30 days	58,360	437	10,836	32,766	252	6,410
Between 30 and 60 days	15,909	1,107	2,798	9,735	522	2,088
Between 60 and 90 days	3,933	462	1,762	7,551	325	896
Between 90 and 120 days	1,931	233	649	2,173	81	656
Over 120 days	4,644	76,683	2,683	6,917	66,436	2,345
Provisional payments	-	14,164	-	-	10,749	-
	192,761	160,491	56,351	156,795	149,405	47,465
Doubtful clients	14,488	1,012	7,169	12,335	928	5,331
Adjustments for impairment	(14,488)	(1,012)	(7,169)	(12,335)	(928)	(5,331)
	192,761	160,491	56,351	156,795	149,405	47,465



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The amounts receivable from Parent Company clients that are more than 120 days old come to 4,644 thousand euros (6,917 thousand euros in 2016).

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

The Parent Company streamlined the cash flow surpluses during the 2017 financial year by actively managing the funds deposited in current accounts in highly solvent national financial entities. Over the course of the 2017 financial year, the Parent Company also lent cash flow to its Sole Shareholder (SEPI),

payable in less than two months at market interest rates (See Notes 12, 17 h) and 20).

■ 11.3. 2. Market risk

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

- Interest rate risks

An interest risk arises due to the possible loss caused by variations in the fair value or in future cash flows of a financial instrument due to changes in market interest rates.

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

- Exchange rate risks

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

In this regard, the Parent Company's exposure to this risk largely corresponds to the accounts receivable and payable deriving from international mail. Given that the net value of these balances as of 31 December 2017 amounted to 10,172 thousand euros payable (39,680 thousand as of 31 December 2016), the Parent Company's Directors do not consider this risk significant.



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■ 11.3.3. Liquidity risks

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

The breakdown of the current financial assets and liabilities of the Group as of 31 December 2017 and 2016, and, by difference, its ability to meet its payment obligations in the short-term, is as follows:

	Balance at 31/12/2017	Balance at 31/12/2016
Current financial assets-		
Clients from sales and provision of services	401,901	349,281
Other debtors	53,706	278,747
Financial Investments	903	4,064
Cash and cash equivalents	199,942	127,987
Current financial liabilities-		
Current debts	(25,413)	(19,914)
Trade and other payables	(402,522)	(336,458)
DIFFERENCE	228,517	403,707



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12. Cash and cash equivalents

Details of this item as of 31 December 2017 and 2016 are as follows:

	Balance at 31/12/2017	Balance at 31/12/2016
Cash:		
Cash	31,146	26,808
Banks and financial institutions	98,784	101,172
Cash equivalents:		
Current deposits (Notes 11.3.1) 20)	70,000	-
Accrued interest not due:		
From group companies (Notes 11.3.1 and 20)	1	-
From third-parties	11	7
	199,942	127,987



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13. 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 financial statements.

A. Authorised 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 2017 and 2016.

C. Reserves

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

The Legal Reserve can only be used to increase the share capital 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.

Under the Parent Company's Articles of Association, the Company must allocate 20% of profits for the year to reserves required by Articles of Association. As of 31 December 2017, these reserves may be freely disposed of as decided by the Governing Board of the Parent Company pursuant to article 36 of its Articles of Association. As of 31 December 2017, the Statutory Reserves totalled 214,119 thousand euros while the Voluntary Reserves stood at 317,906 thousand euros (at 31 December 2016, these totalled 214,119 thousand euros and 369,153 thousand euros, respectively).



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D. Reserves in consolidated companies

The breakdown as of 31 December 2017 and 2016 is as follows:

	Balance at 31/12/2015	Result 2015	Dividend	Balance at 31/12/2016	Result 2016	Dividend	Balance at 31/12/2017
Correos Telecom, S.A., S.M.E., M.P.	4,245	1,223	(1,223)	4,245	1,513	(1,513)	4,245
Nexea Gestión Documental, S.A., S.M.E.	(6,169)	(1,198)	-	(7,367)	(1,155)	-	(8,522)
Correos Express Paquetería Urgente, S.A., S.M.E.	(199,705)	(1,851)	-	(201,556)	991	-	(200,565)
	(201,629)	(1,826)	(1,223)	(204,678)	1,349	(1,513)	(204,842)

This heading also includes the Parent Company's Other Reserves, reflecting the reserves generated by certain consolidation adjustments in the past for 214,942 thousand euros (206,709 thousand euros in the 2016 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.



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E. Consolidated results of Correos Group

Correos Group's consolidated profits for the 2017 and 2016 financial years are as follows:

Financial year 2017

	Individual results	Consolidation adjustments	Consolidated 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)

Financial year 2016

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



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

The itemised details of movements during financial years 2017 and 2016 of compensations received as capital subsidies up to financial year 2010 from the Parent Company were as follows:

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

Financial year 2017	Thousand euros	
	INITIAL BALANCE AT 01 JANUARY 2017	266,246
	Government contributions, donations and bequests recognised	-
	Tax effect	-
	Amounts transferred to the consolidated income statement:	
	- due to amortisation	(11,984)
	- due to adjustments for impairment	(385)
	- due to disposals	(374)
	Tax effect	3,186
	FINAL BALANCE AT 31 DECEMBER 2017	256,689

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 2017, and acknowledges this change in the Company's equity (see Note 5p), 18 and the Statement of total changes in the equity).



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15. Non-current and current provisions

The itemised list of non-current and current provisions for the 2017 and 2016 financial years is as follows:

Non-current provisions

	Provision for taxes	Provision for claims from the staff	Provision for court actions	Other provisions	Total	Short-term provisions
BALANCE AT 01 JANUARY 2016	1,851	15,020	18,269	567	35,707	1,150
Provisions	4,379	-	1,295	94	5,768	1,078
Applications / payments	(372)	(1,946)	-	-	(2,318)	(258)
Reversals / excesses	(1,300)	(5,698)	(1,540)	(142)	(8,680)	(127)
BALANCE AT 31 DECEMBER 2016	4,558	7,376	18,024	519	30,477	1,843
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



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The provisions for the financial year, amounting to 15,666 thousand euros, have been charged to the consolidated income statement according to their type (5,768 thousand euros in 2016).

The origin of these charges lies in court decisions that have been unfavourable for Correos Group during financial year 2017 and which have involved the actual payment of certain amounts.

The reversals for the financial year, amounting to 10,001 thousand euros, have been charged to the income statement (8,680 thousand euros in 2016).

- Provision for claims from the staff
The balance of this provision as of 31 December 2017 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 2017 and 2016 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 'Excess on provisions' of the income statement of 8,179 thousand euros.

On 8 March 2018, the CNMC issued a resolution in which it fined Correos Express Paquetería Urgente S.A., S.M.E. 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. has decided to file a motion for appeal against this resolution before the National Court, with the possibility of requesting the precautionary suspension of the payment of the fines imposed, provided that it can demonstrate that the payment thereof may result in harm to the company that may be difficult or impossible to remedy.

The directors of the subsidiary, based on the assessment and opinions of external legal advisers and the legal department thereof, 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. amounts to 9,818 thousand euros.



