

grupoCorreos



INTEGRATED ANNUAL REPORT

2019

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

-  Internal reference within the Report
-  Link to related audiovisual content
-  Link to related web content
-  Reported indicator in accordance with GRI Guidelines, 2019 version
-  Contribution to SDG

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**Design:**

Empremedia, S.L.

Legal deposit:

M-15370-2020

Published:

June 2020

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All reports are also available in English. In the event of any disparity between the versions, the information contained in the Spanish version shall take precedence.

We want to know your opinion about this Report. If you want to make comments and suggestions about this report, you can refer them to relaciones.institucionales@correos.com or send them to

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1. Correos Group



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Chairman's statement



While reviewing what the year 2019 has meant for the Correos Group, two ideas came to mind. **Gratitude**, for the extraordinary **effort and daily commitment of the professionals** that make up this Group and for their essential collaboration (which was publicly acknowledged) so that citizens could exercise their right to vote during the electoral processes that took place during the year.

Satisfaction, also, for the great advances that have been made in three of the main objectives that make up our strategy: **strengthening public service, diversification, and internationalisation**.

Our guiding purpose is to offer a postal and parcel service of the highest quality, while at the same time - in light of our status as an **essential public service** - contribute to territorial cohesion and the economic development of citizens and companies through an extensive network of people and infrastructure.

With this aim in mind, we have converted our nearly **2,400 post offices into meeting points that facilitate civic life**, by enabling

citizens to interact with government through a wide range of official procedures, making useful, everyday services (e.g. technology and telecommunications, gas and electricity, and simple banking transactions) commercially available, and using our extensive capillarity to provide the parcel services required by e-commerce. The more than 103 million visits that we received last year have confirmed the trust that the citizens place in us.

Additionally, with the aim of **responding to increasing demand in all areas of our business** (particularly parcel delivery), the Group's companies have **expanded their operational capacities** and incorporated new technologies into their production processes. The Group has extended the **application of Artificial Intelligence (AI) and Big Data** to its activities, thereby improving the traceability of the logistics chain and demand forecasting in real time. This is particularly important in terms of meeting the needs of our customers during periods with a high concentration of deliveries.



2019 was also the year in which **the Correos Group began its process of internationalisation**. Close to home, the creation of our new subsidiary **Correos Express Portugal** has allowed us to assemble the most efficient network for delivering parcels within 24 hours to addresses **throughout the entire Iberian Peninsula**. We are now able to address our customers' need for an integrated service that covers the whole peninsula while providing **the same levels of reliability and quality** that we offer throughout Spain.

A few months later, Correos **also began operating in Southeast Asia**, with the creation of an operative centre in China in collaboration with two local partners. This has enabled us to consolidate our **position as a benchmark operator for international parcel delivery** from Asia to Spain and the rest of the world.

By opening up to the rest of the world, the Correos Group not only aims to meet the needs of cross-border e-commerce, but also to become an **ally for Spanish companies, and especially SMEs**, by helping them adapt to the e-commerce market, assisting with

their **processes of internationalisation**, helping them **embrace digitalisation**, and transporting their goods to wherever they are needed in order to promote the companies' growth.

Last year we underwent another two major changes. First, Correos unveiled **a new corporate image**: it is simpler, more modern, more global, and more adapted to the digital environment, and thus reflects the new times in which we find ourselves. This rebranding was recognised, among others, by the *Control de Publicidad* 2019 and the Vocento Business Awards.

Additionally, to coincide with the celebration of the 2019 Climate Summit in Madrid, we announced **Correos's new sustainability commitments for 2030**. These include achieving carbon neutrality and zero waste generation, promoting a smart model of mobility, and generating 'local value'. These aims serve to extend the ambitions of the commitments and actions that the company has already been taking in order to reduce its environmental footprint and increase its social impact.

Indeed, **the generation of local value**, as a means of tackling rural depopulation, and the promotion of e-commerce for SMEs are two of the key concepts underpinning *Correos Market*, an exciting project we launched last year and which is **aimed at our country's producers**. This e-commerce platform, which received the 2019 eAwards prize, aims to help the producers of artisanal products, who remain committed to their place of origin as a base for their business projects and who need a logistics network such as the one offered by Correos in order to access a market that is increasingly more global and digital.

All of these achievements, allied to our logistical and business capacities and the efforts of our professional team, have helped the company to attain another of its strategic objectives for 2019. The Correos Group returned to

profitability, ending the year with a profit of 13.4 million euros and increasing its turnover by 11%.

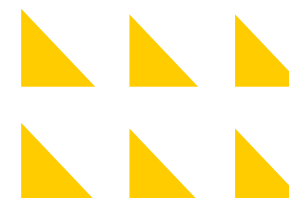
The company's desire to further its commitment to all of its professionals and to strengthen its competitiveness spurred new developments in the areas of **job quality, remuneration, capacity-building, professional development and equality**. In this respect, last year Correos recruited 2,295 full-time employees and launched a new process to convert a further 4,005 jobs into stable positions.

