

2014 Integrated annual report

Innovation and technology: our present, our future

grupoCorreos



Index

01



Message from the Chairman

02



Key milestones

03



The Correos Group

04



Innovation in products and services

05



Innovation in processes

06



Innovation for customers

07



Innovation for people

08



Innovation for society

09



Good governance

10



Coverage of report and sustainability indicators

11



Consolidated annual accounts of Correos Group



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



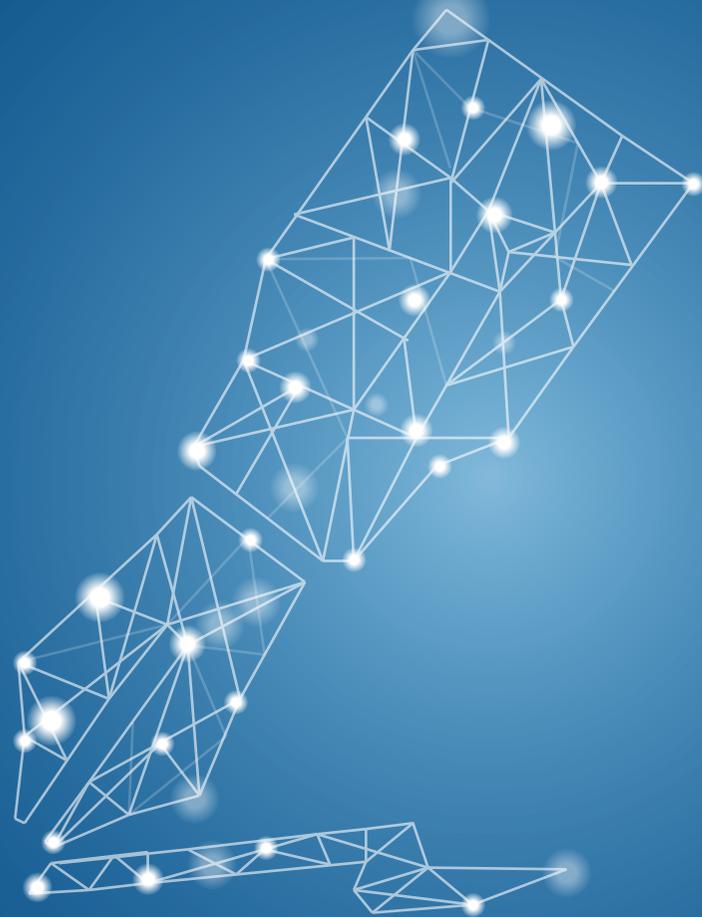
Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



01 Message from the Chairman

Correos, always part of our lives, has adapted to changing times



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Message from the Chairman



I am pleased to present the integrated annual report for the Correos Group, part of the Sociedad Estatal de Participaciones Industriales (SEPI) holding company.

During 2014, innovation and technology, one of the five strategic lines of our 100-300-1,500 Action Plan, has continued to drive the transformation of our services, processes, equipment and organisational focus. We have made significant progress in all directions, which has made it possible to maintain our turnover in a complex environment.

The latest macroeconomic indicators and forecasts for the domestic economy create room for optimism. Spanish companies are looking to seize new opportunities, expand their markets and become more competitive. In this respect, the Correos Group is seen as a reliable and experienced partner that can help them grow, expand their activity abroad and manage their processes more efficiently.

E-commerce is one of the sectors that is growing stronger, with around 25% increase in 2014, and, as a consequence, the parcel market is also growing. We are the logistics operator best prepared to meet the new demands of online retailers, with comprehensive solutions and added value for the entire value chain of e-commerce, and also to respond to the new consumption habits of the Spanish people who value the convenience, reliability and the savings in time of this purchasing option with multiple alternatives.

We have the means and capacity to respond to the new market demands: greater capillarity and territorial coverage; flexibility; secure and delivery quality; and a complete range of parcel services, via two different networks, that of Correos and Correos Express, our urgent distribution subsidiary, which unveiled its new trading name in 2014.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

•• In 2014, we launched unique and pioneering services in the Spanish parcel service market ••

Thanks to the innovative talent of our professionals, we have launched pioneering services such as 'Homepaq', automated devices so that customers can send and receive parcels in their own home, at any time and without having to be present. This is complemented by 'Citypaq', automated parcel boxes located in crowded places such as transport hubs, subway and railway stations, which we will be expanding this year to cover the major Spanish cities.

We have also been pioneers in incorporating RFID technology (passive radio frequency tags) for controlling Correos Express parcels, as previously done in Correos. This, together with a geopositioning fleet, in real time, has also allowed new solutions to be included, unique in the Spanish market, to facilitate delivery such as the immediate location of addressees or proactive management of incidents. And, with this same goal, we offer customers around 2,400 post

offices for collecting their online purchases. To this we add our solutions for returning these purchases, the most comprehensive reverse logistics in the market, thanks to our distribution networks as well as our post offices.

We want to be the strategic partner for companies that want to develop their business on the Internet, both inside and outside of Spain and, with such companies in mind, we have created the 'Comandia' platform to help them grow, to open their online store, to export their goods, to deliver to their customers wherever they are, ... In short, to help them manage their online sales and delivery, contributing our experience in combining physical and digital businesses.

In 2014, we have also launched a cutting edge post office model and customer service, more personalised, automated and digitised with a broader and more flexible range of products, to be deployed to other areas in 2015, with areas for automated use 24 hours a day, every day of the year.

We are also designing a new catalogue of digital services to be marketed this year, which will be complemented by the inclusion of a multichannel strategy within Nexea for companies' mass communications and with the development of high capacity connectivity services from Correos Telecom.

Nor do we forget what society gives to us and, therefore, we collaborate in resolving its problems, encouraging our volunteer teams, which have more than 1,000 members, and social responsibility programmes focused on the groups that most need help. We facilitate the relationship between citizens and the Administration, also through electronic services; we support the development of smart cities with innovative projects, such as measuring air quality by sensors installed in delivery trolleys, and we support entrepreneurs. Similarly, we encourage internal entrepreneurship and make the most of the talent of our professionals to improve processes, products and services and, thus, the experience of



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

our customers. Aware of our environmental impact, we are also actively committed to reducing emissions, responsible consumption and the development of carbon-neutral services.

We work together to change at the dizzying speed which transforms the business environment and our society.

•• Greater agility and flexibility in our actions and determination to adapt to change, another element in the DNA of Correos ••

We also work so that our organisation, with over 50,000 people who make up Correos, and the protocols for action, adapt to the new needs of the sector and provide the appropriate solutions to the challenges that lie ahead.

We have managed to speed up our activities and make them more flexible, increase our speed in the making and implementation of decisions and determine that the adaptation of our human resources to the changes necessary to overcome the challenges we face is yet another element in the DNA of Correos.

The commitment, willpower and teamwork of everyone in the Correos Group and of their union representatives, allow us, without doubt, to be leaders in physical and digital communications and parcel services in Spain and the best option for our customers.

We still have many challenges to achieve in Correos. Our journey requires the support and consensus of social partners and of the Administration so that it crystallizes into a model of diversified business, sustainable over time. A model that ensures the provision of a Universal Postal Service and the other services to citizens, companies and institutions, functioning in our role as the backbone of social and economic development in Spain that we have been providing throughout the 300 year history of the organisation that we will be reach in 2016.

Javier Cuesta Nuin
Correos Group Chairman

- Message from the Chairman
- Key milestones**
- The Correos Group
- Innovation in products and services
- Innovation in processes
- Innovation for customers
- Innovation for people
- Innovation for society
- Good governance
- Coverage of report and sustainability indicators
- Consolidated annual accounts of Correos Group

2.1 Key milestones	08
2.2 Main figures	09



02

Key milestones

Summary of a year



...in products and services

- `Homepaq` and `Citypaq`, automated terminals for receiving and delivering parcels at home or in accessible public locations.
- `Comandia`, a platform that enables companies the creation and integrated management of their own online shops.
- `Tu tienda Correos`, an innovative post office model based on a renewed concept of customer service.
- Projects for the development of smart cities such as environmental monitoring sensors in delivery carts.
- New philatelic products with augmented reality, scent and flavour or with special materials.
- High-capacity connectivity services of Correos Telecom.



...for customers

- New company name of Correos Express and streamlining of the Group's parcel range of services.
- Agreements with large companies to provide more convenient delivery solutions to their customers.
- Introduction of the `Más Cerca` loyalty card in all post offices.
- New full color printing equipments of Nexea.
- Multi-channel strategy incorporated into Nexea's range of services.



...in processes

- Inauguration of the integrated logistics centre (CLI) in Barcelona.
- Incorporation of equipment for automated parcel processing of Correos and Correos Express.
- Provision of intelligent mobile devices (PDA) with continuous connection to rural delivery staff.
- New solutions by Correos Express for parcel delivery: `Addressees Immediate Localisation`, `Proactive Management of Incidents` and `Prediction of Time Range` of delivery.

Key milestones Innovation... grupoCorreos



...for people

- Universalisation of web access to the `Aporta` participation channel.
- Improvement of the Virtual Campus e-learning platform.
- Creation of Innovation Teams for employee entrepreneurship.
- Consolidation of the corporate volunteer programme `Correos Solidaridad`.



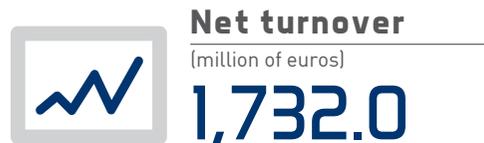
.....for society

- Support for Spanish entrepreneurship through initiatives such as the `Impulsando emprendedores` (Entrepreneurial Impulse) Programme.
- First carbon-neutral direct marketing campaign.

- 
Message from the Chairman
- 
Key milestones
- 
The Correos Group
- 
Innovation in products and services
- 
Innovation in processes
- 
Innovation for customers
- 
Innovation for people
- 
Innovation for society
- 
Good governance
- 
Coverage of report and sustainability indicators
- 
Consolidated annual accounts of Correos Group

Main figures

grupo **Correos**



- Message from the Chairman
- Key milestones
- The Correos Group
- Innovation in products and services
- Innovation in processes
- Innovation for customers
- Innovation for people
- Innovation for society
- Good governance
- Coverage of report and sustainability indicators
- Consolidated annual accounts of Correos Group



Net turnover

(million of euros)



133.2

Net turnover

(million of euros)



11.3

Net turnover

(million of euros)



6.1

Distribution and hauling routes



2,044

Digitisation jobs

(millions)

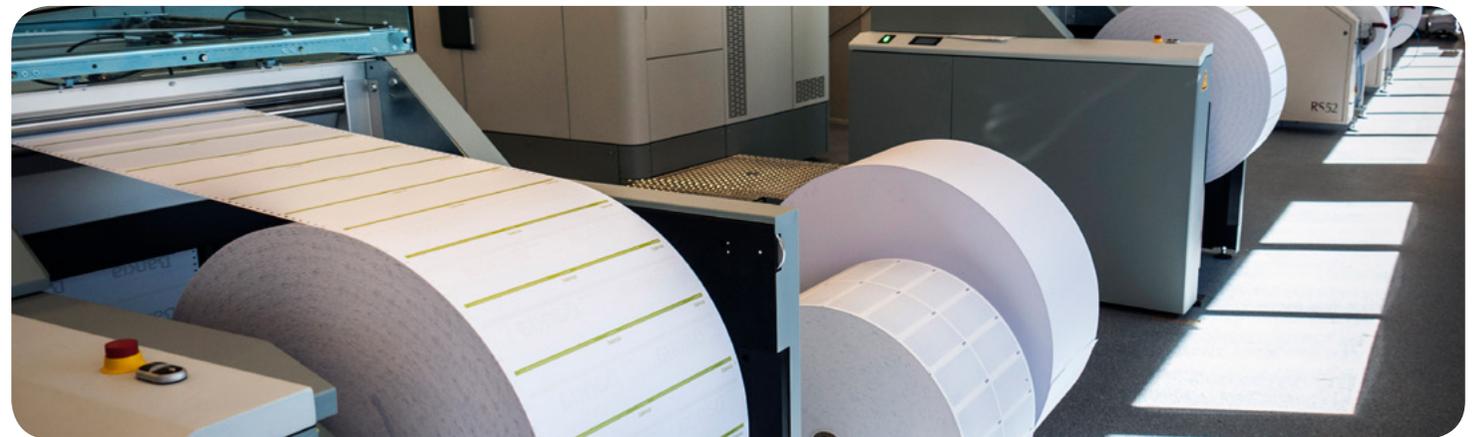


5.5

Operating centres



52





Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



3.1 The Correos Group companies	12
3.2 Markets	15
3.3 Strategy	19



03

The Correos Group

Global solutions for global challenges



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

The current technological development is revolutionising the way of we communicate and consume. Companies are changing their customer relationship models in accordance with the new network economy, while individuals demand more flexible and simpler collection and delivery solutions and the government bodies seek immediacy in their interactions with citizens.

The use of the latest technologies has allowed us to adapt ourselves rapidly to these new demands, providing solutions in parallel with the evolution of communications in society.

“ We have the best professionals, the strongest nationwide presence and the most advanced technology ”

The Correos Group has continued to move forward in the innovation of its products and services, in the optimisation of processes and in the improvement of the customer experience, in order to provide essential support for companies, become the best value-added and trusted network, and take on a crucial role in the relationships of the citizens with the Public Administration.

3.1 The Correos Group companies

The Correos Group, whose sole shareholder is the Sociedad Estatal de Participaciones Industriales (SEPI), is one of the leading Spanish business groups, not only in terms of commercial activity, but also in terms of number of employees. It is made up of four companies: Correos, Correos Express, Nexea and Correos Telecom. Its main sphere of action is tied to communications, both physical as well as digital.

The distinguishing values of the Correos Group, its business strategy and the team behind it are the pillars which enable it to be competitive and to respond with quality assurance to the commitments made with the customers.





Correos, a benchmark in physical and digital communications, operates under the criteria of sustainability, efficiency and quality



Correos

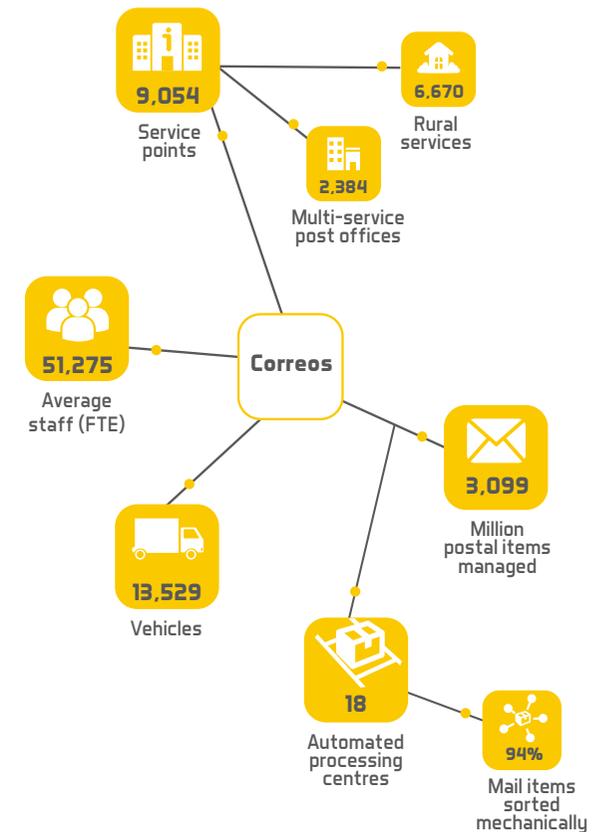
It is the leading company in postal services, designated to provide Universal Postal Service in Spain. It carries out its mission under the criteria of efficiency, quality and sustainability. This, together with its wide territorial coverage and its comprehensive range of services, makes Correos the benchmark in the postal market and in the physical and digital communications sector.

Parcel services, direct marketing, financial services or products sold in the post office network enable Correos to round off its product and service, thereby offering comprehensive solutions adapted to the needs of each type of customer.

Correos Express

It is the Correos Group subsidiary dedicated to urgent parcel delivery, specialised in deliveries with deadlines under 24 hours, mainly on the Iberian Peninsula. Its current company name Correos Express was launched in early 2014, a brand capable of attaining greater visibility in the market and which, at the same time, emphasises its association with the Group and its specialisation in urgent deliveries.

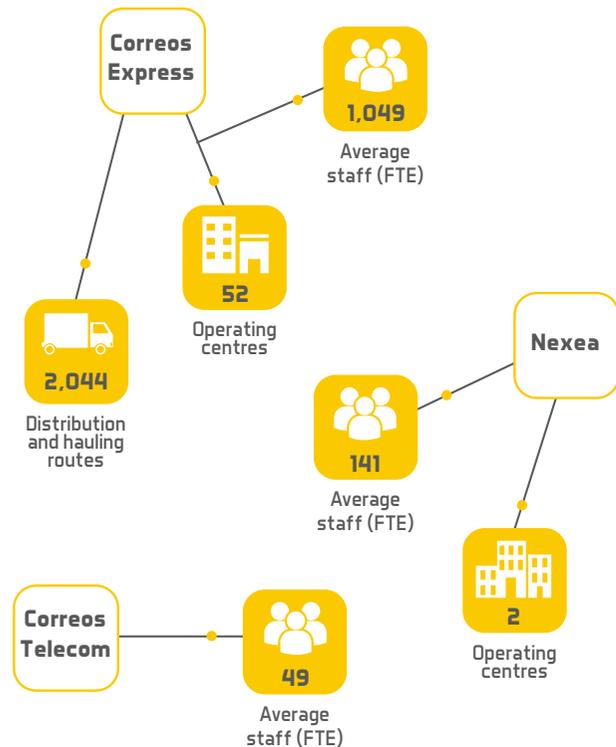
Main figures





Correos Express is the largest Spanish non franchise urgent delivery company, which, together with the use of the latest technology in monitoring parcels and the geopositioning capability of its vehicles, gives it a high level of swiftness in management.

Main figures



Nexea

It is specialised in the integrated management of corporate mass communications and in the development of customised technological solutions for document processes.

It mainly provides services to the telephone, energy, banking sectors or the government bodies. In a currently very competitive market, Nexea has designed a differentiated value proposition, based on a multi-channel strategy, which enables it to meet all customer needs, managing their communications in all types of media and formats, with the highest possible computer security guarantees, efficiency in delivery and documentary traceability.

Correos Telecom

It is the company responsible for managing the telecommunications network of the Correos Group, providing technological services and selling the surplus capacity of this network.

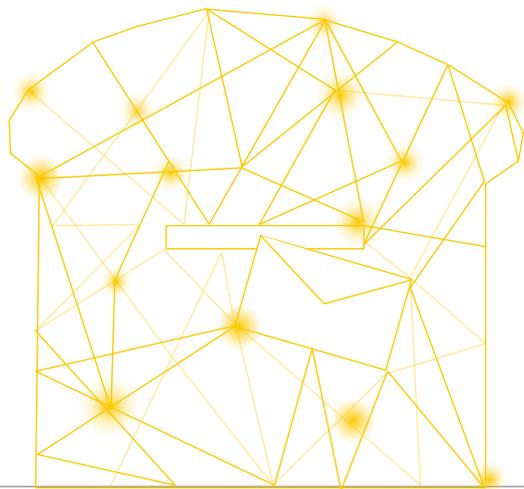
In the telecommunications sector, Correos Telecom is a specialised operator of high-capacity connectivity services (xWDM, xGbps, xFibreChannel optical circuits), infrastructure for cable installation and collocation for radio electric emission (mobile network, WiFi, Wimax, radio, DTT). Its activity likewise includes the provision of communication services to some government bodies and support for the rest of the Correos Group companies in the management and implementation of information technology projects.



3.2 Markets

The Correos Group is a global service provider in the communications market, with a specific range for each customer segment (individuals, SMEs, Administrations, large companies...).

Correos, the parent company, mainly operates in the postal sector which, over recent years has undergone profound transformations due to, among other factors, the economic recession, but above all, the changes in social patterns which have involved a progressive decrease in postal communications in favour of electronic alternatives.



This trend has been a huge challenge, not only for Correos, but also for the rest of worldwide postal operators, which have had to redefine their business models in order to face the decline in traditional postal activity and adapt to the new opportunities arising from the increase in the demand for parcel and digital services.

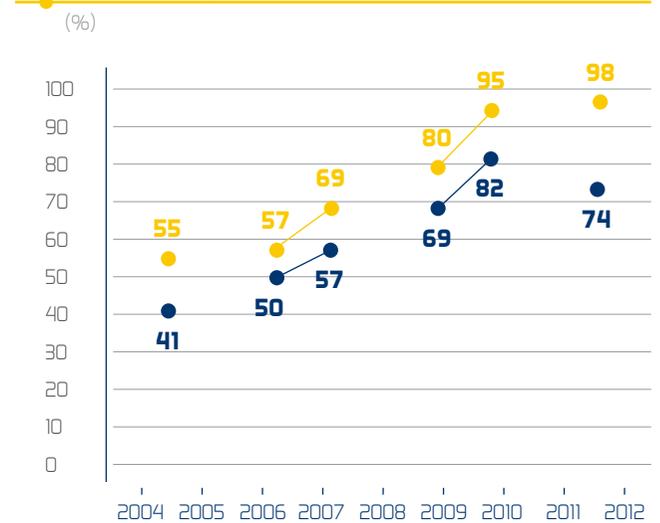
Postal sector

The Spanish postal market has always been a very competitive sector since its full liberalisation in 2011. There are over 1,500 national and international postal companies operating in Spain, with a very diverse range of services and geographic coverage.

For many years now, just like in other European countries, the Spanish market has been undergoing a gradual shrinking due to the effects of electronic substitution. The rapid development of digital invoicing and e-government, well under way in Spain as compared to the rest of the continent, also contributes to this.

In this business environment, the Correos Group's Action Plan includes measures to maintain postal activity through a new range of physical and digital services by Correos, together with the value provided by its subsidiary Nexea's mass communication solutions.

Availability of e-government services in Spain and the European Union



Note: 2005, 2008 and 2011 not available
Source: ONTSI (National Observatory for Telecommunications and the Information Society)

● Spain
● European Union



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Direct marketing

The advertising market is increasingly demanding hybrid solutions which incorporate physical and digital strategies at the same time. The Correos Group meets these needs through multi-channel services that adapt messages to different media based on customer preferences.

In the direct marketing sector, in which a high level of competition and great homogeneity in products and services exist, the subsidiary Nexea guarantees security and reliability in communications as a distinguishing value.

In addition, the services based on full color printing technology provide Nexea's customers with the right combination of mass communications with personalised promotional messages. This option rounds out the wide range of solutions which Correos and Nexea offer companies for their direct mail.



Parcel services

The economic recovery perceived in the second half of 2014, the maintenance of companies' international activity and the growth in e-commerce, enabled the moderation in the downward trend of recent years in the parcel market at the end of the financial year.

This budding recovery has been seen in terms of volumes managed by the parcel companies, although to a lesser degree in terms of revenue, due to the high level of competition in prices in the Spanish sector, with the subsequent increase of pressure on operational costs, and of the negotiation power of major customers.

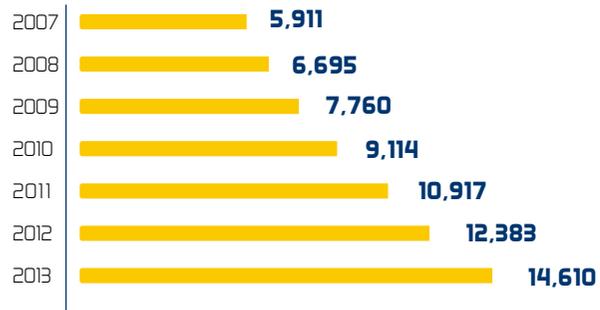
The Spanish e-commerce market is currently one of the most important in Southern Europe, with annual growth of more than 20%. However, its expansion potential is still very high in comparison to the development of its neighbouring countries.

The spread of new business models such as private shopping clubs, the launching of online shops by major Spanish companies or public support for the development of the sector, have all contributed to this recent growth.



Volume of B2C e-commerce in Spain

(million of euros)



Source: ONTSI (National Observatory for Telecommunications and the Information Society)

The Correos Group has become a preferred partner for online sales companies. The services developed in 2014 have enabled it to respond better to the new requirements of the sector. Among these, the streamlining of the Group's parcel range of services and the launch of 'Homepaq' and 'Citypaq', new parcel delivery and admission automated devices, stand out.

The new services, such as 'Comandia', offer companies the possibility to design and manage online stores simply, with Correos as their adviser and benchmark logistics operator.

•• Correos Express has designed innovative services to improve efficiency in urgent parcel delivery ••

In addition, the subsidiary Correos Express has launched new options in the market to improve the quality and traceability of the deliveries to customers and, specifically, for individual addressees, which are the main promoters of e-commerce sales.

The Correos Group will continue to move forward in increasing the diversity of solutions for the distribution and returns of e-commerce items, with a logistical model adapted to the new delivery needs and with the flexibility required by both customers and e-tailers.





Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



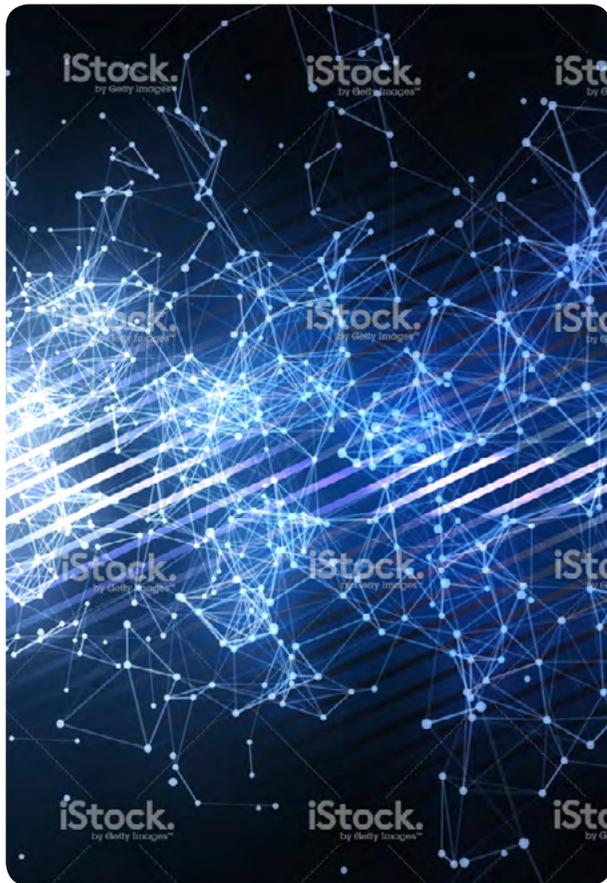
Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



Digital services and telecommunications

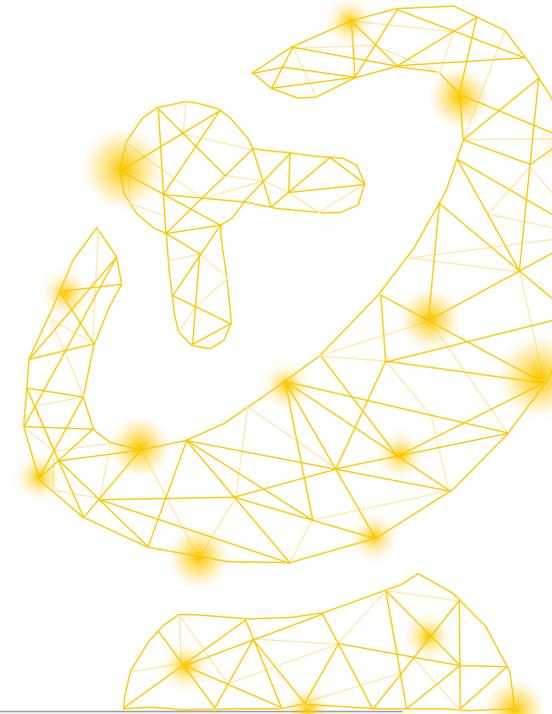


The growth of e-commerce also provides new opportunities for the Correos Group in the set-up of electronic services. Therefore, it is developing a comprehensive range of digital services to become a communications facilitator in all types of media and a trusted third party in exchanges between citizens, companies and government bodies.

Correos is collaborating in the growth and consolidation of e-government by providing the Secure Telematic Notifications service, also available in mobile applications.

On the other hand, the subsidiary Correos Telecom carries out its main activity in the sphere of telecommunications, a very competitive market in which the majority of the market share is in the hands of only a few operators. The company provides communication network services to these operators, through a simultaneously competitive and collaborative business model. The alliances with these companies are also important for the provision of comprehensive telecommunications services to the public sector.

In this context, Correos Telecom has expanded its connectivity services through high-capacity circuits, increased its presence in the largest data centres where its main customers are present and improved its positioning in terms of the range of services for government bodies.





Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

3.3 Strategy

The main goals of the Correos Group's 100-300-1,500 Action Plan are to diversify the range of products and services, improve its positioning in new markets, adopt a multi-channel focus in customer relations and service and make full use of the distribution and post office networks.

The name of the Plan is taken from the three important milestones used: 100 days for immediate actions, 300 days for projects with a greater scope of transformation and 1,500 days to accomplish long-term strategic goals. By the end of 2014, all actions planned for the 100 and 300 day milestones in the Action Plan had already been completed and the majority of the projects programmed for the 1,500 day milestone had already started.

The measures included in the Action Plan are enabling the Correos Group to become a true benchmark for all communications between citizens and companies, by promoting its values of security, proximity and trust in the digital and parcel markets. Similarly, these

enable the creation of new added value and efficiency in physical distribution, thanks to the innovation and technological deployment implemented.





Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



5 lines of the Action Plan

1 Diversification

New business lines in order to compensate postal activity decrease

2014 Achievements

- Creation of `Comandia`
- Launching of `Homepaq` and `Citypaq`
- Reverse logistics and new delivery options for e-commerce

2015 Challenges

- New range of digital services
- Opening of 50 `Tu tienda Correos` post offices
- Expansion of `Homepaq` and `Citypaq` networks
- Development of Nexea's range of multi-channel services

2 Increase in commercial effectiveness

Comprehensive solutions with multi-channel approach

- New brand of Correos Express
- The Correos Group's coordinated business strategy and streamlined a portfolio of parcel services
- Opening of the first `Tu tienda Correos` post office
- Introduction of the `Más Cerca` loyalty card in the entire post office network

- Development of information gathering services in public environments through the distribution network
- Improvement of the fibre optic networks in Madrid managed by Correos Telecom

3 Operational optimisation

Full use of the potential of distributions networks

- New intelligent mobile devices (PDA) with continuous connection in rural delivery
- Introduction of the single label for the admission of national products at all post offices
- Installation of two pieces of automated parcel sorting equipment
- New services of Correos Express for efficiency in parcel delivery
- Roll-out of new full color printing equipment of Nexea

- Expansion of the new intelligent mobile devices (PDA) to the entire distribution network
- Expansion of the single label to international products
- Set-up of the new distribution model and automated customer collection system
- Completion of the parcel automation plan



5 lines of the Action Plan

2014 Achievements

2015 Challenges

4 Development of organisational model

Cultural change through teamwork and performance recognition

- Development of the Commercial School
- Universalisation of web access to the `Aporta` participation channel
- Consolidation of the volunteer programme `Correos Solidaridad`

- Introduction of the new talent management model
- Development of new channels of communication with employees
- Preparation of a corporate road safety plan

5 Innovation and new developments

Innovative solutions to anticipate changes in customers' requirements

- Creation of Innovation Teams for internal entrepreneurship
- Support for external entrepreneurship with initiatives such as `Impulsando emprendedores` (Entrepreneurial Impulse) Programme
- Development of a carbon-neutral direct marketing campaign and the new energy efficiency plan
- Collaboration in projects for the development of smart cities
- Support for startup with environmental goals
- Marketing of innovative philatelic products
- Development of high-capacity connectivity services of Correos Telecom

- Development of the Correos Group's new range of digital services
- Introduction of the carbon emissions compensation strategy
- Development of sustainable mobility models
- Implementations of initiatives generated by the Innovations Teams
- Marketing of Nexea's bureaufax management software



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



04

Innovation in products and services

4.1 Parcel services	23
4.2 Electronic services	29
4.3 Direct marketing	30
4.4 Post offices	32
4.5 Telecommunications services	32
4.6 Philatelic activity	33
4.7 Commitment to innovation	34

Leaders in physical and electronic communications and parcel services



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

4.1 Parcel services

The strategic purpose of the Correos Group is to be the leader in physical and electronic communications and parcel services, increase the diversification of activities and the contribution to turnover of each of the markets where it operates.