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16. Financial liabilities

The composition of Correos Group's current financial liabilities as of 31 December 2017 and 2016, including balances with government bodies not considered financial instruments, is as follows:

	Balance at 31/12/2017	Balance at 31/12/2016
Non-current debts:		
Current payables for fixed assets	5,876	6,816
Deposits and guarantees	1,221	1,084
Other long-term debts	810	521
TOTAL LONG-TERM DEBTS	7,907	8,421
Current debts:		
Creditors for fixed assets	11,100	5,146
Money order deposits	4,838	4,408
Deposits and guarantees	6,228	8,624
Other current debts	3,247	1,736
TOTAL CURRENT DEBTS	25,413	19,914
CURRENT DEBTS WITH GROUP COMPANIES AND ASSOCIATES (NOTE 20)	878	492
Trade and other payables:		
Suppliers	2,842	1,453
Suppliers, group and associated companies (Note 20)	3	-
Other payables	230,517	192,428
Staff (accrued wages and salaries)	18,394	17,938
Other debts with government bodies (Note 18)	50,074	51,713
Advances from customers	100,692	72,926
TOTAL TRADE AND OTHER PAYABLES	402,522	336,458



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

'Money order deposits' include money orders accepted prior to 31 December 2017 and pending payment by the Parent Company to their recipients at that date.

The 'Other payables' heading includes amounts received by the Parent Company from third parties totalling 23,546 thousand euros (23,155 thousand euros in the 2016 financial year).

Likewise, the headings 'Other payables' and 'Advances from customers' include 150,319 thousand euros whose origin lies in pending payments to different third-country postal operators for postal and telegram services received from

them (109,725 thousand euros as of 31 December 2016).

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 2017 is as follows:

	Financial year 2017	Financial year 2016
	Days	Days
Average settlement period for supplier invoices	28	27
Ratio of paid transactions	29	28
Ratio of outstanding transactions	16	16
	Thousand euros	Thousand euros
Total payments made	438,943	430,673
Total outstanding payments	45,620	13,327



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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 2017 and 2016 financial years, is as follows:

	Financial year 2017	Financial year 2016
Segmentation by origin-		
Clients with contract	1,242,712	1,085,403
Cash payments	387,964	399,619
Franking machines	38,701	36,138
International	120,927	122,238
Others	69,161	117,747
TOTAL	1,859,465	1,761,145
Segmentation by geographical markets-		
National	1,843,305	1,750,973
International	16,160	10,172
TOTAL	1,859,465	1,761,145

The heading 'Provision of postal, telegraph and parcel services' is shown net of the figure for volume discounts granted by the Correos Group to its clients during the financial year for the sum of 2,534 thousand euros (this figure was equivalent to 7,037 thousand euros in the 2016 financial year).



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B. Supplies

The breakdown of the heading 'supplies' in the attached consolidated income statement during the 2017 and 2016 financial years is as follows:

	Financial year 2017	Financial year 2016
National purchases of merchandise-		
Stamps and other franking devices	5,664	5,748
Other products	9,656	8,375
Changes in inventories	(1,574)	(2,110)
Merchandise used	13,746	12,013
Impairment of merchandise, raw materials and other supplies	1,951	(120)
Work carried out by other companies	255,844	225,895
Supplies	271,541	237,788

'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 55,650 thousand euros in 2017 (54,939 thousand euros in 2016).

C. Compensations received for costs derived from providing the UPS

In the financial year 2017, the Public Works Ministry transferred to the Treasury the amount of 58,700 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 2017. Pursuant to the above, in financial year 2017 the Parent Company recorded revenue of 58,700 thousand euros under this heading, in line with Correos' accounting practice (in financial year 2016, 180,000 thousand euros were obtained by the Parent Company for the provision of the Universal postal service, pending payment, within programme 491 - Universal p 2ostal service, within the National Budget for financial year 2016,

which were entered into the accounts as revenue in financial year 2016).

However, on the date these financial statements were drafted, the resolutions on the determination of the net cost of the Universal Postal Services for the 2011, 2012, 2013, 2014, 2015, 2016 and 2017 financial years had yet to be issued and approved by the CNMC. Therefore, until these resolutions are issued and this net cost can be determined, advance payments from previous financial years made by the Public Works Ministry cannot be considered as a final settlement.

It is possible that if the CNMC resolution on the calculation of the net cost of the UPS in the financial years 2011, 2012, 2013, 2014, 2015, 2016 and 2017 differs from the amounts assigned in the National Budget, there could be a positive or negative impact on the amounts recorded.



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

Financial year 2016	Compensation for provision of the UPS pending collection as of 01 January 2016 (Deposited in the Treasury)	267,926
	UPS compensation collected by the Treasury	(189,000)
	UPS Treasury compensation - previous years pending payment	180,000
Financial year 2017	Compensation for provision of the UPS pending collection as of 31 December 2016 (Deposited in the Treasury)	258,926
	UPS compensation collected by the Treasury	(292,731)
	UPS Treasury compensation - pending payment	58,700
	Compensation for provision of the UPS pending collection as of 31 December 2017 (Deposited in the Treasury)	24,895

Over the course of financial year 2017, the Parent Company has collected 292,731 thousand euros as compensation for costs derived from provision of the UPS in the previous financial years (189,000 thousand

euros in financial year 2016). The pending amount for this item at the end of financial year 2017 was 24,895 thousand euros (see Notes 11.1, 11.3.1) (258,926 thousand euros at the close of the 2016 financial year).

The Parent Company received other subsidies during financial year 2017, worth 193 thousand euros (8 thousand euros in financial year 2016).



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D. Staff costs

The breakdown of the heading 'staff costs' for the financial years ending on 31 December 2017 and 2016 is as follows:

	Financial year 2017	Financial year 2016
Salaries and wages	1,169,211	1,125,786
Social security contributions	275,025	251,860
Other expenses	8,256	8,587
Extra pay December 2012	-	-
	1,452,492	1,386,233

Social security contributions for the financial years 2017 and 2016 do not include any amount for pension contributions and allowances. On the basis of the provisions of article two of Royal Decree 20/2011, of

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

E. External services

The breakdown of the heading 'External Services' for the financial years ended at 31 December 2017 and 2016 is as follows:

	Financial year 2017	Financial year 2017
Leases	42,559	40,311
Repairs, preservation and maintenance	76,499	71,239
Security	21,091	20,594
Fees from sales	27,450	25,588
Supplies	39,715	38,155
Advertising, marketing and public relations	15,634	15,194
Communications	10,419	9,659
Cleaning	26,938	26,591
Other expenses	42,496	38,651
	302,801	285,982



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

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

	Financial year 2017	Financial year 2016
Up to one year	13,913	11,365
Between one and five years	26,473	17,394
More than five years	21,406	23,081
	61,792	51,840

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 2017 financial year (see Note 5-s)). These restatements led to an expenditure of 462 thousand euros and an income of 4,441 thousand euros respectively in financial year 2017 (in

financial year 2016 the expenditure was 972 thousand euros for the restatement of capital goods from previous financial years and 1,411 thousand euros for restatement of the definitive pro rata of the previous financial year).

Other taxes, such as the property tax cost represented an expenditure of 5,804 thousand euros in financial year 2017 (5,784 thousand euros in financial year 2016).