The business successes of the Correos Group have been complemented by the pride we feel in the sporting triumphs of **the men's and women's handball teams, who we have been supporting for a number of years**. Their self-

improvement and teamwork have allowed us to take our country and our brand all the way to the top. Thanks to them and to our 30,000 postmen and women, we have a presence all over the world and throughout Spain.

The Correos Group has achieved the vast majority of the goals we set ourselves, and we enter this new year determined to tackle the new challenges we know are waiting for us. We will continue to provide an essential public service wherever it is needed, and move forward in our pursuit of internationalisation, diversification and increased operational efficiency, in accordance with the time frame laid out in our strategic plan for 2020-2023.

Juan Manuel Serrano Quintana



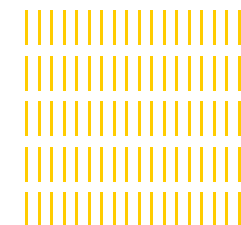
+ Highlights



▲ We consolidate our goals of internationalisation and diversification

- The Correos Group has returned to profitability with a **net profit of 13.4 million euros**, owing to the growth in parcel services and improved efficiency.
- The Group has also begun the process of internationalisation with the creation of a **new subsidiary, Correos Express Portugal**. This allows us to offer an integrated express parcel service for the entire Iberian market.
- Correos is now also **present in Southeast Asia thanks to the opening of a operative centre in China**, thereby consolidating our position as a benchmark operator for parcel deliveries to Spain and the rest of the world.

- The company is also drawing up a **new strategic plan for 2020-2023**, which will define the areas of focus and actions to be taken over the next three years in order to consolidate this process of transformation.
- Correos has **revamped its brand image** and launched a new version of the www.correos.com website, in order to provide more flexible and transparent access to its corporate information.





We listen to the specific needs of our customers

- **Correos Market, the new online market created by Correos**, provides local producers with a platform for the sale and distribution of their high-quality artisan products, both within Spain and soon abroad.
- Our **Paq Ligero** domestic and **Paq Return Internacional** parcel products respond to the needs of both domestic and international e-commerce by facilitating the delivery and return of online purchases.
- The new **Correos Modify app enables more effective delivery** by allowing customers to choose the most convenient time and place to receive their parcel deliveries.
- Our **post offices have increased their product range** by offering fibre broadband, mobile telephony, electricity and gas services from a number of different companies. Customers can also purchase train tickets and carry out official procedures pertaining to the General Directorate for Traffic.



We use technology to improve the customer experience

- The company has extended the **use of AI into its operations** and customer services. This helps us to improve our real-time monitoring of the logistics chain and forecast the demand for parcel services.
- Correos Express has expanded its operational capacity with the opening of a **new centre in Getafe** (Madrid) and the expansion of its facilities in Guarromán (Jaén) and Zaragoza.
- Correos and Correos Nexea have certified the **security of their information systems** in accordance with the UNE-ISO 27001 standard.
- Correos Express Portugal has added **new automated parcel-sorting equipment** to its facilities in Lisbon and Porto and has opened a new centre in Montijo (Setúbal, Portugal).



We are building a stable, secure and diverse work environment

- Correos **has recruited 2,295 full-time employees** and is seeking to create an additional 4,005 jobs, in a move designed to promote stable employment.
- The company is promoting new initiatives to move forward with regard to **stability, remuneration, capacity-building, professional development and equality**.
- Correos has achieved **gender parity for its Governing Board**. Moreover, 46% of mid-level positions and 52% of the company's total jobs are filled by women.
- **Correos's Empresa Saludable** ('Healthy Company') programme uses information campaigns and voluntary diagnostic testing to raise awareness among employees of the importance of early detection of colon and breast cancer.



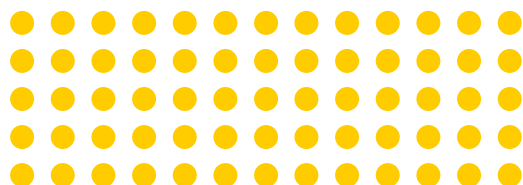
We are expanding our commitment to a more sustainable future for all

- Correos has announced its **new sustainability commitments for 2030**, including carbon neutrality and zero waste generation.
- The company has launched a project, **#Correos Compensa** ('Correos Offsets'), which **uses blockchain technology** to offset the emissions generated through parcel deliveries.
- To mark the occasion of the **2019 Climate Summit (COP25)**, the **'Protest Stamps' collection of stamps and postcards** displays society's concerns regarding global warming and climate change.
- Correos is promoting **social innovation** with the announcement of a new social category in the Lehnica Challenge, the company's entrepreneurship support programme.