The Correos Group is aware of the continuous technological developments and changes in customer behaviour and thus innovates in both its range of physical and electronic products and services, as well as in the integrated management of the parcel service logistics, which have recently received a boost from e-commerce.

The current development of the parcel business is closely linked to online sales. Correos estimates that about 50% of e-commerce transactions are likely to generate a package delivery (the sale of books, small appliances, electronics, etc.).

This increase in volumes generates a growing demand for new and more convenient distribution alternatives. The business solutions developed by the Group in 2014 were aimed at responding to these needs of both companies that sell over the Internet and the end customers who buy online.





'Homepaq' y 'Citypaq'

'Homepaq' is a new service unique in Spain that makes parcel delivery more convenient by providing free installation of an automated terminal in resident communities, for sending and receiving packages 24 hours a day, seven days a week.

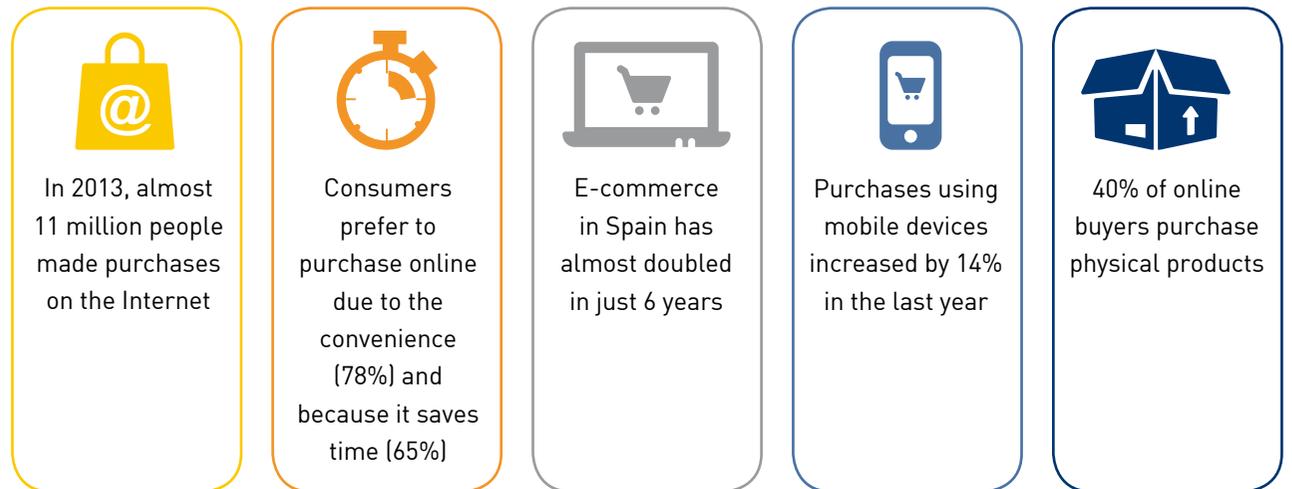
The differential value of this service is that people can send and receive parcels from their own homes without having to go anywhere or be present at the time of the delivery.

Users can register through the 'Homepaq' application and every time they need to send or receive a package, they will receive a code to access the device, located in communal areas of their building.

In the first phase, almost 300 'Homepaq' terminals were installed in resident communities in Madrid, halls of residence and service stations, and will gradually be extended to 16 Spanish cities.

•• 'Homepaq' was acknowledged at the Awards for the best Spanish logistics, transport and infrastructures initiatives, in the Innovation category ••

E-Commerce in Spain



Sources: ONTSI (National Observatory for Telecommunications and the Information Society), INE



To learn more about 'Homepaq'
Explanatory video

- 
 Message from the Chairman
- 
 Key milestones
- 
 The Correos Group
- 
 Innovation in products and services
- 
 Innovation in processes
- 
 Innovation for customers
- 
 Innovation for people
- 
 Innovation for society
- 
 Good governance
- 
 Coverage of report and sustainability indicators
- 
 Consolidated annual accounts of Correos Group

In 2015, Correos intends to install the first 'Citypaq' boxes (similar to 'Homepaq' boxes but with a greater capacity) in underground and train stations, transport interchanges and other highly frequented public places, making it more convenient for customers to collect their packages.

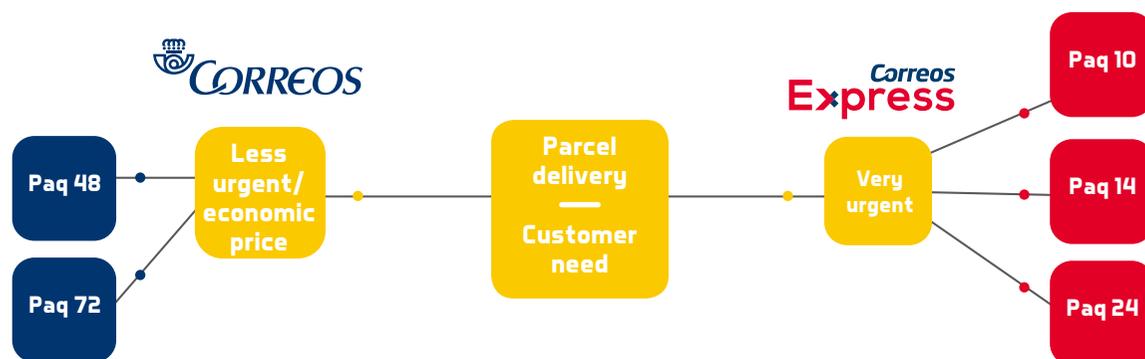
The new 'Homepaq' and 'Citypaq' terminals, which, together with the Group's logistical capacity and capillarity and its range of parcel services, position it in the e-commerce services field as the most trustworthy partner, for both online sales companies and end customers.

Correos Group parcel services

In 2014, the Correos Group streamlined its parcel service under the name Paq, with five products aimed at responding to customers' needs in terms of speed and flexibility: 'Paq 48' and 'Paq 72' provided by Correos, and 'Paq 10', 'Paq 14' and 'Paq 24', supplied by Correos Express. These five products, which are marketed throughout the Correos network of post offices, are added to the 'Paquete azul' service, included in the Universal Postal Service range.



Range of parcels services



Added values

- 'Prediction of Time Range' of delivery
- 'Proactive Management of Incidents'
- 'Addressees Immediate Localisation'
- Fulfillment
- Reverse logistics
- Delivery to the post office network
- Delivery in 'Homepaq' and 'Citypaq'
- Delivery with pick-up

 Message from the Chairman	 Key milestones	 The Correos Group	 Innovation in products and services	 Innovation in processes	 Innovation for customers	 Innovation for people	 Innovation for society	 Good governance	 Coverage of report and sustainability indicators	 Consolidated annual accounts of Correos Group
--	---	--	--	--	---	--	---	--	---	--

Correos goes beyond just making deliveries and achieves total customer satisfaction. It also offers the most complete solution on the market for reverse logistics (return by the recipient), with options for post office drop-offs or home collections. This range is complemented with a service that gives customers the option to make a simultaneous drop-off and pick up at either the post office or their home.

At the customer's request, Correos can also carry out any other management service at the time of delivery, such as checking merchandise, collecting delivery notes or signed contracts, verifying documentation and checking the quality of the returns, among others.



E-commerce delivery options

Correos works to satisfy the needs of both those sending and receiving parcels. To do so, last year it reached an agreement with Amazon to allow the online sale giant's customers to use the post office network as a delivery point.

This means that, when making their purchases, customers will be able to choose whether they prefer to receive their packages in one of the more than 2,300 post offices or at their home, using the 'Paq 48' parcel service, which guarantees delivery in 48 hours.

'Puerta a puerta' luggage

Correos has implemented a luggage delivery and collection service designed for AVE train and Long Distance travellers, called 'Puerta a puerta' (Door to door luggage). With this solution, Correos helps Renfe train travellers to manage the delivery of their luggage 48 hours before departure, with a delivery time of between 1 and 3 days based on their destination. The railway company also benefits from this by reducing the amount of space on its trains taken up by luggage.



Renfe users are very satisfied with the service due to the convenience of travelling without the worry of carrying luggage. It allows passengers to send up to three packages to over 230 destinations across Spain and they can choose between receiving their luggage at home or collecting it from a post office. In 2015, the luggage delivery and pick up service will also be made available in Portugal and new agreements will be signed with other passenger transport companies.

Services for the Way of St. James

Correos has extended the range of services offered to the more than 200,000 pilgrims who annually follow the Way of St. James ('Camino de Santiago'), in order to address their needs before, during and after the route.

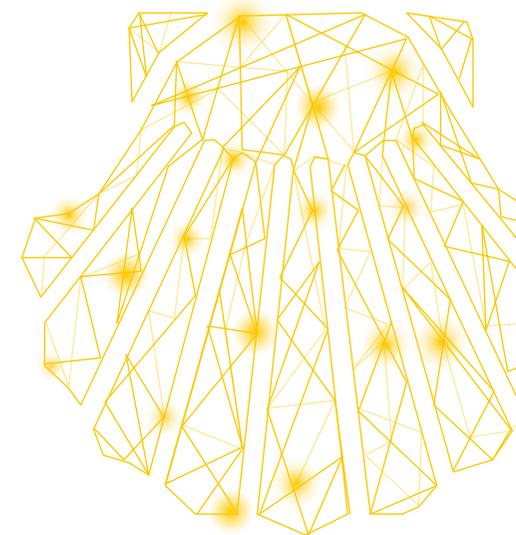
The company has created the 'Paq Mochila' (Backpack Paq) for transporting backpacks and suitcases between the different stages of the Way. This is intended for pilgrims who prefer to walk in comfort and find their luggage on arrival at the hotel or hostel.

For pilgrims who decide to follow the route by bike, it launched the 'Paq Bici' (Bike Paq), which allows them to send their bike to their starting point on the route and send it back when they've finished, with purpose-designed packaging and insurance.

Furthermore, from 2015, the more than 120 post offices along the Way will become stations where pilgrims can have their credentials stamped and purchase the 'Paq Peregrino' (Pilgrim Paq). This service has been designed to make it easier to send packages with personal belongings, purchases or gifts, and to send luggage to the hotel or Correos post office at the end of their route and pick them up upon arrival. This year, the main post office in Santiago de Compostela, 150 meters from the Cathedral, will also have a left luggage service to store luggage and bikes.



To learn more about the services for pilgrims





Message from the Chairman



Key milestones



The Correas Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correas Group

Correas Express solutions for an effective delivery

Correas Express provides its customers with pioneering added value to increase the effectiveness and convenience of deliveries.

With the 'Addressees Immediate Localisation' service, installed in all the delivery personnel's intelligent mobile devices (PDA), automatic communication can be made with the recipient in the event of an incident, such as there being nobody at home or an incomplete or incorrect address. This can then be corrected on the spot.

Furthermore, 'Proactive Management of Incidents' immediately locates the recipients to arrange a second attempt at delivery as soon as possible.

Finally, to improve distribution quality and shorten waiting times, it is possible to add the delivery 'Prediction of Time Range' of delivery, giving the recipient a time window of up to two hours (one hour in provincial capital cities) during which their package will be delivered to the designated address. This is the only service of its kind available in Spain.

Correas Express has the best quality ratings in the industry, with a high ratio of effective deliveries which makes it the most reliable choice for any delivery deadline. In addition to the agreed delivery times for urgent products, the company has the largest range of complementary solutions, enabling maximum customisation of the service, including Saturday delivery, returning delivery notes to customers, cash on delivery, portability, delivery confirmation, bag service and reverse logistics.

The subsidiary is the only transport operator backed by the confidence of the two main Spanish optical organisations, the Spanish Federation of Associations of the Optical Industry (FEDAO) and the General Optical-Optometrist Council, who renewed their collaboration agreements in 2014.

At the start of 2015, Correas Express, the leading company in this sector, created two new products specifically tailored to the needs of these companies: 'Obtibox10' (prepaid account to send 10 small packages, with an attractive image for their end customers) and 'Optibag15' (small reduced price deliveries for optical professionals such as assembly workshops).





4.2 Electronic services

In the world of mobile applications, Correos has continued to adapt its services to new user preferences and the latest technologies. Examples include the new version of 'Correos Info' (which includes a post code, post box and post office search engine using geolocation) and 'Correos Mobile: *Mi Postal*' (to turn any image into a physical postcard).



Supporting the digitalisation of companies

Currently, one of the major challenges facing small businesses is adapting to new technologies without losing their identity. The 'Comandia' platform is a new solution that has been designed to enable companies to easily, safely and reliably sell their products over the Internet.

This service enables companies to create an online shop without needing any previous knowledges, with the added advantage of having the integrated logistics of Correos deliveries. The platform offers a wide range of applications, such as stock management, SEO optimisation, creating loyalty programmes and the configuration of different payment systems, and comes in five different packages, depending on the needs and scope of each company's virtual shop.

At the same time, in order to provide the customer with the best experience in the delivery of their online purchases, Correos has carried out more than 2,000 technological integrations with e-commerce platforms (through Magento or Prestashop), to make it easier for customers to manage their deliveries.

Electronic administration

Correos has positioned itself as a trusted third party in communications between citizens and the government, mainly in two areas: acting as a gateway to e-government, by joining the post office network's Government Office for Document Registration Online (*Oficina de Registro Virtual de Entidades*) (ORVE) service and ensuring the identity and integrity of the information exchanged between citizens and the government, with the 'Secure Telematic Notification System', available on any iOS or Android device, with total security and legal validity.

The new range of digital services that will be sold in 2015 will increase Correos's role in the field of electronic communications, as a key player in the relationship between citizens and government bodies and companies.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



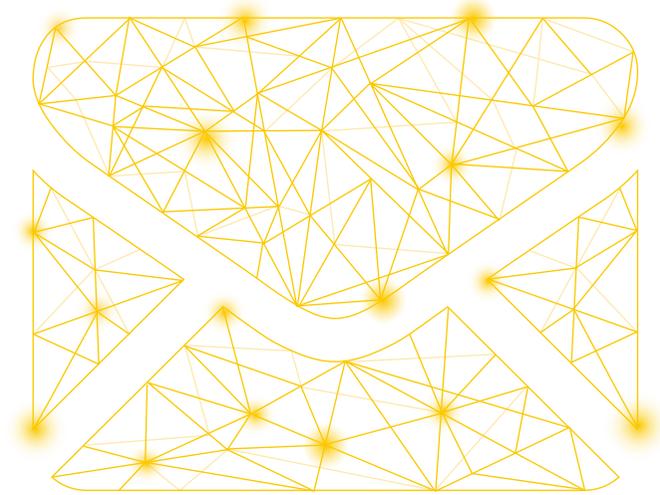
Consolidated annual accounts of Correos Group

4.3 Direct marketing

Thanks to its capillarity and ability to collect information on the spot through mailmen, Correos offers companies updated and refined databases to optimise direct communication with their customers. The 'Correos Directo' catalogue of solutions has a new database service portfolio which includes 'Correos Target', 'Correos ADD' and 'Correos Data'.

The 'Publi-city' service offers a new support service to include advertising campaigns in delivery trolleys which are used daily. The main advantage offered to companies is the ability to reach their target audience in the most efficient way, thanks to the broadest territorial coverage of Correos staff and direct presence in the customer's area of influence.

These new options complement the company's direct marketing services, which also include the 'Publicorreo', 'Publicorreo Óptimo', 'Publicorreo Premium' and 'Publibuzón' products designed to help companies improve communication with their customers.



Nexea multi-channel offer

Nexea, which has a range of services based on a multi-channel structure, provides integrated, optimised and visible management of all the channels used by companies in their relations with the recipients of its communications, via a single service platform.

The aim is to meet the needs of customers when managing their communications, both in physical means (postal) and digital (email, SMS, web, social networks, ...). Nexea offers comprehensive solutions, from consulting in document production to the drop-off





•• Nexea allows you to send the right message through the right channel and time ••

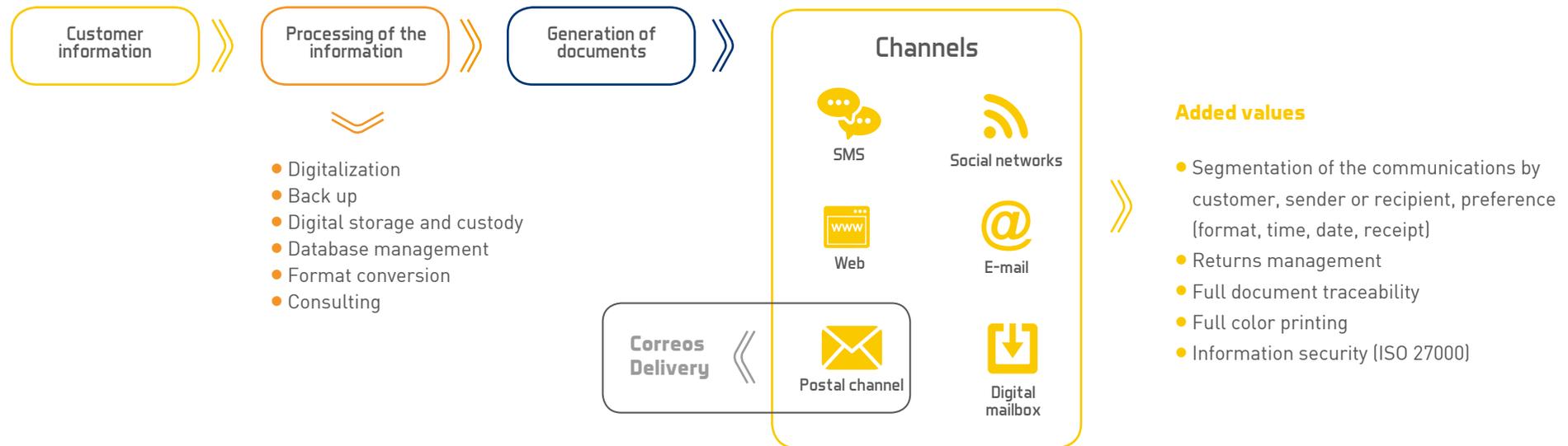
at the postal channel to be distributed or integrated in digital environments, ensuring traceability, document by document, throughout the process and at a highly competitive price.

This makes it possible to communicate the same marketing campaign in different ways, based on the customer's profile, segment and needs, selecting from multiple channels and mediums.

The latest full color printing technologies incorporated by Nexea enables them to combine transactional communications with personalised promotional messages for each recipient in one single document.

Nexea's business offering is completed with services such as returns management, database maintenance, digitalization and printing, digital storage and custody, and fulfillment and integration options in web environments.

Nexea multi-channel offer





Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



4.4 Post offices

'*Tu tienda Correos*' (Your Correos shop) is an innovative concept that complements the services offered in traditional post offices. It's an open space that focuses on customer experience, with different services based on their needs. The first establishment was opened at the end of 2014 in Madrid, and the model will be taken to other cities from 2015 onwards.

The new shop has a flexible and dynamic catalogue of products which is updated throughout the year in order to anticipate customer demands. This establishment also has a fully automated area, open to the public 24 hours a day, 7 days a week, with 'Homepaq' terminals for dropping off and collecting parcels, a 'BanCorreos' ATM and post office boxes.

The new post office model drives the commercial potential of the Correos network, one of the largest in the country, which also incorporated new features in 2014 such as ticket sales for events through the agreement with '*Entradas a tu alcance*' (Tickets easily available).

4.5 Telecommunications services

Correos Telecom provides communications network services to other operators in the market, offering the hiring of cable ducts, conduits and emplacements. In this field of business, the subsidiary has expanded its connectivity services by incorporating commercial internet access services to its portfolio.

It has also increased its presence in the main data centres to provide a more cost-efficient and higher quality service to large companies. The other main

area in which Correos Telecom works is providing communication network services to public bodies, mainly the Central Government.

The subsidiary provides the ability to manage telecommunications costs and implement advanced technologies in voice, data and Internet communications in both business segments.



The Correos Telecom services that experienced the greatest growth in 2014 were the hiring of dark fibre optic infrastructure and rights of way, as well as telecommunications engineering services.

4.6 Philatelic activity



Correos reinforces the visibility and the value of philately, not only as a postmark method, but as an excellent means to disseminate the history, culture and values of a country.

In 2014 it issued 94 stamps in 54 issues. Some of these issues incorporate especially innovative features such as:

- Stamps that taste and smell of almonds and mandarins, which form part of the 'Spanish Food' series, dedicated to traditional cooking and innovation and the quality of Spanish products. Renowned chef Ferrán Adriá collaborated with the production of this stamp.
- The stamps, with augmented reality, incorporate QR codes to access virtual content, such as content on information and communication technologies, or content issued to mark the fourth centenary of the death of painter El Greco, commemorated in 2014.

•• Grand Prix of the Belgium and European Philatelic Art for the best hand engraved stamp and the best stamp dedicated to youth ••

- This last El Greco stamp had the first artist proofs in 24 carat gold, covering a reproduction of the stamp in 999 thousands of silver.

New features were not just on the stamps, they were also in the printing of the envelopes on the first day of circulation, which used new techniques such as making the envelope from the 'The Ages of Man' series out of wood, or the new embossed formats from the 'Protected fauna' and 'Spanish cinema' series. Similarly, the issue dedicated to the Talayotic culture of Menorca included limestone dust for the first ever time, a construction material from the megalithic monument it reproduced.



Last year it also issued a series of 24,000 postcards with two images alluding to the Way of St. James, to be sold in the post offices located along the route and a special postmark for five of them.

Support for the *Marca España*

With support and advice from the High Commissioner for the *Marca España*, Correos published and sold a philatelic book to promote and disseminate the values of Spain abroad. It's a bilingual edition in Spanish and English, with texts and photographs accompanying the 7 stamps that make up the *Marca España* series issued in 2014 and another 18 in earlier issues related to this subject.

The contents of the book, written by relevant people from social, economic and cultural fields, illustrate the most important projects being developed in our country with an international projection.

The company also organised the event '*Tu sello, un record*' (Your stamp, one record) in Málaga, which won a Guinness World Record for the largest stamp mosaic in the world. The mosaic, which was made by 1,900

students from schools in Málaga and 1,200 volunteers on a 220 m² canvas paper, recreated the letter 'Ñ' in the centre as a symbol of the *Marca España*.



4.7 Commitment to innovation

Correos understands innovation management as the transformation of people's talent into new business ideas and initiatives that contribute to social progress. To do so, it develops programmes to promote and identify talent, not only internal but also external, by means of co-creation processes with companies, public entities and entrepreneurs.

Support for SMEs and entrepreneurs

With the aim of promoting entrepreneurship and innovation in society, Correos continued its collaboration with the '*Impulsando Emprendedores*' (Promoting Entrepreneurship) mentor programme. Through this initiative, six Correos professionals worked directly with eight entrepreneurs to advise them on the best business practices. The experts mainly helped them boost their business in four areas: finance, innovation, internationalization and energy saving and efficiency. As in previous years, Correos



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

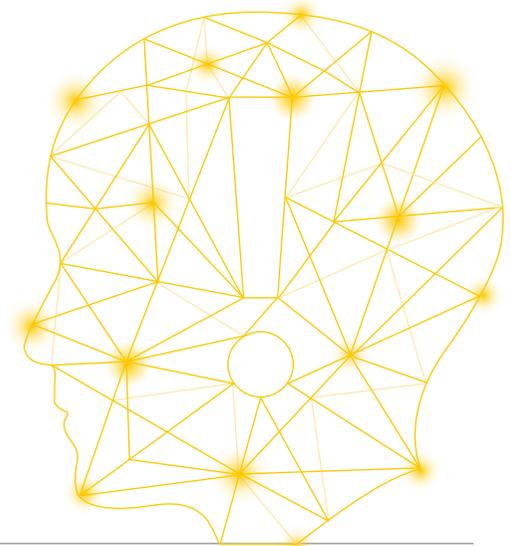
also participated in the third edition of '*Impulsando pymes*' ('Promoting SMEs') with the aim of providing knowledge and experience to help develop the Spanish business industry. In addition to providing advice, the company informed them of the range of products and services that can help their products reach their customers with the most suitable logistics.

In collaboration with other companies, Correos also created the '*Transformación para pymes*' ('SMEs Transformation') training programme, aimed at helping small businesses to evolve in the knowledge and management of the digital world and identify new opportunities in that environment. The company also took part in other entrepreneur support programmes such as 'The South Summit' and 'startup4cities'.

Through the '*Estudiantes con talento*' ('Talented Students') agreement, leaders from different sectors such as Correos invite groups of students to work in an assigned idea. The students presented their proposals, from which the companies will choose the best project in 2015, giving the winner the opportunity to carry out work experience of between three to six months.



•• Correos professionals work with entrepreneurs to advise them on the best practices in each of their markets ••





'Alimentos Auténticos'

Correos also develops agreements with start-ups to enhance local services and commerce. Through collaboration with the www.alimentosautenticos.com web platform, the company has become a direct intermediary between farmers and consumers, making sure that the products are delivered to homes fresh and with the best possible quality. The consumer can choose the seasonal product and it is sent directly from the place of production to their house, with all the guarantees provided by the Correos transport network.

Innovation for smart cities

The company has supported other pioneering companies engaged in various activities related to innovation and environmental improvements such as:

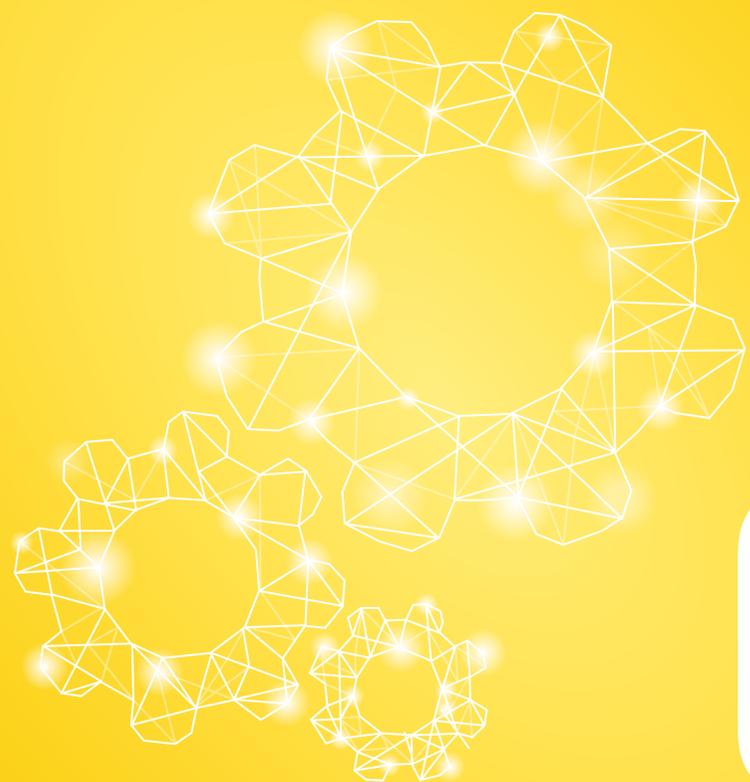
- Renting electric vehicles with removable batteries that can be recharged with renewable energy.
- The use of drones to measure around buildings as a means of measuring energy efficiency (in the 'Entrepreneurial Drive' of the Navarra Government programme).

- The development of compact sensors used to map air quality thanks to postal deliverers.

The purpose of the latter project, called 'Correos Urban Mobile Sensor', is aimed at installing devices in the delivery trolleys of distribution personnel to monitor the environmental parameters of the city of Málaga. The system collects geopositioned data on temperature, relative humidity and pressure, in addition to the presence of gaseous pollutants. The success of this initiative could be extended this year to new areas.



- Message from the Chairman
- Key milestones
- The Correos Group
- Innovation in products and services
- Innovation in processes**
- Innovation for customers
- Innovation for people
- Innovation for society
- Good governance
- Coverage of report and sustainability indicators
- Consolidated annual accounts of Correos Group



05

Innovation in processes

5.1 Admission	38
5.2 Processing and sorting	40
5.3 Transport	42
5.4 Distribution and delivery	43
5.5 International activity	44

Innovating in processes makes us more efficient



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



5.1 Admission

One of the five strategic lines of the Correos Group's Action Plan is operational optimisation. The actions undertaken to reach that goal are intended to simplify the admission processes, reorganise the flows of processing and transport and make full use of the automated sorting equipment and the distribution network.

Throughout 2014, Correos continued to move forward in the reorganisation of the mass admission units, responsible for managing the deliveries of major customers, transferring part of the processes to the post office network.

In addition, the introduction of the single label for the admission of national mail and parcel products in all post offices was completed through the installation of linerless printing equipment. This step has enabled greater uniformity in franking marks and speed in the admission process.

Finally, over 33,000 postboxes remained available and an automatic localisation of them was added to the website through the application 'Correos Info'.

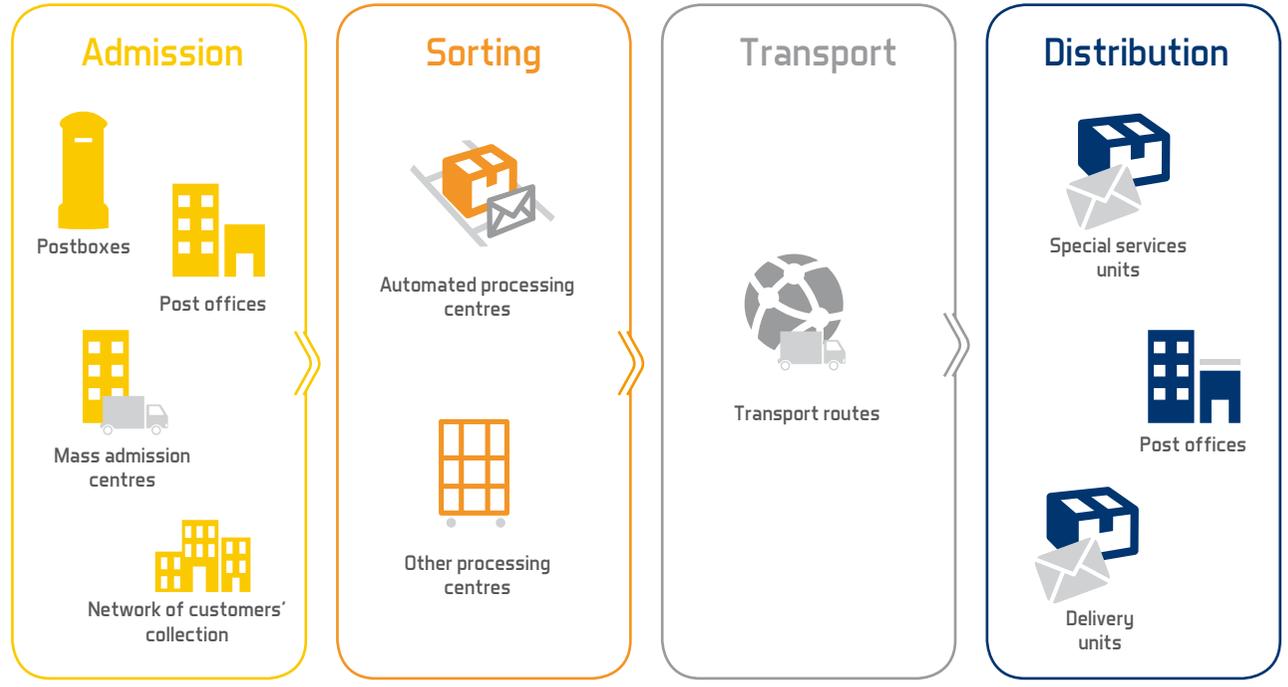


With regard to the actions for operational improvement among the Correos Group companies, progress was made in the management of information regarding parcel admission, invoicing and logistical traceability, both for Correos and Correos Express. This has improved the available information regarding deliveries and optimised the admission processes.

In turn, Nexea incorporated new automatic data conversion tools which make it possible to adapt the received files to the most suitable format for printing and placing in envelopes. These systems will be integrated into the multi-channel platform which the company will develop over the course of 2015.