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G. Impairment and loss/gain on disposal of fixed assets

The breakdown of this heading for the financial years ending at 31 December 2017 and 2016 is as follows:

Financial year 2017

I. Fixed assets and non-current assets held for sale					
	Intangible assets	Land and buildings	Other fixed assets	Technical installation	TOTAL
Adjustments for impairment:					
Provisions	-	384	-	-	384
Reversals	-	(3,321)	-	-	(3,321)
Reclassifications	-	-	-	(9)	(9)
	-	(2,937)	-	(9)	(2,946)
Result 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)



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Financial year 2016

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



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H. Financial income and expenses

The breakdown of this heading for the 2017 and 2016 financial years is as follows:

	Financial year 2017	Financial year 2016
Financial income-		
From group companies:		
Long-term creditors (Note 20)	61	97
From third parties:		
Other financial income	642	749
	703	846
Financial expenses-		
From third parties:		
Other financial expenses	115	214
	115	214

Over the course of the 2016 financial year, the Parent Company also lent cash flows to its Sole Shareholder (SEPI), payable in no more than two months at market interest rates. At the close of financial year 2017 cash flow loans totalling 70,000 thousand euros were made (0 euros at 31 December 2016) (See Notes 11.3.1 and 20)). The consequent revenue generated stood at 61 thousand euros in the 2017 financial year (97 thousand euros in financial year 2016).

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)).



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18. Tax situation

The detail of the balances held by the Group with government bodies as of 31 December 2017 and 2016 is as follows:

	Balance at 31/12/2017	Balance at 31/12/2016
Non-current assets-		
Deferred tax assets	33,246	17,743
TOTAL NON-CURRENT ASSETS WITH GOVERNMENT BODIES	33,246	17,743
Current assets-		
Other debtors - UPS compensation (Note 11.3.1)	24,895	258,926
Others (Note 11)	178	419
TOTAL CURRENT ASSETS WITH GOVERNMENT BODIES	25,073	259,345
	(Note 11)	(Note 11)
Non-current liabilities-		
Deferred tax liabilities	85,399	88,698
Current liabilities-		
Personal Income Tax - [IRPF in Spanish]	18,844	17,955
Value-added tax - VAT	1,370	4,111
Social Security	27,488	26,489
MUFACE (public employee mutual soc.) and liability fees	1,880	2,150
Others	492	1,008
TOTAL CURRENT LIABILITIES WITH GOVERNMENT BODIES	50,074	51,713
	(Note 16)	(Note 16)



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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. 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 *Ley del Impuesto sobre Sociedades* [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.



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

	Financial year 2017	Financial year 2016
Temporary differences:		
Provision for risks and charges	668	125
Amortisation of goodwill	3,155	-
Provisions related to staff	115	742
Provisions related to fixed assets	2,471	2,353
Amortisation of fixed assets	9,621	10,918
Others	183	341
	16,213	14,479
Adjustment due to change to tax rate	(209)	(274)
Credits for negative tax bases	10,473	-
Credits for deductions	6,769	3,538
DEFERRED TAX ASSETS	33,246	17,743
Temporary differences:		
Tax effect of UPS capital compensations received up to 2010	85,070	88,287
Other temporary adjustments	329	411
DEFERRED TAX LIABILITIES	85,399	88,698



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The movement of assets due to deferred payment of the Corporation Tax during the 2017 and 2016 financial years is as follows:

	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

2016 Financial year

	Balance at 01/01/2016	Additions	Adjustments	Reversal	Balance at 31/12/2016
Deferred tax base	49,420	10,143	-	(8,728)	50,834
Tax effect:					
Temporary differences	14,126	2,536	-	(2,457)	14,205
Credits for deductions	1,612	1,926	-	-	3,538
TOTAL ASSETS FOR DEFERRED TAX	15,738	4,462	-	(2,457)	17,743



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The movement of liabilities due to deferred payment of the Corporation Tax during the 2017 and 2016 financial years is as follows:

Financial year 2017

	Balance at 01/01/2017	Additions	Adjustment of Exchange rates	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

Financial year 2016

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



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

	Financial year 2017	Financial year 2016
	Consolidated Income Statement	Consolidated Income Statement
Consolidated result before taxes	(93,213)	(47,553)
Consolidation adjustments	(94,664)	(1,007)
AGGREGATE RESULTS BEFORE TAXES	(187,877)	(48,560)
Breakdown of aggregate results before taxes:		
- Accounting basis	2,178	2,572
- Capitalised Accounting basis (losses)	(95,391)	(50,125)
- Non-taxable Accounting basis	(94,664)	(1,007)
	(187,877)	(48,560)
Theoretical tax charge	(544)	(502)
Tax credit	23,848	12,953
Non-calculable income	2,496	605
Non-deductible expenses	(2,961)	(9,317)
Deductions	3,256	1,622
Effective aggregate taxable income/(expense)	26,095	5,361

continue...





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Breakdown of effective aggregate taxable income/(expense):		
Current taxes	(739)	-
Tax credit	26,171	3,246
Deferred taxes	663	2,115
TOTAL EFFECTIVE AGGREGATE TAXABLE INCOME/(EXPENSE)	26,095	5,361
Adjustment due to change to tax rate	(209)	(274)
Adjustment previous financial year Corp. Tax	(25)	304
Activation of negative tax bases and temporary differences	15,059	-
Consolidation adjustment	(9)	(9)
AGGREGATE CORPORATION TAX INCOME / (EXPENSE)	40,911	5,382



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The calculated Corporation Tax pending payment and collection as of 31 December 2017 and 2016 is as follows:

	Financial year 2017		Financial year 2016	
	Debtor Current tax	Creditor Current tax	Debtor Current tax	Creditor Current tax
Aggregate current tax	26,171	(878)	3,738	(492)
Tax withholdings and prepayments	469	-	280	-

The conciliation of the consolidated book result with the taxable base for income tax as of 31 December 2017:

	Increases	Decreases	TOTAL
Aggregate result	-	-	(93,213)
Consolidation adjustments	-	-	(94,664)
Permanent differences:			
- of each company	11,839	(9,893)	1,946
Temporary differences:			
- of each company			
- Arising in the year	6,039	(15)	6,024
- Arising in previous years	533	(16,021)	(15,488)
TAXABLE BASE (TAX RESULT)	-	-	(195,395)



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On 27 November 2014, the Act 27/2014 on Corporation Tax was published in the Official State Gazette. It came into force on 1 January 2015 and applies to all tax periods from that date onwards. In accordance with article 29.1 of this Act, the general tax rate has been reduced from 30% to 25%. Moreover, a number of other measures were also brought in on a temporary basis, including 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. The limit is their own taxable amount, as the Parent Company of this consolidated fiscal group allows the compensation of negative tax amounts generated before its incorporation into the Fiscal Group No. 9/86.

As of 31 December 2017, the Group's companies had negative tax bases of 198,188 thousand euros to offset against future tax benefits (198,635 thousand euros in financial year 2016).

In the 2017 financial year Correos Express Paquetería Urgente S.A., S.M.E. offset 447 thousand euros from the negative tax base generated by said subsidiary prior to its inclusion within the SEPI Fiscal Group. This offset was performed as provided for under article 26 of the Corporation Tax Act, in accordance with the amendment introduced by Royal Decree Law 3/2016 which entered into effect for periods beginning 1 January 2016.