Recognitions



For the excellence of our physical and digital product range

- **Correos Market** won the 2019 eAwards prize for best e-commerce platform.
- Correos was honoured at the 2019 European Technology Awards (e-commerce category) for the simplicity and effectiveness of its **e-commerce solutions**.
- In recognition of its work to promote tourism in Spain through **stamp-collecting**, Correos was given the Q for Quality in Tourism Award by the Institute for Quality Tourism in Spain (ICTE).
- Correos received a number of accolades at the sixth edition of the Nexofil & Nexonum Awards for the World's Best Stamps and Coins, in the categories of '**Most Original Stamp Format**', 'Most Innovative Stamp' and 'Best Deluxe Artist Proof'.



For our good practice in diversity and attracting talent

- Randstad Award for **Most Attractive Employer** in the logistics industry.
- First prize in the 'Public Institution or State-Owned Company' category at the fifth edition of the International **Diversity Management** Awards for the management of diversity within organisations. The prize was awarded by the Diversity Foundation.
- The Generación Award in the 'Inside Company' category, awarded by the Generation and Talent Observatory in recognition of the best initiatives to manage and raise awareness of **generational diversity**.



- Second prize in the 'Top Diversity Company' category, awarded by the consultancy firm Intrama for excellence in the **management of diversity**, equality and integration.
- At the 2019 Conference on Diversity and Business, Correos was praised by Red Acoge for our **promotion of diversity** and equal opportunities.
- The consultancy firm Universum ranked Correos among the top 33 most **attractive employers** for Humanities students.

For the transformation of our brand

- At the 2019 *Control de Publicidad Awards*, Correos's **rebranding** project won third place in the 'Campaigns' category, while the company's Director of Communication and Marketing was ranked third in the list of the best directors of marketing for 2019.
- Correos's capacity to transform and adapt in order to meet the new needs of its customers was recognised at the third edition of the Vocento Business Awards, in the '**Brand Positioning**' category.





Key figures

🌐 GRI 102-7



Main figures of Correos Group

	2019	2018
Revenue (Thousand euros)	2,266,483	2,035,632
Result before tax (Thousand euros)	5,383	-167,955
Result after tax (Thousand euros)	13,414	-152,960
Investments (Thousand euros)	68,552	77,200
Employees (FTE)	54,689	53,605
Emissions (Scope 1/2/3) (tCO ₂)	170,152	169,983
Energy consumption (Gj)	558,654	503,461

Main figures of 2019



53,041
Employees
(FTE)



2,410
Postal items
(millions)



1,810
Delivery
units



97
Special
service units



18
Automated
processing
centres



14,766
Vehicles



5,153
Citypaq parcel
automatic terminals



6,117
Rural services

+=



2,393
Post offices



8,510
Service points



Main figures of 2019

Correos
Express



1,191
Employees
(FTE)



55
Operating
centres



3,941
Distribution and
hauling routes



145,608
Operating
area (m²)

Correos
Nexea



199
Employees
(FTE)



2
Operating
centres



13,288
Operating
area (m²)

Correos
Telecom



44
Employees
(FTE)



2.7
Marketed fibre
optic network
(million metres)



284
Marketed
telecommunications
sites





Corporate structure and business model of Correos Group



Correos, the Group's parent company, is **Spain's leading postal company** and **one of the leading companies in the parcel delivery sector**, thanks to the excellence and reliability of its service.

It is also the operator designated by law to provide Universal Postal Service in Spain, with criteria of efficiency, quality and affordability, contributing to the sustainability of postal communications for all of the general public.



Correos Express, is dedicated to **the express delivery of parcels** for the B2B (business-to-business) and B2C (business-to-consumer) segments. The company has a broad portfolio of services designed to meet all of its customers' on-time delivery needs, as well as specific solutions for sectors that require flexibility and full adaptation to their value chains.

Since 2019, the Group's new subsidiary, **Correos Express Portugal** (a subsidiary of Correos Express), has enabled the Group to offer an integrated **express parcel service for the entire Iberian market**.