The subsidiary also increased its production capacity by converting the Chamartín (Madrid) centre, until now used as a contingency infrastructure, into an operating centre, in order to efficiently address growing customer numbers. Furthermore, two new sets of full color printing equipment were rolled out in the Coslada (Madrid) operating centre to meet the growing demand for this type of technology to generate promotional messages.

Postal chain





Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



5.2 Processing and sorting

Over recent years, Correos has improved its operational efficiency by increasing automated processing of deliveries and removing manual processes. Therefore, the percentage of automatically sorted mail has risen to 94%.

In total, the company has 43 lines for automated sorting of standard postal items, 14 for non-standard or flat, 17 for those coming from postboxes and 14 pieces of equipment for parcel processing in its 18 automated processing centres distributed throughout Spain.

In 2014, the complexity of the sorting system in these 18 centres grew even further, increasing the number of deliveries sorted by delivery sections and not only by postcodes, in such a way that the manual processes in the distribution units were decreased, as the deliveries were received already sorted by delivery routes, further boosting delivery efficiency and quality.

Likewise, the new integrated logistics centre (CLI) in Barcelona began operations. This facility, equipped with the latest processing technologies, has an area of over 18,000 square metres for its operations and 64 loading and unloading docks. This centre is specialised in the automated processing of parcels and in the mass admission of letters, publications and direct marketing of major customers.

This infrastructure makes it possible to concentrate in Barcelona all of the logistical activity formerly spread across three different centres, bringing together mass admission, customer collection of all types of products and automated parcel processing under one roof. In this way it is possible to attain greater efficiency in operations and transport, and improve customer service at the same time, by expediting their deliveries and reducing travel time and costs.

										
Message from the Chairman	Key milestones	The Correos Group	Innovation in products and services	Innovation in processes	Innovation for customers	Innovation for people	Innovation for society	Good governance	Coverage of report and sustainability indicators	Consolidated annual accounts of Correos Group

Both the integrated logistics centre in Barcelona and the main parcel processing centres in Madrid have incorporated palletisation into their processes in accordance with the standardised European model, thereby enabling the flows of international exchange.

In accordance with the parcel automation plan, two new pieces of processing equipment were put into operation in 2014. The first was installed in the integrated logistics centre in Barcelona and has the capacity to process 6,000 parcels per hour, making it possible to increase the percentage of automation of these products, increasing the complexity of provincial and local sorting.

•• Correos was granted with an award from the 10th International Logistics and Material handling exhibition as the best national logistics company ••



The second piece of equipment was installed in the automated processing centre in Tenerife, with 13 outbound ramps and a capacity to sort over 3,000 parcel deliveries per hour, to and from the archipelago.

Finally, improvements have been made to the international parcel processing equipment in the Madrid-Barajas centre and a single production model at national level has been introduced to sort certified items. In addition, the range of products subject to automated processing has increased, using the configurations of the existing equipment, incorporating international mail items in parcel format, parcels thicker than 7 millimetres and national registered letters in small parcel format (over 250 grams).

Equipment acquired in 2014

	Logistics equipment	
	Parcel cages	936
	Folding containers	1,400
	Equipment for distribution units	
	Delivery carts	6,000
	Motorcycle carrier boxes	1,000
	Delivery sacks and bags	10,345
	Other equipment	
	Different type of postboxes	3,128

										
Message from the Chairman	Key milestones	The Correos Group	Innovation in products and services	Innovation in processes	Innovation for customers	Innovation for people	Innovation for society	Good governance	Coverage of report and sustainability indicators	Consolidated annual accounts of Correos Group

For more than a decade now, Correos has a pioneering system of control of deliveries through the use of radio frequency identification technology (RFID). In 2014, the subsidiary Correos Express pioneered the incorporation of this technology to labels for those deliveries requiring a higher level of security. In addition, this solution provides customers with more precise information regarding the location and status of the deliveries.

Correos Express has developed an automation plan for small parcels (less than 3 kilos). After installing a containerisation machine in the Madrid operations centre, this model has been likewise established throughout the entire network. In addition, the company made investments in its facilities in Guarromán (Jaén) for the introduction of additional equipment for automated sorting.



5.3 Transport

As part of the transport route reconfiguration project of Correos, optimisation of the provincial, local and inter-centre networks of Madrid and Barcelona and the provincial networks of Lugo, Ourense, León, Pamplona, Córdoba, Las Palmas de Gran Canaria and Tenerife has been carried out, thereby improving collection and delivery times, as well as efficiency of energy consumption.

In 2014, 1,371 new vehicles of different types were added to the fleet. In total, the transport network was made up of 13,529 means of transport, 12,596 of which were owned by the company. Furthermore, this fleet includes 197 environmentally friendly vehicles.

In the case of Correos Express, which has a network of 52 delegations owned by it and 2,044 distribution and warehouse routes, standardisation of the transport processes in the different centres began last year to attain greater operational optimisation.

“Correos has a pioneering system of control of deliveries through the use of radio frequency identification technology”

Vehicles acquired

	Motorcycles	1,000
	Vans with a maximum load capacity of 600 kilos	220
	Vans with a maximum load capacity of 1,200-1,500 kilos	151



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

5.4 Distribution and delivery

Correos carries out distribution throughout Spain through 1,802 ordinary delivery units, 100 special services units (urgent deliveries) and 6,670 rural services.

One of last year's main achievements was the provision of 1,500 intelligent mobile devices (PDA) with continuous connection to all rural services, reaching a total of 18,400 devices throughout the entire distribution network. The use of this technology in rural areas makes it possible to improve the traceability of the deliveries and to expedite the processes associated with home delivery and delivery to post office. Under this project, replacement of the terminals used in urban delivery (ordinary delivery units and special services) with new models with increased functionalities also began.



With the aim of contributing to the development of e-commerce throughout Spain, Correos has implemented two new services to meet the requirements of both, the sellers and the buyers, expediting the purchase and delivery process.

In relation to the Group's subsidiaries, Correos Group also has the latest computer devices (mobile device) and a fleet with geopositioning capability, which have enabled it to incorporate three new services to improve the quality of the deliveries: 'Addressees Immediate Localisation', 'Proactive Management of Incidents' and 'Prediction of Time Range' of delivery, available throughout Spain. The prediction of time range reduces incidents due to incorrect address or absent addressee by 45%.



In turn, the subsidiary Correos Telecom has advised the other Group companies on the introduction of technological solutions and applications necessary for the development of new operational processes. More specifically, in 2014, it collaborated in the introduction of intelligent mobile devices (PDA) in the distribution network, the outsourcing of the Group's data processing centres, the introduction of a new post office format or the development of the 'Homepaq' parcel collection and delivery service.

The company has also completed the fibre optic network optimisation plan in Madrid and the connection to five new data processing centres in the capital, in order to offer their services to major customers.

5.5 International activity

One of the seven fields of action included in the Action Plan is the internationalisation of the activity. Correos has agreements with different networks that ensure their worldwide coverage, promoting their business opportunities abroad.

The company is part of the EPG group (E-Parcel Group), focused on parcel services, and of the Kahala Post Group (KPG) trade alliance, together with postal operators from Australia, China, South Korea, Hong Kong, Japan, the United States, Singapore, the United Kingdom and France, to promote both the quality and efficiency of ordinary and urgent parcel services.

In the sphere of the KPG and EPG networks, the electronic information interchange processes of the deliveries in EDI format (electronic data interchange) with other operators have improved, increasing traceability, optimising automated admission and sorting, and expediting customs procedures.

These changes are in line with the implementation requirements of the eCommerce Interconnect Project (eCIP) developed by the organisation International Post Corporation and in which Correos participates. The goal of this project is to promote the development of cross-border e-commerce, through greater cooperation and operational and technological coordination among postal and parcel operators.

International representation

The company is a member of the main multilateral postal organisations and institutions. Thus, it belongs to the Universal Postal Union (UPU), the premier partner organisation of worldwide postal operators, which is dedicated to consultancy and mediation, sets the standards for international mail exchange and issues recommendations to improve the quality of the service.

In this organisation, it presides the Terminal Dues Project Group, it is in Physical Services Committee of the Postal Operations Council since 2012 and it holds the Vice-presidency of the Consultative Committee. Furthermore, it is a member of the Management Committee of the '.post' group which is associated with electronic services.



The company is also part of the International Post Corporation (IPC), which includes the 24 main postal operators in Europe, North America and the South Pacific.

Lastly, it participates in the Postal Union of the Americas, Spain and Portugal (UPAEP), intended to strengthen regional integration and modernisation of the postal sector, in which it is a member of the Management Committee, and in PostEurop, the association of European postal operators, in which it presides the UPU and Restricted Unions Affairs committee. Additionally, it is a member of other organisations such as the Postal Union for the Mediterranean (EuroMED Postal Union) and the Eurogiro payment network.



Evolution of international exchange

In 2014 Correos achieved a growth of 11.7% in international delivery volumes, both through the postal channel and via direct injection (the channel through which international customers send mail items to Spain with national products and rates).

The commercial activity carried out abroad was focused on increasing its presence in European markets, not only for major customers, but also for SMEs, which direct their commercial activity towards Spanish consumers.

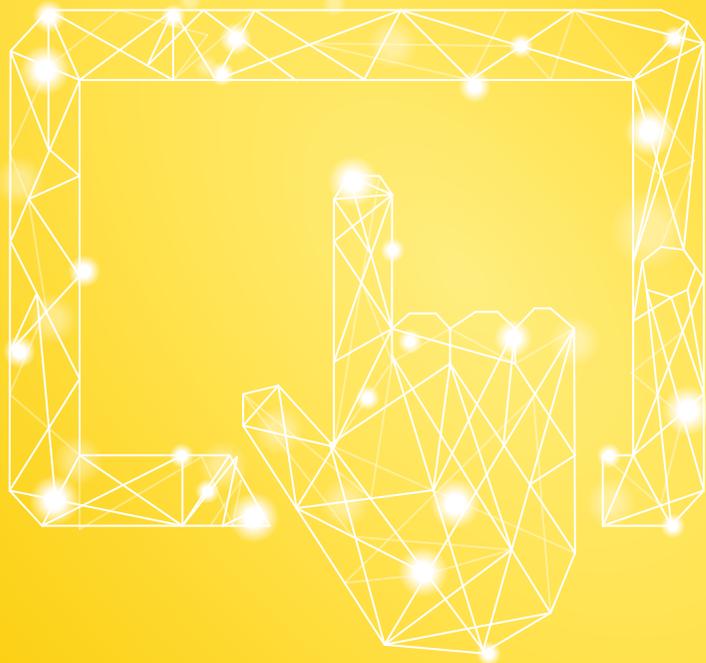
The customised solutions provided to these customers made it possible to increase parcel volumes towards Spain. Parcel imports increased by 36.8%, mainly due to the 45.1% increase in mail items originating from the direct injection channel.

Inbound mail through the direct injection channel increased by 18.4% and outbound mail by 28.1%. The increase of import flows from Europe significantly influenced this change.

In 2014, export transactions to the Asia Pacific region also increased, which have greatly contributed to the increase by almost 200% in urgent delivery volumes ('Postal Exprés Internacional').

										
Message from the Chairman	Key milestones	The Correos Group	Innovation in products and services	Innovation in processes	Innovation for customers	Innovation for people	Innovation for society	Good governance	Coverage of report and sustainability indicators	Consolidated annual accounts of Correos Group

6.1 Customer experience	47
6.2 Participation forums	50
6.3 Service quality	51



06

Innovation for customers

Quality and innovation, our permanent commitment



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

6.1 Customer experience

One of the five lines on which the Correos Group Action Plan is based is improving commercial effectiveness. It's only possible to achieve this goal by continuously adapting to customer's needs, since a successful experience is the basis for a strong and lasting relationship.

Therefore, Correos has launched a strategic project to enhance the experience provided to customers, with the aim of exceeding their satisfaction with the service and turn them into genuine consumer motivators. To that end, it has created a specific department to work on building a consistent experience from any channel and in all Group companies.

To find out to what extent our customers would be willing to recommend us, in 2014 a Recommendation Index study was conducted among 5,207 customers, asking them about their opinion on issues such as the commercial range and the customer service.

The results show that the main reason for recommendation is the level of service provision, which is perceived as safe, reliable and with a high level of quality. The second reason is the range of services, which is valued because it is adjusted to the customers' needs. Meanwhile, the most appreciated quality of the commercial customer service was the treatment received.

The company's overall result was a 7 out of 10, meaning that 79% of customers defined themselves as 'promoters' or 'highly-rating promoters' of our services, emphasising our accessibility and ease.

•• 79% of customers surveyed say that they use Correos services ••



										
Message from the Chairman	Key milestones	The Correos Group	Innovation in products and services	Innovation in processes	Innovation for customers	Innovation for people	Innovation for society	Good governance	Coverage of report and sustainability indicators	Consolidated annual accounts of Correos Group

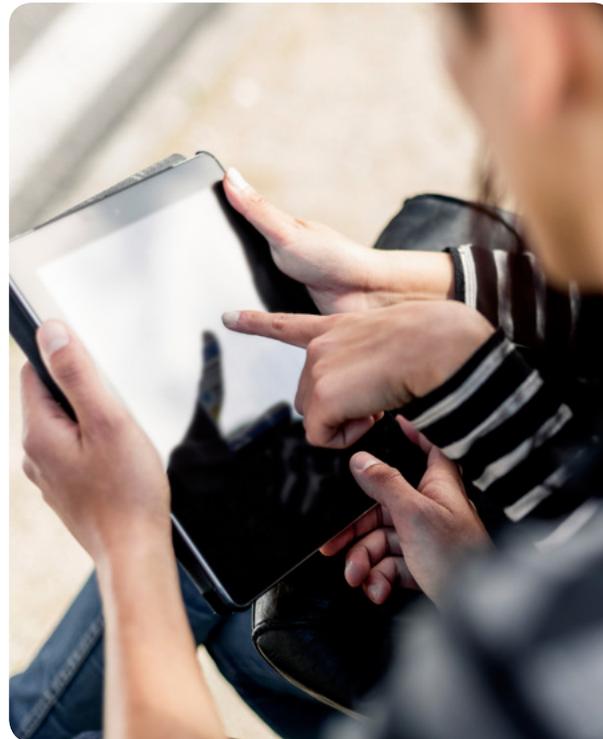
Multi-channel customer service

The Correos Group adopted a multi-channel customer service strategy, enabling them to offer a more personalized service adapted to the needs of each segment through the sales network of offices, the telesales channel, social networks and the website.

As part of this strategy, the sales force was increased and the telesales channel was strengthened with new marketing campaigns and parcel service contracting. Both the Correos and Correos Express websites were updated, including a new categorization of services and greater usability.

In 2014, Correos' after sales service also grew stronger as a customer service channel exclusively for customers with contracts, receiving 230,406 enquiries and requests. This service provides a quicker response and a more personalised customer service, having an after sales department in each area of the country.

	Correos		Correos Express	
	2013	2014	2013	2014
Telephone enquiries	1,245,384	1,540,333	2,085,088	2,259,999
Website requests	163,518	207,482	-	-



Relevance on social networks

Social networks are a key element of the growth strategy in the digital environment, as they make it possible to simultaneously promote products and services, manage corporate reputation and provide immediate customer service.

A plan to improve the customer service provided in different virtual Correos communities was developed in 2014, which experienced significant growth over the last year as an enquiry channel, with double-digit increases in the number of followers.

Along this line, Correos developed initiatives aimed at commercial promotion, building the identity and reputation of the company in social networks and creating relevant and active communities in the major



social networks. 80,307 enquiries were dealt with over the year through social networks.

Both content quality and customer service are two of the factors that contributed to making Correos a prestigious brand on social media, which resulted in it winning the TNS Fan Page Award in 2014 for the second consecutive year for the Best services page on Facebook (valuation given by the community's followers).



•• Socialbakers places Correos in the top 10 of the companies most dedicated to their Facebook fans ••

Advantages for customers

In 2014, it implemented the 'Más Cerca' loyalty card in all its post offices, mainly aimed at self-employed people and SMEs, who are regular users of the post offices. The card, which already has close to 10,000 members, is used to get a better understanding of its users' preferences in order to offer more personalized services as well as discounts, exclusive promotions, and in the future, a convenient means of payment.

Correos Express launched the 'Prepaq' card, which also offers advantages to customers without a contract. This card, which is easy to use and doesn't expire, is the only prepaid system on the market and is valid for every type of parcel, destination and weighing products.

Social networks

Followers 2014	59,103	16,057	689	5,902	865	489	83,105
Evolution 2014/2013	+22.8%	+65.4%	N/A	+33.4%	+30.1%	+97.2%	+31.5%



6.2 Participation forums

In 2014, the Correos Group attended various trade forums to show individuals and companies on the different products and services available to the parcel, e-commerce and direct marketing markets.

The Correos Group took part in these events to meet potential customers and also to actively participate by giving talks and speaking at roundtables and interviews, to share its knowledge and experience in these business segments.

Some of the events that Correos took part in were *Enofusión* (Madrid, 27-29 January), *Congreso Nacional de Editores de Publicaciones* (National Congress of Publishers of Periodicals) (Madrid, 23-24 May), *Bizbarcelona* (Barcelona, 4-5 June), *E-commerce Awards Spain* (Madrid, 11 June), *eShow* (Barcelona, March 12-13, Madrid, 8-9 October), *eCOMExpo 2014* (Madrid, 9-10 April) *Hoy es Marketing* (Today is Marketing) (Madrid, Valencia and Barcelona, April and May) or the *Salón MiEmpresa* (MyCompany Hall) (Madrid, 18-19 February).

To enhance the company's presence abroad and promote their role as an international partner, the company was present at international fairs such as E-Commerce Paris 2014 (Paris, 23-25 September), eCommerce Expo London 2014 (London, 1-2 October) and Neocom 2014 (Dusseldorf, Germany, 29-30 October).

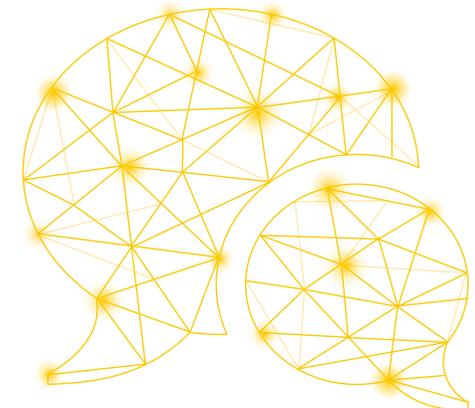
Correos Express also attended different fairs to inform about its services in the parcel and e-commerce industries, such as Optom 2014 (Madrid, 4-6 April) and Logistics 2014 (Madrid, 5-6 November), which it took part in with Correos.



Associations and organisations

On a national level, Correos forms part of associations and organizations such as CEOE (Spanish Confederation of Business Organisations), Corporate Excellence, Centre for Reputation Leadership, the Global Compact of the United Nations, the Spanish Association of Occupational Risk Prevention Services (AESPLA), the Institute of Internal Auditors of Spain and the Association for Management Progress (APD), among others.

With regard to the Group's subsidiaries, Correos Express takes part in the Business Logistics and Transport Organisation (UNO). Meanwhile, Correos Telecom is a member of organizations such as Association of electronics, information technologies, telecommunications and digital contents companies (AMETIC).





6.3 Service quality

The Correos Group has a quality control system based on the European model of excellence (EFQM), which allows the company to apply the continuous improvement cycle to all of organization's activities and scopes.

Maintaining a quality management system focused on customers and on the continuous improvement of processes enables the Correos Group to improve efficacy and efficiency, and ultimately improve satisfaction.

Certifications

In 2014, Correos renewed all its ISO 9001 certifications and added three new centres to the quality management system, bringing the total number of certificates and its scope to:

- 2,212 post offices, for most of its processes.
- 18 automated processing centres and the mass admission centre 2 in Madrid (CAM2), for all logistical processes with the exception of post collection from postboxes and customer addresses.
- The postal processing centre and international processing centre in Madrid-Barajas, for sorting processes and international processing of mail and parcels.
- Customer service.

Correos Express renewed the ISO 9001 certification of its 52 operating centres and Nexea validated the certifications of its two operating centres, in addition to the ISO 27001 certificate for information security management and the PCI-DSS certification (Payment Card Industry Data Security Standard).

Under the scope of the Correos environmental management system, 36 centres renewed their certifications in accordance with the ISO 14001 standard, including 16 main post offices, the 18 automated processing centres, the mass admission centre 2 in Madrid (CAM2) and the international processing centre in Madrid-Barajas.

Correos Express renewed the ISO 14001 certifications of the Transport Centres in Madrid (Madrid CTM), Coslada (Madrid-CTC) and Barcelona. Nexea renewed the ISO 14001 certifications of its two facilities.

Correos Telecom has procedures based on the ISO 20000 standard in the PMP certification and the ITIL methodology. All three models enable quality assurance when managing information technologies and developing and implementing projects.



Delivery quality

As an operator designated to provide Universal Postal Service in Spain, Correos aims to fulfil its public service mission according to quality, regularity, accessibility and affordability requirements.

The company continuously evaluates the level of fulfilment of these objectives and possible areas for improvement using the SPEX system, which monitors the postal process from admission until delivery to the addressee.

This measuring model meets standard UNE-EN 13850 'Service quality. Measurement of the delivery time of end-to-end services for priority mail and first class mail'. It is audited by the market regulator for assessing compliance with delivery quality.

In 2014, Correos delivered 95.6% of letters in D+3 and 98.9% in D+5. Taking account of the implicit statistical error effect, this result falls within the compliance threshold, as set out in the postal regulation.



Correos Express improved the delivery quality of its core products by more than 1%, achieving the best delivery ratios of the industry.

Delivery quality of Correos Express

2012		2013		2014	
'Paq 10'	95.1%	'Paq 10'	95.7%	'Paq 10'	96.8%
'Paq 14'	94.4%	'Paq 14'	95.0%	'Paq 14'	96.8%
'Paq 24'	97%	'Paq 24'	96.4%	'Paq 24'	97.5%

Note: The data from 2012 and 2013 corresponds to 'Chrono 10', 'Chrono 14' and 'Chrono 24' products.

										
Message from the Chairman	Key milestones	The Correos Group	Innovation in products and services	Innovation in processes	Innovation for customers	Innovation for people	Innovation for society	Good governance	Coverage of report and sustainability indicators	Consolidated annual accounts of Correos Group

7.1 Train	54
7.2 Listen	57
7.3 Participate	59
7.4 Act	61



07

Innovation for people

The force that moves us



The Correos Group is made up of over 52,000 employees, making it one of the largest employers in Spain. The efficiency of the company depends on them and therefore their personal and professional development is an inseparable part of the business objectives.

Average staff (FTE)

	2013	2014
Correos Group	54,556	52,514
Correos	53,264	51,275
Correos Express	1,094	1,049
Nexea	147	141
Correos Telecom	51	49

The postal sector is highly competitive and is undergoing constant transformation. The need to respond in an efficient and rapid manner means that it is essential that business strategy and human resource management are successfully aligned. To achieve this requirement, the Group trains, listens to and encourages its employees to take part in the continuous improvement of the organisation.

7.1 Train

The goal of training in Correos is to respond to the business needs by supporting the different strategic lines, giving the employees the ability to adapt to changes caused by the innovation process and by the new ways of organising the work. At the same time, the intention is to increase their training for their own personal and professional development.

•• More than 52,000 employees contribute to the continue improvement and transformation of the Correos Group



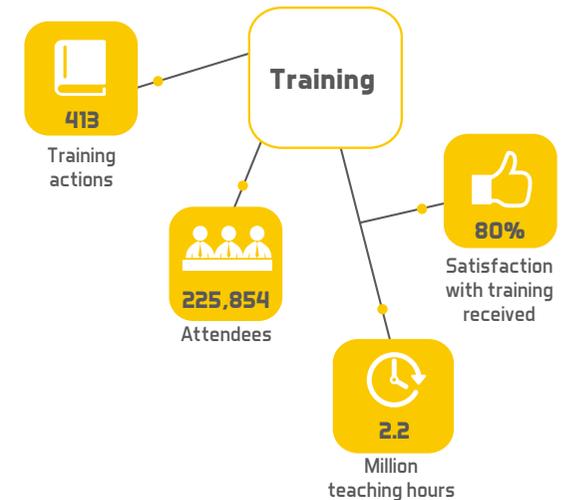


The training programmes developed in 2014 were focused on new channels and products, customer orientation, innovation, operational optimisation and team work, with the emphasis on those with the greatest impact on the main corporative goals.

Throughout the year, 413 training actions were carried out, with 2.2 million teaching hours and 225,854 attendees (with an average 43.4 educational hours per employee).

•• Correos used innovative 'gamification' techniques in order to offer customised training ••

In the case of the Group subsidiaries, Correos Express developed a specific training plan for the commercial area, sales force, managers and directors, with actions focused on customer service. Nexea provided its workers with training courses on customer orientation, critical computer processes, team work, efficiency improvement and high performance management. The training objectives of Correos Telecom combined the acquisition of technical knowledge for new technologies, process improvements, application of new management systems and the acquisition of abilities for professional development.





e-learning

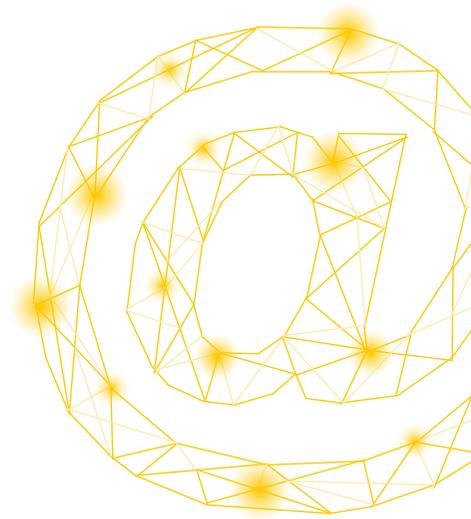
Correos has continued to combine different modes of training: classroom, at the work place, online (via the e-learning platform) and distance learning.

The online platform Virtual Campus facilitates professional development and training of all the employees regardless of their geographical location. This encourages more accessible training, adapted to the specific needs of each worker. In 2014 the e-learning method represented 74% of the total of more than 2.2 million hours taught, being the preferred option for 56% of the training attendees.

Correos has implemented a new version of the e-learning platform, with a more modern, functional and accessible design. New services and content have been introduced and new 'gamification' techniques have been used in order to offer customised training to the different professionals within the company, e.g. 'The products challenge', a course, in which over 20,000 employees took part.

Regarding novelties, it is worth mentioning the creation of an informal knowledge section, which provides basic training for the employee's professional growth. Similarly, the new space dedicated to customers and suppliers, Colearning, made interactive training available to them on our main products and services. The main aim of this tool is to contribute to the added value of the company and to improve the customer's experience.

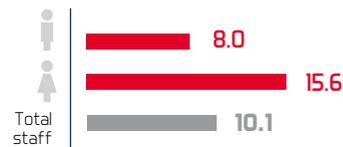
With regard to the management training platform, new resource repositories have been created in various formats, mainly audiovisual, which are updated weekly with content from diverse business schools. The aim is to ensure continuous learning and up-to-date knowledge, in accordance with the values and needs of the organisation.



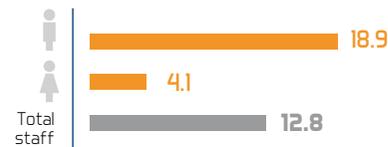
Correos: average training hours



Correos Express: average training hours



Nexea: average training hours



Correos Telecom: average training hours





Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Commercial School

The Correos Commercial School is the result of an overall strategy to enhance and standardise the territorial sale force, with the end goal of adapting the commercial network to a market which is becoming increasingly competitive.

In 2014, the proposal for the School was submitted to the commercial directors, the institutional, after-sales and sales coordinators, and the commercial and after-sales managers. The results of the training actions are assessed to discern their impact on the evolution of the commercial and business activity.

•• Correos Commercial School, an essential tool for competing in a continuously changing market ••

7.2 Listen

In Correos it is essential to know the opinion of the employees and their degree of satisfaction and motivation. To listen to the largest possible number of professionals and in order to encourage change in the corporative cultural, meetings are held periodically between the Chairman and groups of employees from all areas and regions, to talk about their needs, concerns and expectations. Last year other types of meetings were also held, such as the breakfast gatherings with volunteers from 'Correos Solidaridad' or with members of the innovation teams.

Similarly, both the Chairman and the management team made regular visits to operational centres in different areas, giving them direct access to the opinions of nearly 5,000 workers.

To celebrate the first 300 days of the Action Plan 100-300-1,500, a corporate event was held, publicised via streaming, in which over 2,000 professionals from the Correos Group discovered first-hand the progress and achievements of each of the five strategic lines of the Plan, from seven different cities.





'Conecta', the corporate communication platform

The communication between employees generated over 22 million accesses to 'Conecta', the corporate intranet. This tool has nine channels, like 'Colabora', where 650 work groups share their activity; or 'Noticias' and 'videos', with around 870,000 and 115,000 viewings respectively.

In 2014, access to the 'Aporta' participation channel became universal, via the Internet. This space is designed to allow employees to contribute their improvement or innovation ideas to the Action Plan projects. Last year this space received over 800 contributions, which have been evaluated by around 7,000 workers.

It was also promoted the space, 'Quién es Quién', where professionals from different departments talk about their activities and experiences. Since 2013, nearly 130 interviews have been published under this section.

Other channels of communication

Other communication channels such as internal memos, e-mails, human resource bulletins and 'Abrecartas', the magazine for Group employees, served to communicate the main business initiatives and progress, as well as participation and management programmes, training, health protection, social assistance and charity campaigns.

•• Recognition of Correos by Randstad for being the most attractive workplace in the telecommunications sector ••



The three Group subsidiaries also have suggestion boxes for collecting ideas from their employees. Last year Correos Express intensified its internal communication policy through the creation of an informative bulletin, which joined the other usual channels (notifications and e-mails).

Correos Group also maintains an ongoing dialogue with the worker representatives through different communication areas, governed by the various collective agreements of each company and by the general agreement for the Correos civil servants, which encompasses practically all the staff of the Group.



7.3 Participate

The promotion of talent and its transformation under new business models is one of the pillars on which the Correos Group bases its business evolution process.

In 2014, in line with one of the five strategical axes which make up the Action Plan, the Innovation Teams were created, an integration of employees from different functional and territorial areas of Correos. These groups of professionals worked on generating and developing new business and company efficiency ideas, which were translated into new services which have either been commercialised or are about to be.



•• The internal co-creation processes are reinforced with programmes of support for entrepreneurial development ••

The internal co-creation processes are reinforced with programmes of support for entrepreneurial development and with cooperation agreements with universities, private companies and public institutions.

Correos, in its commitment to encourage employment integration of young people, maintains collaboration agreements with the Fundación SEPI and with 16 universities and business schools. These agreements aim to make it possible for students to complete their professional training by putting their acquired knowledge into practice through the development of their activities in the working world.



Participation programmes

The company offers employees the following annual participation and recognition programmes which value the performance of their activities and their contributions to company improvement:

- The 'National Award for Excellence', in which over 3,500 operational centres took place, uses a ranking to identify the excellent units and their staff who work in a team on a daily basis in order to offer customers the best quality of service.
- The 'Atenea Award' recognises people and teams who stand out due to their leadership and commitment to the human capital policies and values of Correos. In 2014 it included five categories: Organisation and structure, Professional development, Risk prevention in the workplace and absenteeism, Training, and Communication and team work.
- The 'Prize for Environmental Commitment' is an award for the best practices of the centres which have contributed on an active form to reducing their environmental impact, mainly through energy efficiency.

- The 'Aristós BanCorreos Award' recognises team work in the banking activity in the post offices.

The workers also take part in internal competitions to promote creativity and cohesion such as '*Felicita la navidad con eCard*' (send a Christmas eCard), which selected the best Christmas greeting card sent by the employees through the application for mobile devices. Also, '*Tú la canción, Correos la acción*' (You are the

song, Correos is the action) was aimed at finding the best music and lyrics to serve as background for the flashmobs organized to help with UNICEF campaigns. Last year, the epistolary literature contest was also held for the children of employees, under the slogan '*Al compás de Correos*' (To the Rhythm of Correos). The winner had an honourable mention in the international juvenile competition of epistolary essays of the Universal Postal Union.