In the 2017 financial year, Correos Express Paquetería Urgente S.A., S.M.E., after having reported profits for two consecutive years, activated the tax bases of the corporation tax which can be offset for the next 10 years, in addition to the existing temporary differences, thus generating a corporation tax revenue of 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 2017, the companies that make up Correos Group had all applicable taxes since 01 January 2013 open to inspection by the tax authorities. The Parent Company's Directors do not expect significant additional liabilities to accrue in any inspection procedure.



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19. Other information

A. Number of employees

The breakdown of the Group's usual staff by number of employees during the 2017 and 2016 financial years was as follows:

	Financial year 2017	Financial year 2016
Management Committee	14	14
Rest of workforce:		
Civil servants	11,969	13,905
Employees	40,493	37,108
	52,476	51,027

As of 31 December 2017 and 2016, the number of employees of Correos Group broken down by job categories and gender was as follows:

	Data at 31/12/2017			Data at 31/12/2016		
	Men	Women	Total staff	Men	Women	Total staff
Management Committee	13	1	14	13	1	14
Rest of workforce:						
Civil servants	7,877	3,477	11,354	9,048	3,892	12,940
Employees	18,152	23,201	41,353	17,295	22,192	39,487
	26,042	26,679	52,721	26,356	26,085	52,441



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The average workforce of the Group with disabilities of 33% or more during the 2017 and 2016 financial years was as follows:

	Financial year 2017	Financial year 2016
Civil servants	298	340
Employees	575	560
	873	900

B. Commitments and contingencies

At 31 December 2017, the guarantees provided on behalf of Correos Group by various banks came to 53,107 thousand euros (64,022 thousand euros at 31 December 2016). 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. Planned financial investments

The Parent Company plans to make certain financial investments, subject to authorisation from the Council of Ministers, in accordance with article 12.5 of Act 5/1996, of 10 January, on the Creation of Certain Public Law Bodies.

D. Fees for accounts auditors and group and associated companies

The amounts accrued during the financial year by PricewaterhouseCoopers Auditores, S.L. for auditing accounts and other verification services totalled 132 thousand euros (130 thousand euros in financial year 2016).

Furthermore, fees accrued during financial year 2017 by other companies in the PwC network totalled 83 thousand euros (238 thousand euros in financial year 2016).



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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 2017 and 2016 are as follows:

	Clients, companies of the Group		Suppliers, companies of the Group	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
SEPI	-	-	-	-
SEPI Group, remainder	70	61	3	-
	70	61	3	-
	(Note 11)	(Note 11)	(Note 16)	(Note 16)
InterSEPI cash flows and interest				
	31/12/2017	31/12/2016		
SEPI	70,001	-		
SEPI Group, remainder	-	-		
	70,001	-		
	(Note 12)	(Note 12)		



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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	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
SEPI	26,640	4,209	878	492
	26,640	4,209	878	492
	(Note 18)	(Note 18)	(Note 18)	(Note 18)

The transactions with the companies of the SEPI Group in the 2017 and 2016 financial years are as follows:

	Income from Provision of Services		Operating expenses	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
SEPI	3	4	-	-
SEPI Group, remainder	258	238	52	37
	261	242	52	37

Financial income

	31/12/2017	31/12/2016
SEPI	61	97
	61	97
	(Note 17h)	(Note 17h)



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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 2017 and 2016 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 2017 financial year by members of the Parent Company's Governing Board and Management Committee totalled 1,917 thousand euros (1,994 thousand euros in 2016), 164 thousand of which correspond to assistance fees paid to members of the Governing Board of the Parent Company for attending Board meetings (153 thousand in 2016); the rest was paid as salaries and/or other pay items (including compensation) to the members of the Governing Board of the Parent Company.

As of 31 December 2017, 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 11 men and 5 women.



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21. Segment results

Correos Group's segment results for the 2017 and 2016 financial years are as follows:

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)
Financial year 2016				
	Postal, Telegraphs and Parcels	Urgent Parcels and Others	Portfolio Adjustment	TOTAL
Revenue	1,590,473	170,672	-	1,761,145
Supplies	(143,541)	(94,247)	-	(237,788)
UPS compensation	180,000	-	-	180,000
Staff costs	(1,342,693)	(43,540)	-	(1,386,233)
Other results	(332,833)	(32,992)	141	(365,684)
RESULT BEFORE TAX	(48,594)	(107)	141	(48,560)



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22. Environmental information

The itemised details of the Parent Company's investments and costs in environmental protection and improvement in financial years 2017 and 2016 are as follows:

	Financial year 2017	Financial year 2016
-Investments	1,843	1,181
-Costs		
Environmental protection services	111	93
Environmental management costs	208	52
Environmental taxes	608	827
Clean-up costs	47	67
Prevention costs	209	42
TOTAL EXPENSES	1,183	1,081

No environmental subsidies were received during the financial year.

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

protection and improvement, and therefore do not think it necessary to allocate any environmental items to the provision for risks and charges as of 31 December 2017.



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23. Contingent liabilities

On 11 February 2016 the European Commission decided to initiate the formal investigation process established in article 108, paragraph 2, of the Treaty on the Functioning of the European Union with regard to the compensations for the USO awarded to the Parent Company under the *Ley Postal de 1998* [Postal Act of 1998], the exemptions from the Property Tax and the Economic Activity Tax, the three capital increases awarded in 2004, 2005 and 2006,

and the compensation awarded to the Parent Company for the distribution of electoral materials, thus launching an investigation during which the Parent Company submitted claims on 11 May 2016. However, although this process has advanced throughout last year, it is still not complete, making it difficult to estimate the potential risk to the Parent Company. Nevertheless, it is worth noting that in the event that the possible aid received by the Parent Company is

deemed incompatible with the market, the European Commission may require the Kingdom of Spain to recover the amount of the potential aid from the Parent Company, a figure which we consider difficult to assess at this stage.

Correos Group believes that it does not have significant contingent assets or liabilities, other than those mentioned, at the close of the 2017 financial year.

24. Subsequent events

No subsequent events have occurred after 31 December 2017, in addition to the resolution of the CMNC (see Note (15)), which may significantly affect these financial statements.



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1. Business model

Correos, with more than 300 years of experience, is the leading provider of physical, digital and parcel communication solutions in Spain. It is also the company designated to provide the Universal Postal Service across Spain, with criteria of efficiency, quality and sustainability.

The Correos Group operates in the fields of physical and digital communications and parcel products. The Company is formed by Sociedad Estatal Correos y Telégrafos S.A., S.M.E. and its subsidiaries Correos Express Paquetería Urgente, S.A., S.M.E.; Nexea Gestión Documental, S.A. S.M.E. and Correos Telecom, S.A., S.M.E. M.P.

SEPI is the sole shareholder of Sociedad Estatal Correos y Telégrafos S.A., S.M.E., a public law entity. Its activities are governed by private legislation, although it is subject to certain public legislation, such as that deriving from, for example, the *Ley General*

Presupuestaria [the Budget Act], the *Ley de Contratos del Sector Público* [Public Sector Contracts Act] or budget acts. SEPI is attached to the Ministry of Finance and Public Administration.

SEPI is a holding company of 15 companies in which it has a direct and major shareholding, which form the SEPI group, it is also a shareholder in Corporación RTVE, it has a supervised public foundation and direct minority shareholdings in nine companies and indirect shareholdings in more than 100.

Correos, the parent of Correos Group, is one of Spain's leading companies by size, territorial presence and human capital. It has innovative equipment and a global portfolio of products and services that meet the demands of each type of customer, with the highest reliability, trust and market experience.