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

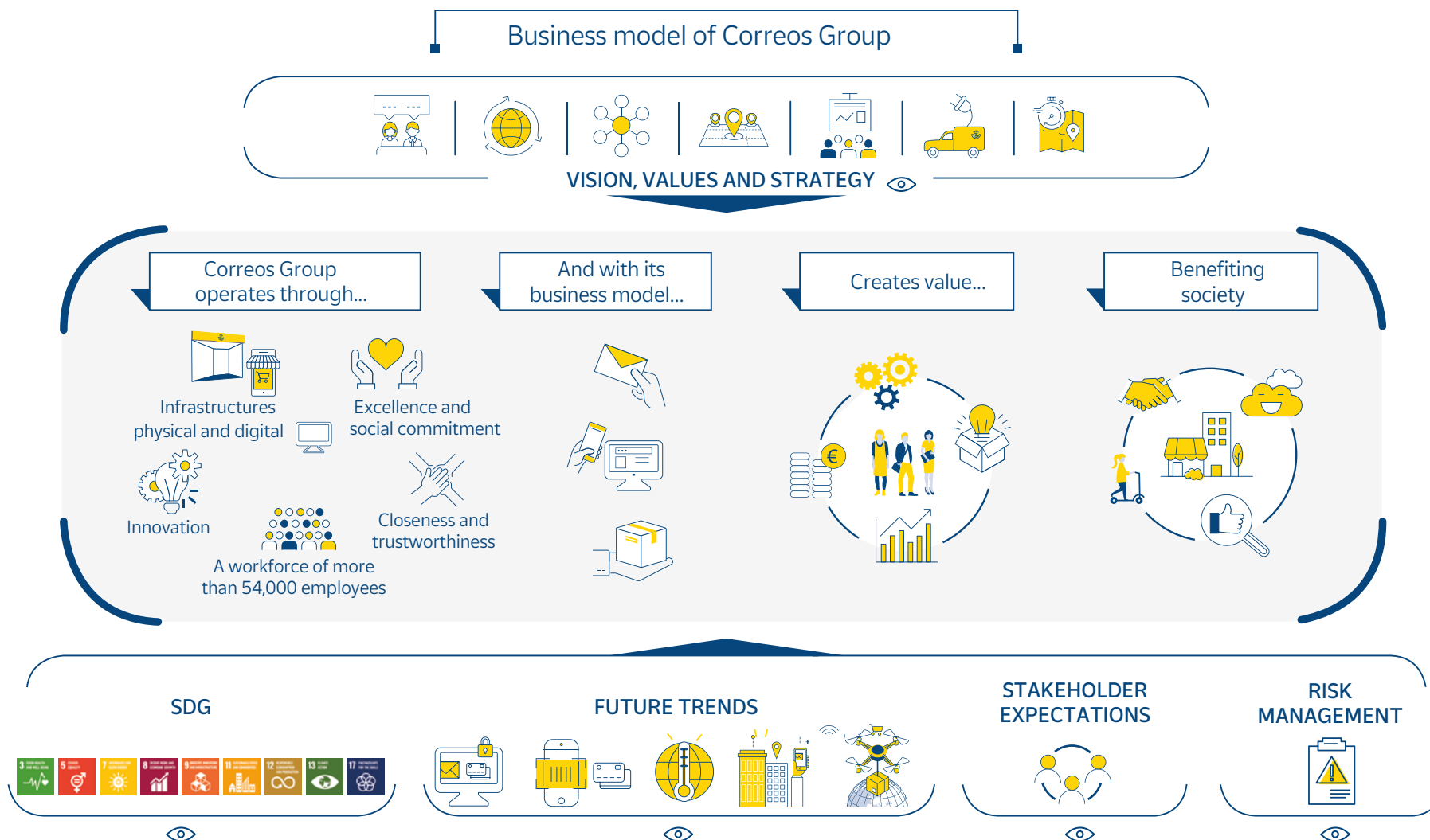
The company provides its customers with maximum guarantees of information security, document tracking, total integration with their technological systems and reliability in the delivery of all of their communications.



The subsidiary **Correos Telecom** is responsible for the **management and marketing of telecommunications infrastructure**, as well as providing technological support to all of the other companies in the Group in order to help improve their operational processes and develop new digital services.

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







Stakeholders' relationships

ⓘ GRI 102-40 ⓘ GRI 102-42 ⓘ GRI 102-43 ⓘ GRI 102-44
 ⓘ GRI 102-46 ⓘ GRI 102-47



Determination of content and scope

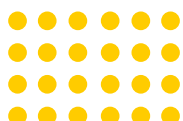
Determination of the content, structure and scope of this Integrated Annual Report was carried out through a process of internal and external reflection that made it possible to identify and prioritise the matters of greatest impact or importance for the business and/or stakeholders.

The materiality analysis was also based on:

- The results of **Correos Group's diversity assessment**.
- Preparatory work for Correos Group's **corporate social responsibility plan**.
- Information about the company in the **press and social media**.

• **Interviews and consultations with executives and internal experts** at Correos and its subsidiaries, as well as representatives of shareholder, customers, employees, associations and sectoral entities, suppliers, consumer prescribers and other companies in the markets in which Correos Group operates.