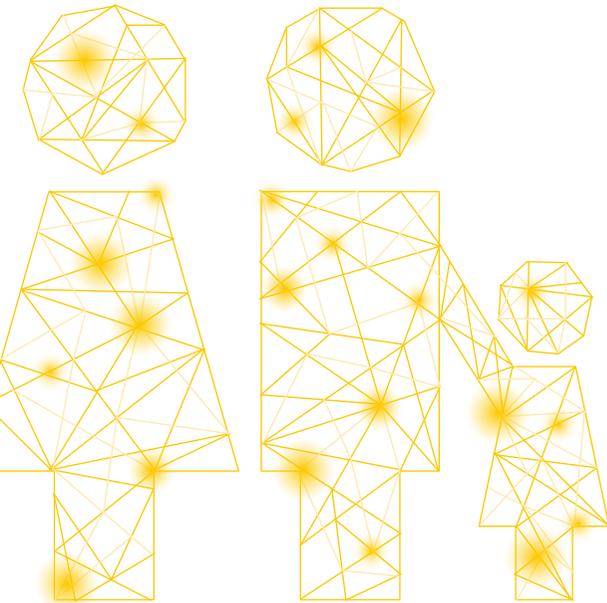
- 
 Message from the Chairman
- 
 Key milestones
- 
 The Correos Group
- 
 Innovation in products and services
- 
 Innovation in processes
- 
 Innovation for customers
- 
 Innovation for people
- 
 Innovation for society
- 
 Good governance
- 
 Coverage of report and sustainability indicators
- 
 Consolidated annual accounts of Correos Group

7.4 Act

Correos, with a nearly equal distribution of staff between men (52%) and women (48%), recognises the importance of promoting equality and diversity in the workplace.

Commitment to equality and reconciliation

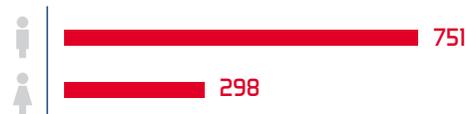
Correos applies various measures to promote the reconciliation of family, work and personal life which, in some cases, expand on that included in current regulations. Some of these measures include: increasing from nine to twelve months the reduced working hours for women who breastfeed; increasing from three to five working days the leave due to hospitalisation, death, accident or serious illness of a relative of first degree consanguinity or affinity; increasing the family care leave to three years instead of two; unpaid leave of one month for death of spouse or children; reduced hours to care for a child with cancer regardless of age; paternal leave for up to ten calendar days; and special interest voluntary leave with no maximum limit of years.



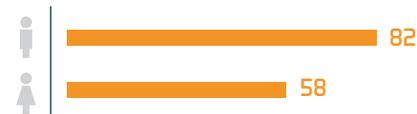
Correos workforce by gender



Correos Express workforce by gender



Nexea workforce by gender



Correos Telecom workforce by gender





	Correos		Correos Express		Nexea		Correos Telecom	
	2013	2014	2013	2014	2013	2014	2013	2014
Employees who took maternity or paternity leave	428	363	47	31	1	1	2	2
Women	360	299	17	8	1	1	1	1
Men	68	64	30	23	0	0	1	1
Employees who returned to work after maternity or paternity leave	428	363	45	30	1	1	2	1
Women	360	299	17	8	1	1	1	0
Men	68	64	28	22	0	0	1	1

Note: Employees who returned to work also include employees with reserved position during maternity/paternity leave

Part-time contracts also contribute to work-life balance, as well as to maximising the efficiency in human resource management. In 2014, this type of contract increased by 1.3%, used in post offices and sorting centres to reinforce the operational areas during rush hours.

Among the Group subsidiaries, Correos Telecom has also established measures to promote work-life balance for employees who require it due to a special family situation, such as flexible working hours or part-time telework.



Support for victims of domestic violence and harassment

Correos maintains the priority objective of creating a suitable and respectful workplace which allows the personal and professional growth of each worker. Therefore, the company applies the protocol against sexual, sexist, moral or work-related harassment, to prevent and resolve any cases which may arise.

In the case of victims of domestic violence, the internal regulations include specific policies to help and protect them, with measures aimed at establishing suitable treatment and integration for this group of workers. The most important are: a reduction in working hours; special consideration in the evaluation of absenteeism

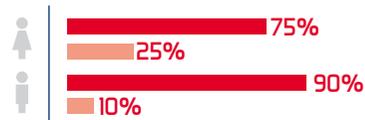


Type of employment in Correos



■ Full-time employment ■ Part-time employment

Type of employment in Correos Express



■ Full-time employment ■ Part-time employment

Type of employment in Nexea



■ Full-time employment ■ Part-time employment

Type of employment in Correos Telecom



■ Full-time employment ■ Part-time employment

of the victim; leave due to domestic violence; guarantee of transfer of centre or location through rapid and efficient management; and protection of the right to confidentiality.

Within the framework of the agreement signed with the Ministry of Health, Social Services and Equality, in 2014 Correos joined the Network of companies for a society free of domestic violence. By doing this they commit to cooperate in the sensitisation of society regarding this social scourge, and to promote and develop measures to raise awareness in the work environment, provide informative material on the rights of women victims of domestic abuse and to take part in the dissemination of both internal and external preventive activities.

In this respect, 54,000 pins of the 'Hay salida' (There is a way out) campaign were made available to employees and customers so they could support this initiative and wear them, especially on 25 November, International Day for the Elimination of Violence Against Women. The campaign has also been visible in the postmen delivery carts.

Programmes for employee grants

Correos has a welfare programme for its entire staff, aimed to promote and encourage the well-being of employees in their social-work environment. This assistance, included in the collective agreement and the general agreement for civil servants, is designed to meet the various needs of the workers and their

families, being regulated under announcements of grants for health treatment, child education, children with disabilities, death, child studies and for university studies of the employees themselves. Furthermore, workers with a permanent work relationship can request advance payments or interest-free loans. In 2014, 19,203 grants were awarded.

The company also provides the employees with a discount platform with special offers on leisure, sports, cultural products and services and other consumer goods. The number of users registered on the platform has increased by 53% in parallel with the substantial increase in available products on offer.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Internal promotion and performance assessment

Correos prioritises internal promotions to cover laboral needs. Last year 857 promotions were given to employees to cover different positions.

Evaluation is a fundamental tool to align promotion, training and professional development plans with the strategic goals of the company, linking these to individual goals. In 2014, Correos developed the second implementation phase of the performance assessment system with the incorporation of 560 employees, to include a group of nearly 1,300 people. The incorporated professional groups included resources technicians and middle managers at a national level.

The Group subsidiaries also have performance evaluation systems implemented. In the case of Correos Express, they use the same model as Correos, whereas in Correos Telecom, the performance evaluation covers their 49 employees.

Risk prevention and occupational health

Health and safety protection of employees is a transversal and high priority objective of Correos. The participative bodies of employees regarding occupational health and safety are articulated, at central level, in the state committee of occupational health, and in the regions, through the provincial health and safety committees. The company also has its own prevention service, made up of technicians and members of the basic health units, responsible for leading on health monitoring in each region.

•• Prever Prize 2014, in the Companies and Institutions category, for the trajectory of Correos in the promotion of health and the prevention of occupational hazards ••





Risk assessment is a basic prevention element which is extended to all work positions and centres to identify all non-avoidable risks which could affect the health and safety of the workers, as well as to establish control priorities.

During last year, 809 centres were assessed, with the subsequent planning of the necessary corrective measures and 129 specific studies were prepared (regarding noise, temperature, lighting, ergonomic and psychosocial risks) and 1,001 emergency or self-protection plans.

At the same time, 45,028 employees took part in preventive actions and in-person and online training was given to 828 middle managers, with 18,051 hours, and to 49 members of the provincial health and safety committees, with 2,450 hours. 32,011 health and safety sheets were given to 16,015 workers, specifying the main risks and preventive measures for each position and centre, and the information provided has been improved via the internal communication tools (*'Abrecartas'* magazine, *'Conecta'*, notice boards, bulletins or communications in pay slips).

Other actions aimed at work risk prevention included:

- The development of a specific modular plan for 202 work centres.
- The preparation or revision of certain critical procedures of the prevention plan.
- The implementation of awareness campaigns such as *'¡Sube y baja las escaleras!'* (Up and down the stairs!) or *'¡Entre todos hacemos prevención!'* (Prevention by everyone!).
- Adherence to the initiative of the General Traffic Directorate "Your most urgent task is to keep alive" to prevent traffic accidents on the way to work, by providing workers with a video on the subject via *'Conecta'*.

	Correos		Correos Express		Nexea		Correos Telecom	
	Women	Men	Women	Men	Women	Men	Women	Men
Minor accidents	1,923	1,669	13	52	5	8	-	3
Serious accidents	7	5	-	-	-	-	-	-
Very serious accidents	-	-	-	-	-	-	-	-
Fatalities	1	1	-	-	-	-	-	-



										
Message from the Chairman	Key milestones	The Correos Group	Innovation in products and services	Innovation in processes	Innovation for customers	Innovation for people	Innovation for society	Good governance	Coverage of report and sustainability indicators	Consolidated annual accounts of Correos Group

As a result of these actions, workplace accidents in Correos have fallen for the sixth consecutive year and the total number of accidents with sick-leave dropped by 4.53%.

Within the health surveillance campaign, 18,562 medical check-ups were performed, adapted to the various positions by applying specific protocols, of which 14,498 corresponded to recognitions of the health surveillance annual plan.



	Absentee rate	Working days lost
Correos	3.98	122,530
Correos Express	3.47	1,155
Nexea	4.03	350
Correos Telecom	0.79	97

In this field, Correos holds the vice presidency of the Spanish Association of Occupational Risk Prevention Services (AESPLA), the aim of which is to collaborate in the management of occupational prevention services; it is represented in the PRL Innovation forum, which promotes the innovation culture in the field of prevention; and it participates in the working group on prevention of the CEOE.

The Group subsidiaries also have occupational risk prevention and work health plans, the management of which is integrated throughout all organisational levels. The main actions undertaken by Correos Express in this respect included the implementation of a training plan adapted for each position, the standardised

protection from forklifts, the improvement in lighting in the Barcelona centre, the appropriate adaptation of safety signs in the Valladolid and A Coruña centres and the implementation of an annual medical check-up programme.

The measures undertaken by Correos Telecom, such as the performance of medical check-ups and the provision of periodic information regarding work health, allowed them to reduce medical absenteeism and the accident rate.

- Message from the Chairman
- Key milestones
- The Correos Group
- Innovation in products and services
- Innovation in processes
- Innovation for customers
- Innovation for people
- Innovation for society
- Good governance
- Coverage of report and sustainability indicators
- Consolidated annual accounts of Correos Group



08

Innovation for society

8.1 'Correos Solidaridad'	68
8.2 Commitment to children	69
8.3 Support for social and employment integration	71
8.4 Promotion of social and cultural development	72
8.5 Respect for the environment	73

Innovating for sustainable growth



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

8.1 'Correos Solidaridad'

The Correos Group sees its relationship with society as being part of a sustainable global economy where organisations manage their activities and their economic, environmental and social impacts responsibly and communicating their work transparently.

The '*Correos Solidaridad*' programme is a corporate volunteer project which brings together more than 1,000 employees who give their time and energy to contribute to social actions, and to which Correos contributes with resources, management and coordination.

Members of '*Equipos Solidaridad*' (Solidarity Teams) have been trained so they have the necessary skills for their work. To increase opportunities to volunteers, new cooperation agreements have been signed with FEAPS (Spanish Federation of Organisations for People with Intellectual Disabilities), FEDACE (Spanish Federation of Brain Damage Associations) and the Tomillo Foundation. These are in addition to the agreements already in place with UNICEF, the Spanish Autism Confederation, the Spanish Red Cross and FESBAL (Spanish Federation of Food Banks).





With the last on this list, FESBAL, the company organised two nationwide fund raisers under the motto 'Dónalo con Correos' (Donate with Correos), and made its public service centres and transport network available to deliver non-perishable items donated by customers and employees to the various food banks across Spain.



•• A total of 1,050 volunteers were members of Solidarity Teams in 2014 ••

During the Christmas period and as part of the 'Reyes Magos de verdad' (Real The Wise Men) initiative, the 'Equipos Solidaridad' volunteers also took part in collecting toys for the Spanish Red Cross, letters to The Three Wise Men written by children admitted to hospitals and in distributing gifts to children and elderly people living in shelters and homes in different cities.

Other campaigns for good causes benefiting children included collecting toys in Zaragoza's post offices for Oxfam Intermon; school supplies for Mensajeros de la Paz; and books for children and young people living in the shelters run by the Soñar Despierto Foundation.

8.2 Commitment to children

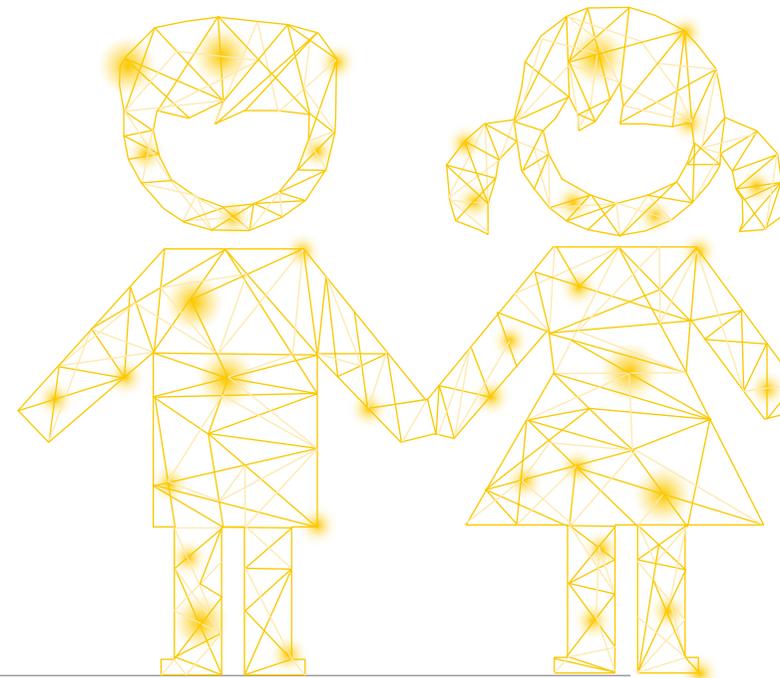
Since 1999 Correos has been running the 'Correos reparte sonrisas' (Correos delivers smiles) programme in collaboration with Payasos sin Fronteras (Clowns Without Borders). The initiative's goal is to promote improvements in the quality of life of children who require psychological and emotional support. In 2014 about 3,000 people enjoyed 38 parties organised in 9 hospitals, 20 special education centres, 5 shelters, 2 immigration associations and 2 prisons.



Another part of this programme included two training workshops organised on ludic-educational expression techniques, given by members of Payasos sin Fronteras to 22 volunteers from the Hospital Infantil Universitario Niño Jesús in Madrid and 25 teachers from the 'Campanar' Special Education Juvenile Shelter run by the Diagrama Foundation in Valencia. Finally, pupils from 15 infant and primary schools sent about 3,800 letters to children admitted to the 9 participating hospitals.

Moreover, once again this year post offices were the primary sales channel for the pens sold for the 'Un juguete, una ilusión' (A toy, a dream) campaign, an initiative of the Crecer Jugando Foundation and Radio Nacional de España (Spanish National Radio), as well as Christmas cards from UNICEF, which the company has worked with for 42 years.

Correos also supported UNICEF's 'Ahora no podemos parar de salvar vidas' (Now we can't stop saving lives) campaign through a financial contribution and by organising crowdfunding activities, disseminated via the Intranet and corporate websites. Workers set up and staged a number of flash mobs to encourage people across Spain to contribute in reducing child mortality.





Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

8.3 Support for social and employment integration

Correos carries out various projects to promote equal opportunities, a healthy work-life balance and the integration of groups at risk of social exclusion.

The company works with both, foundations and special employment centres and occupational centres, protecting recruitment to promote the holistic development of people with disabilities through standardised work according to each individual's abilities.

Correos has also signed agreements under which it purchase goods and services from foundations and special employment centres. It is by means of this form of indirect employment, covered by the rules on reserved jobs for this social group, that the company also contributes towards their employability.

•• Incorpora award from *Obra Social La Caixa* in Andalucía for commitment to the employment of vulnerable social groups ••



The company participates in the '*Incorpora*' programme run by La Caixa to integrate people with disabilities in the workplace, and has agreements with the Carmen Pardo Valcárce Foundation, ACIDH (the Catalan Association for Integration and Human Development), the Madrid Down's Syndrome Foundation and the Dales la Palabra Foundation, among others.

Correos also works towards integrating people with disabilities via sport. For the seventh consecutive year, it has supported the UCI Road World Cup held in Segovia in 2014.

Since 2007 the company has supported the project run by the Migrar Foundation and the Spanish Red Cross which, via the website www.migrar.org, aims to achieve the full integration of displaced people in Spain from war-torn or developing countries, by providing services and supplying content and online advice.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



•• Correos disseminates mail art or postal art, while at the same time helping in the integration of people with Autism Spectrum Disorder ••

The company also assists the Spanish Red Cross by selling lottery tickets for the *Sorteo Extraordinario de Navidad* and the *Sorteo del Oro* in its post office network. The funds raised are used for a number of programmes and projects conducted by the Spanish Red Cross.

Finally, in 2014 more than 1,000 computers and mobile phones were donated to NGOs, associations and schools working to support international cooperation or the integration of people with disabilities and groups at risk of social exclusion. In addition to contributing towards its goals, this initiative extends the devices' useful life and thus reduces consumption of resources and generation of waste.

8.4 Promotion of social and cultural development

'*Correos con el arte*' (Correos with Art) is an activity that aims to bring the work of local artists to citizens who visit post offices every day by making exhibition space available. A total of 57 exhibitions of paintings, sculptures and photography were organised in different cities in 2014.

The goal of another of the programmes was to draw the public's attention to mail art, based on the free exchange of works of art and predicated on the philosophy of promoting communication among artists via the post in addition to official art circuits. Through '*l Convocatoria de Mail art de Correos*' (Correos First Call for Mail Art), in addition to raising awareness about works in this original form of artistic expression, the company also worked with CAE (the Spanish Autism Confederation) to support awareness-raising and integration activities for people with Autism Spectrum Disorder (ASD).



As part of this initiative, a travelling exhibition was launched that is touring post offices in major Spanish cities until the end of 2015 to showcase the nearly 300 works of mail art received in the call. The works can be visited on the website.

Through the 'Disello' competition, Correos invited all citizens to propose their own designs of postage stamps, thereby promoting greater understanding and dissemination of stamp collecting. In the youth category, the theme of the competition was the celebration of the 'International Year of Light' declared by the United Nations for 2015. The works can be seen at www.disello.com.

Also, for the second consecutive year the company issued the 'Valores Cívicos Escolares' (School Civic Values) stamps to promote and stress the importance of concepts such as friendship, respect, promoting sport or road safety. Within this series, the 'Platero y yo' stamp dedicated to reading, also commemorated the centenary of this book's publication.

Correos has traditionally associated its brand and values to sporting values and, for that reason, has worked with the ADO (Association of Olympics' Sports) for many years to support the Spanish Olympic team. The company also continued to be the main sponsor

of all of Spain's handball teams, thus supporting the women's and men's teams winning the silver and bronze medals respectively at the 2014 European Championships.



8.5 Respect for the environment

The Correos Group's environmental priorities, as set out in the 2014-2020 Efficiency and Sustainability Plan, focus on identifying, assessing and managing environmental impact to establish measures aimed at reducing CO₂ emissions, achieving greater energy efficiency, managing waste more responsibly and developing products with less environmental impact.

The nature of Correos's activity requires the use of a large fleet of vehicles, whose main impact is the generation of CO₂, particulates, NO_x and SO_x.

'Línea verde' programme

Through the 'Línea verde' programme (Green Line), Correos markets envelopes, boxes and packaging made of 100% recyclable paper and cardboard, part of the proceeds from which are used to finance reforestation projects around Spain. By choosing this option for their shipments, responsible consumers are giving Spanish forests a chance.

										
Message from the Chairman	Key milestones	The Correos Group	Innovation in products and services	Innovation in processes	Innovation for customers	Innovation for people	Innovation for society	Good governance	Coverage of report and sustainability indicators	Consolidated annual accounts of Correos Group

In line with WWF Spain’s forest landscape restoration programmes, the company has contributed to the environmental recovery of the areas affected by the forest fires that hit the Alto Tajo Nature Park in 2005, in the municipality of Riba de Saelices (Guadalajara).



This project was conducted over an area of 5 hectares and saw the planting of 3,000 trees of native species.

Reducing greenhouse gas emissions

Correos has been measuring its carbon footprint since 2008, the year it joined the Environmental Measurement and Monitoring System (EMMS) run by the International Post Corporation for the postal sector and which includes 24 of the most important postal operators in the world. Its purpose is to measure and reduce emissions from the sector as a whole, with the aim of achieving a 20% reduction by 2020 and achieve a level of 90 points (out of 100) in the Carbon Performance Management section.

Since joining the EMMS program, Correos has made significant progress in reducing its emissions, achieving a total reduction of over 30% in the S1 and S2 ranges (more information in the web site) by 2014. This evolution is the result of the energy efficiency measures implemented which have allowed the company to reach the International Post Corporation’s overall goal set for 2020 five years ahead of schedule.

As a result more demanding targets have been set for the coming years (reducing CO₂ emissions, in ranges 1, 2 and 3 by 15% in 2020 compared to 2013).

Correos greenhouse gas emissions (tCO₂)

	2013	2014
Direct emissions (Scope 1)	47,157	44,013
Indirect emissions (Scope 2)	43,026	37,157
Other indirect emissions (Scope 3)	93,397	93,397

Also, since 2013 Correos has reported data on its emissions to the Carbon Disclosure Project (CDP), an international reference body in this area.

Other atmospheric emissions of Correos

	2013	2014
SO _x (kg)	141	133
NO _x (kg)	62,906	56,871
Particles (kg)	5,133	4,593



Creating the carbon footprint calculator

In 2013, Correos participated in the work team, along with several postal operators in the framework of the International Post Corporation, to develop the category rule for the PCR 2014:01 Postal services. This guidance document, verified by the international body Environdec, is a benchmark to measure and compare the environmental impact of the life cycle of products in the field of logistics and transport.

The product category rule has been the instrument used to analyse the life cycle of various postal products in order to assess, with the maximum possible transparency, environmental burdens caused by each product in each phase of its life.

This has made it possible to develop a carbon footprint calculator, with which it is possible to quantify the environmental impact of sending a postal item or conducting a campaign, and offers clients alternatives to reduce the environmental burden of their postal items and thus help reduce emissions of the company's activities.

First carbon-neutral campaign

Thanks to the consumption efficiency measures the company has implemented, Correos's energy footprint from mail items is very low, allowing it to offset its emissions with a small number of carbon credits purchased in the voluntary market. From among the existing offsetting projects, the company chose an initiative being conducted by a traditional ceramics company in Brazil for the use of alternative energies.

In line with previous actions, 2014 saw the first carbon-neutral direct marketing campaign to publicise the CONAMA (National Congress of the Environment), in which Correos also participated as a sponsor and speaker. In total, more than 20,000 items were distributed and their emissions neutralised.



•• Correos carried out the first carbon-neutral direct marketing campaign ••

In this event, the company also received the certificate of registration in the Register of Carbon Footprints, Offsetting and Carbon Dioxide Absorption Projects of the *Ministerio de Agricultura, Alimentación y Medio Ambiente* (Ministry of Agriculture, Food and Environment).



										
Message from the Chairman	Key milestones	The Correos Group	Innovation in products and services	Innovation in processes	Innovation for customers	Innovation for people	Innovation for society	Good governance	Coverage of report and sustainability indicators	Consolidated annual accounts of Correos Group

The goal behind participating in this conference was to contribute to initiatives to reduce CO₂ footprints in processes, to work towards reducing energy consumption, to contribute to initiatives related to smart cities and collaborate with other institutions to improve rural areas

Plan for energy efficiency

Achieving the emissions reduction targets will also require the implementation of the Plan for energy efficiency and of a policy of gradually acquiring 100% of our electricity from guaranteed renewable sources.

The Plan for energy efficiency consists of 27 measures to reduce energy consumption. The Committee on Energy Efficiency regularly receives updates on its progress. Among these measures, the most notable are the workplace energy efficiency project; the improved information on consumption which underpins the Plan 100; the development of a guide to saving energy; and the appointment of the regional maintenance and energy efficiency managers.



- A 2.3% reduction in electricity consumption, equivalent to reducing atmospheric CO₂ emissions by about 1,000 tonnes.
- A 10.2% saving in natural gas consumption.
- A 7.5% decrease in petrol consumption.

Environmental management system

Correos has an environmental management system certified under the ISO 14001 standard, which monitors energy and water consumption. This information is accessible to the units that make up the internal improvement programme, *Liga de Excelencia* (League of Excellence), so they can check their individual consumption, implement saving measures and see the advantages for each of them.

Correos water consumption (m³)



										
Message from the Chairman	Key milestones	The Correos Group	Innovation in products and services	Innovation in processes	Innovation for customers	Innovation for people	Innovation for society	Good governance	Coverage of report and sustainability indicators	Consolidated annual accounts of Correos Group

•• Water consumption fell by 6% in 2014 ••

The information systems that feed this management model also provide other overall environmental performance indicators, such as waste generation, CO₂ emissions and consumption of paper and office consumables.

These indicators are supplemented with data regarding polluting emissions using the CORINAIR methodology (reference guide prepared by the European Environment Agency to calculate emissions of NOx and SOx particles from delivery vehicles).

Awareness rising

The Correos Group encourages the adoption of environmentally sustainable practices through its contracts with suppliers and in conducting its day-to-day business, for which the implementation of programmes for raising awareness among employees is essential.

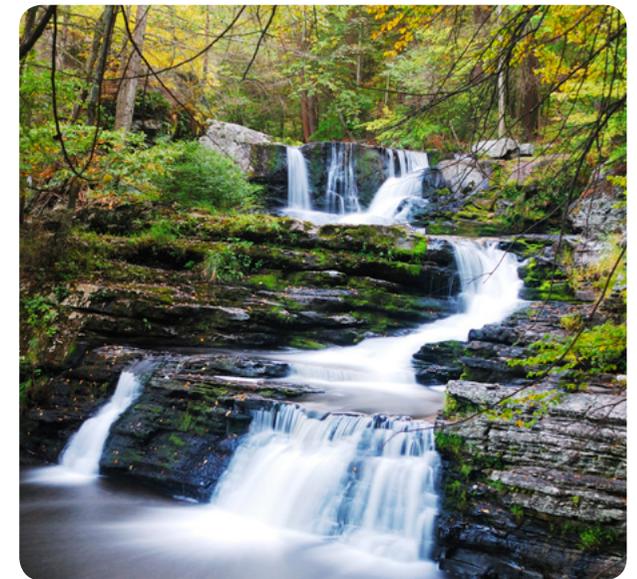
The 'Premio al Compromiso Ambiental' (Environmental Commitment Award) recognises workers who have taken measures to save energy and thus contributed to reducing overall energy consumption by spreading best practices throughout the organisation. The company also has a framework agreement with the IDAE (Institute for Energy Diversification and Saving), under which it shares training materials for employees on energy efficiency and reducing consumption in the workplace.

Correos is also encouraging awareness through signing up to campaigns such as the WWF's 'Earth Hour' to encourage the fight against climate change and the construction of a sustainable future.

For the sixth year running, the company joined in this worldwide event with symbolic hour-long lights out in more than 4,500 buildings, thus saving the consumption of 14,500 kWh of energy and the emission into the atmosphere of 3.6 tonnes of CO₂. The company also publicised the event through its corporate intranet, website and on social media profiles.

Correos energy consumption

	2013	2014
Natural gas (GJ)	70,613	63,436
Gasoil (GJ)	59,702	58,100
Automotive diesel (GJ)	408,701	394,815
Petrol (GJ)	61,827	57,186
Carbon, butane and propane (GJ)	428	219
Electricity (GJ)	545,846	533,373





Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



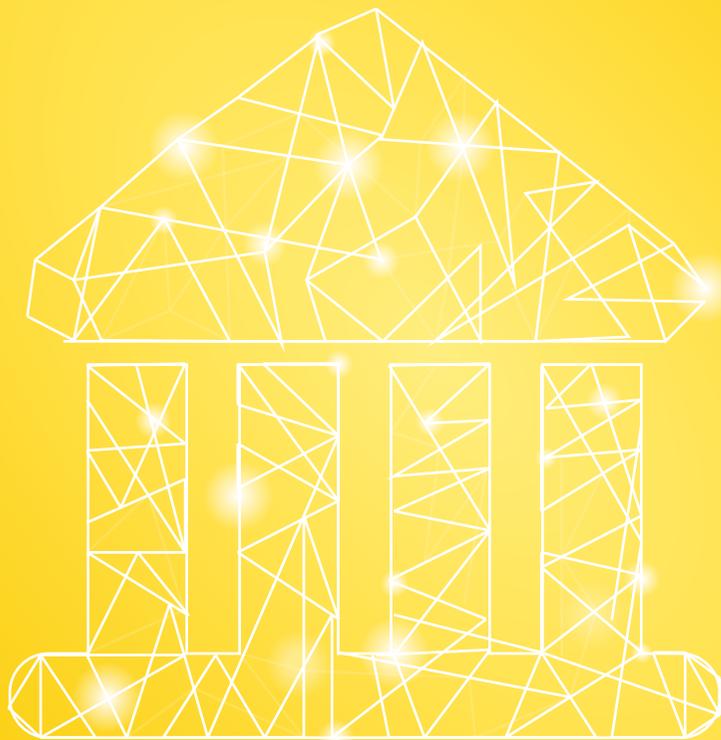
Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



09

Good
governance

9.1 Structure and organisation	79
9.2 Practices of good governance	83
9.3 Internal control of the company	85
9.4 Regulating bodies	87
9.5 Contracts and suppliers	87

Good governance implies transparency and responsibility



9.1 Structure and organisation

The Sociedad Estatal Correos y Telégrafos, S.A. (hereinafter Correos) is a limited company under public ownership. Its sole shareholder is the public legal entity, Sociedad Estatal de Participaciones Industriales (SEPI), in accordance with Order HAP/583/2012, of 20 March, which published the Council of Ministers' Agreement of 16 March 2012.

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

Governing Board

The composition of the Governing Board of Correos and its subsidiaries as at 31 December 2014 was as follows:

Sociedad Estatal Correos y Telégrafos, S.A.

Chairman

Javier Cuesta Nuin

Board members

- Ana Bosch Jiménez
- Luis de Burgos Buil
- Carmen Castaño Laorden
- Eloísa Contín Trillo-Figueroa
- José Luis Díez García
- Rafael García Monteys
- Pedro Guerrero Meseguer
- Aquilino González Hernando
- Fernando Irurzun Montoro
- Belén Jorge Fuentes
- Rosario Martínez Manzanedo
- Juan Luis Nieto Fernández
- José Ángel Partearroyo Martín
- Marta Vega Velasco

Secretary not member of the Board

José María Elías de Tejada Casanova





Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Correos Express Paquetería Urgente, S.A.

Chairman

Magín Blanco González

Board members

Alberto Alonso Poza

Óscar Medina Martín

Jesús Moreno Vivas

David Muntañola Prosper

Luis Pérez Capitán

Manuel Rey González

Domingo Eduardo Sebastián Bello

Secretary not member of the Board

José María Elías de Tejada Casanova

Vice-secretary not member of the Board

Álvaro Botella Pedraza



Nexea Gestión Documental, S.A.

Chairman

David Muntañola Prosper

Board members

Alberto Alonso Poza

Gregorio Cuñado Ausín

José María Elías de Tejada Casanova

Óscar Medina Martín

Luis Pérez Capitán.

Secretary not member of the Board

Álvaro Botella Pedraza

Correos Telecom, S.A.

Chairman

Jaime Sanz García

Board members

Alberto Alonso Poza

José María Elías de Tejada Casanova

Óscar Medina Martín

Secretary not member of the Board

Juan Risquete Fernández



Governing bodies

In compliance with the Articles of Association of the company, its governing bodies are the General Meeting of Shareholders and the Governing Board. Similarly, the company is managed by the Governing Board, its Chairman and the Executive Committee. Each of these bodies has the competencies which, subject to the legal provisions, are indicated in the Articles of Association and in the Governing Board Regulations.