Correos Express is the Correos Group's express parcel company, specialised in delivering parcels within 24 hours. It has its own network of agencies which manages requests with great speed, security, flexibility in the service and quality in its management. Its wide portfolio of products and services is designed to meet all our customers' delivery needs with the latest technology to ensure optimal tracking of postal items.

Nexea is Correos Group's company dedicated to offering customised solutions in document management for the mass communications of companies with their clients. It specialises in the development of tailor-made technological solutions for the document processes through a multichannel model of communications management, for all types of supports and formats, with the maximum guarantees of information security, efficient delivery and document traceability.

Correos Telecom is the company responsible for managing the Correos Group's telecommunications network and for marketing these infrastructures. It is regarded as an in-house provider and technical service for Correos in relation to the activities that form the corporate purpose of the Company and within the limits of its own corporate purpose. It is also a company that specialises in providing high capacity connectivity services, communications and telecommunications infrastructures, thereby adding value to its customers' activities, through flexibility and innovation.

The vision of the group is to become the leader in communication services in Spain, based on its recognised values of security, closeness, trust and innovation.



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To achieve these objectives the Correos Group relies on the diversification of the business, focused on the parcel service and other businesses, such as the provision of digital services, the preservation of the postal business, and internal transformation, based on innovation and digitalisation and the adaptation of the business model.

To achieve this, the Group has the following assets:

- Financial capital: a revenue of 1,859 million euros and a healthy balance sheet.
- Human capital: one of the biggest payrolls in Spain, with over 52,000 employees.

- Share capital: the excellence and reliability of the provision of the UPS have earned Correos recognition, a sound reputation and a trademark image in Spanish society.
- Intellectual capital: Concerted focus on talent within and outside of the organisation and numerous actions related to the training and development of employees.

- Industrial capital: with 18 automated processing centres, more than 8,600 points of access to its services, including 2,396 post offices and 56 agencies which currently make up Correos Express.

2. Good governance

Governance structure

The corporate bodies of the Correos Group's companies are the General Meeting of Shareholders and the Governing Board.

The Company is managed by the Governing Board, its Chairman and

the Executive Committee, whose responsibilities are specified in the Company's Articles of Association. The 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.

The Governing board of Correos is 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, and whose

appointment or removal corresponds to the General Meeting of Shareholders. Generally, the Governing Board meets monthly to oversee the management of the company.

The Executive Committee of Correos consists of the Chairman and four



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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.

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

Corporate governance

For Correos Group, business integrity, professional efficiency, transparency and ethics are key to its actions to generate trust and more solid relationships with its stakeholders.

To achieve this aim, Correos has a criminal risk prevention programme, which

includes the General Code of Conduct and establishes the principles which must govern the development of activities and commercial relationships of Correos Group companies, both internally and externally.

The Correos Group General Code of Conduct reflects the core values and general principles that govern its corporate behaviour and must be adhered to by all employees.

The Group also has a Compliance Committee, a collegial body whose main function is to evaluate and report biannually to Correos' Governing Board through the Audit and Control Committee on the content and results of the resolutions issued. The Committee also has a communication and whistleblowing channel to facilitate compliance with the objectives of the Code of Conduct.

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

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

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.

The Correos Group oversees the efficiency of procurement processes and proper contracting procedures, also ensuring compliance with regulatory requirements. It also extends its commitment to social responsibility to its suppliers and subcontractors through the inclusion in tenders and contracts of the ethical, environmental and social principles established by the United Nations Global Compact. Suppliers must also be aware of and agree to the principles of the General Code of Conduct of the Correos Group.

The State-owned Company prepares its corporate governance report in accordance with the principles set out in Royal Decree 1373/2009. These principles include integrating the public



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

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

Corporate Social Responsibility

Correos Group's aim is to promote integrity at all levels of the organisation,

as well as ensure that sustainable development principles are implemented across all levels of the Company. Correos Group seeks to promote responsible corporate activity, which goes beyond strict compliance with national and international legislation in force.

In addition to its own social projects, Correos Group supports programmes of nationally and internationally recognised third sector institutions and organisations.

Legal framework of the Group's activity

Correos is the postal operator designated to provide the Universal Postal Service in Spain until 2025. The Spanish postal market was fully liberalised on 1 January 2011, following the entry into force of Act 43/2010 of 30 December, which implemented Directive 2008/6/EC in Spanish law for the full implementation of

Community postal services in the internal market.

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



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3. Performance of Correos Group

Business environment and the market performance

In 2017 the gross domestic product (GDP) increased by 3.1% according to the most recent forecasts published by the Bank of Spain, down 0.2% on the previous year. In spite of the slight downturn, Spain continues to lead the economic growth in the Eurozone.

The increased activity, an indicator of the continued recovery, was mainly supported by household consumption, although this dynamism decreased throughout the year. However, this caused an increase in public consumption, improved exports and the strengthening of the job market.

Turning to the forecasts for 2018, it is estimated that the Spanish GDP will continue to shrink, although it will remain above 2%, according to data from the

European Commission. This slowdown could be somewhat more intense than in previous years due to the fall in the creation of jobs, increased inflation and tougher financing conditions.

The postal and parcel delivery market is conditioned by the progressive digitalisation of society, which on the one hand generates a growth in parcel deliveries originating from e-commerce, and on the other, a reduction in postal volumes due to electronic substitutes.

The growth in e-commerce, with annual increases of over 20%, continues to be the driving force of the parcel delivery market. In this regard, the data published by the CNMC reveal that almost 90% of online purchases generated the receipt of a parcel during the 1 quarter 2017. During this period, Correos and its subsidiary Correos Express distributed 42.6% of

these types of postal items, according to the opinion of those surveyed in the Household Access Panels of the CNMC.

Internationally, the main parcel delivery operators have continued the trend towards concentration with various purchase operations, to combat the highly competitive environment via the generation of economies of scale, the expansion of the portfolio of services and improved geographic coverage.

The digitalisation process of the company is an opportunity for Correos Group, and more specifically for e-commerce which is generated not only by large retailers, but also by the thousands of small companies which also require logistics and parcel delivery services and integrated solutions to market their products, thus connecting the demands of customers from all around the world.

In recent years, after the most pronounced stage of the economic crisis, all indicators relating to the information Society have experienced sharp growth on a global level. In this regard, mobile telephony, fixed line broadband and mobile broadband have experienced a positive development. This creates opportunities for the Correos Group to develop digital services and in particular for Correos Telecom in the area of telecommunications.

However, it should be mentioned that information technologies generate a significant replacement effect with regard to traditional postal communications. In recent years, the fall in correspondence volumes has accelerated, which is considered a risk due to the high proportion that correspondence represents within Correos Group's businesses.



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Among the factors driving this trend are the more widespread use of electronic invoicing and the digitalisation of the communications of companies that generate large mail volumes. Similarly, telematic government notifications have become the means of communication of government bodies with companies, in compliance with Act 39/2015, of 1 October. The application of this Act, which also includes the obligation to perform a second attempted delivery in the

afternoon for physical notifications, has in turn generated an increase in activity for Correos.

The progress of electronic communications in business relationships has increased the demand for multichannel solutions. It is here that Nexea's range of services provides a response to the need to integrate physical and digital communication solutions for the large issuers of

transactional communications of the banking, utilities, insurance and public administration sectors.