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

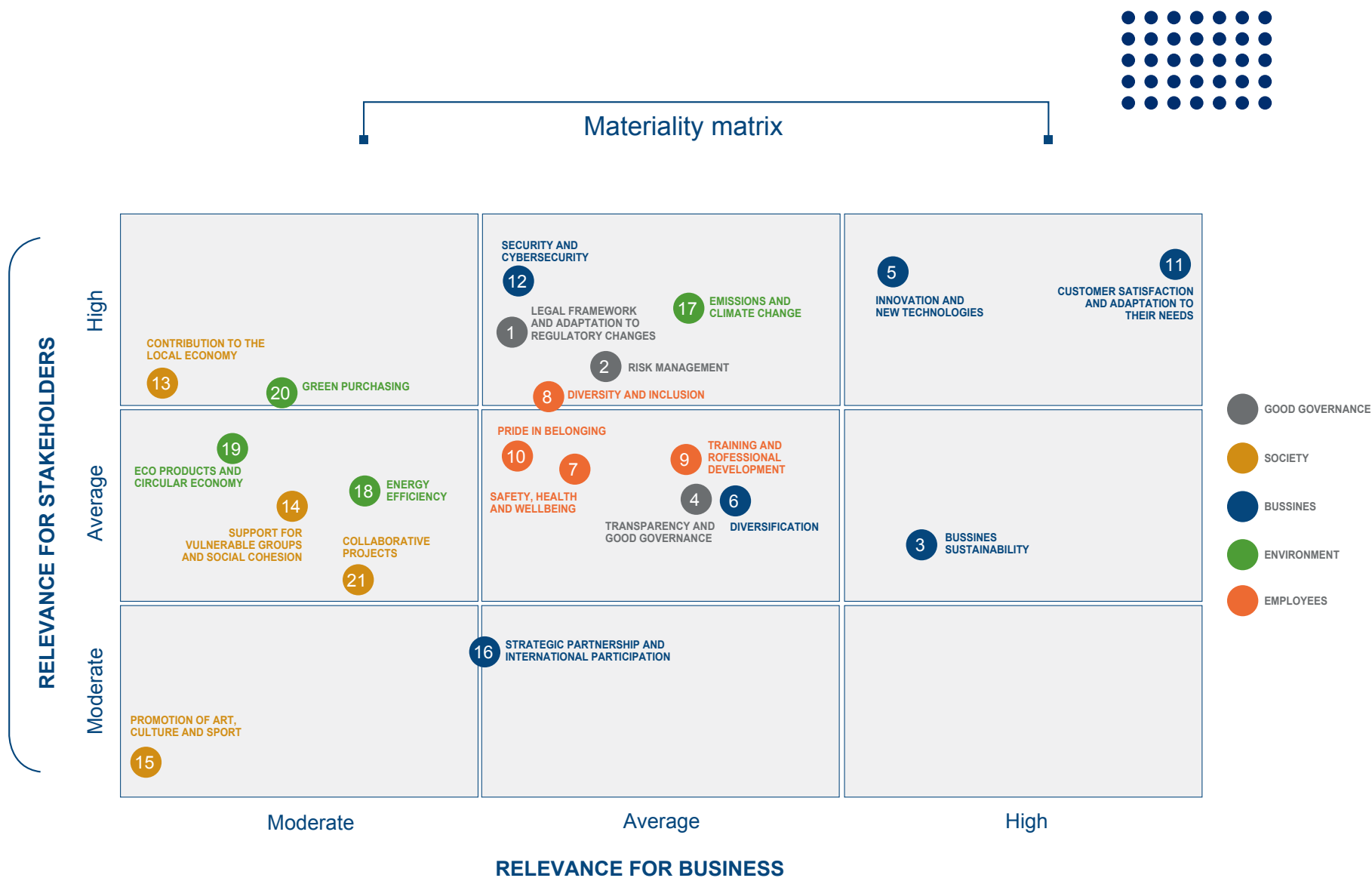


From the joint assessment of critical matters for each stakeholder and the most significant aspects for the business, the matters with greatest impact on the company were drawn.

These matters have been incorporated, to a greater or lesser extent, into the contents of the Integrated Annual Report 2019.