The Chairman of the Governing Board is also the Executive Chairman of Correos and of all of its governing bodies and administrative units. This person is responsible for executive, managerial and administrative duties, representing governing bodies and executing the agreements that these bodies adopt.

The Governing Board of Correos consists of a minimum of 12 and a maximum of 15 members. Board members hold their positions for a maximum term of five years and may be re-elected one or more times for terms of the same duration. In 2014 the Governing Board held 11 meetings.

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

The Audit and Control Committee is a body which depends on the Board and which consists of three of its members, without executive functions. It is responsible for informing and advising the Board in matters regarding risk control and audit. Since 2013, the subsidiaries of the Group have their own Audit and Control Committees.

In the subsidiaries, the governing bodies are the General Meeting of Shareholders and the Governing Board consisting of a maximum of 12 and a minimum of 6 members in the case of Correos Express and a maximum of 8 and a minimum of 4 members in the cases of Nexea and Correos Telecom. The process for appointing board members, chosen from the members of the Correos management team, assesses the training and experience required in order to form part of the Group's governing bodies.

In general, the Governing Boards of the subsidiaries meet monthly to supervise the management of the companies. In 2014, the Governing Boards of Correos Express and that of Nexea held 11 meetings, and the Correos Telecom Board held 9.

The members of the Governing Board of Correos receive only the allowances approved by the General Meeting in the circumstances established by Royal Decree 462/2002, of 24 May, regarding compensations due to service and by the current legislation for public bodies and trading companies in force at the time.

In accordance with Law 5/2006, of 10 April, the allowances of the senior management directors are paid into the Public Treasury. In 2014 the gross remuneration per session of the Correos board members was 1,090.36 euros. In the subsidiary companies, Board Members do not receive allowances for attending meetings.



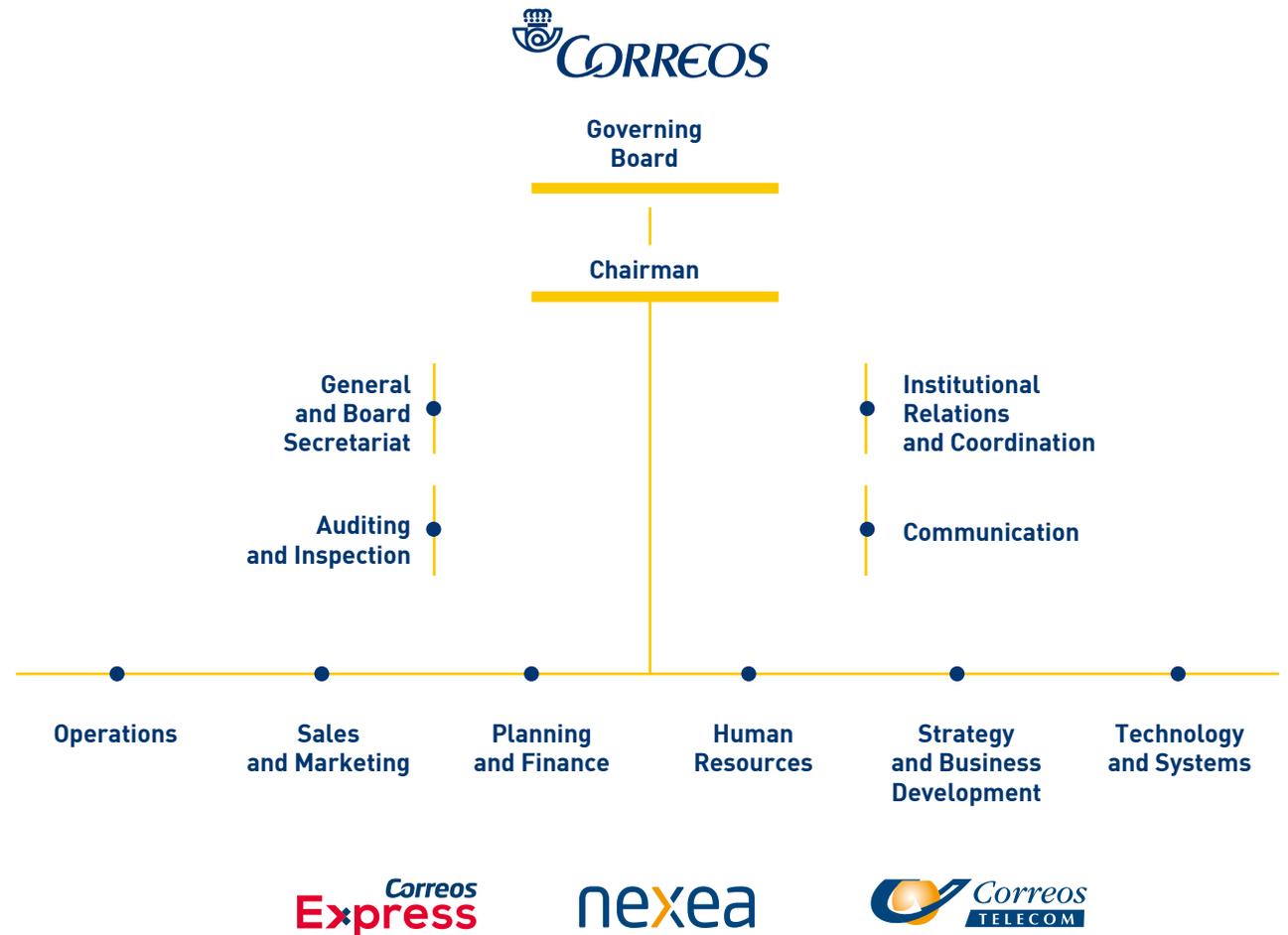


Management Committee

The Management Committee of the Correos Group is an internal collegiate body which is to aid the Chairman in his ordinary duties, policy-making, development and coordination of all key issues between the different departments and companies.

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

Organisational chart of the Correos Group





Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



9.2 Practices of good governance

The Correos Group defends an ethically responsible business plan of action and to this end, has procedures for promoting good governance and internal control to prevent, detect and, when applicable, eradicate practices of corruption or those contrary to professional integrity.

Corporate Governance Report

The Corporate Governance Report of the company is prepared annually in accordance with the principles set forth in the Regulations of the Assets of Public Authorities Act, approved by Royal Decree 1373/2009, on 28 August.

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

Furthermore, the Regulation of the Correos Governing Board came into effect in 2013, which meant an additional commitment in the application of good practices to the operation of this governing body.

Criminal risk prevention and Code of Conduct

In 2014, the Governing Board approved the Programme for Criminal Risk Prevention of the Correos Group, in compliance with the new requirements of the Criminal Code. This document includes the General Code of Conduct (which replaced the valid code until that time), the Catalogue of Forbidden Conducts and the Manual of Criminal Risk Prevention.

Also, a Compliance Committee was constituted which, among other functions, assesses the actions potentially contradictory to the governing principles of the Correos Group.

The General Code of Conduct reflects the values that govern the actions of all Correos Group employees. This document is available on the intranet and on the corporate websites for reference by employees and stakeholders.

The Correos Group has also established a channel for communication and claims, which can be accessed via email canal.cumplimiento@correos.com, to facilitate compliance with the goals established in the Code of Conduct.



To see the Corporate Governance Report

To see the Regulation of the Governing Board



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



The commitment of Correos to achieve excellence in its service and to sustainability are also specifically stated in the declaration signed by the Chairman with the stakeholders. This document can be viewed at all post offices and in the web site.

Transparency and good governance

In virtue of Law 19/2013, of 9 December, regarding transparency, access to information and good governance, as of December 2014 the companies of the public sector periodically publish and update any information which is relevant to the guarantee of transparency in relation to the operation and control of its public activity.

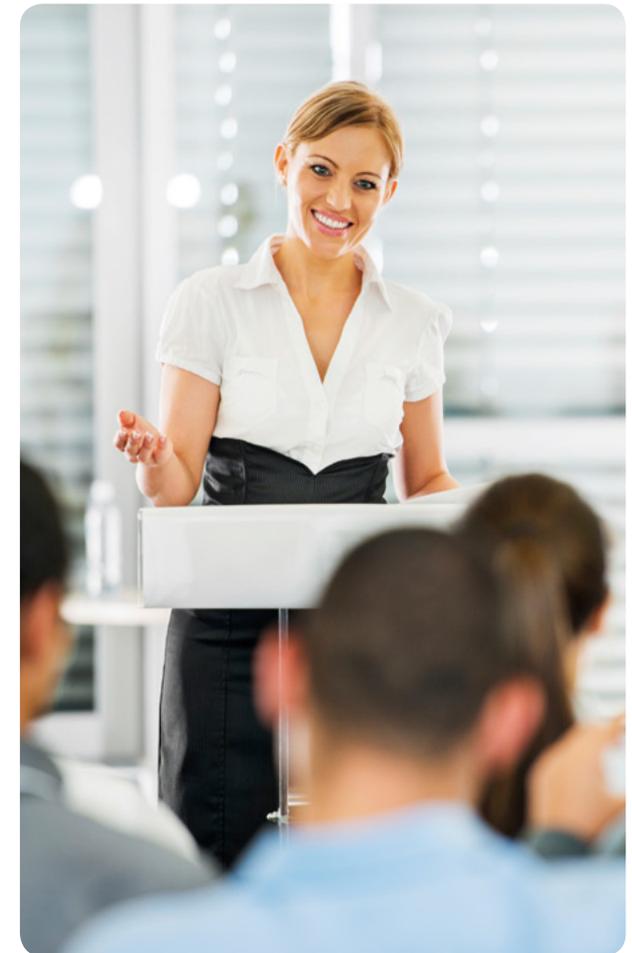
The Correos Group companies have each created a transparency portal on their websites which offers information on the business activity, financial and economic management, contracting procedures or legal and organisational framework.

This portal also has various channels of access, through which the citizens can address their requests for public information under the terms specified in Law 19/2013.

To see the Transparency Portal of the Correos Group companies



Correos
Correos Express
Nexea
Correos Telecom





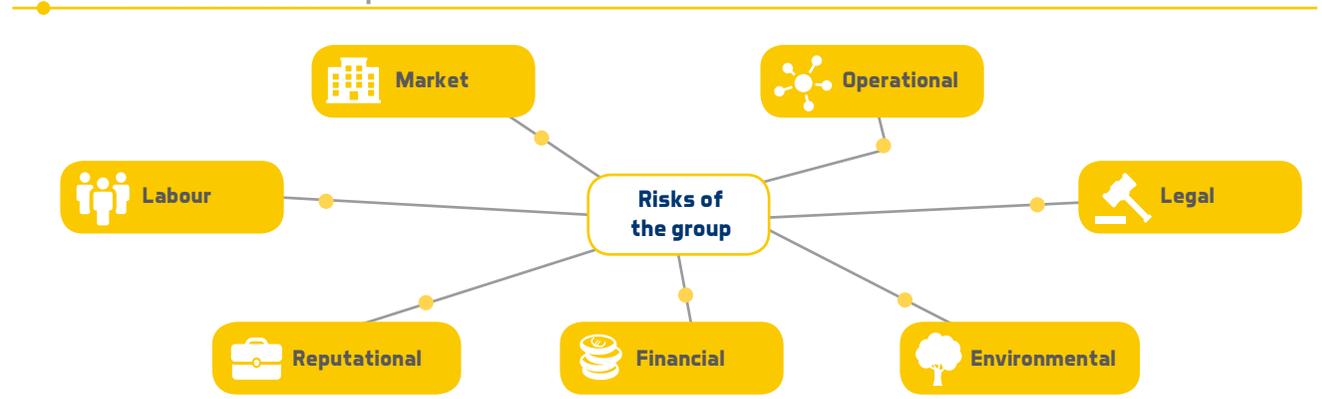
9.3 Internal control of the company

Risk management

Risk analysis and risk management form a crucial part of operational and strategic control in the Correos Group. The risk management system is based on several protocols of action, aimed at identifying, managing, preventing and guaranteeing an adequate response in the event of their materialisation.

The map of identified risks includes market risk as one of the most important, caused, among other factors, by the progressive reduction of postal activity due to electronic substitution, an increase in competition and the possible delay in adapting to new social demands, especially technological ones.

Risks of the Correos Group



Equally important are operational and labour risks, arising from the structural complexity of the Group and the need to make progress in the implementation of an agile system which responds to market demands. To this must be added the legal, fiscal and financial uncertainties, arising from the possible changes to sectoral legislation and from the business operation.

Also, the Group coexists with a reputational risk, due to the possible damage to the good opinion which it has always been able to count on among the different stakeholders. Lastly, it is also worth mentioning environmental risks, arising from the need to have a wide network of infrastructures and means of transport.

The companies of the Correos Group are subject to the control of the General State Intervention Board and the Audit Tribunal. Similarly, through its internal audits, the principles of good governance are applied throughout the organisation and its operations, attempting to reduce the risk related to the achievement of its business objectives.

Last year 1,323 operational and financial audits were performed in post offices, processing centres and units, the results of which are reported periodically to the Audit and Control Committee and to the management team.



With regards to the obligations under Law 10/2010, of 28 April, regarding the prevention of money laundering and the financing of terrorism and its relevant Regulations, the area for the prevention of money laundering was audited, specific training was given on prevention of money laundering to 6,715 workers and a continuous control system was implemented for the application of measures of due diligence throughout the post office network.

Security improvement

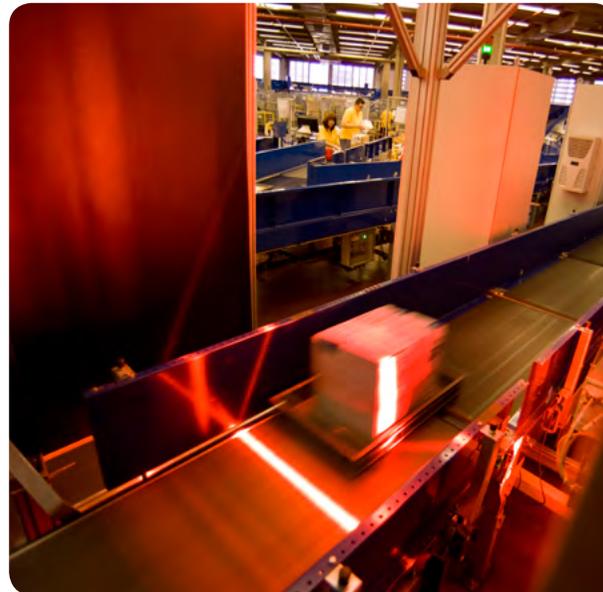
In 2014 Correos was granted the authorisation to transport hazardous goods by airmail, subject to Order FOM/456/2014, of 13 March. This accreditation of an undefined duration declared the company competent to accept certain hazardous goods to send by airmail, subject to regulatory conditions.

In order to obtain this authorisation, the mail admission and processing procedures were modified and subjected to inspection and approval by the AESA (the State Aviation Safety Agency). In addition, specific training was given to 12,680 employees. Furthermore, customers were provided with information via different channels, advising them on the way to deposit this type of mail.

Correos maintained its participation in the SAFEPOST AND SECURITY STANDARDS WORKING GROUP projects for the improvement of security and the detection of fraud and its collaboration with several bodies and the State security forces and law-enforcement agencies, such as the National Police Force through the Blue Network, the Civil Guard through 'Colabora' and the Postal Security Group of the Universal Postal Union.

Last year the company received an honorific mention from the Ministry for Home Affairs of the *Generalitat de Catalunya* for its excellent cooperation with Public Administrations and the police force of the *Generalitat*.

Correos has a security operations centre which is already connected to more than 2,650 operational and customer service units and which receive signals and/or images from over 135,000 elements throughout the territory. This centre permanently monitors all work centres to ensure the safety of staff and customers.





9.4 Regulating bodies

The Spanish postal market has been deregulated since 1 January 2011 after the entry into force of Law 43/2010, of 30 December, on the Universal Postal Service, Users' Rights and the Postal Market.

In virtue of Law 43/2010, Correos is the designated operator for providing the Universal Postal Service in Spain for a period of 15 years from 1 January 2011 onwards. This regulation governs the conditions for collection, admission, distribution and delivery required from the designated operator, as well as the cost and financing mechanisms of these obligations, the prices and other cost conditions of the postal services. Its financing regime, however, is governed by the regulation prior to the effective date of this Law, with the provision plan and its regulatory contract pending approval.

Correos also offers a wide range of parcel services, subject to Land Transport Act, dated 30 July 1987, and to Contract of Carriage of Goods by Land Act, dated 11 November 2009.

Since 2013, the regulatory functions of the postal sector fall on the CNMC (National Competition Commission) and on the Ministry for Public Works. The CNMC also governs the parcel and telecommunications markets in which the Correos Group subsidiaries operate.

9.5 Contracts and suppliers

Contract framework

With regard to contracts, the legal framework of the Correos Group consists of:

- Royal Legislative Decree 3/2011, of 14 November, enacting the amended text of the Public Sector Contracts Act.
- Law 31/2007, of 30 October, on procurement procedures in the water, energy, transport and postal service sectors; its Second Additional Provision expressly cites Correos as an entity subject to the aforesaid Law.
- Internal Instructions of Procurement, available from the contractor profile of the Correos Group.



To access the Correos Group contractor profile



The Investment Committee is the body that reports, approves and submits to the Governing Board the contracts provided for in the Internal Instructions of Procurement and in the Governing standards for the system used to authorise and monitor acts and operations by the SEPI Group.

Both for contracts subject to Law 31/2007, and for those processed according to Internal Instructions of Procurement, it is established that all parties interested in taking part in the contract procedures must guarantee compliance with the principles of the United Nations Global Compact, including matters related to human rights, the elimination of all forms of forced labour, the eradication of child labour and freedom of association and collective bargaining. Due to its geographical scope of action and the nature of its suppliers, the Correos Group considers that none of them present a significant risk of breaching these principles.

In addition, tenderers are obliged to submit a quality and environmental report in the technical specifications for the contracting of works. Furthermore, there are contracts reserved for special work centres in order to promote employment integration of people with disabilities.

Relationship with suppliers

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

With regard to economic auditing and legal compliance, last year, as in previous financial years, audits of different types of contracts with suppliers were carried out.

Throughout 2014, Correos has awarded contracts for a net amount exceeding 417 million euros, of which 71.7 million corresponded to investment and 345.3 million to general expenses. These contracts were undertaken by 7,910 suppliers (393 investment and 7,517 expenses), the majority of these at a national level.

In the case of the Group's subsidiaries, the procurement of services is linked mainly to their principal activity, owing to which Correos Express collaborated mostly with transport or technology suppliers, Correos Telecom with telecommunications companies and Nexea with suppliers of paper, envelopes and postal handling services.



- Message from the Chairman
- Key milestones
- The Correos Group
- Innovation in products and services
- Innovation in processes
- Innovation for customers
- Innovation for people
- Innovation for society
- Good governance
- Coverage of report and sustainability indicators
- Consolidated annual accounts of Correos Group



10

Coverage of report and sustainability indicators

10.1 Materiality	90
10.2 Stakeholders	91
10.3 Sustainability indicators	93



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group



The contents of the 2014 Correos Group integrated annual report cover the period from 1 January to 31 December 2014. The financial, social and environmental information appearing in the document covers all the Correos Group's activities as a global communication solutions operator, and includes the transactions made by Correos and its subsidiaries, Correos Express, Nexea and Correos Telecom.

In order to offer the reader a more complete overview of Correos and its subsidiaries, information on the most noteworthy policies and actions and the most relevant quantitative indicators are generally presented broken down for the different companies that make up the Group, whenever the nature of the companies themselves so allows.

The 2014 Correos Group integrated annual report is available in digital format (PDF) and is publicly accessible at www.correos.es, where the reports from previous years can be downloaded. To supplement this report, an executive summary is available for consultation.

The 2014 Correos Group integrated annual report is available in English. In the event of any disparity between the versions, the information contained in the Spanish version shall take precedence.

With regard to the definition of the content, the report has been prepared in accordance with the Global Reporting Initiative's Sustainability Reporting Guidelines, version G4, Core option. The recommendations of the International Integrated Reporting Council (IIRC) for preparing integrated reports have also been taken into account.

Since 2002 Correos has been one of the signatories to the United Nations Global Compact and therefore undertakes to respect and promote the said Covenant's ten principles in the fields of human and labour rights, the environment and the fight against corruption. Every year the company prepares its progress report, which successfully retained its advanced level distinction in 2014 for the fourth consecutive year. The report is available on the Global Compact website, the Spanish Global Compact Network website and at www.correos.es.

10.1 Materiality

Preparing this report and determining materiality and relevant indicators has entailed a process of internal and external reflection. In the internal setting, the members of the Management Committee identified all the issues that the report should contain through questionnaires based in the IIRC model. Furthermore, employees performing their duties in different departments and in different areas of Spain were interviewed.

In the external setting, the Correos Group maintains an active dialogue with its stakeholders through a number of different communication mechanisms and channels. Additionally, every two years, a number of individual interviews are carried out with companies and bodies representative of these stakeholders. The answers of interviews in 2013 have also allowed determining materiality and relevant indicators for preparing this report.



10.2 Stakeholders

Owing to the nature of its different activities, the Correos Group relates with numerous stakeholders and assumes, along with these, the commitment of conducting sustainable economic, social and environmental policies.

The Correos Group maintains a fluid relationship of trust with its stakeholders, based on communication and dialogue through different channels, which facilitates an understanding of their expectations and suggestions, and helps to share in the attainment of business objectives.

Main stakeholders	Communication channels	Relevant issues for stakeholder
Shareholder	<ul style="list-style-type: none"> • General Meeting of Shareholders • Governing Board • Continuous reporting to SEPI • Integrated annual report • Progress report 	<ul style="list-style-type: none"> • Efficient management, competitiveness and corporate sustainability • Generation of value for shareholder • Good governance and ethical behaviour
Employees	<ul style="list-style-type: none"> • 'Conecta' • E-mail • SMS • Letters • Internal magazine 'Abrecartas' • Workshops • Informal meetings • Training actions • Internal memos • Bulletins and surveys • Participation programmes 	<ul style="list-style-type: none"> • Bi-directional, transparent communication • Company management and corporate sustainability • Professional development and performance recognition • Usability of work tools • Working conditions • Reputation building of company as employer • Commitment with Correos' values
Customers	<ul style="list-style-type: none"> • Commercial channels and service points • Opinion surveys • Corporate website • Fairs, forums and other meetings • Advertising campaigns • Social networks • 'Más Cerca' magazine • Integrated annual report • Progress report 	<ul style="list-style-type: none"> • Specialised offer and a customer-centred approach • Customer experience • Business flexibility • Contract negotiation • Online services • Quality and accessibility

										
Message from the Chairman	Key milestones	The Correos Group	Innovation in products and services	Innovation in processes	Innovation for customers	Innovation for people	Innovation for society	Good governance	Coverage of report and sustainability indicators	Consolidated annual accounts of Correos Group



Main stakeholders

Communication channels

Relevant issues for stakeholder

Suppliers

- Participation in AERCE
- Corporate website
- State Contracting Platform
- Regular meetings
- Congresses, fairs and forums

- Transparency and fairness in tendering
- Collaboration in the search for new solutions
- Contracting regulations

Society

- Participation in Spanish associations and national and international projects
- Meetings and forums
- Corporate website
- Integrated annual report
- Progress report
- Press releases
- Social networks

- Providing the Universal Postal Service
- Defence of solidarity, social and ethical values
- Defence of human rights
- Protection of children
- Sustainable environmental management
- Integration of disadvantaged groups



10.3 Sustainability indicators

Contents

GRI4 indicator	Global Compact principle	Page
Strategy and analysis		
1 Statement from the CEO	General information	Message from the Chairman p. 4-6
2 Key impacts, risks and opportunities	General information	The Correos Group p. 15-18; Innovation in products and services p. 22-36; Good governance p. 85
Organizational profile		
3 Name of the organization	General information	Editorial p. 182
4 Primary brands, products, and services	General information	The Correos Group p. 12-14; Innovation in products and services p. 23-36
5 Location of the organization's headquarters	General information	Editorial p. 182
6 Number of countries where the organization operates	General information	Consolidated annual accounts of Correos Group p. 98-172
7 Nature of ownership and legal form	Strategy and governance	Good governance p. 79
8 Markets served	General information	The Correos Group p. 15-18; Innovation in products and services p. 23-36
9 Scale of the organization	General information	Innovation for people p. 54; Consolidated annual accounts of Correos Group p. 98-172
10 Employment	6	Innovation for people p. 54-66
11 Employees covered by collective bargaining agreements	3	Innovation for people p. 58
12 Organization's supply chain	-	Good governance p. 88
13 Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	-	-
14 How the precautionary approach or principle is addressed by the organization	7, 8	Innovation for society p. 73-77
15 Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	Global Compact objectives and subjects	Innovation for customers p. 50; Innovation for people p. 63; Innovation for society p. 68-77; Good governance p. 86
16 Memberships maintained	-	Innovation in processes p. 44-45; Innovation for customers p. 50; Innovation for people p. 66; Innovation for society p. 68-77

[Continue](#) ▶



Contents

GRI/4 indicator	Global Compact principle	Page
Identified material aspects and boundaries		
17	Entities included in the organization's consolidated financial statements	General information Consolidated annual accounts of Correos Group p. 98-172
18	Process for defining the report content and the aspect boundaries	General information Coverage of report and sustainability indicators p. 90
19	Material aspects identified	General information Coverage of report and sustainability indicators p. 90
20	Aspect boundary within the organization	General information Coverage of report and sustainability indicators p. 90
21	Aspect boundary outside the organization	General information Coverage of report and sustainability indicators p. 90
22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	- -
23	Significant changes from previous reporting periods in the scope and aspect boundaries	- -
Stakeholder engagement		
24	Stakeholder groups engaged by the organization	General information Coverage of report and sustainability indicators p. 91
25	Basis for identification and selection of stakeholders	General information Coverage of report and sustainability indicators p. 91
26	Organization's approach to stakeholder engagement	Strategy and governance Coverage of report and sustainability indicators p. 91
27	Key topics and concerns that have been raised through stakeholder engagement	Strategy and governance Coverage of report and sustainability indicators p. 91
Report profile		
28	Reporting period	General information Coverage of report and sustainability indicators p. 90
29	Date of most recent previous report	General information Coverage of report and sustainability indicators p. 90
30	Reporting cycle	General information Coverage of report and sustainability indicators p. 90
31	Contact point for questions regarding the report or its contents	- Editorial p. 182
32	'In accordance' option the organization has chosen	- 'In accordance'-Core
33	Policy and current practice with regard to seeking external assurance for the report	- -

Continue ►



Contents

GRI/4 indicator	Global Compact principle	Page
Governance		
34 Governance structure of the organization	Strategy and governance	Good governance p. 81-82
Ethics and integrity		
56 Organization's values, principles, standards and norms of behavior such as codes of conduct	10	Good governance p. 83-84
Economic performance		
EC1 Direct economic value generated and distributed		Consolidated annual accounts of Correos Group p. 97-172
Environmental		
EN3 Energy consumption within the organization	7, 8	Innovation for society p. 77
EN6 Reduction of energy consumption	7, 8	Innovation for society p. 73-77
EN8 Total water withdrawal by source	7, 8	Innovation for society p. 76
EN13 Habitats protected or restored	7, 8	Innovation for society p. 74
EN15 Direct greenhouse gas (GHG) emissions (scope 1)	7, 8	Innovation for society p. 74
EN16 Energy indirect greenhouse gas (GHG) emissions (scope 2)	7, 8	Innovation for society p. 74
EN17 Other indirect greenhouse gas (GHG) emissions (scope 3)	7, 8	Innovation for society p. 74
EN19 Reduction of greenhouse gas (GHG) emissions	7, 8, 9	Innovation for society p. 73-77
EN21 NOX, SOX and other significant air emissions	7, 8	Innovation for society p. 74

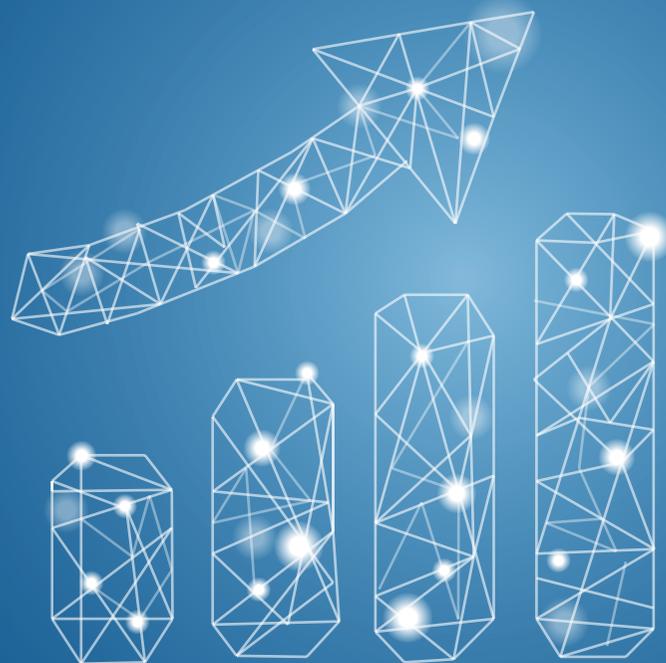
[Continue](#) ▶



Contents

GRI/4 indicator	Global Compact principle	Page
Labor practices and decent work		
LA2 Benefits provided to full-time employees	6	Innovation for people p. 61-66
LA3 Return to work and retention rates after parental leave, by gender	6	Innovation for people p. 62
LA6 Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	-	Innovation for people p. 65
LA9 Average hours of training per year per employee by gender, and by employee category	6	Innovation for people p. 56
LA12 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	6	Innovation for people p. 61-66; Innovation for society p. 71; Good governance p. 79-80
Human rights		
HR5 Operations and suppliers identified as having significant risk for incidents of child labor	5	Good governance p. 88
HR6 Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor	4	Good governance p. 88
HR10 New suppliers that were screened using human rights criteria	1, 2	Good governance p. 88
Society		
S04 Communication and training on anti-corruption policies and procedures	10	Good governance p. 83-86
Product responsibility		
PR5 Results of surveys measuring customer satisfaction	-	Innovation for customers p. 47-49

-  Message from the Chairman
-  Key milestones
-  The Correos Group
-  Innovation in products and services
-  Innovation in processes
-  Innovation for customers
-  Innovation for people
-  Innovation for society
-  Good governance
-  Coverage of report and sustainability indicators
-  Consolidated annual accounts of Correos Group



11

Consolidated annual accounts of Correos Group

Transparency on financial management



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Independent auditors' report on the consolidated annual accounts



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

Report on the consolidated annual accounts

We have audited the attached consolidated annual accounts of Sociedad Estatal Correos y Telégrafos, S.A.U. and its subsidiaries, including the consolidated balance sheet at 31 December 2014, the consolidated profit and loss account, the statement of changes in the consolidated equity, the statement of consolidated cash flow and the consolidated report for the financial year ending on the aforementioned date.

The Directors' responsibility for the consolidated annual accounts

The Parent Company's Directors are responsible for the drafting of the attached consolidated annual accounts and must ensure that they represent an accurate image of the assets, financial condition and consolidated results of Sociedad Estatal Correos y Telégrafos, S.A.U. and its subsidiaries, in accordance with the regulatory framework on financial information applicable to the Group in Spain, which is identified in Note 3 of the attached report. They are also responsible for conducting such internal control

as they deem necessary to ensure that the consolidated accounts are free of any material inaccuracies due to fraud or error.

The auditor's responsibility

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



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

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

Opinion

In our opinion, the attached consolidated annual accounts express, in all of their significant aspects, an accurate image of the consolidated assets and consolidated financial position of Sociedad Estatal Correos y Telégrafos, S.A.U. and its subsidiaries at 31 December 2014, and of its consolidated results and consolidated cash flow for the financial year ending on the aforementioned date, in accordance with the applicable regulatory framework on financial information and, in particular, pursuant to the accounting principles and criteria set out therein.