With regard to the challenges implicit in the market in which Correos Group performs its activities, is the obligation that the Parent Company has to provide the Universal Post Service, which guides its actions in terms of public interest and corporate sustainability.



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Main economic results

In 2017 the Correos Group steadfastly continued its progress towards long-term sustainable and profitable growth by strengthening its competitive position as a provider of physical and digital communication and parcel delivery

solutions in Spain. The Group is immersed in a global transformation focused on providing a response to the change in consumer habits in society.

The Correos Group consolidated its leadership position in the market throughout 2017 and closed the year

with a turnover up 98.3 million on the previous year, with an increase of 5.6% (€144.1 million not counting the decrease in revenue through electoral processes, an increase of 8.4%). The focus to support the e-commerce, parcel delivery and international business sectors helped to offset the effects of

electronic replacement in the traditional postal business. The Group also increased revenue and expenses as a result of Act 39/2015 of 1 October on the delivery of notifications:

Consolidated income statement (thousand euros)	2017	2016	Change %
Revenue	1,859,465	1,761,145	5.6
UPS compensation	58,700	180,000	67.4
Supplies	(271,541)	(237,788)	14.2
Staff costs	(1,452,492)	(1,386,233)	4.8
Other operating expenses	(314,350)	(304,658)	3.2
Other results	(26,748)	(55,644)	51.9



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In 2017, the Public Works Ministry transferred to the Treasury 58.7 million euros corresponding to the amount allocated to the Company for the provision of the Universal Postal Service, as detailed in the National Budget for 2017 (180 million euros in 2016). With regard to the above, Correos recognised revenue of 58.7 million euros for this item in 2017 (see note 17 c) of the Consolidated report.

In parallel to the growth in turnover, the Correos Group implemented control measures for variable and structural costs, in order to improve profitability.

The Correos Group management team, fully aware of the change in consumer habits and the downturn in the traditional business, continues to implement measures for the global transformation of the company and to lay foundations to obtain better results.

Trends

Correos Group has made significant progress in meeting its strategic objectives through the diversification of its activity, improved commercial and operational efficiency and by increasingly aligning its organisational culture with innovation.

The major lines which the Group is working on are:

- Becoming a leader in parcel services.
- Diversifying its activity.
- New sales and customer service model in post offices.
- Developing tools to facilitate digital sales.
- Improved management efficiency.

- Preserving the postal business.
- Strengthening digital transformation.

Correos is a leading company in parcel services and e-commerce, continuing to promote initiatives such as the installation of *CityPaq* automated terminals for the collection and delivery of parcels, a concept which has established the company as a global pioneer in this kind of service. To date more than 3,100 have been installed.

To respond to customers' new needs, and focusing specifically on e-commerce customers, Correos Group continuously reviews its range of parcel delivery services. Proof of this was the launch of *Paq Premium*, *Paq Estándar*, *Paq Today*, *Paq Retorno* and *Paquete Internacional Light* during 2017.

Due to the constant increase in parcel volumes in general, and volumes related

to e-commerce in particular, Correos is focusing investments on automated processing centres, installed with specific equipment for sorting these products, thus ensuring a more effective use of the centres and transport networks. These increases have not been detrimental to the capillarity of the service or to delivery effectiveness, which are the best in the market and differentiate the company from competitors.

Correos also continues to promote its presence abroad through the ETOEs established in the United Kingdom and the Netherlands, for the admission and management of outbound volumes to Spain and other countries.

Another of the key diversification areas of its activities is the digital business. Through the *Comandia* platform, it offers the market a global solution for e-commerce. Through this virtual portal, the company provides



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customers with online access to Correos' products, both physical and electronic, which includes postal and philatelic products, direct marketing, notifications, parcel services and digital solutions.

Correos has increased its efficiency in delivery networks and customer service, as well as administrative costs. Significant progress has also been made

in the implementation of a management model to promote and boost the Company's innovation culture, to nurture internal talent and entrepreneurship, implementing channels and tools which foster the generation and promotion of new breakout ideas.

Every day in Correos there are around 14 million electronic transactions. It is also the

first postal operator in the world to have equipped all of its postmen and women with a mobile device (PDA), and also those of its subsidiary Correos Express, helping to expand the range of mobility services offered.

The subsidiary Nexea also offers a multichannel model for managing communications in all media and formats,

with the maximum guarantees of information security, efficient delivery and document traceability.

4. Products and services for new needs

In an environment of rapid growth in the demand for online and international commerce products, the Correos Group has promoted e-commerce among Spanish companies, providing solutions for all phases of their value chain, from the creation of web stores to the logistical management of postal items

and the final delivery to the addressee.

The Group's products and services are also aimed at satisfying the new demands of the online shopper, such as the improvement in actual delivery at the first attempt, the possibility of establishing the date and time to receive their order just

when they need it and immediate same-day delivery.

Delivery on the same day of purchase

One of the services marketed is *Paq Today*, a parcel delivery solution for customers with a contract, with same

day collection and delivery within the same province. In this way, Correos offers a service with the maximum urgency in delivery, adapted to the new requirements of e-commerce and which complements its range of parcel delivery solutions for this sector.



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The parcels wait for the customer

One of the maxims of Correos is to offer its customers maximum convenience for delivery. This is the aim of the *CityPaq* network of automated devices, available at any time of the day and in places that are always close to the customer, thus allowing online purchases to be received or postal items to be sent without leaving the home or place of work, thus preventing any failed deliveries that considerably increase the logistical costs of a postal item and generate inconveniences for the customer. The terminals are located in residents' associations, businesses or in busy places such as large companies, petrol stations, metro and railway stations or bus stations.

Moreover, with the '*Entrega Directa*' Direct Delivery option, if the online shop is not affiliated to this delivery method for its products, the customer only needs to

specify the reference of the terminal where they would like to receive their postal item.

Urgent services for all needs

Correos Express offers a variety of services for the B2B and B2C segments with the aim of covering all the specific needs of its customers. The *Paq Empresa14*, with guaranteed delivery before 14:00 on the next business day, for business to business postal items, from any origin to any destination within the peninsula, and *ePaq24*, with next day door-to-door delivery, especially designed for the delivery of online purchases to private individuals.

These new options are complementary to Correos Express' systems to improve the user experience, such as immediately locating the addressee in the case of absence, the predicted delivery slot, the

proactive management of incidents and '*Advanced Digital Signature*'.

Correos Express therefore has a portfolio of services adapted to each delivery requirement (*Paq 10*, *Paq 14* and *Paq 24*) and each type of addressee (*Paq Empresa14* and *ePaq24*).

The company also has a global logistics and storage solution for virtual stores, which includes the entry and verification of goods from suppliers, as well as stock control and the preparation of postal items, all with information in real time. This service allows online sellers to transform their fixed logistics cost into variable costs, with the assurance that a company expert in the secure and efficient delivery of their products provides them.

Paq Premium and *Paq Estándar* are the new parcel delivery solutions by Correos

that respond to the current demands of customers that increasingly request shorter delivery times and value a higher quality of service. *Paq Premium* is designed mainly for customers that sell online, guaranteeing delivery within 24/48 hours. *Paq Estándar* is ideal for those customers that require a very high quality service at a more affordable price, guaranteeing delivery within 48/72 hours.