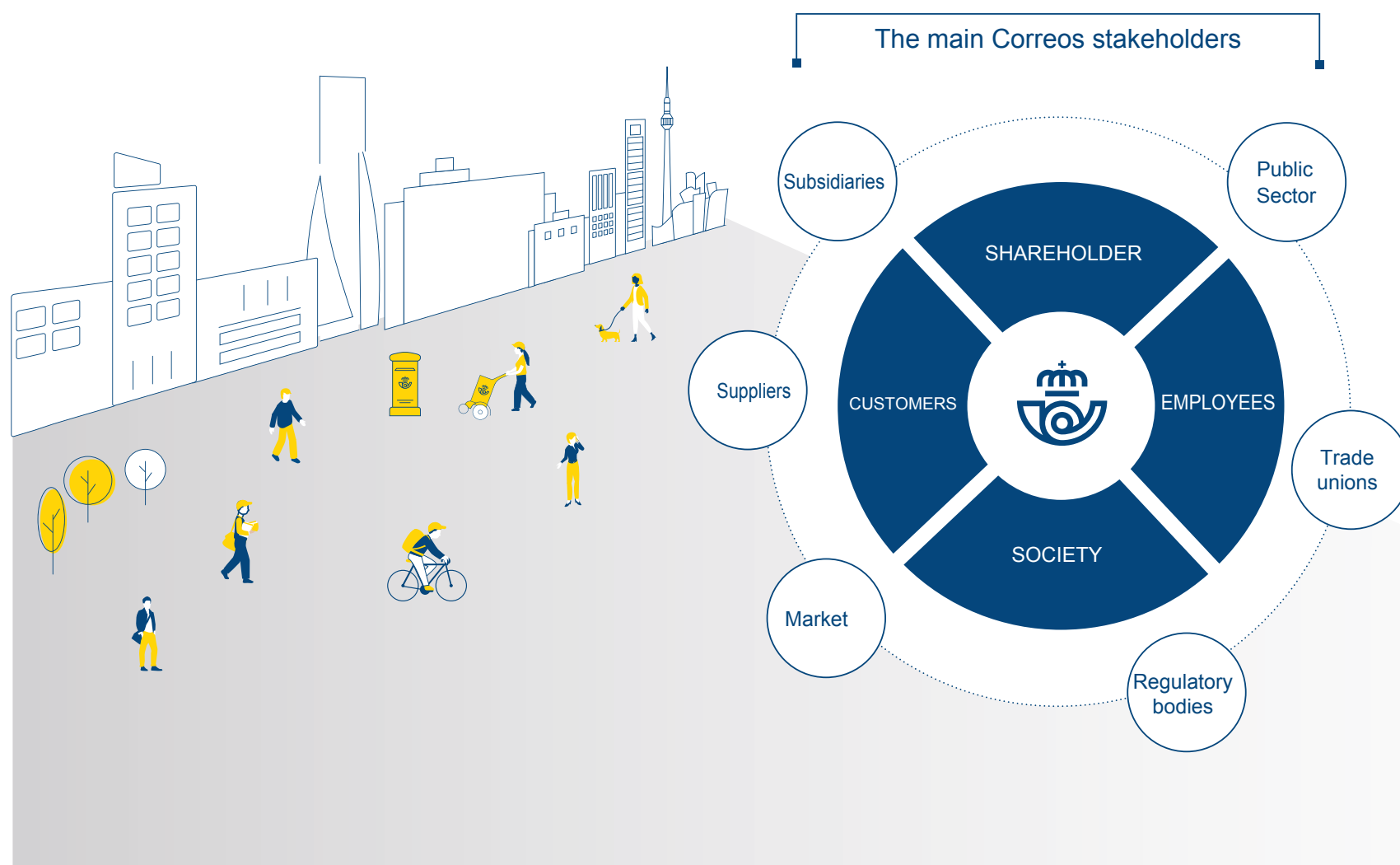
Matters and indicators relating to compliance with the non-financial reporting requirements of Act 11/2018, included in the Non-financial information statement of the Management report of the Consolidated annual accounts, are supplemented and expanded with the rest of the contents of this Integrated Annual Report 2019 to the extent that they respond to the results of the materiality analysis conducted in accordance with the 2019 version of the **Global Reporting Initiative's Standards (GRI)** for the preparation of sustainability reports.





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

Stakeholders relationships





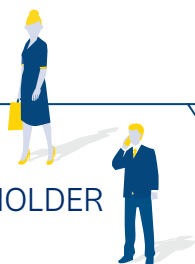
Communication channels

- General Meeting of Shareholders
- Governing Board
- **Integrated Annual Report** 
- Annual Operating Plan and Medium-Term Plan

Relevant issues

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

SHAREHOLDER



Communication channels

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

Relevant issues

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

EMPLOYEES



Communication channels

- Commercial channels and service points
- **Corporate website** 
- Social networks
- Satisfaction surveys
- Meetings
- Fairs, forums and other meetings
- Advertising campaigns

Relevant issues

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

CUSTOMERS



Communication channels

- Participation in national and international initiatives
- Meetings and forums
- **Corporate website**
- **Integrated Annual Report** 
- **Transparency Portal**
- Press releases
- Social networks
- Advertising campaigns
- Institutional control (Parliament, Ombudsman, Court of Auditors)