Report on other legal and regulatory requirements

The attached 2014 consolidated management report contains the explanations that the Directors consider relevant regarding the position of Sociedad Estatal Correos y Telégrafos, S.A.U. and those of its subsidiaries, the development of their businesses and other issues. It does not form an integral part of the 2014 consolidated annual accounts. We have verified that the accounting information contained in the consolidated management report corresponds to that given in the 2014 consolidated annual accounts. Our work as auditors is limited to the verification of the consolidated management report with the scope mentioned in this paragraph and does not include the review of information not found in the accounting records of Sociedad Estatal Correos y Telégrafos, S.A.U. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.,

Rafael García Anguita

26 March 2015

PricewaterhouseCoopers Auditores, S.L., Torre PWC,
 Pº de la Castellana 259 B, 28046 Madrid, Spain
 Tel: +34 915684400 / +34 902 021111 , Fax: +34 913 083 566, www.pwc.com/es
 R M. Madrid, page 87,250-1, sheet 75, volume 9,267, book 8,054, section 3
 Recorded in the R.O.A.C. under number S0242e - Tax ID No.: B-79 031290



Miembro ejerciente:
**PRICEWATERHOUSECOOPERS
 AUDITORES, S.L.**

Año 2015 Nº 015/0062
 COPIA GRATUITA

Informe sujeto a la tasa establecida en el artículo 44 del texto refundido de la Ley de Auditoría de Cuentas, aprobado por Real Decreto Legislativo 1/2011, de 1 de julio



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Consolidated balance sheet at 31 December 2014 and 2013

(Expressed in thousands of euros)

ASSETS	Notes	Balance at 31/12/2014	Balance at 31/12/2013
NON-CURRENT ASSETS		1,593,861	1,530,610
Intangible fixed assets	6	26,825	16,895
Computer applications		26,532	16,647
Other intangible fixed assets		293	248
Tangible fixed assets	7	1,428,331	1,473,606
Land and buildings		1,253,305	1,285,511
Plant and other tangible fixed assets		151,398	154,267
Circulating fixed assets and advances		23,628	33,828
Property investments	8	4,602	3,486
Long term financial investments	11	113,900	1,459
Long-term debts with government bodies	18	112,438	-
Other financial investments		1,462	1,459
Deferred tax assets	18	20,203	35,164
CURRENT ASSETS		958,113	818,602
Non-current assets held for sale	9	17,552	20,182
Inventories	10	3,221	2,936
Trade debtors and other receivables	11	710,099	661,551
Clients for sales and services provided		277,246	298,511
Clients, group companies and associates	20	53	48
Other debtors		420,976	350,232
Debts, group companies and associates	20	1,112	2,630
Staff		10,452	9,995
Current tax assets		-	2
Other credits with government bodies	18	260	133
Short-term financial investments	11	5,355	6,501
Short-term accruals		820	914
Cash and other equivalent liquid resources	11, 12	221,066	126,518
TOTAL ASSETS		2,551,974	2,349,212



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Consolidated balance sheet at 31 December 2014 and 2013

(Expressed in thousands of euros)

	Notes	Balance at 31/12/2014	Balance at 31/12/2013
NET ASSETS AND LIABILITIES			
NET ASSETS			
Shareholders' Equity	13	1,682,753	1,514,862
Capital		611,521	611,521
Share premium		250,938	250,938
Reserves		616,687	594,744
Legal reserve		79,905	75,104
Statutory reserves		173,790	164,188
Voluntary reserves		362,992	355,452
Reserves in consolidated companies		9,716	9,242
Result for the year attributable to Parent Company	4	193,891	48,417
Government contributions, donations and legacies received	14	294,120	292,097
NON-CURRENT LIABILITIES			
Long-term provisions	15	47,482	73,611
Long-term debts		566	334
Deferred tax liabilities	18	97,884	124,151
Long-term accruals		557	589
CURRENT LIABILITIES			
Short-term provisions	15	5,080	5,260
Short-term debts	11, 16	17,247	26,207
Short-term debts with group and associate companies	11, 16, 20	80,922	8,193
Trade creditors and other accounts payable	11, 16	321,458	297,865
Suppliers		2,723	2,257
Suppliers, group companies and associates	16, 20	25	22
Other creditors		184,184	203,883
Staff		52,632	24,872
Other debts with government bodies	18	50,161	49,426
Customer advances		31,733	17,405
Short-term accruals		3,905	6,043
TOTAL NET ASSETS AND LIABILITIES		2,551,974	2,349,212



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Consolidated profit and loss account for year ended 31 December 2014 and 2013

(Expressed in thousands of euros)

CONTINUED OPERATIONS	Notes	Financial year 2014	Financial year 2013
Net turnover	17-a)	1,732,024	1,746,997
Procurement		(165,966)	(167,699)
Consumption of merchandise	17-b)	(12,820)	(12,584)
Depreciation of merchandise, raw materials and other supplies	10	(1,242)	(297)
Work by other companies	17-b)	(151,904)	(154,818)
Other operating income		520,570	273,500
Income from accessory and ordinary activities		2,397	4,698
Government contribution incorporated to the income from the year	17-c)	518,173	268,802
Staff costs	17-d)	(1,412,977)	(1,412,737)
Wages, salaries and similar		(1,170,340)	(1,175,306)
Social security contributions		(233,262)	(228,507)
Other expenses		(9,375)	(8,924)
Other operating expenses		(316,968)	(322,681)
External services	17-e)	(304,888)	(311,614)
Taxes	17-f)	(11,195)	(8,470)
Losses, deterioration and variation of provisions for commercial operations		(7,181)	2,080
Other expenses from ordinary activities		6,296	(4,677)
Amortisation of fixed assets	6,7,8	(81,875)	(85,703)
Allocation of government contributions in the form of non-financial and other fixed assets	14	24,290	24,383
Excess provisions	15	67	2,763
Impairment and loss/gain on disposal of fixed assets	17-g)	(17,383)	(2,019)
Depreciation and losses		(17,062)	(3,145)
Result from disposals and others		(321)	1,126
Other results		(34)	(45)

Continue ►



Consolidated profit and loss account for year ended 31 December 2014 and 2013

(Expressed in thousands of euros)

CONTINUED OPERATIONS	Notes	Financial year 2014	Financial year 2013
OPERATING RESULT		281.748	56.759
Financial income	17-h)	2,095	4,657
From negotiable securities and other financial instruments:			
From group companies		337	190
From third parties		1,758	4,467
Financial expenses	17-h)	(25)	(50)
Debts with third parties		(25)	(50)
Exchange rate differences		5,359	4,022
FINANCIAL RESULT		7.429	8.629
RESULT BEFORE TAX		289.177	65.388
Income tax	18	(95,286)	(16,971)
CONSOLIDATED RESULT FOR THE FINANCIAL YEAR		193.891	48.417



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Consolidated cash flow statement for the financial years ending 31 December 2014 and 2013

(Expressed in thousands of euros)

OPERATING ACTIVITIES	Notes	Financial year 2014	Financial year 2013
Result for the financial year before taxes		289,177	65,388
Adjustments to the result			
Amortisation of fixed assets	6,7,8	81,875	85,703
Value adjustments for depreciation	7,10,11	18,807	(1,136)
Provision variation		(7,887)	7,857
Allocation of government contributions	14	(24,290)	(24,383)
Recognition of operating contributions	17-c)	(518,173)	(268,802)
Result of removals and disposal of fixed assets		321	(1,126)
Financial income	17-h)	(2,095)	(4,657)
Financial expenses	17-h)	25	50
Exchange differences		(5,359)	(4,022)
Other income and expenses		1,427	(403)
Changes in current capital			
Increase/(reduction) in inventories		(1,528)	(1,061)
Reduction/(increase) in trade debtors and other accounts receivable		349,828	76,437
Reduction/(increase) in other current assets		6,578	6,221
Decrease/(increase) in creditors and other accounts payable		24,099	(34,385)
Reduction/(increase) in other current liabilities		(12,476)	(6,212)
Other non-current assets and liabilities (+/-)		(2,014)	139,359
Interest payments		(5)	(50)
Interest collected		1,865	3,500
Payments/(payments collected) for income tax		(5,797)	(1,878)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		194,378	36,400

Continue ►



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Consolidated cash flow statement for the financial years ending 31 December 2014 and 2013

(Expressed in thousands of euros)

	Notes	Financial year 2014	Financial year 2013
INVESTMENT ACTIVITIES			
Payments for investments			
Intangible fixed assets		(21,004)	(11,074)
Tangible fixed assets		(55,717)	(46,005)
Proceeds from disposals			
Tangible fixed assets		1,318	1,559
Non-current assets held for sale		1,812	1,548
TOTAL CASH FLOWS FROM INVESTMENT ACTIVITIES		(73.591)	(53.972)
FINANCING ACTIVITIES			
Collection and payment for financial liability			
Return and amortisation of other debts		(239)	(969)
Payment of dividends and other remuneration from equity instruments			
Dividends	4	(26,000)	-
TOTAL CASH FLOW FROM FINANCE ACTIVITIES		(26.239)	(969)
NET DECREASE IN CASH OR EQUIVALENTS			
		94.548	(18.541)
Cash and other equivalent liquid resources at the start of the financial year	12	126,518	145,059
Cash and other equivalent liquid resources at the end of the financial year	12	221,066	126,518



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Statement of changes in the consolidated net assets corresponding to the financial years ending 31 December 2014 and 2013

(Expressed in thousands of euros)

A) Statement of recognised income and expenses:	Notes	Financial year 2014	Financial year 2013
Consolidated result for the financial year		193,891	48,417
Income and expenses directly attributed to consolidated net assets:	14		
Government contributions, donations and legacies received		-	2,516
Tax effect		19,049	(755)
		19,049	1,761
Transfers to consolidated profit and loss account:	14		
Government contributions, donations and legacies received:			
- due to amortisation		(18,633)	(22,504)
- due to adjustments for depreciation		(4,346)	(865)
- due to disposals		(1,311)	(1,014)
Tax effect		7,264	7,298
		(17,026)	(17,085)
TOTAL CONSOLIDATED RECOGNISED INCOME AND EXPENSE		195,914	33,093



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Statement of changes in the consolidated net assets corresponding to the financial years ending 31 December 2014 and 2013

(Expressed in thousands of euros)

B) Total statement of changes to consolidated net assets:	Reserves held by the Parent Company					Reserves in consolidated companies	Consolidated result for the financial year	Government contributions, donations and legacies received	TOTAL
	Capital	Share premium	Legal reserve	Voluntary statutory reserves	Other reserves				
BALANCE START OF 2013 FINANCIAL YEAR	611.521	250.938	75.104	524.205	187.974	(179.322)	(3.975)	307.421	1.773.866
Total recognised consolidated income and expenses	-	-	-	-	-	-	48,417	(15,324)	33,093
Other variations in the consolidated net assets	-	-	-	(4,565)	15,829	(15,239)	3,975	-	-
BALANCE START OF 2014 FINANCIAL YEAR	611.521	250.938	75.104	519.640	203.803	(194.561)	48.417	292.097	1.806.959
Total recognised consolidated income and expenses	-	-	-	-	-	-	193,891	2,023	195,914
Operations with partners or owners: Distribution of dividends	-	-	-	-	-	-	(26,000)	-	(26,000)
Other variations in the consolidated net assets	-	-	4,801	17,142	3,756	(3,282)	(22,417)	-	-
BALANCE END OF 2014 FINANCIAL YEAR	611.521	250.938	79.905	536.782	207.559	(197.843)	193.891	294.120	1.976.873



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Consolidated annual accounts report for the financial year 2014

(Expressed in thousands of euros)

1. Activity of the Parent Company

Sociedad Estatal Correos y Telégrafos S.A (hereinafter, Correos, the Parent Company, or the Company) was incorporated as a public limited company [*sociedad anónima estatal*] pursuant to article 6.1.a) of the *Texto Refundido de la Ley General Presupuestaria* (the Budget Act), enacted by *Real Decreto Legislativo 1091/1988* (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), 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). The Company is governed by the *Ley de Sociedades de Capital* (the Capital Companies Act), by the rest of applicable laws and regulations, and by its Articles of Association.

Under articles 58.2 and 58.3 of the aforementioned Act 14/2000, the Company began its operations, and was automatically subrogated to activities, 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 Entity and was subrogated to the status of authorised operator for the provision of the Universal Postal Service (hereinafter UPS) under additional provision one of *Ley 24/1998, de 13 de julio, del Servicio Postal Universal y de Liberalización de los Servicios Postales* (Act 24/1998, of 13 July, on the Universal Postal Service and the Liberalisation of Postal Services), and subsequently for a period of 15 years under *Ley 43/2010, de 30 de diciembre, Del Servicio Postal Universal, de los derechos de los usuarios y del mercado postal* (Act 43/2010, of 30 December, on the Universal Postal Services, Users' Rights and the Postal Market).

Pursuant to article 58.4 of Act 14/2000, 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 14/2000. 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.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Under article 58.7 of Act 14/2000, public employees who were actively employed by the former Entity at the time of registration of the public deed of incorporation of the Company became employees of the Company without interruption, under the same employment terms and retaining their status as Central Government civil servants in their respective divisions and grades, with length of service, established pay and acquired rights being wholly preserved. The legal relations between this type of employee and the Company are regulated by *Real Decreto 370/2004*, (Royal Decree 370/2004), of 5 March, which approved the *Sociedad Estatal Correos y Telégrafos, S.A. Workers' Statute*.

In addition, and pursuant to article 58.17 of aforementioned Act 14/2000, 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 Act 43/2010. It sets out that these services will be provided in accordance with the Universal Postal Service Provision Plan and the contract regulating the Universal Postal Service (on the date of these annual accounts both have not been approved yet). This Act fundamentally regulates the collection, admission, distribution and delivery conditions for the UPS that may be demanded of the designated operator, as well as the cost and financing of the UPS obligations, the prices and other rate conditions for postal services.

The *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 Competition Commission) (hereinafter CNMC) explicitly repealed de *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 guaranteed, in compliance with postal regulations and open competition in the sector.
- Verify the analytical accountancy of the designated operator and the net cost of the UPS and determine the size of the unfair financial burden caused by providing the UPS, in accordance with Act 43/2010, of 30 December.
- Manage the UPS financing fund and the public services financed by it, in accordance with Act 43/2010, of 30 December.
- Supervise and ensure the application of the current regulations on access to the network and other postal infrastructure and services, in accordance with Act 43/2010, of 30 December.
- Control and measure the conditions in which the UPS is provided, in accordance with Act 43/2010, of 30 December.
- Issue the report foreseen in Act 43/2010, of 30 December, to monitor the conditions in which the UPS is provided.



In order to maintain the UPS, Act 43/2010 provides for a financing 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 Act 43/2010 the main sources of financing for the fund will be the budget assigned by the Central Government in its National Budget, the annual postal contribution of the postal operator and the bearers of individual licences, and fees for granting individual licences.

Article 26 of Act 43/2010 establishes the designated operator's (Correos) obligation to keep analytical accounts that make it possible to separate accounts for services and products of the UPS and any other services and products that are not part of it. In accordance with Act 43/2010, the postal operator will submit for validation a calculation of the net cost of each financial year.

Similarly, Act 43/2010 guarantees access to the postal network for postal operators once they have been granted an individual licence according to the principles of transparency, proportionality and non-discrimination. Act 43/2010 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 Act 43/2010, 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 need of financing the UPS and the unjust deductible financial burden for the service provider.

The temporary provision of Act 43/2010 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 former 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* (Undersecretary of the Ministry for Public Works), approving the provisional reference conditions for access to the public postal network, implementing the previous Royal Decree, which does not counter Act 43/2010, and the content of the instruction.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

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, telex and bureaufax services and undertake other activities and services relating to telecommunications.
- To propose stamps to be issued, issue all other forms of payment for postal services, and sell and distribute its products and issues.
- To provide, on a mandatory basis, such services relating to its purpose as government bodies may order.
- To carry 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.

Correos is 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 Legislative Royal Decree 1/2010, of 2 July, which approves the amended text of the Capital Companies Act. Pursuant to the provisions in article 136.4 of Act 47/2003 of 20 November, the Budget Act, SEPI is not obliged to submit its consolidated annual accounts at the Companies Registry, as it is not a trading company.

Correos is the parent company of Correos Group. The annual accounts of the Company corresponding to the financial year ending 31 December 2013, both individual and consolidated, were drawn up by the Directors of Correos on 13 March 2014, approved by its Sole Shareholder of the Company on 27 June 2014. The annual accounts are filed at Madrid's Companies Registry.



2. Structure of the Correos y Telégrafos Group

The Parent Company's subsidiaries that comprise the Correos y Telégrafos Group (hereinafter, the Group or the Correos Group) falling within the scope of consolidation as of 31 December 2014 are the following:

Name of the company	Main activity	Registered address
Correos Telecom, S.A.	Management of the Parent Company's telecommunication network	C/ Conde de Peñalver, 19 - Madrid
Nexea Gestión Documental, S.A.	Hybrid mail services	C/ Rejas, 9 - Madrid
Correos Express Paquetería Urgente, S.A	Transport services for documents and small parcels	Avenida de Europa, 8 - Costada (Madrid)

Correos Express Paquetería Urgente, S.A., which has its registered address at Avenida de Europa, 8 in Costada (Madrid), provides goods delivery services, auxiliary and complementary courier activities and collection, sorting and distribution of goods and parcels. The main activity of Correos Express Paquetería Urgente, S.A. is the urgent transport of documents and small parcels, both nationally and internationally. On 21 May 2014, Correos Express Paquetería Urgente S.A. (previously Chronoexpres S.A.) decided to change the company's name from Chronoexpres S.A. to Correos Express Paquetería Urgente S.A., a decision which was executed in a public deed on 27 May 2014.

Correos Telecom, S.A., has its registered address at Calle Conde de Peñalver, 19 in Madrid and its corporate objective, coinciding with its main 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 the surplus capacity of the Company's telecommunications network and providing postal service-related telecommunication services.

Nexea Gestión Documental, S.A. has its registered address at Calle Rejas, 9 in Madrid and its corporate objective, coinciding with its main 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 on sheets which are subsequently sealed in envelopes and deposited in the Parent Company's admission centres for delivery to addressees.



All subsidiaries close their financial year on 31 December.

The statements corresponding to 31 December 2014 and 2013 for the equity instruments of the Parent Company held by Grupo Correos, before the standardisation and/or consolidation adjustments, are as follows:

	2014 Financial Year			2013 Financial Year		
	Correos Express P.U., S.A.	Correos Telecom, S.A	Nexea G.D. S.A	Correos Express P.U., S.A.	Correos Telecom, S.A	Nexea G.D. S.A.
Net book value	1.753	1.503	28	4.257	1.503	1.350
Direct shareholding (%)	100%	100%	100%	100%	100%	100%
Share capital	66	1,503	974	66	1,503	974
Share premium	6,415	-	1,536	6,415	-	1,536
Legal reserve	-	300	128	-	300	128
Other reserves	(560)	3,942	(60)	(560)	3,942	(60)
Results of previous financial years	(1,663)	-	(1,228)	-	-	-
Results of the financial year	(2,504)	1,302	(1,282)	(1,663)	1,688	(1,228)
Total net equity	1.754	7.047	68	4.258	7.433	1.350
Operating result	(3.705)	1.884	(1.445)	(3.854)	2.240	(1.326)



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

3. Basis for presenting the consolidated annual accounts

When preparing these consolidated annual accounts, the Parent Company's Directors applied the accounting regulations included in the new Spanish General Accountancy Plan (GAP) approved by Royal Decree 1514/2007 and the modifications to them arising from Royal Decree 1159/2010 which approved the Criteria applicable when preparing consolidated annual accounts, in addition to all other commercial legislation in force on 31 December 2014. Specifically:

- The annual accounts for the Parent Company are consolidated with those of all of its subsidiaries (see Note (2)) using the full consolidation method. The Parent Company holds all voting rights in all the consolidated companies.
- Where subsidiaries have followed significantly different accounting or valuation principles from those of the Parent Company, adjustments have been made as needed to present the consolidated annual accounts of the Group in a standardised manner.
- The different items on the previously standardised individual annual accounts are aggregated according to item type.
- The representative book values of the capital instruments belonging to all of the Parent Company's subsidiaries are compensated with their net assets.

- The Inter-Group balances, transactions and cash flow between Correos Group companies have been eliminated in the consolidation process. Similarly, all results from internal operations are eliminated and deferred until performed for third parties which are not part of the Group.
- The variations in reserves belonging to different subsidiaries between their respective dates of coming under the control of the Parent Company or of first consolidation and 31 December 2014 are covered by the item 'Reserves in consolidated companies' on the consolidated balance sheet.

As regards the depreciation of the assets registered under the "Tangible fixed assets" caption, 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 General Accountancy Plan and which, given the strategic or public utility nature of their activities, regularly deliver goods or provide services to other bodies or users without remuneration, or in exchange for a fee, or according to a pricing policy set directly or indirectly by the Government.

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



a) Accurate representation

These consolidated annual accounts have been prepared on the basis of the accounting records of the companies that make up the Correos Group, and in accordance with the legal regulations on accounting in force at 31 December 2014, in order to provide a true and fair view of the assets, financial situation and results of the Group. The consolidated cash flow statement has been prepared with the aim of truthfully reporting the origin and the use of the monetary assets representing cash and other equivalent liquid assets of the Group.

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

b) Critical aspects of the valuation and estimation of uncertainty

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

The related estimates and assumptions are based on historical data and on other diverse factors which are understood as being reasonable in accordance with the circumstances; they are used as a base in order to establish the book value of the assets and liabilities that are not easily available through other sources. The

respective estimates and assumptions are reviewed continuously; the effects of the reviews of the book estimates are recognised in the period in which they were made, if they affect only that period, or in the period of review and future periods, if the review affects both of the above.

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

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

Leasing obligations - Correos Group as lessee

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

Leasing obligations - Correos Group as lessor

The 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.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Tax situation

As set out in current legislation, taxes may not be deemed definitively settled until the filed tax statements have been inspected by the tax authorities or the statute of limitations has passed. In the opinion of the Parent Company Directors, at 31 December 2014 there are no contingencies other than those recorded in these consolidated annual accounts which could represent significant liabilities for the Parent Company and/or its subsidiaries in the event of an audit.

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

Deferred tax assets

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

Provisions

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

Depreciation of non-financial assets

In general terms, the Correos Group analyses on a yearly basis whether there are indicators for depreciation of non-financial assets. In the specific case of non-financial assets other than the intangibles with an indefinite service life, the Group subjects them to value depreciation tests when there is evidence of said depreciation.

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

The calculation of reasonable values, values in use, current values and values that can be recovered implies the calculation of future cash flows and assuming hypotheses relating to the future values of the flows, as well as the discount rates applicable to them, also bearing in the mind the expected time the respective debt will be collected. The related estimates and assumptions are based on historical data and on other diverse factors which are understood to be reasonable in accordance with the circumstances.



c) Comparison of information

As indicated in the fourth Section of the “Regulations for the Preparation of Annual Accounts”, the Parent Company Directors have included quantitative information corresponding to the previous financial year in this report.

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

Expenditure in transport purchased from third parties, which was included in “External Services” section of the 2013 financial year, under “Other Operating Expenses”, is included from the 2014 financial year onwards in the “Work by other companies” section. 154,818 thousand euros from the 2013 financial year have been reclassified in these annual accounts in order to make the annual accounts comparable.

4. Application of the results of the Parent Company

The proposed application of profit for 2014 put forth by the Parent Company Directors and pending approval by the Sole Shareholder, as well as the proposal approved for the 2013 financial year, is as follows:

	2014 Financial Year	2013 Financial Year
Results for the financial year	201,646	48,012
Distribution base:		
Legal reserve	20,165	4,801
Statutory reserves	40,329	9,602
Voluntary reserves	40,329	7,609
Sole Shareholder Dividend	100,823	26,000
Total	201,646	48,012

On 27 June 2014, the Company’s Sole Shareholder approved the proposed use of the result from the 2013 financial year. On 7 July 2014 the Company paid the dividend to the Sole Shareholder, worth 26,000 thousand euros.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Limitations on the distribution of results and dividends

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

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

5. Registration and accounting standards applied

The main recording and valuation criteria used by the Parent Company in preparing these consolidated annual accounts, pursuant to the terms set out in the Spanish Generally Accepted Accounting Practices approved by Royal Decree 1514/2007 and the amendments incorporated by Royal Decree 1159/2010, are as follows:

(a) Intangible fixed assets

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

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



IT applications 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. IT application maintenance costs are listed as expenses as soon as they are incurred.

Patents, licences and similar

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

(b) Tangible fixed assets

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

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

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

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

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

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

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



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

(c) Property investments

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

(d) Operating and financial leases

The Correos Group classifies leasing contracts as financial when it can be deduced from their economic conditions that all of the risks and benefits inherent in the ownership of the asset subject to the agreement are substantially transferred. The agreements that do not substantially transfer all of the risks and benefits and in which the lessor is only entitled to use the asset for a certain period of time are classified as operating leases.

Correos Group as lessee

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

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

Correos Group as lessor

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



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

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

Assets not generating cash flow

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

In accordance with the point above, and in application of the stipulations of Order EHA/733/2010, of 25 March, approving accounting aspects of public companies operating under certain circumstances, the Parent Company determines the depreciation in the value of its tangible and intangible assets with reference to the depreciated replacement cost of each asset.

Remaining assets

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

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

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

(f) Financial assets

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



The Correos Group classifies its financial assets into the following categories for the purposes of 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 and the constituted deposits and guarantees.
- Financial assets available for sale: includes the acquired capital instruments.
- Cash and other equivalent liquid assets: see Note 5 (i).

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

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

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

- The financial assets included in the category of “Loans and entries receivable” are valued at the amortised cost.

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

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

The Correos Group cancels a financial asset, or a part thereof, when the contractual rights over the effective movements of the financial asset expire or are transferred. It is necessary for the risks and benefits inherent in their ownership to be substantially transferred. These circumstances are evaluated by comparing the exposure of the 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.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

(g) Value depreciation of the financial assets

The book value of the financial assets is corrected by debiting the consolidated profit and loss account when there is objective evidence that a loss due to depreciation has taken place. In order to determine the losses due to depreciation, the Correos Group evaluates the possible losses of both the individual assets and the groups of assets with similar risk characteristics by the end of the financial year at the latest.

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

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

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

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

(h) Non-current assets held for sale

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

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

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

(i) Cash and other equivalent liquid assets

Cash and other equivalent liquid resources make up the cash and bank funds, and the deposits and other financial assets that can be converted into cash and whose maturity, at time of their acquisition, is no longer than three months, are not subject to a significant risk of change in value and that form part of the normal cash flow management policy of Correos Group.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

(j) Inventories

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

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

(k) Provisions and contingent liabilities

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

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

The Parent Company Directors consider contingent liabilities to be those obligations that may arise due to past events, and whose appearance is subject to whether or

not future events occur, outside the control of the Parent Company. 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 the Correos Group correspond to the accounts payable, trade creditors and creditors for fixed assets, deposits and guarantees and the accounts payable under other headings.

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

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 reasonable value which, unless there is evidence to the contrary, is the price of the transaction.

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

Nevertheless, the debits for trade operations which mature in less than one year, do not have a contractual interest rate and whose amount is expected to be paid in the



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

short-term, both in the initial valuation and in the subsequent valuation, are valued at their nominal value, since the effect of updating the cash flows is not significant.

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

(m) Foreign currency transactions

Monetary entries

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

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

(n) Revenue and expenses

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

Revenue from sales and provision of services

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

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

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

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



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Revenue from interest

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

Compensation for dismissal

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

(o) Liabilities for remunerations to staff

Pension supplements

During the 2000 financial year, the Parent Company created a pension plan to supplement the employee benefits under public-sector social security and government pension schemes. This fixed-contribution pension plan for the sponsor is governed by the provisions in Legislative Royal 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 the Royal Decree 304/2004 of 20 February enacting the Pension Regulations and its subsequent amendments.

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

As of 31 December 2014, the Parent Company had no additional commitment to the participants in the above scheme other than the sums effectively contributed from the date of the creation of the plan. The total amount of the contributions made by the Parent Company since the 2000 financial year, when the fund was created, amount to 125,556 thousand euros.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Retirement bonuses

The various collective bargaining agreements in force by geographic 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).

As of 31 December 2014, Correos Express Paquetería Urgente, S.A. had a policy contracted with an insurance company to meet the hypothetical liability that it could incur in meeting these long-service awards in the future, since this does not exist at present. The Parent Company Directors believe that any additional liabilities not covered by the aforesaid policy that could arise from the guarantees given to the workers of its subsidiary, should there be any, would not be in any way significant.

(p) Current and deferred taxes

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

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

Due to the integration of the Correos Group in the Sociedad Estatal de Participaciones Industriales 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.

The Fiscal Group No. 9/86 is constituted by the Sociedad Estatal de Participaciones Industriales and the companies residing in Spain that are part of the consolidated financial group under the provisions of articles 42 et seqq. of the Commercial Code according to the provisions in Act 5/1996 of 1 January, on the Creation of Certain Public Law Entities.

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 also include any other adjustment corresponding to previous financial years. They are registered under the balance sheet heading "Debts, group companies and associates" and "Short-term debts with group and associated companies" respectively, as the entity having to pay is the Parent Company of the Consolidated Fiscal Group, i.e. SEPI.

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

The Correos Group always recognises the corresponding liabilities from deferred tax when they arise.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

The 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, inasmuch as the likely result 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 assets”, their recoverability is evaluated annually to determine future tax profits in the maximum compensation term as set out in the effective regulations. In this sense and regardless of the consolidated taxation, the Parent Company of the consolidated fiscal group to which the companies of the Correos Group belong admits 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 profit and loss account, 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 No. 9/86 are acquired by SEPI at a rate of 28%. Each Company evaluates annually the recovery of another 2% to reach the general rate of 30% in its estimated generation of future tax profit.

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

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

Government contributions, donations, non-refundable legacies and compensations received by the Parent Company for the provision of the UPS for the acquisition of certain items, are recorded in a specific entry for consolidated net assets once the relevant tax effect has been deducted, on the understanding that this complies and will comply with the requirements necessary for them to be considered non-refundable.

Non-refundable compensations received by the Parent Company as capital contributions to offset the costs derived from provision of the UPS are allocated to the consolidated profit and loss account during the period of time equivalent to the service life of the components of the fixed assets financed with said contributions, unless these assets are transferred, depreciate or are eliminated, in which case they are allocated to the consolidated profit and loss account, either totally or according to the theoretical percentage of the deterioration of the assets covered by the contributions, at such time as this occurs. The allocation to the consolidated profit and loss account of the compensations used for the financing of land is deferred until the financial year in which their transfer or depreciation takes place.

The compensations received as operating contributions to offset the costs derived from provision of the UPS are allocated by the Parent Company as revenue in the profit and loss account in the examination period, regardless of collection.

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



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

(r) Transactions with related parties

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

(s) Value added tax

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

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

Article 22.2 of Act 43/2010, establishes, with effect from 1 January 2011, that the operator designated by the State to provide the Universal Postal Service is exempt from paying tax on its Universal Postal Service activities, with the exception of Corporation Tax. As regards the value added tax, the application of this legislative change has resulted in an increased in the number of services considered exempt from VAT, whereas the regulations applicable until 31 December 2010 limited exemptions to the scope of the postal services reserved to said operator. As a result of decreasing the proportion of services subject to and not exempt from VAT out of the total number of services provided by the Parent Company, there was a significant reduction in the pro rata VAT deduction and, thus, an increase in the non-deductible VAT paid for acquisition of investment assets and goods and services subject to VAT.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

6. Intangible fixed assets

The detail of activity in the 2014 and 2013 financial years is as follows:

2014 Financial Year

	Balance at 01/01/2014	Additions	Disposals	Transfers	Balance at 31/12/2014
Cost					
Patents, licences and similar	344	-	-	-	344
Computer applications	185,639	18,209	(210)	-	203,638
Other intangible fixed assets	421	81	-	-	502
Total cost	186,404	18,290	(210)	-	204,484
Accumulated amortisation					
Patents, licences and similar	(344)	-	-	-	(344)
Computer applications	(168,992)	(8,325)	211	-	(177,106)
Other intangible fixed assets	(173)	(36)	-	-	(209)
Total accumulated amortisation	(169,509)	(8,361)	211	-	(177,659)
Net value	16,895				26,825

The item "Computer applications" records the amounts paid by the 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 main registrations seen during the financial year correspond to investments made by the Parent Company to acquire user licences and new IT programs, in addition to the updates to others, for sums of 8,488 and 8,368 thousand euros respectively (and the investment registered for the same items during the 2013 financial year being 10,100 and 1,478 thousand euros).