More secure and convenient purchases

Physical or digital purchases are made easier with the *Correos Prepago* prepaid card, which since its launch has experienced high demand. This product, with no maintenance fees, offers maximum security and is not associated with any bank account, thus limiting the risk to the amount previously topped up on the card.



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Correos also has its own online store, *Tu Correos*, which has a range of products including postal merchandising, books, stationery material, music, video games, technology accessories, decorative items, educational games and Unicef gifts. Customers can receive the products acquired, without shipping costs, at their home, nearest post office or any *CityPaq* terminal.

It is also possible to buy tickets for the cinema, museums and any other type of events through the website, which can then be printed or collected from the post office network.

Agreements to favour e-commerce

Correos also promotes the development of e-commerce in Spain through its participation in business meetings

and forums and through partnership agreements with the leading companies in their sectors.

As the leading logistics operator in the Spanish market for the Alibaba Group, Correos also has specific logistics solutions for reducing delivery times and improving Spanish customers' experience when purchasing Chinese products using AliExpress, the Alibaba platform which connects Chinese sellers with the world, and for which Spain is the second largest market globally.

Correos also acts as a facilitator for Spanish foreign trade with China, with the opening in 2017 of its own store in Tmall Global, so that small and medium-sized enterprises can offer their products to online Chinese buyers, the largest market in the world.

Solutions for the telecommunications sector

The presence of Correos Group in the digital services sector is made complete with the Correos Telecom range. The subsidiary provides network services to other operators and companies in the telecommunications market, selling high-capacity connectivity solutions, cable laying infrastructure and co-location for radio emissions (mobile network, radio, TDT, etc.).

The replacement of postal communications with new digital channels is linked to a profound change in society's habits, to which the Correos Group provides a response through global communications solutions adapted to the new demands for a multichannel approach, immediacy and customisation of messages.

Effectiveness of promotional campaigns

In addition to an extensive catalogue of postal services, Correos offers companies *Correos Directo*, the comprehensive direct marketing solution to obtain optimum results from their information, new customer and loyalty campaigns. This global range includes services such as *Correos Data* (rental of databases), *Correos ADD* (address standardisation) and products such as *Publiccorreo Óptimo* (postal items in standardised format) and *Publiccorreo Premium* (mailings with flexible size/weight or design).

Solutions for multichannel communication

The subsidiary Correos Nexea, with its vast portfolio of multichannel products, allows companies to comprehensively



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manage the physical and digital channels they use in their mass communications.

Correos Nexea offers comprehensive solutions, from documentation consultancy to their deposits for their postal delivery or integration into digital environments. Nexea's business offering is completed by services such as returns management, database maintenance, digitalisation and printing, digital storage and safekeeping, and fulfilment options.

Nexea markets *Nexo*, the unified platform for generating physical and digital documents, integrating them into an omni-channel management system. This tool allows companies to physically send transactional correspondence addressed to its customers and at the same time electronically send large volumes of telegrams and bureaufaxes.

Nexo has also been adapted for its integration with *Notific@*, the shared service for the management of notifications from the Central Government of Spain. The digital notifications are stored and safeguarded using *Nexo*, together with the status file and the certificate of proof of electronic delivery, guaranteeing its complete traceability and with the certification having absolute legal validity.

Better customer experience at post offices

The Correos post office network comprises 2,396 establishments. In addition to being an essential channel for the admission and delivery of postal products and parcels, the post offices sell other types of products and postal services, as well as philatelic, convenience, financial and telecommunications products which

make them suitable places to meet all the communication, business and even entertainment needs of the general public and businesses.

The contract signing service allows companies to offer their customers the availability of the entire post office network in order to sign their contracts using digital signature devices. Correos also sells items of merchandising and tickets for all types of events.

Post offices are also centres for generating business for SMEs and the self-employed, which as holders of the *Más cerca* loyalty card will be offered products and services adapted to their specific needs and promotions for their postal items.

In 2017 Correos extended the new *Tu Correos* model post offices, incorporating new establishments. This innovative

format is aimed at improving customer experience by offering a personalised assessment, a more streamlined admission through the use of digital tablets made available to customers and self-service points of sale, among other aspects.



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5. Innovation

In 2017 Correos opened CorreosLabs (www.correoslabs.es), a centre for innovation and entrepreneurship, aimed at generating, through the interaction of employees and entrepreneurs, innovative solutions in logistics, local and digital services, which add value to the products and services offered or which promote growth in neighbouring markets.

Throughout 2017 Correos encouraged collaborative innovation and launched a competition within the entrepreneurial community to identify ideas that could offer a new outlook in the areas of activity of Correos and thus explore new opportunities.

Correos is also committed to the identification of new business models through internal innovation teams, called 'Innovation Team'. A different methodology for the creation, experimentation and escalation of initiatives, in which people continue being the most important aspect. Innovation Team is an intra-entrepreneurship programme which

encourages the culture of innovation within Correos, whereby employees can develop their projects as an authentic start-up.

Correos Group made investments in R&D&i during the 2017 financial year.

6. Risk management

The activity carried out by the companies which make up Correos Group is limited both by factors inherent to any company in the sector, and by specific factors which only apply to each of them.

The risks that affect its business include market risk deriving from, among other factors, the progressive decline in postal

activity due to electronic substitution, competition and the emergence of new technologies causing rapid change in demand.

Correos Group has identified certain operation risks derived from its structural complexity and the need to make progress in the implementation of new

technologies to increase the efficiency of the distribution and delivery processes. Likewise, Correos faces the labour risks inherent to any company with a large workforce needed to maintain a presence across the entire country.

Equally significant are the environmental risks generated by

the impact of a large infrastructure network and fleet of vehicles, and the reputational risks that can come from unpredictable changes in the positive perception the Company has always had among its various stakeholders. To these risks we must add the legal, fiscal and financial uncertainties from possible changes to sectoral legislation



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and how the Company operates. The Group also manages technological risks through its risk control systems that makes it possible to identify, control, limit and report such risks, with the aim of mitigating and eliminating their potential negative impact.

It is important to highlight exposure to financial risk, shared by all of the Group's companies. The most significant risks which could affect the business are:

- A credit risk, arising due to the possible loss caused by a breach of the contractual obligations of the companies' counterparts, that is, due to the possibility of not recovering the financial assets for the sum recorded in the set period.
- A market risk, arising due to the possible loss caused by variations in the fair

value or future cash flows of a financial instrument due to changes in market prices. Market risk includes the interest rate risk, exchange rate risk and other price risks.

- Liquidity risk 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.

In 2017, the liquidity risk increased significantly due to the amount received for the compensations for costs deriving from the provision of the UPS having been substantially reduced, and the uncertainty of the Company receiving future payments for this item.

On the date these financial statements were drafted, the resolutions on the determination of the net cost of the

Universal Postal Services for the 2011, 2012, 2013, 2014, 2015, 2016 and 2017 financial years had yet to be issued and approved by the CNMC. Therefore, until these resolutions are issued and this net cost can be determined, advance payments from previous financial years made by the Public Works Ministry cannot be considered as a final settlement (see Note 17c) of the Consolidated report).

- An exchange rate risk, arising due to the possible loss caused by variations in the exchange rate. The exposure of Correos Group to the risk of exchange rate fluctuations is due primarily to 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.