Relevant issues

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

SOCIETY





Excellence in operations

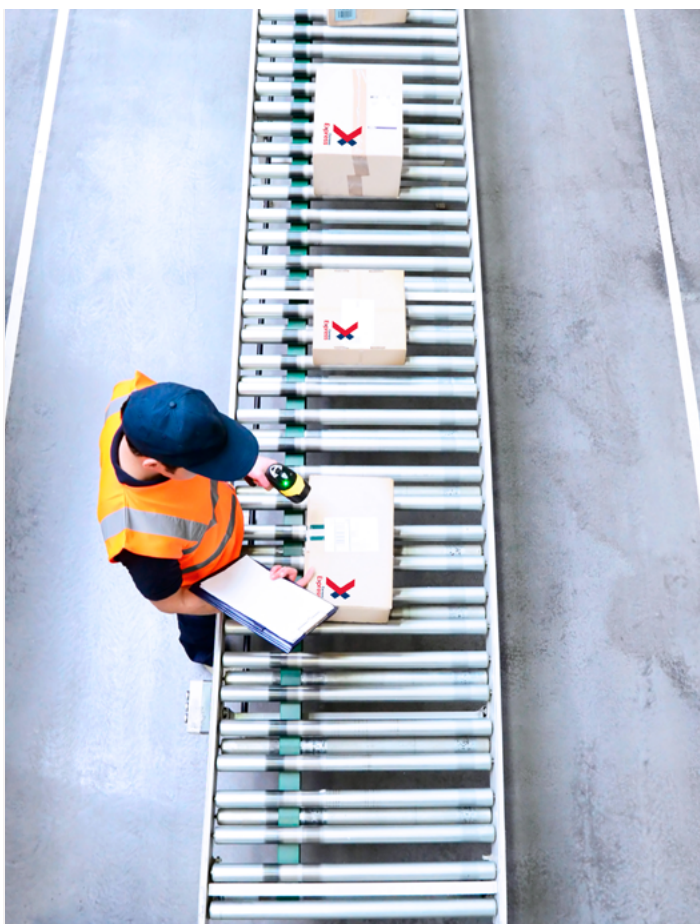
Correos facilitates the distribution and delivery of mail and parcels to every company and home in Spain, through an extensive network of mail centres, transport facilities and collection and delivery points. Every day it performs more than 10 million deliveries around the country, thereby playing a vital role as a provider of an essential public service.

In **response to the increased demand** for parcel delivery services, in recent years the company has **adapted its production model** to meet the new requirements of this particular business area, both in Spain and abroad: it has installed new **automated sorting equipment** in its logistics centres, incorporated the **latest technologies for tracking and monitoring deliveries**, and established a **flexible transport network** to meet the specific demands of its customers.



Correos facilitates the distribution and delivery of mail and parcels to every company and home in Spain





Redefining the logistics model and improving efficiency

In Spain, Correos boasts four mass admission centres and 51 processing centres, which are equipped with **92 machines for the automated processing** of letters and parcels. In 2019 the company **enhanced the specialisation and capacity of these machines** by adding:

- A high-volume line for the **automated sorting of large-format parcels** at the automated processing centre (CTA) in **Vitoria**, which is able to process 100,000 postal items per day.
- **Automated admission and sorting equipment for large parcels** at the mass admission centre in **Madrid** (CAM 4), for processing parcels addressed to the Canary Islands, Ceuta and Melilla.

Operational integration with large e-commerce customers

With the aim of guaranteeing the quality of the service, the company provides to leading e-commerce companies during periods of higher demand, greater integration with their operational chains:

- **Optimising the containerisation and presorting of items** that takes place at the **customers' own logistics centres**, so that volumes can be sent directly to Correos's automated processing centres.
- **Incorporating the capacity** for manual processing at **the centres** in Pontevedra, Pamplona, Toledo, San Sebastián, Murcia, Córdoba and Jaén during **periods of high demand**, and using the centres in Jerez, Lleida and Girona as **cross-docking** platforms.



► Adaptation of the production model at Correos's centres in Barcelona

In 2019 the company also began **restructuring** its two **processing centres in Barcelona**, in order to enhance the specialisation of the centres' activities and thereby improve quality and efficiency.

The reorganisation of these facilities also meant that activities for the processing of registered items were transferred from the automated processing centre (CTA) at Sant Cugat to the integrated logistics centre (CLI) in Barcelona. Consequently, the transport routes associated with these products were modified accordingly.

► Logistical reorganisation of the international processing centre in Madrid

The measures that were implemented in 2019 to facilitate the adaptation of the logistics model also enabled the improvement of the customs-related management of cross-border deliveries. As part of this process,

the international processing centre (CTI) at **Madrid-Barajas extended automated sorting to other export products**, such as registered mail and *Paq Light Internacional* parcels, thereby improving the quality and efficiency of processing at the international exchange office located within the centre.

Another innovation allowing for the optimisation of customs-related processes is the **intensive use of EDI messages** (i.e. delivery-related data shared by postal workers via electronic messaging).