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

2013 Financial Year

	Balance at 01/01/2013	Additions	Disposals	Transfers	Balance at 31/12/2013
Cost					
Patents, licences and similar	344	-	-	-	344
Computer applications	173,427	12,333	(121)	-	185,639
Other intangible fixed assets	421	-	-	-	421
Total cost	174,192	12,333	(121)	-	186,404
Accumulated amortisation					
Patents, licences and similar	(336)	(8)	-	-	(344)
Computer applications	(162,640)	(6,432)	80	-	(168,992)
Other intangible fixed assets	(159)	(14)	-	-	(173)
Total accumulated amortisation	(163,135)	(6,454)	80	-	(169,509)
Adjustments for depreciation					
Computer applications	(44)	-	44	-	-
Net value	11,013				16,895

The cost of the wholly amortised items that formed part of the intangible fixed assets of the Correos Group at 31 December 2014 amounts to 166,001 thousand euros (160,631 thousand euros in 2013).

At 31 December 2014, the Parent Company held binding agreements for the acquisition of IT applications and evolutionary enhancements to IT systems for the sum of 23,214 thousand euros (29,527 thousand euros in 2013). On that date there were no binding agreements of sale involving any intangible assets owned by the Correos Group.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

7. Tangible fixed assets

The detail of activity in the 2014 and 2013 financial years is as follows:

2014 Financial Year

	Balance at 01/01/2014	Recordings and provisions	Disposals	Transfers	Balance at 31/12/2014
Cost					
Land	378,740	397	(38)	1,348	380,447
Buildings	1,422,346	4,326	(4,648)	11,837	1,433,861
Plant and other tangible fixed assets	709,060	34,530	(38,984)	3,395	708,001
Fixed assets in progress and advance payments	47,200	10,096	-	(17,886)	39,410
Total cost	2,557,346	49,349	(43,670)	(1,306)	2,561,719
Accumulated depreciation					
Buildings	(412,506)	(33,866)	2,355	240	(443,777)
Plant and other tangible fixed assets	(551,830)	(39,572)	37,671	(7)	(553,738)
Total accumulated amortisation	(964,336)	(73,438)	40,026	233	(997,515)
Adjustments for depreciation					
Land and buildings	(103,069)	(17,631)	1,063	2,411	(117,226)
Plant and other tangible fixed assets	(2,963)	-	99	(1)	(2,865)
Fixed assets in progress and advance payments	(13,372)	-	-	(2,410)	(15,782)
Total adjustments for depreciation	(119,404)	(17,631)	1,162	-	(135,873)
Net value	1,473,606				1,428,331



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

The most significant recordings made under the headings “Land”, “Buildings”, and “Circulating fixed assets and advances” during the financial year correspond to the Parent Company, and refer to the reform and adaptation of existing premises and to the investments made at different logistics centres for the postal processing and distribution for sums of 7,617 and 2,226 thousand euros respectively (6,520 and 7,645 thousand euros respectively during the 2013 financial year).

2013 Financial Year

	Balance at 01/01/2013	Recordings and provisions	Disposals	Transfers	Balance at 31/12/2013
Cost					
Land	368,473	1,691	(141)	8,717	378,740
Buildings	1,396,367	5,006	(8,140)	29,113	1,422,346
Plant and other tangible fixed assets	706,544	22,654	(22,852)	2,714	709,060
Fixed assets in progress and advance payments	72,731	13,000	-	(38,531)	47,200
Total cost	2.544.115	42.351	(31.133)	2.013	2.557.346
Accumulated depreciation					
Buildings	(381,121)	(33,758)	2,664	(291)	(412,506)
Plant and other tangible fixed assets	(528,879)	(45,422)	22,387	84	(551,830)
Total accumulated amortisation	(910.000)	(79.180)	25.051	(207)	(964.336)
Adjustments for depreciation					
Land and buildings	(95,150)	(3,894)	3,626	(7,651)	(103,069)
Plant and other tangible fixed assets	(3,181)	(25)	243	-	(2,963)
Fixed assets in progress and advance payments	(21,174)	-	140	7,662	(13,372)
Total adjustments for depreciation	(119.505)	(3.919)	4.009	11	(119.404)
Net value	1.514.610				1.473.606



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

In 2013, in the heading “Land and buildings” the Parent Company recorded 2,516 thousand euros, representing the market value of a building registered in the Company’s name in the 2013 financial year (see Note 14).

The heading “Plant and other tangible fixed assets” includes the plant investments made at the properties used by the Group (whether or not it owns them), together with the investments made in machinery, IT equipment, transport elements and furnishings. The most significant recordings made under this heading during the financial year were the acquisition by the Parent Company of IT equipment, transport equipment, machinery and furnishings for a total of 15,830, 6,734, 5,020, and 3,286 thousand euros respectively (9,648, 4,660, 1,731 and 2,871 thousand euros respectively in the 2013 financial year).

Of the total sum for disposals of tangible fixed assets, 33,327 thousand euros correspond to fully amortised elements that were disposed of by the Parent Company, mainly IT equipment, machinery, furniture and technical facilities (the Parent Company disposed of wholly amortised material elements amounting to 19,531 thousand euros during the 2013 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 depreciation of the assets included under the heading tangible fixed assets was recorded as per the value in use, as stipulated in the abovementioned Order. In this regard, the Parent Company compared the book value of the assets with their recoverable amount by using the value in use method, determined with reference to their depreciated replacement cost.

The depreciated replacement cost is calculated using the sum of the following components:

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

By comparing the depreciated replacement cost with the net book value of the assessed assets, a depreciation of 16,871 thousand euros (3,819 thousand euros in the 2013 financial year) has been confirmed, which in turn has been recorded in the consolidated profit and loss account for 2014. Totals of 16,302 thousand euros and 569 thousand euros were recorded in the “Tangible fixed assets” and “Non-current assets held for sale” headings.

The Parent Company also reverted 493 thousand euros of deterioration as a result of the removal of two buildings it had intended to leave (2,271 thousand euros in the 2013 financial year).



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

As of 31 December 2014, the Parent Company had signed contracts to purchase tangible fixed assets worth 15,483 thousand euros (29,731 thousand euros in the 2013 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 intangible fixed assets of the Correos Group as of 31 December 2014 amounts to 424,858 thousand euros (399,833 thousand euros as of 31 December 2013).

The net book value of the dwellings, premises and plots of land making up the tangible fixed assets of the Parent Company not involved in the operation amounts to 46,337 thousand euros (53,037 thousand euros as of 31 December 2013), and their acquisition cost was 77,154 thousand euros (79,963 thousand euros at 31 December 2013).

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



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

8. Property investments

The detail of activity in the 2014 and 2013 financial years is as follows:

	Balance at 01/01/2013	Recordings and provisions	Transfers	Balance at 31/12/2013	Recordings and provisions	Transfers	Balance at 31/12/2014
Cost							
Land	1,364	-	(298)	1,066	-	76	1,142
Buildings	4,742	-	(1,408)	3,334	1	1,420	4,755
Total cost	6.106	-	(1.706)	4.400	1	1.496	5.897
Accumulated amortisation							
Buildings	(863)	(69)	120	(812)	(76)	(302)	(1,190)
Adjustments for depreciation							
Land and buildings	(91)	-	(11)	(102)	(3)	-	(105)
Net book value	5.152			3.486			4.602



The property investments correspond to premises that the Parent Company has leased to third parties. The income from these contracts recorded in the consolidated profit and loss account has amounted to 289 thousand euros in the 2014 financial year, (314 thousand euros in the 2013 financial year).

The costs associated with property investments fundamentally correspond to those relating to their annual amortisation and maintenance costs. The latter reached 154 thousand euros during the financial year (94 thousand euros during the previous financial year). All of these expenses were recorded in the consolidated profit and loss account based on the accrual principle.

There are no restrictions on property investments or on the collection of the income deriving from these or from the resources obtained from their transfer or disposal by other means, apart from those mentioned in Note (1) of this report under “Parent Company Activity”.

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

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

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

	2014 Financial Year	2013 Financial Year
Up to one year	304	167
Between one and five years	606	304
	910	471



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

9. Non-current assets held for sale

The detail and movement under this heading during the 2014 and 2013 financial years was as follows:

2014 Financial Year

	Balance at 01/01/2014	Recordings and provisions	Disposals	Transfers	Balance at 31/12/2014
Cost					
Land	8,940	-	(554)	(210)	8,176
Buildings	19,562	-	(975)	21	18,608
Other installations	1,125	-	(241)	(1)	883
Total cost	29.627	-	(1.770)	(190)	27.667
Accumulated amortisation					
Buildings	(5,737)	-	288	68	(5,381)
Other installations	(664)	-	221	1	(442)
Total accumulated amortisation	(6.401)	-	509	69	(5.823)
Adjustments for depreciation					
Land and buildings	(3,044)	(1,254)	6	-	(4,292)
Net book value	20.182				17.552



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

At the close of 2014, the Parent Company classified 17,291 thousand euros (19,921 thousand euros in the 2013 financial year) under the heading “Non-current assets held for sale”, corresponding to the investments in land, built assets and property assets owned by the Company included in a disposal plan approved by the Parent Company’s Directors in the 2012 financial year.

The Parent Company is currently conducting activities to execute the sale plan approved by the Governing Board. In the 2014 financial year the Parent Company disposed of assets by sale worth 1,770 thousand euros and an accumulated amortisation of 509 thousand euros (against 1,671 thousand euros and 370 thousand euros respectively in the 2013 financial year).

2013 Financial Year

	Balance at 01/01/2013	Recordings and provisions	Disposals	Transfers	Balance at 31/12/2013
Cost					
Land	9,524	-	(584)	-	8,940
Buildings	20,859	-	(1,054)	(243)	19,562
Other installations	1,222	-	(33)	(64)	1,125
Total cost	31.605	-	(1.671)	(307)	29.627
Accumulated amortisation					
Buildings	(6,105)	-	338	30	(5,737)
Other installations	(753)	-	32	57	(664)
Total accumulated amortisation	(6.858)	-	370	87	(6.401)
Adjustments for depreciation					
Land and buildings	(3,049)	-	5	-	(3,044)
Net book value	21.698				20.182



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

10. Inventories

Details of this item as of 31 December 2014 and 2013 is as follows:

	Balance at 31/12/2014	Balance at 31/12/2013
Stock valued at cost		
Stamps in the possession of third parties	886	1,580
Stamps at company offices and warehouses	1,603	1,898
Collectors' Stamps	1,944	1,379
Other stocks	1,725	1,277
	6.158	6.134
Valuation adjustments for depreciation	(2.937)	(3.198)
	3.221	2.936

The movement of the valuation adjustments for depreciation of stock during the 2014 and 2013 financial years is as follows:

Valuation adjustments

	Stamps	Others	Total
Balance at 1 January 2013	3.957	21	3.978
Valuation adjustments for depreciation	791	30	821
Reversal of valuation adjustments	(524)	-	(524)
Application against cost of stock	(1,062)	(15)	(1,077)
Balance at 31 December 2013	3.162	36	3.198
Valuation adjustments for depreciation	1,650	42	1,692
Reversal of valuation adjustments	(450)	-	(450)
Application against cost of stock	(1,503)	-	(1,503)
Balance at 31 December 2014	2.859	78	2.937

The Correos Group has maintained valuation adjustments for depreciation of stamps for a value of 2,859 thousand euros (3,162 thousand euros in 2013) in cases in which it was estimated that its net realisable value was lower than its book value.

Periodically, the Parent Company destroys those stocks of stamps whose age and/or the reason for their issue make their use impossible. For that reason, completely depreciated stamps worth 1,503 thousand euros were destroyed over the financial year (1,077 thousand euros in 2013).



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

11. Current financial assets

The composition of the Correos Group short-term financial assets as of 31 December 2014 and 2013, 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 31/12/2014	Balance at 31/12/2013
Trade debtors and other receivables		
Client for sales and services provided	277,246	298,511
Clients, group companies and associates (Note 20)	53	48
Other debtors	420,976	350,232
Debts, group companies and associates (Note 20)	1,112	2,630
Staff	10,452	9,995
Current tax assets (Note 18)	-	2
Government bodies (Note 18)	260	133
	710,099	661,551
Short-term financial investments		
Deposits and guarantees	5,355	6,501

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

11.1.) Trade debtors and other receivables

The headings “Client for sales and services provided” and “Other debtors” include 87,795 thousand euros in fees to be collected by the Parent Company from third-country postal operators for the provision of postal and telegraph services (which stood at 59,975 thousand euros as of 31 December 2013).

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

“Other debtors” includes 405,000 thousand euros (336,724 thousand euros in the 2013 financial year), corresponding to the balance at 31 December 2014 for compensation of costs derived from provision of the UPS in previous financial years pending liquidation, which the Parent Company expects to receive in the short term. According to a communication sent by the *Dirección General del Tesoro y Política Financiera del 10 de marzo de 2009* (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)).



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

The headings “Client for sales and services provided” and “Other debtors” are shown as net valuation adjustments for depreciation, with activity taking place during the 2014 and 2013 financial years being as follows:

Valuation adjustments

	Clients	Debtors	Total
Balance at 1 January 2013	17,646	1,141	18,787
Valuation adjustments for depreciation	8,214	4	8,218
Reversals of valuation adjustments	(7,199)	-	(7,199)
Balance at 31 December 2013	18,661	1,145	19,806
Valuation adjustments for depreciation	5,866	6,215	12,081
Reversals of valuation adjustments	(6,233)	-	(6,233)
Balance at 31 December 2014	18,294	7,360	25,654

Under the item “Losses, depreciation and variation of provisions for commercial operations” of the consolidated profit and loss account, the Correos Group recorded an expense of 1,333 thousand euros due to a direct cancellation of defaulting debts (having registered an expense of 1,478 thousand euros for this same item during the 2013 financial year).

11.2.) Short-term financial investments

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

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

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

11.3.1) Credit risks

A credit risk 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.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

The maximum exposure to credit risk of the Correos Group at 31 December 2014 and 2013 is as follows:

	Parent Company		Rest of companies of the Group		Total Correos Group	
	Balance at 31/12/2014	Balance at 31/12/2013	Balance at 31/12/2014	Balance at 31/12/2013	Balance at 31/12/2014	Balance at 31/12/2013
Long term financial investments	112,910	460	990	999	113,900	1,459
Clients for sales and Services providers	239,529	262,063	37,717	36,448	277,246	298,511
Other debtors (Note 11)	420,652	350,196	324	36	420,976	350,232
Short-term financial investments	5,297	6,428	58	73	5,355	6,501
Short-term deposits	50,000	-	-	-	50,000	-
Banks and lending institutions	125,974	82,095	1,848	1,798	127,822	83,893
	954.362	701.242	40.937	39.354	995.299	740.596

In the 2014 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 518,000 thousand euros (in 2013 it recognised 269,118 thousand euros corresponding to payment of compensation of costs derived from the UPS in the 2009 and 2010 financial years). As explained in Note 11.1), the Parent Company has classified 405,000 thousand euros as current right to charge as it deems it receivable in the short term (336,724 thousand euros in the 2013 financial year) and 113,000 thousand euros as non-current assets.

In the 2014 income statement, the Parent Company has recognised an adjustment for depreciation of 562 thousand euros in the rights to charge for compensation of costs derived from the UPS recognised for the long term (in the 2013 financial year it recorded a depreciation of 4,579 thousand euros). This adjustment was caused by the financial cost incurred by the Company by postponing charging the registered compensations for the costs derived from providing the UPS, estimated at the close of the 2014 financial year. The discount rate is equal to the remuneration the Parent Company would receive if these funds were put into national strongly solvent financial entities.



	Balance at 31/12/2014	Balance at 31/12/2013
Long term financial investments		
Long-term debts owed with government bodies – UPS cost compensation (Note 18)	113,000	-
Valuation adjustments for depreciation	(562)	-
Other financial investments	1,462	1,459
	113,900	1,459
Trade debtors and other receivables		
Other debtors - UPS cost compensation (Note 18)	405,000	336,724
Other debtors - rest	15,976	13,508
	420,976	350,232

The “Other financial investments” heading includes 15,194 euros which correspond exclusively to the acquisition of shares in the International Postal Corporation (IPC) by the Parent Company.

The different companies in the 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 these contracts are classified according to the amount of the loan.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

The breakdown of the concentration of credit risks per counterpart under the “Clients for sales and services provided” and “Other debtors” sections of the Correos Group at 31 December 2014 and 2013 is as follows:

	2014 Financial Year				2013 Financial Year			
	Parent Company		Rest of companies		Parent Company		Rest of companies	
	Number	Thousands of Euros	Number	Thousands of Euros	Number	Thousands of Euros	Number	Thousands of Euros
Clients and trade debtors								
With balance greater than 1,000 thousand euros	30	63,887	-	-	36	102,409	4	5,749
With balance between 500 and 1,000 thousand euros	28	20,374	-	-	37	26,725	6	3,675
With balance below 500 thousand euros	20,692	73,208	6,993	37,680	19,087	78,904	6,322	27,060
	20,750	157,469	6,993	37,680	19,160	208,038	6,332	36,484
Foreign postal operators	229	87,795	-	-	218	59,975	-	-
Other debtors - UPS cost compensation (Note 11)	-	405,000	-	-	-	336,724	-	-
Other financial assets	-	9,917	1	361	-	7,522	-	-
		502,712		361		404,221		-
		660,181		38,041		612,259		36,484



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

At 31 December 2014 and 2013, the breakdown of the “Clients” and “Foreign postal operators” of the Correos Group companies by debt seniority was as follows:

	2014 Financial Year			2013 Financial Year		
	Parent Company		Rest of Group Companies	Parent Company		Rest of Group Companies
	Clients	Foreign postal operators	Clients	Clients	Foreign postal operators	Clients
Not due	67.555	40.802	28.788	84.198	36.132	28.873
Due, non-doubtful:						
Less than 30 days	41,084	134	4,144	23,969	220	2,530
Between 30 and 60 days	23,799	260	1,579	24,760	249	1,456
Between 60 and 90 days	12,026	56	737	9,366	83	119
Between 90 and 120 days	4,317	158	480	6,377	60	485
Over 120 days	8,688	33,628	1,952	59,368	12,591	3,021
Provisional payments	-	12.757	-	-	10.640	-
	157.469	87.795	37.680	208.038	59.975	36.484
Doubtful clients	11.972	1.143	4.719	9.797	1.159	4.713
Adjustments for depreciation	(11.972)	(1.143)	(4.719)	(9.797)	(1.159)	(4.713)
	157.469	87.795	37.680	208.038	59.975	36.484



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Receivables to be paid by clients of the Parent Company outstanding for more than 120 days and not considered bad debt for 8,688 thousand euros (59,368 thousand euros in 2013) correspond to receivables from public institutions.

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

The Parent Company streamlined the cash flow surpluses during the 2014 financial year by actively managing the funds deposited in current accounts in strongly solvent national financial entities. Over the course of the 2014 financial year, the Parent Company also lent cash flow to its sole shareholder (SEPI), payable in less than three months at market interest rates (See Notes 12 and 17 h)).

11.3.2) Market risk

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

Given that practically all financial assets of the 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 the 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 2014 stood at 21,955 thousand euros payable (3,344 thousand as of 31 December 2013), the Parent Company's Directors do not consider this risk significant.

11.3.3) Liquidity risks

A liquidity risk occurs due to the possibility of the 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 list of the short-term financial assets and liabilities of the Group at 31 December 2014 and 2013, and, by difference, its ability to meet its payment obligations in the short-term, are as follows:

	Balance at 31/12/2014	Balance at 31/12/2013
Short-term financial assets		
Clients for sales and services provided	277,246	298,511
Other debtors	420,976	350,232
Financial investments	5,355	6,501
Cash and other liquid resources	221,066	126,518
Short-term financial liabilities		
Short-term debts	(17,247)	(26,207)
Trade creditors and other accounts payable	(321,458)	(297,865)
Difference	585,938	457,690

12. Cash and other equivalent liquid resources

Details of this item as of 31 December 2014 and 2013 are as follow:

	Balance at 31/12/2014	Balance at 31/12/2013
Cash		
Cash	43,244	42,625
Cash	127,742	83,759
Bank and leading institutions		
Short-term deposits (Notes 11.3.1) and 20]	50,000	-
Accrued interest not due:		
From group companies (Notes 11.3.1) and 20]	10	-
From third parties	70	134
	221,066	126,518



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

13. Shareholders' Equity

The list of movements of the Correos Group equity is shown in the consolidated Net Assets Changes Statement, which is an integral part of the consolidated annual report.

a) Declared capital

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

b) Share premium

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

The Parent Company's share premium was 250,938 thousand euros at 31 December 2014 and 2013.

c) Reserves

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

The Legal Reserve can only be used to increase the Share Capital in the part of its balance that exceeds 10% of the capital already increased. Except for the purpose mentioned above, and until it exceeds 20% of the Share Capital, this reserve will only be used to offset losses, provided that there are no other sufficient reserves available for this purpose.

Under the Parent Company's Articles of Association, the Company must allocate 20% of the profits from each year to constitute the reserves required by the Articles of Association. As of 31 December 2013, these reserves may be freely disposed of as decided by the Directors of the Parent Company pursuant to article 36 of its Articles of Association. As of 31 December 2014, the Statutory Reserves totalled 173,790 thousand euros while the Voluntary Reserves stood at 362,992 thousand euros (at 31 December 2013, 164,188 thousand euros and 355,452 thousand euros, respectively).



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

d) Reserves in consolidated companies

The breakdown as of 31 December 2014 and 2013 is as follows:

	Balance at 31/12/2012	Result 2012	Dividend	Balance at 31/12/2013	Result 2013	Dividend	Others	Balance at 31/12/2014
C. Telecom, S.A.	4,245	1,757	(1,757)	4,245	1,688	(1,688)	-	4,245
Nexea G.D., S.A.	(592)	(2,676)	-	(3,268)	(1,228)	-	(391)	(4,887)
C. Express P.U., S.A.	(182,975)	(12,563)	-	(195,538)	(1,663)	-	-	(197,201)
	(179,322)	(13,482)	(1,757)	(194,561)	(1,203)	(1,688)	(391)	(197,843)

This caption also includes the Parent Company's Other Reserves, reflecting the reserves generated by certain consolidation adjustments in the past for 207,559 thousand euros (203,803 thousand euros in the 2013 financial year), and particularly the elimination of the provision for amortisation of financial investments and accumulated amortisations of consolidation goodwill, resulting from the acquisition of 100% of Correos Express Paquetería Urgente, S.A.

e) Consolidated results of the Correos Group

The Correos Group's consolidated profit for the 2014 and 2013 financial years is as follows:

2014 Financial Year

	Individual results	Consolidation adjustments	Consolidated results
Correos y Telégrafos, S.A.	201,646	(5,549)	196,097
Correos Telecom, S.A.	1,302	-	1,302
Nexea Gestión Documental, S.A.	(1,282)	278	(1,004)
Correos Express Paquetería Urgente, S.A.	(2,504)	-	(2,504)
	199,162	(5,271)	193,891



2013 Financial Year

	Individual results	Consolidation adjustments	Consolidated results
Correos y Telégrafos, S.A.	48,012	1,998	50,010
Correos Telecom, S.A.	1,688	-	1,688
Nexea Gestión Documental, S.A.	(1,228)	(390)	(1,618)
Correos Express Paquetería Urgente, S.A.	(1,663)	-	(1,663)
	46.809	1.608	48.417

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

The detailed movement of the compensation received as government contributions from the Parent Company in 2014 and 2013 are as follows:

2013 Financial Year

	Thousands of euros
Initial balance at 1 January 2013	305.628
Government contributions, donations and legacies recognised	2,516
Tax effect	(755)
Allocation to the profit and loss account:	
due to amortisation	(22,415)
due to adjustments for depreciation	(865)
due to disposals	(1,048)
Tax effect	7,298
Final balance at 31 December 2013	290.359



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

2014 Financial Year

Thousands of euros

Initial balance at 1 January 2014	290,359
Government contributions, donations and legacies recognised	-
Tax effect	-
Allocation to the profit and loss account:	
due to amortisation	(18,633)
due to adjustments for depreciation	(4,346)
due to disposals	(1,232)
Tax effect	7,263
Fiscal effect - exchange rate (Notes 4p) and 18)	19,049
Final balance at 31 December 2014	292,460

The Parent Company valued the liabilities from deferred tax resulting from capital compensations received in previous financial years at the tax rates expected at the time they were revised, according to regulation at 31 December 2014, and recorded lower liabilities from deferred tax, standing at 19,049 thousand euros, which was acknowledged in the Company's net assets (see Note 4p), 18 and Total statement of changes in the consolidated net assets).

In the financial year 2013, in the heading "government contributions, donations, legacies and compensations received for costs derived from providing the UPS" the Parent Company recorded 2,516 thousand euros, corresponding to the market value of a building registered in the Company's name in financial year 2013 (see Note 7).

15. Long-term and short-term provisions

The provisions for the financial year, amounting to 2,304 thousand euros, have been charged to the consolidated profit and loss account according to their type (11,593 thousand euros in 2013).

The origin of these charges lies in court decisions that have been unfavourable for the Correos Group during the financial year 2014 and which have involved the effective payment of certain amounts and charging the relevant provisions to the consolidated profit and loss account, depending on the nature of Action.

The reversions for the financial year, amounting to 14,662 thousand euros, have been charged to the consolidated profit and loss account according to their type (5,556 thousand euros in 2013).

Provision for claims from the staff

The balance of this provision as of 31 December 2014 records the estimated sums to be paid for claims and court actions in labour-law proceedings against the Correos Group.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Provision for court actions

The balance of this provision at 31 December 2014 chiefly reflects the estimated payable amounts from the penalty proceedings before the CNMC against the Parent Company, against which the latter has appealed, and the estimated amounts to handle possible claims for damages that may be caused by unfavourable sentences in the area of competition.

The itemised list of long-term and short-term provisions for the 2014 and 2013 financial years was as follows:

	Long-term provisions				Total	Provisions to short-term
	Provision for taxes	Provision for claims from the staff	Provision for court actions	Other provisions		
Balance at 1 January 2013	4,543	17,528	47,907	3,324	73,302	8,288
Provisions	1,603	3,531	5,235	48	10,417	1,176
Applications / payments	-	(1,712)	(5,216)	(456)	(7,384)	(1,372)
Reversals / excesses	(786)	(1,305)	(543)	(90)	(2,724)	(2,832)
Balance at 31 December 2013	5,360	18,042	47,383	2,826	73,611	5,260
Provisions	1,432	-	625	59	2,116	188
Applications / payments	(1,872)	(1,840)	(10,064)	-	(13,776)	(175)
Reversals / excesses	(213)	(3,093)	(10,355)	(808)	(14,469)	(193)
Balance at 31 December 2014	4,707	13,109	27,589	2,077	47,482	5,080



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

16. Financial liabilities

The composition of the Correos Group short-term financial liabilities as of 31 December 2014 and 2013, including balances with government bodies not considered financial instruments, was as follows:

	Balance at 31/12/2014	Balance at 31/12/2013
Short-term debts:		
Creditors for fixed assets	3,442	9,697
Money order deposits	5,658	5,591
Deposits and guarantees	7,416	7,060
Creditors for financial leasing	-	294
Other short-term debts	731	3,565
Total short-term debts	17,247	26,207
Short-term debts with group and associated companies (Note 20)	101,285	8,361

	Balance at 31/12/2014	Balance at 31/12/2013
Trade creditors and other accounts payable:		
Suppliers	2,723	2,257
Suppliers, group companies and associates (Note 20)	25	22
Other creditors	184,184	203,883
Staff (unpaid wages)	52,632	24,872
Other debts with government bodies (Note 18)	50,161	49,426
Customer advances	31,733	17,405
Total trade creditors and other accounts payable	321,458	297,865

The headings for financial instruments in the table above are considered “Debits and accounts receivable”.

“Money order deposits” include money orders accepted prior to 31 December 2014 and pending payment by the Parent Company to their recipients at that date.

The “Other creditors” heading includes amounts received by the Parent Company from third parties totalling 26,846 thousand euros (38,850 thousand euros in the 2013 financial year).

Likewise, the headings “Other creditors” and “Customer advances” include 65,840 thousand euros whose origin lies in pending payments to different third-country postal operators for postal and telegram services received from them (56,631 thousand euros as of 31 December 2013).



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Details of payments for trade operations carried out by the Group and pending payment at the close of the year as regards the maximum legal deadlines foreseen in Act 15/2010 are as follows for the years 2014 and 2013:

	2014 Financial Year		2013 Financial Year	
	Thousands of euros	%	Thousands of euros	%
Payments during the financial year within the legal maximum deadline	534,591	98%	497,643	98%
Rest	10,407	2%	9,285	2%
Total payments during the financial year	544,998	100%	506,928	100%
Average timeframe for late payments	34		38	
Pending balance of payments exceeding the legal maximum at the close of the year	1.625		1.491	

17. Revenue and expenses

a) Net turnover

The distribution of the Correos Group turnover corresponding to its ordinary activities by activity category, as well as by geographical markets, for the 2014 and 2013 financial years is as follows:

	2014 Financial year	2013 Financial year
Segmentation of activities by category		
Revenues for postal, telegraph and parcel services	1,639,184	1,658,491
Income from provision of services to third parties and provision of banking services	27,601	26,364
Revenues from money transfer	31,897	30,938
Sale of philatelic products	18,560	17,490
Others	14,782	13,714
Total	1.732.024	1.746.997
Segmentation by geographical markets		
National	1,732,024	1,746,997
Total	1.732.024	1.746.997



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

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 19,541 thousand euros (this figure was equivalent to 19,061 thousand euros in the 2013 financial year).

b) Procurement

The breakdown of the heading “Procurement” in the attached consolidated profit and loss account during the 2014 and 2013 financial years is as follows:

	2014	2013
	Financial year	Financial year
National purchases of merchandise		
Stamps and other franking signs	5,816	5,620
Other products	8,531	8,025
Changes in stock	(1,527)	(1,061)
Consumption of merchandise	12,820	12,584
Depreciation of merchandise, raw materials and other supplies	1,242	297
Work by other companies	151,904	154,818
Supplies	165,966	167,699

c) Compensations for costs derived from provision of the UPS

In the months of October and December 2014, the Ministry for Public Works transferred 518,000 thousand euros to the Treasury. This amount was assigned to the Parent Company in the Ministry for Public Works budget for provision of the Universal Postal Service to cover outstanding payments from previous financial years, within programme 491 Universal Postal Service, in the National Budget for the financial year 2014. In light of the above, in financial year 2014 the Parent Company recorded revenue of 518,000 thousand euros under this heading, as has been Correos’ accounting practice.

However, at the date these annual accounts were drafted, the resolutions on Correos’ analytical accounting for the 2013 and 2014 financial years and the determination of the net cost of the Universal Postal Services for the 2011, 2012, 2013 and 2014 financial years has yet to be released and approved by the National Markets and Competition Commission. Therefore, until said resolutions are issued and the net cost is determined, the advances paid by the Ministry for Public Works this year to cover past financial years cannot be considered final.

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

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



In financial year 2013, the *Subdirección General de Régimen Postal del Ministerio de Fomento* (Subdirectorate of Postal Regulation of the Ministry for Public Works) notified the decision taken by the Directors of the National Commission for the Postal Sector on Correos' analytical accounting, determining the net cost of the Universal Postal Service and the need to offset the costs derived from providing the UPS in the financial years 2009 and 2010. In light of the above, in the financial year 2013 the Parent Company recorded 147,987 thousand and 121,132 thousand euros corresponding to payments for provision of the UPS in the financial years 2009 and 2010, respectively.

Over the course of financial year 2014, the Parent Company has collected 336,724 thousand euros for compensation for costs derived from provision of the UPS in the previous financial years (139,919 thousand euros in financial year 2013). The pending amount for this item at the end of financial year 2014 was 518,000 thousand euros (see Notes 11.1), 11.3.1).