To provide a maximum level of guarantee and protect stakeholder interests, the Governing Board and its Executive Committee rely on the collaboration of the Audit and Control Committee which monitors the effectiveness of the internal monitoring and control systems at identifying relevant risks.



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7. Human resources management

For the Correos Group, the human team is a key factor in its transformation, it is a source of competitive advantages and constitutes one of its major assets. Key actions relating to staff are:

- Promote talent and encourage excellent performance:

Correos is developing the Clic Programme, a project in which the aim is the identification, evaluation and development of people, for their professional development within the organisation and to provide a response to the strategic objectives of the company.

The performance evaluation system implemented by the Correos Group makes training and professional development plans more effective, and also helps to evaluate individual

performance and its alignment with corporate objectives, improving the Group's competitiveness.

Correos remains committed to youth training. Through its collaboration agreements with universities and business schools students are able to gain work experience in various corporate departments. In 2017 this programme was extended to students of other nationalities.

- Promote training aimed at new needs and to improve internal communication:

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

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

With regard to individual training, Correos has developed within its Virtual Campus the 'I am Digital' (*Soy Digital*) programme designed for self-development and growth in digital competencies, with employees creating their own individual learning environments, while evaluating and comparing their progress. The Virtual Campus also features informal learning and ongoing and collaborative training, such as small training pills or tutorials in video format.

An essential tool for corporate transformation is internal

communication, which encourages personal involvement, teamwork and a proactive approach that the new challenges of the market require. Correos promotes the use and continuous improvement of the different internal communication channels in order to offer employees the information of greatest interest at any time through the most effective, convenient and accessible channel.

- Create stable and quality employment adapted to the evolution of the business:

Correos is one of the largest companies in Spain by number of employees. The workforce of the parent company at 31 December 2017 comprises 51,442 staff, of whom 22% are civil servants and 78% are employees. In total, the companies of the Correos Group employ 52,721 people.



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In light of the trend in recent years, in 2017 Correos increased its workforce to respond to the employment needs deriving from the increased volume of parcel deliveries and the entry into force, as of 1 October of *Ley 39/2015 sobre entrega de notificaciones* [Act 39/2015 on delivery of Notifications], which added the requirement of making a second delivery attempt in the afternoon.

Correos is committed to stable and quality employment. In 2017, it issued a call for applications for 1,869 permanent staff positions.

- In favour of the work-life balance:

Correos' internal regulations contain measures aimed at favouring the work-life balance, which in some cases expands on that contained within the

legislation in force. Working hours and shifts, or fostering online training and virtual learning help staff members make the working day compatible with their personal and family needs.

- Prevention of occupational hazards and promoting the healthy company programme:

Correos continues to advance in the prevention of occupational hazards through initiatives aimed at protecting employees' health from an all-round perspective, covering all aspects related to their physical, psychological and social well-being. The actions taken in this regard consist of preventive medical checks, risk assessments in centres and the execution of emergency plans, health and safety training, information on good habits and measures to improve health and

the implementation of action plans in centres with high accident rates and absenteeism.

Correos' Healthy Company Programme, is a comprehensive programme promoting a multidisciplinary approach to those lifestyle habits that help improve workers' health. As part of this initiative, awareness campaigns on different topics are carried out throughout the year.

- Encouraging equality and diversity

Correos is a pioneer in female labour integration and a leader in the effective equality of opportunities between men and women. In 2017 women represented 51% of the workforce and men 49%.

The company has an Equality Plan and a Protocol against occupational or moral

sexual harassment, whose purpose is to prevent, identify and resolve situations that may arise in this area.

The company also promotes equal opportunities for people with disabilities, encouraging their inclusion in the job market.



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8. Environmental management

Correos Group has the objective of contributing positively to the environment in which it performs its activity, namely:

- Fighting against climate change and reducing CO₂ emissions.
- Improving the inequality of cities and reducing NOx and Pm emissions.
- Sustainable consumption and efficient use of resources.
- Improving waste management.

Correos' General Sustainability Plan 2014-2020 details the measures, indicators and management mechanisms to achieve these global targets. Correos monitors environmental risks and opportunities and overseas projects through an environmental management system certified in accordance with

standard UNE-EN ISO 14001 on environmental management.

The main actions for mitigating the environmental impact of the activity are:

- Reducing the number of kilometres travelled and to make these kilometres more green.

Correos is the company that travels the highest number of kilometres on foot to deliver postal items. However, the reduction of distances travelled is also based on the use of route optimisation systems or new services that increase the actual delivery, such as *CityPaq* terminals, as well as efficient driving training courses.

The kilometres travelled are increasingly more green thanks to the addition of new electric vehicles which form part

of the Company's fleet of sustainable transport. This makes Correos the parcel delivery company with the largest fleet of electric vehicles in Spain, used primarily for home deliveries in urban environments and historic town centres where the circulation of traditional combustion vehicles is increasingly restricted.

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

In addition to the electric vehicles, the company is experimenting with other technologies that may contribute to reducing the impact of the delivery of postal items, both for the long-distance

fleet as well as for that destined for last mile delivery.

- Optimise the energy needs of buildings to reduce the environmental footprint of the company.

The most significant actions relate to the implementation of an energy efficiency system in the workplace, which permits the reduction in the energy consumption of computer equipment connected to the network, the optimisation of the contracted power in the buildings and the renewal of air-conditioning units, the reduction of the energy impact of those buildings with the highest consumption of electricity and gas, and raising awareness among employees.

- The increase in the proportion of 100% renewable energy consumed by the company.



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- The marketing of *Línea verde* envelopes, boxes and packaging, manufactured from 100% recycled paper and card, with non-polluting inks, a product that contributes to the financing of reforestation projects, in partnership with the Forest Landscape Restoration Programme carried out by WWF Spain.
- Increase the percentages of recycled paper through the implementation of an efficient model that helps to optimise management, recycling and cost savings.

9. Subsequent events

No subsequent events occurred after 31 December 2017, in addition to the resolution of the CMNC (see Note (15) of the Consolidated report), which may significantly affect these financial statements.

10. Others

Correos Group holds no treasury shares, nor did it conduct transactions with financial products during the 2017 financial year.



Annual Accounts and Management Report for the Financial Year Ended 31 December 2017 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 attached notes on the accompanying sheets of ordinary paper, numbered accordingly from 1 to 68 (both inclusive), corresponding to the financial year closed at 31 December 2017, together with the management report corresponding to the same year issued on sheets of ordinary paper numbered 1 to 18 (both inclusive), were submitted for approval by the Governing Board on 22 March 2018. In accordance with current provisions, the Directors sign and give their conformity with all the abovementioned documents.

Madrid, 22 March 2018

Francisco Javier Cuesta Nuin

David Benito Astudillo

Ana Bosch Jiménez

Carmen Castaño Laorden

Luis de Burgos Buil

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Annual Accounts and Management Report for the Financial Year Ended 31 December 2017 of Sociedad Estatal Correos y Telégrafos S.A., S.M.E.

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This Integrated Annual Report is issued exclusively in digital format, with designs suitable for viewing on smartphones and tablets, and is publicly accessible in the corporate [website](#).

All reports are also available in English. In the event of any disparity between the versions, the information contained in the Spanish version shall take precedence.

The reader also has an executive summary, printed and in electronic format, accessible through the same website. The executive summary has been printed with Cyclus Print paper, 100% recycled and FSC® Recycled certified.