The Parent Company received other subsidies during financial year 2014, mainly for staff training, worth 171 thousand euros (in financial year 2013 it received 214 thousand euros for this item).

d) Staff costs

The breakdown of the heading "Staff costs" for the financial years ending at 31 December 2014 and 2013 is as follows:

2013 Financial Year	
Compensation for costs for provision of the UPS pending collection as of 1 January 2013	208,092
Compensation UPS costs collected	(139,919)
Payment compensation UPS costs 2009	147,987
Payment compensation UPS costs 2010	121,132
Regularisation compensation	(568)
Compensation for costs for provision of the UPS pending collection as of 31 December 2013	336,724
2014 Financial Year	
Compensation UPS costs collected	(336,724)
Outstanding payments compensation UPS costs 2011-2013	518,000
Compensation for costs for provision of the UPS pending collection as of 31 December 2014	518,000

	2014 Financial year	2013 Financial year
Wages, salaries and similar	1,170,340	1,175,306
Social security contributions	233,262	228,507
Other costs	9,375	8,924
	1,412,977	1,412,737



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

The social security contributions for financial years 2014 and 2013 do not include any amount for contributions to pension plans. On the basis of the provisions of article two of *Real Decreto 20/2011, de 30 de diciembre, de medidas urgentes en materia presupuestaria, tributaria y financiera para la corrección del déficit público* (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 ending at 31 December 2014 and 2013 is as follows:

	2014 Financial year	2013 Financial year
Leases	41,265	42,613
Repairs, preservation and maintenance	71,644	73,295
Independent professional services	46,894	42,292
Advertising, marketing and public relations	9,434	7,654
Procurement	39,667	42,788
International correspondence expenses	45,735	47,404
Other costs	50,249	55,568
	304,888	311,614

“Independent professional services” includes 6,691 thousand euros corresponding to the cost accrued for partner entities’ fees (6,476 thousand euros in 2013). These entities are retained by the Parent Company under contract to promote, disseminate, market and reinforce postal services on behalf of the Company, and to conduct collection, processing, franking, sorting and transport of postal items for deposit at Correos facilities. Likewise, this heading includes 18,680 thousand euros in security expenses at the Parent Company (19,688 thousand euros in 2013).

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

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

	2014 Financial year	2013 Financial year
Up to one year	21,005	24,610
Between one and five years	15,696	16,479
More than five years	24,835	28,289
	61,536	69,378



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

f) Taxes

Under the heading “Taxes” the Parent Company records, among other things, the effect of the restatement of the pro rata figure determined for investment assets (see Note 4-s). This restatement led to an expense in financial year 2014 of 1,130 thousand euros (1,077 thousand euros in financial year 2013).

Other taxes are also recorded, such as the property tax and other local taxes which cost the Parent Company 5,462 thousand and 2,269 thousand euros in financial year 2014 (5,717 thousand euros in financial year 2013).

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

The breakdown of this heading for the financial years ending at 31 December 2014 and 2013 is as follows:

2014 Financial Year

I. Non-current material and assets for sale

	Intangible fixed assets	Land and buildings	Other fixed assets	Plant	Total
Adjustments for depreciation:					
Provisions	-	17,617	-	-	17,617
Reversals	-	(459)	-	(96)	(555)
	-	17.158	-	(96)	17.062
Result from disposals and others:					
Profits	-	(748)	(1,731)	(398)	(2,877)
Losses	-	3,066	132	-	3,198
	-	2.318	(1.599)	(398)	321



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

2013 Financial Year

I. Non-current material and assets for sale

	Intangible fixed assets	Land and buildings	Other fixed assets	Plant	Total
Adjustments for depreciation:					
Provisions	-	3,951	-	25	3,976
Reversals	(43)	(580)	(208)	-	(831)
	(43)	3.371	(208)	25	3.145
Result from disposals and others:					
Profits	-	(2,208)	(72)	-	(2,280)
Losses	40	756	348	10	1,154
	40	(1.452)	276	10	(1.126)

h) Financial income and expenses

The breakdown of this heading for the 2014 and 2013 financial years is as follows:

	2014 Financial year	2013 Financial year
Financial income		
From group companies:		
Long-term creditors (Note 20)	337	190
From third parties:		
Other financial income	1,758	4,467
	2.095	4.657
Financial expenses		
From third parties:		
Other financial expenses	25	50
	25	50



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Over the course of the 2014 financial year, the Parent Company also lent cash flow to its shareholder (SEPI), payable in less than three months at market interest rates. The consequent revenue generated stood at 337 thousand euros in the 2014 financial year (190 thousand euros in financial year 2013).

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).

18. Tax situation

The detail of the balances held by the Group with government bodies as of 31 December 2014 and 2013 is as follows:

	Balance at 31/12/2014	Balance at 31/12/2013
Non-current liabilities		
Deferred tax liabilities	20,203	35,164
Long-term debts by government bodies (Note 11.3.1)	113,000	-
Valuation adjustments for depreciation (Note 11.3.1)	(562)	-
Total non-current liabilities with government bodies	132,641	35,164
Current liabilities		
Current tax liabilities	-	2
Other debtors - UPS cost compensation (Note 11.3.1)	405,000	336,724
Others (Note 11)	260	133
Total current liabilities with government bodies	405,260	336,859
	(Note 11)	(Note 11)
Non-current liabilities		
Deferred tax liabilities	97,884	124,151
Current liabilities		
Income Tax - [IRPF in Spanish]	18,896	18,752
Value added tax - IVA	5,588	5,249
Social security	22,093	22,009
MUFACE (public employee mutual soc.) and liability fees	2,792	3,015
Others	792	401
Total current liabilities with government bodies	50,161	49,426
	(Note 16)	(Note 16)



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

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

In the 2012 financial year, following the transfer of the shares of the Company to the public law entity SEPI (Sociedad Estatal de Participaciones Industriales), formalised by a deed dated 5 June 2012, all Companies of the Correos Group were integrated in the Consolidated Fiscal Group SEPI with the number 9/86 and the subsequent extinction of the Fiscal Group No. 38/11.

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 corporate tax payment for 2012 was made in compliance with the provisions in article 70.6 of the amended text of the Corporation Tax Act.

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

The Corporation Tax of each company of the Group is calculated using the financial or accounting result, obtained by applying the generally accepted accounting principles. These do not necessarily have to coincide with the fiscal result which is considered as the taxable base.

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

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

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

	2014 Financial Year	2013 Financial Year
Temporary differences:		
Provision for risks and charges	-	2,769
Provisions related to staff	3,155	810
Provisions related to fixed assets	1,036	1,073
Portfolio provision	-	9,802
Amortisation of fixed assets	16,286	8,346
Others	415	219
	20,892	23,019
Adjustment due to change to tax rate	(689)	-
Credits for negative tax bases	-	12,145
Deferred tax assets	20,203	35,164
Temporary differences:		
Tax effect of the compensations received as capital contributions	98,127	124,439
Other temporary adjustments	(243)	(288)
Deferred tax liabilities	97,884	124,151



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

The movement of assets due to temporary differences in the Corporate Tax during the 2014 and 2013 financial years is as follows:

2014 Financial Year

	Balance at 01/01/2014	Additions	Restatements	Other adjustments	Reversal	Balance at 31/12/2014
Temporary differences	117,215	36,901	-	(30,252)	(54,225)	69,639
Tax effect:						
Temporary differences	23,019	11,071	-	(9,765)	(4,122)	20,203
Credits for losses to be compensated	12,145	-			(12,145)	-
	35.164	11.071	-	(9.765)	(16.267)	20.203

2013 Financial Year

	Balance at 01/01/2013	Additions	Restatements	Other adjustments	Reversal	Balance at 31/12/2013
Temporary differences	116,676	29,728	-	-	(29,189)	117,215
Tax effect:						
Temporary differences	15,943	8,918	-	-	(1,842)	23,019
Credits for losses to be compensated	19,408	-	2	-	(7,265)	12,145
	35.351	8.918	2	-	(9.107)	35.164



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

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

	2014 Financial Year	2013 Financial Year
	Consolidated profit and loss account	Consolidated profit and loss account
Consolidated result before tax	286,761	63,781
Consolidation adjustments	2,416	1,607
Aggregate results before tax	289,177	65,388
Breakdown of aggregate results before tax:		
- Accounting basis	291,567	68,699
- Capitalised accounting basis (losses)	(4,806)	(4,918)
- Non-taxable accounting basis	2,416	1,607
	289,177	65,388
Theoretical tax charge	87,470	20,610
Tax credit	(1,346)	(1,377)
Non-calculable income	(506)	(1,094)
Non-deductible expenses	859	544
Deductions	(1,137)	(1,482)
Effective aggregated taxable (income)/expense	85,340	17,201
Breakdown effective aggregate taxable expense:		
Current taxes	81,182	18,949
Tax credit	(1,041)	(2,027)
Deferred taxes	5,198	279
Total effective aggregate taxable expense	85,339	17,201
Adjustment due to change to tax rate	2,202	
Adjusted estimated Corporate Tax	59	(230)
Consolidation adjustment	7,686	-
Aggregate Corporate Tax Expense	95,286	16,971



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

The calculated Corporation Tax pending payment and collection as of 31 December 2014 and 2013 is as follows:

	2014 Financial Year		2013 Financial Year	
	Tax current debtor	Tax current creditor	Tax current debtor	Tax current creditor
Aggregate current tax	(1,040)	81,182	(2,033)	8,192
Tax withholdings and prepayments	(333)	-	(597)	-

The conciliation of the consolidated book result with the taxable base for income tax as of 31 December 2014:

	Increases	Decreases
Aggregate result	-	286,762
Consolidation adjustments	-	2,415
Permanent differences:		
of each company	1,837	(1,636)
Temporary differences:		
of each company		
-Arising in the year	40,340	-
-Arising in previous years	-	(16,136)
of consolidation adjustments		
-Arising in the year		
-Arising in previous years		
Compensation of taxable amount 2011		(40,484)
Taxable base (tax result)	-	273,098

On 27 November 2014, Act 27/2014 on Corporate Tax was published in Official State Gazette. It came into force on 1 January 2015 and applies to all tax periods from that date onwards. In accordance with article 29.1 of this Act, the general tax rate has been reduced from 30% to 25%. Moreover, a number of other measures were also brought in on a temporary basis, including Temporary Provision Thirty-Four i) which establishes a general tax rate of 28% for tax periods beginning in 2015. In light of this, the Group Companies has recorded its deferred tax assets as of 31 December 2014 at



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

the expected rate at which they will be collected, as set out in the adjustment due to change to tax rate.

Under article 37 of Legislative Royal Decree 4/2004, of 5 March, approving the amended text of the Corporation Tax Act, regarding tax reductions due to reinvestment of profits on the transfer of tangible fixed assets, the Parent Company has acquired a duty to reinvest the full amount of the transfer of said tangible fixed assets, within the period of the previous year and the three years following the date of transfer of the assets. During the 2014 financial year, the Company has fully met its reinvestment commitment. The revenues benefiting from said deduction amount to 2,050 thousand euros (1,234 thousand euros in the 2013 financial year).

Current laws and regulations establish that taxes may not be deemed finally settled until filed tax statements have been inspected by the tax authorities or a statute of limitations of four years elapses. At 31 December 2014, the companies that make up the Correos Group had all applicable taxes since 1 January 2010 open to inspection by the tax authorities. The Parent Company's Directors do not expect significant additional liabilities to emerge in any inspection procedure.

Under the Corporation Tax Act in its version of Royal Decree Law 9/2011, of 19 August, and effective for the financial years starting from 1 January 2012, if a taxable base is found to be negative, its amount may be offset within the eighteen financial years following the year of the loss; the amount of the offset may be distributed as the taxpayer sees fit. This term also applies for negative tax amounts that are pending compensation at 1 January 2014. The offset must be made upon filing the Corporate 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 the 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 2014, the Group's companies had negative tax bases of 198,875 thousand euros to offset against future fiscal benefits.



19. Other information

a) Number of employees

The breakdown of the Group's average staff by number of employees during the 2014 and 2013 financial year was as follows:

	2014 Financial Year	2013 Financial Year
Management Committee	14	13
Rest of workforce:		
Civil servants	17,743	19,166
Employees under ordinary contracts	34,757	35,377
	52.514	54.556

As of 31 December 2014 and 2013, the number of employees of the Correos Group broken down by job categories and gender was as follows:

	Data at 31/12/2014			Data at 31/12/2013		
	Men	Women	Total staff	Men	Women	Total staff
Management Committee	13	1	14	12	1	13
Rest of workforce:						
Civil servants	12,025	5,053	17,078	13,214	5,355	18,569
Employees under ordinary contracts	14,436	19,536	33,972	14,604	19,727	34,331
	26.474	24.590	51.064	27.830	25.083	52.913



The average workforce of the Group with disabilities of 33% or more during the 2014 and 2013 financial years was as follows:

	2014 Financial Year	2013 Financial Year
Civil servants	440	484
Employees under ordinary contracts	520	503
	960	987

b) Commitments and contingencies

At 31 December 2014, the guarantees provided on behalf of the Correos Group by various banks came to 63,122 thousand euros (46,055 thousand euros at 31 December 2013). The Parent Company Directors 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 *Ley 5/1996, de 10 de enero, de Creación de determinadas Entidades de Derecho Público* (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 billed to the companies in the Correos Group, or pending billing, by PricewaterhouseCoopers Auditores, S.L., and its associated companies as listed in Additional Provision Fourteen of the *Ley de Medidas de Reforma del Sistema Financiero* ("Financial System Reform Act"), for the provision of professional services over the financial year, are itemised below:

	2014 Financial Year	2013 Financial Year
For auditing services	129	129
For other services	-	16
Total	129	145



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

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 the Correos Group maintains with companies of the SEPI Group at 31 December 2014 and 2013 are as follows:

	Clients, companies of the group		Suppliers, companies of the group		Inter-SEPI cash flow	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
SEPI	1	1	-	-	50,010	-
SEPI Group, remainder	52	47	25	22	-	-
	53	48	25	22	50.010	-
	(Note 11)	(Note 11)	(Note 16)	(Note 16)	(Note 12)	

The cross credits and debits corresponding to the operation of the Fiscal Group (see Note 18) are described below:

Balances Fiscal Group No. 9/86

	Debtors, companies of the group		Debts, companies of the group	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
SEPI	1,112	2,630	80,922	8,193
	1.112	2.630	80.922	8.193
	(Note 18)	(Note 18)	(Note 18)	(Note 18)



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

The transactions with the companies of the SEPI Group in the 2014 financial year are as follows:

	Revenue Provision of services		Operating costs	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
SEPI	4	4	-	-
SEPI Group, remainder	265	303	40	71
	269	307	40	71

	Financial Revenue		Distribution of Dividends	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
SEPI	337	190	26,000	-
	337	-	26.000	-
	(Note 17h)	(Note 17h)	(Note 4)	

b) Directors and senior management of the Parent Company

The members of the Directors 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 Directors and the Management Committee of the Parent Company did not participate, either directly or indirectly, in unusual and/or relevant transactions with the Correos Group companies during the 2014 and 2013 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 2014 financial year by members of the Parent Company's Directors and Management Committee totalled 1,960 thousand euros (1,798 thousand euros in 2013), 154 thousand of which correspond to allowances paid to members of the Directors of the Parent Company for attending Board meetings (160 thousand in 2013); the rest was paid as salaries and/or other pay items (including compensation) to the members of the Management Committee of the Parent Company.

As of 31 December 2014, no member of the Parent Company's Directors 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.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Other information regarding the Directors

In order to avoid conflicts with the interests of the Group of Companies, the directors holding positions on the Directors 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 writing these annual accounts, the Directors of the Parent Company were made up of 9 men and 6 women.

21. Segment results

The Correos Group' segment results for the 2014 and 2013 financial years are as follows:

2014 Financial Year

	Postal, telegraph and parcel sector	Urgent parcel sector and others	Portfolio adjustment	Total
Net turnover	1,590,494	141,530	-	1,732,024
Procurement	(85,732)	(80,234)	-	(165,966)
UPS cost compensation	518,171	-	-	518,171
Staff costs	(1,370,785)	(42,192)	-	(1,412,977)
Other results	(362,444)	(23,457)	3,826	(382,075)
Result before tax	289.704	(4.353)	3.826	289.177

2013 Financial Year

	Postal, telegraph and parcel sector	Urgent parcel sector and others	Portfolio adjustment	Total
Net turnover	1,605,087	141,910	-	1,746,997
Procurement	(83,758)	(83,941)	-	(167,699)
UPS cost compensation	268,765	-	-	268,802
Staff costs	(1,368,755)	(43,982)	-	(1,412,737)
Other results	(354,863)	(18,867)	3,755	(369,975)
Result before tax	66.476	(4.843)	3.755	65.388



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

22. Environmental information

As of 31 December 2014, there were no significant assets for environmental protection and improvement, nor were any significant expenses of that nature incurred during the financial year. Likewise, during the financial year ending on 31 December 2014, no environmental subsidies were received.

The Parent Company 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 2013.

23. Contingent liabilities

The European Commission has requested preliminary information from the Spanish Government with regard to a complaint of supposed State aid awarded to the Parent Company between 1998 and 2013. However, no formal case has been opened to date against the Kingdom of Spain for State aid.

The Parent Company believes that it does not have significant contingent assets or liabilities at the close of the 2014 financial year.

24. Subsequent events

There were no other events after 31 December 2014 that might have a significant effect on these consolidated annual accounts.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Management Report Financial Year 2014

Economic Environment

In 2014, GDP grew by 1.4% according to the forecast from the *Instituto Nacional de Estadística* (National Institute for Statistics), confirming the improvement in the economy over the last year. The economic recovery, which began at the end of 2013, gained pace over the course of 2014. In particular, in the last two quarters year-on-year GDP growth rates in excess of 1.5% were recorded thanks to the recovery in domestic demand.

This added impetus in consumption is chiefly the result of the sustained improvement in financial conditions, higher levels of confidence, positive developments in the job market and the drop in the oil price. In particular, the greater than expected drop in fuel prices reduced the price index to negative rates of -1% in December 2014.

Against this positive backdrop, it is worth highlighting the positive progress in the job market, with an annual increase of 2.6% in the number of people registered in the Social Security system.

This fledgling improvement in the economy has had an impact on the postal services and parcel sector. According to the indicator in November 2014, developed by the National Institute for Statistics, turnover in the sector increased by 1.6% between

January and November, and by 6.5% year-on-year. However, the decline in the traditional postal segment continued, mainly due to the effects on postal volumes of replacement with new technologies.

In 2015, according to the advanced indicators of both the *Ministerio de Economía y Competitividad* (Ministry of the Economy and Competitiveness) and the European Commission, the Spanish economy is expected to continue growing.

The postal sector in Spain

The Parent Company is the operator designated to provide the Universal Postal Service in Spain, pursuant to the single temporary provision of Act 43/2010, of 30 December. However, its financing is governed by a regulation that came into force prior to the aforementioned Act and the Provision Plan and its regulating contract are still to be approved.

The Spanish postal sector has been a competitive market for decades. Over recent years it has also gone through a series of changes because of the economic crisis and, above all, of replacement by new technologies and changes to consumption patterns, just like in other European countries. The result has been an ongoing drop in postal activity.

This trend has been accelerated recently by the rapid introduction of e-invoicing among major clients, particularly in the banking and services sectors, and the switch from monthly to bimonthly billing among electricity companies.



Moreover, Spain is one of Europe's leading nations in the development of e-government which has also contributed to shrinking postal volumes. Consequently, in Spain, at least 95% of public services are available in digital format and 49% of citizens use the Internet to communicate with Public Administration, compared to 47% elsewhere in Europe.

Spain must continue to lead the development of e-government and it is in this area that the Correos Group can use its technological know-how and quality resources and services to provide innovative and flexible solutions that combine physical and electronic formats, thus facilitating citizens' access to public services and avoiding the effects of a "digital breach".

The economic crisis and the electronic substitution have also had an impact on changes in the direct marketing sector. Communication and advertising companies currently opt more for hybrid strategies that combine physical and digital communication. To meet this demand, Correos Group has designed multichannel services that adapt clients' messages to different media based on their preferences.

The parcel delivery market

The parcel sector is a natural area of growth for the Parent Company because of its logistical and operational structure.

Turnover continued to decrease in the first half of 2014 due to the economic crisis. However, the market stabilised in the second half of the year because of growth in e-commerce and companies' international activity. This slight recovery, which is

expected to continue in 2015, was clear to see in increased parcel volumes. However, revenue did not grow as much due to strong price competition in the sector.

Over recent years, e-commerce has grown considerably in Spain. In the first quarter of 2014, e-commerce turnover increased at an interannual rate of 26.8% according to the CNMC.

Close to 37% of Spanish people make purchases online, compared to 50% of Europeans elsewhere, meaning there is significant growth potential in this sector. Equally, Spain is one of the countries with the highest mobile telephone penetration rates. 73% of the population accesses the Internet from mobile devices, higher than the rest of Europe, leading us to expect an increase in e-commerce from this sort of devices in the future.

Expansion in this market benefits logistics and parcel companies as they have become essential links for an efficient e-commerce logistics chain.

In this context, Correos Group has become a preferred partner for online sales companies. The services developed in 2014 have allowed us to meet the sector's new requirements by means of comprehensive solutions for the whole e-commerce chain and by increasing delivery convenience and flexibility for end customers.



The Company's position and future prospects

Action Plan 100-300-1,500 was presented in 2012 with the goal of preparing the company for the changing environment expected in the immediate future.

The markets, in which the Company operates, such as the postal and parcel sectors, are in constant flux, the former because consumption patterns are changing due to the growth in digital products and the latter because of growing competition in e-commerce. In addition to these two markets, operators are tending to enter or increase their presence in other markets such as financial services and to expand their post office networks and make their processes more flexible.

Since it was launched, Action Plan has tried to tackle these challenges with strategic projects to strengthen the Company's presence in the parcel market and with projects that seek to diversify turnover (cloud printing services) and others where the Parent Company is the direct intermediary between producers and end consumers. But it is not just a question of coping with these challenges by launching new products and services, but rather of meeting customers' specific needs which require ad hoc solutions.

At the same time, the Parent Company is working on developing a comprehensive range of digital services for citizens in order to transform the Parent Company into a communications facilitator in the digital world and a trusted third party in exchanges between citizens, companies and Public Administration.

These initiatives would not have been possible if the company had not committed to innovation as a lever to manage both in-house talent and agreements with a range of external actors.

Correos Group has devised a strategy based on 5 strategic lines of action in order to become the best physical and electronic communications provider: Diversification, Increasing commercial effectiveness, Operational optimisation, Development of the organisational model and Innovation and new developments.

The Company's future prospects: the economy, society and regulation

With regard to Spain's national economy, after 5 years of negative growth rates, the economy seems to be showing signs of recovery both in terms of domestic consumption and exports.

Given this positive economic outlook and operating in a postal market that has been fully liberalised since 1 January 2011, the Parent Company will inevitably have to face a series of challenges in coming years through the strategy it has developed and also making continuous adaptations to it.

As regards the digital environment and e-commerce, 73.1% of over-15s in Spain use the Internet and online shopping has been growing at double digit rates since 2007.

These statistics show that society is evolving towards a digital environment where the Parent Company must play an important role in both the parcel market and in digital communications.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Main risks and uncertainties

The Parent Company mainly operates in the postal market, a very competitive sector that has been fully liberalised since 2011. For many years now postal volumes have been falling, fundamentally because of the effect of substitution with new communication technologies and companies' cost cutting policies.

Action Plan, with its five strategic lines of action, aims to reduce the concentration of risks in products and markets by diversifying activities, a multichannel focus, innovation and making full use of the distribution and post office network.

The Parent Company has also identified a number of operational and labour risks resulting from its complex structure and the need to make progress on implementing a flexible system that meets the market's needs, as well as reputational risks from unforeseeable damage to the good image the Company has always enjoyed amongst stakeholders.

To this we must add the legal, fiscal and financial uncertainties from possible changes to sectoral legislation and how the Company operates. Finally, also of significant importance are environmental risks resulting from the Parent Company's large infrastructure and transport network.

Key financial indicators

The Parent Company's result after tax for the 2014 financial year was 201.6 million euros, 153.6 million euros higher than in 2013. The main factors that affected the result were:

- A drop in turnover of 14.6 million euros (0.95%) as a result of a general decline in postal volumes, particularly because of the decrease in the traditional business (letters and certified items), partially offset by the increase in parcels and by the effect of the electoral processes held in the 2014 financial year. The volume of items has fallen across all products, with the exception of domestic and exported parcels, such as for example traditional post, marketing and advertising, certified items,
- The 2 million euro increase in staff costs, mainly caused by the payment of 25% of the wage bonus not paid in 2012 and by the additional costs incurred from providing the postal services required for the elections held in the 2014 financial year, offset the decrease in staff costs generated from reducing staff numbers by an average of 1,989.
- The category "other operating expenses" dropped by 7.8 million euros.
- The increase in compensation revenue for the costs incurred by the Parent Company to provide the Universal Postal Service.

The Parent Company closed the 2014 financial year in accordance with the forecast. Measures have been implemented to guarantee compliance with the main goals: setting the foundations to achieve improved results over the coming financial years,



continuing with the Company's internal transformation by making better use of new technologies and the available in-house talent, and increasing market share in the parcels sector.

The average timeframe for late payments under Act 15/2010, establishing measures to combat delinquency in trade operations, is 34 days (38 days in the 2013 financial year). The Parent Company was not late in making payments in the 2014 and 2013 financial years under the terms of Act 15/2010. The measures planned for the 2015 financial year to prevent late payment are:

- Incorporating new procedures to guarantee validation of invoices in due time and form.
- Implementing new functions in the management systems.
- Cash flow plan to gradually reduce the average late payment timeframe.

Exposure to risk

The Correos Group focuses risk management on measuring risk and devising and applying coverage strategies.

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.

Market risk

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

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



Exchange rate risks

An exchange rate risk 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 2014 stood at 21,955 thousand euros payable (3,344 thousand as of 31 December 2013), the Parent Company's Directors do not consider this risk significant.

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.

Key non-financial indicators

The Parent Company conducts its business with a vision based on excellence and sustainability. To achieve this, in accordance with the principles of honesty, integrity and transparency enshrined in its good governance policy and set out in the Code of Conduct, the Company has made a number of commitments to stakeholders.

These can be summed up as performing our business activity efficiently and profitably; always striving towards excellent service through continuous improvement and innovation; promoting our workers' development; and making an active contribution to social progress and environmental protection.

The Parent Company's commitment to providing its customers with a quality service is closely bound to fulfilling its public service mission as the operator designated to provide the Universal Postal Service in Spain.

The postal regulation establishes requirements in terms of delivery frequency and quality for the products that make up the Universal Postal Service. For ordinary letters it sets a goal of 93% delivery in 3 days (D+3) and 99% in 5 days (D+5).

In 2014 the Parent Company delivered 95.6% of letters in D+3 and 98.9% (*) in D+5.

(*) Taking account of the implicit statistical error effect, this result falls within the compliance threshold, as set out in the postal regulation.



Information on staff

Changes in the demand for postal services and its greater efficiency have seen employment levels gradually adapt to activity within the margins of its role as provider of the Universal Postal Service. This reduction has mainly been achieved by not replacing staff who retire, not replacing roles deemed unnecessary for the purposes of the business and by reducing temporary hiring.

Based on the commitments in this regard with SEPI, in the 2014 financial year the average reduction (measured in full time equivalent posts) was 1,989 posts compared to 2013.

This year saw the consolidation of the new zone structure which, by means of a simplified geographical organisation, aims to improve operating efficiency and save on costs. In this vein, we have continued our efforts gradually to adapt the structure of support roles to what is considered an optimal size to support the business activities in each zone.

The Parent Company aims to achieve maximum efficiency in human resource management and part time work is one way to achieve this.

To that end, we are able to adjust staffing levels to adapt to the changing activity volumes of work across the operational areas.

Part time contracts are used to strengthen the operational areas, particularly post offices and sorting during peak periods. In 2014 there was an increase in the subdivisions mentioned above and the Company met its corporate goal in terms of part-time workers.

Information on the environment and sustainability activities

In 2012 and 2013 a life cycle analysis was conducted on direct marketing, Paq48 and Paq72 based on the Product Category Rule that the Parent Company, along side other IPC postal operators, helped to devise for postal items. This life cycle analysis made it possible to develop an environmental impact calculator in 2014. The categories of impact calculated include CO2 emissions, which are offset using carbon certificates bought by the Parent Company from a Brazilian VCS project so that it can deliver items to customers on a carbon-neutral basis.

The 2014-2020 Emissions Reduction Plan was approved in 2014 and contains energy efficiency measures and a programme to purchase renewable energy. In operational terms, in 2014 work was conducted to identify the zones where it is most useful to review how postal items are delivered to reduce emissions from our business by incorporating new technologies.

In terms of efficiency it is worth highlighting the launch of the Energy Efficiency Master Plan, which defines the Parent Company's approach to improving energy consumption and making it more responsible, setting the lines of action and establishing a common framework for energy saving and efficiency measures. The role of "Maintenance and Energy Efficiency Managers" has been created to identify and promote actions in buildings from the maintenance and energy efficiency perspective.



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Plan 100 is also to be carried out within this framework. It monitors energy consumption (electricity and natural gas) on a month-by-month basis in the 200 buildings that consume most energy, and promotes employee involvement through a prize acknowledging environmental best practices in work centres along with the reductions in consumption achieved. Finally, it cannot be forgotten the regular information on consumption of energy, water and materials provided to each of the almost 3,000 work centres or the IT energy efficiency project for work categories.

These initiatives complement other activities, amongst which should be mentioned energy certification for buildings, the installation of capacitor banks to prevent the impact of reactive energy, pilot projects in tele-measuring and tele-management, measurement of consumption of sorting machines when in stand-by in automated sorting centres, and optimisation of energy supply contracted.

Other topics

The Parent Company holds no treasury shares, nor has it conducted transactions with financial products during the 2014 financial year.

The Parent Company made investments in R&D+i during the 2014 financial year.



Consolidated Annual Accounts and Management Report for the Financial Year ending 31 december 2014 of Sociedad Estatal Correos y Telégrafos S.A. and dependent Companies

The preceding **Consolidated** annual accounts of Sociedad Estatal Correos y Telégrafos, S.A. (with all pages stamped and endorsed by the Secretary of the Management Board), which comprise the consolidated balance sheet (on two sheets of ordinary paper), the consolidated profit and loss account (on one sheet of ordinary paper), the consolidated cash flow statement (on two sheets of ordinary paper), the statement of changes in the consolidated equity (on two sheets of ordinary paper), and the attached report on the accompanying sheets of ordinary paper, numbered accordingly from 1 to 67 (both inclusive), corresponding to the financial year closed at 31 December 2014, together with the management report corresponding to the same year issued on sheets of ordinary paper numbered 1 to 10 (both inclusive), were submitted **for approval by the Governing Board of Sociedad Estatal Correos y Telégrafos, S.A. on 16 March 2015**. In accordance with current provisions, the administrators sign and give their conformity with all the abovementioned documents.

Madrid, 16 March 2015

Francisco Javier Cuesta Nujin / 	Ana Bosch Jiménez
Luis de Burgos Buil 	Carmen Castaño Laorden
Eloísa Contín Trillo- Figueroa 	José Luis Díez García
Rafael García Monteys 	Aquilino González Hernando
Pedro Guerrero Meseguer 	Fernando Inurzun Montoro
Belén Jorge Fuentes 	Rosario Martínez Manzanedo
Juan Luis Nieto Fernández 	José Ángel Partearroyo Martín
Marta Vega Velasco 	



Message from the Chairman



Key milestones



The Correos Group



Innovation in products and services



Innovation in processes



Innovation for customers



Innovation for people



Innovation for society



Good governance



Coverage of report and sustainability indicators



Consolidated annual accounts of Correos Group

Correos Group annual report 2014



Editing:

Sociedad Estatal Correos y Telégrafos, S. A.
Dirección de Relaciones Institucionales y Coordinación
Vía de Dublín 7, 5ª
28070 Madrid
Tel. (+34) 915 963 825
relaciones.institucionales@correos.com

Design:

Estudio Gráfico Juan de la Mata

Legal deposit:

M-17920-2015

Sociedad Estatal Correos y Telégrafos, S.A.

Vía de Dublín, 7
28070 Madrid
Customer service helpline: (+34) 902 197 197
www.correos.es

Correos Exprés Paquetería Urgente, S.A.

Av. Europa, 8
28820 Coslada (Madrid)
Customer service helpline: (+34) 902 122 333
www.correosexpress.com

Nexea Gestión Documental, S.A.

C/ Rejas, 9
28022 Madrid
Customer service helpline: (+34) 917 482 700
www.nexea.es

Correos Telecom, S.A.

C/ Conde de Peñalver, 19 bis
28070 Madrid
Customer service helpline: (+34) 913 531 750
www.correotelecom.es