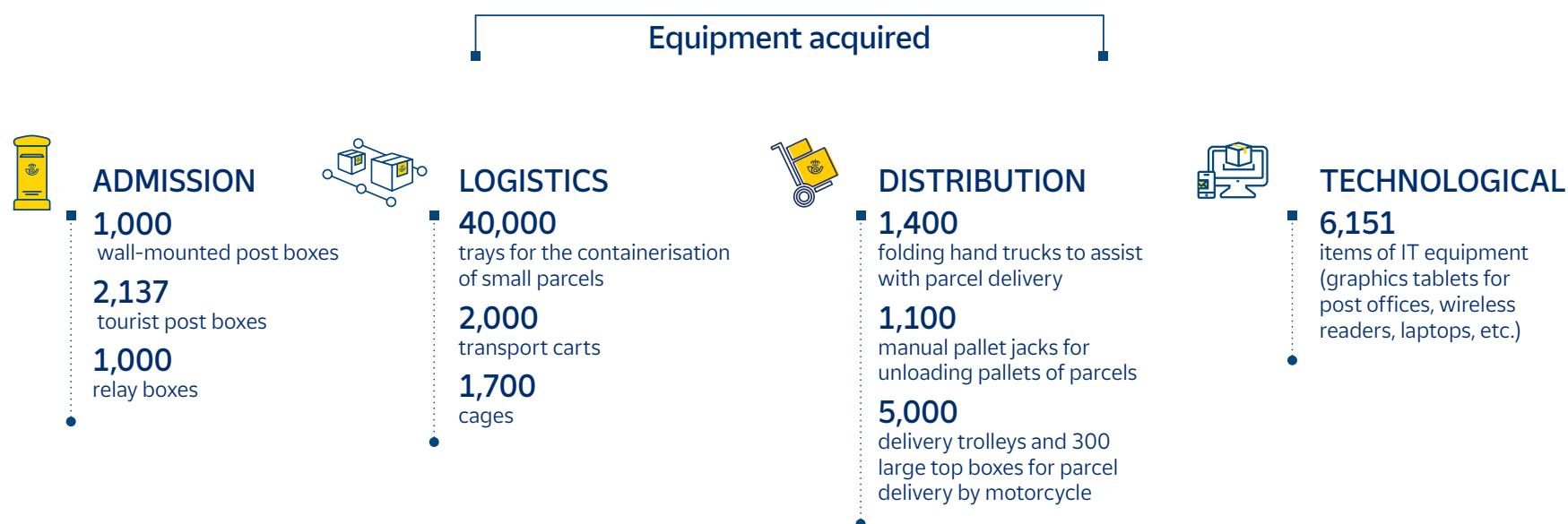
In this respect, the Universal Postal Union, which comprises all of the world's national postal operators, is promoting changes to the international regulations governing the delivery of postal parcels, with the aim of making EDI obligatory from 2021 onwards. Correos is adapting its processes in line with this change, which will result in new requirements for the admission of parcels of this type, although it will also facilitate the sorting of such parcels and their mechanised processing at customs facilities, thereby helping to guarantee the security.

► Strengthening the transport network and making it more flexible

As part of the process of adapting Correos's networks to meet the specific needs of customers that generate large volumes of parcels, in 2019 the company took a number of actions to strengthen its distribution capacity:

- Correos **expanded the transport network for its Premium parcel service**, with new routes and links in provincial capitals. It also **extended the operating window** of its transport service.
- The company **established direct links between the facilities of its major customers and its processing centres** (also serving the process of reverse logistics) and added capacity to its ordinary routes to cope with **periods of increased demand**.
- Correos added **new routes from Madrid, Barcelona and Valencia** to nine other cities and added a Saturday service to 25 land-based routes, thereby increasing both transport capacity and operating window.





• **The size of the fleet has been increased** with the addition of 500 new vehicles, of which 40 comprise zero- or low-emission modes of transport. These additions enabled Correos to respond to the increased growth experienced over the course of the year, during which the

company transported 14% more load compared to 2018.

Additionally, the prioritisation of air transport for parcels that form part of the universal postal service (*Paquete Azul*) to the Canary Islands, along with the addition of a new schedule for sea transport, has allowed the company to

improve the quality of on-time deliveries to this particular destination.

Lastly, , the company expanded its delivery network through the addition of 71 new distribution units and specific equipment for the handling and delivery of parcels.

Logistical presence of Correos Group



18 Automated processing centres



3 International processing centres



4 Mass admission centres



8,510 Service points



1,810 Delivery units



97 Special service units

International presence:

11 operating centres in Portugal
ETOEs (Extraterritorial Offices of Exchange)
in the UK and the Netherlands. Joint Venture in China

Correos
Express



55 operating centres

Correos
Nexea

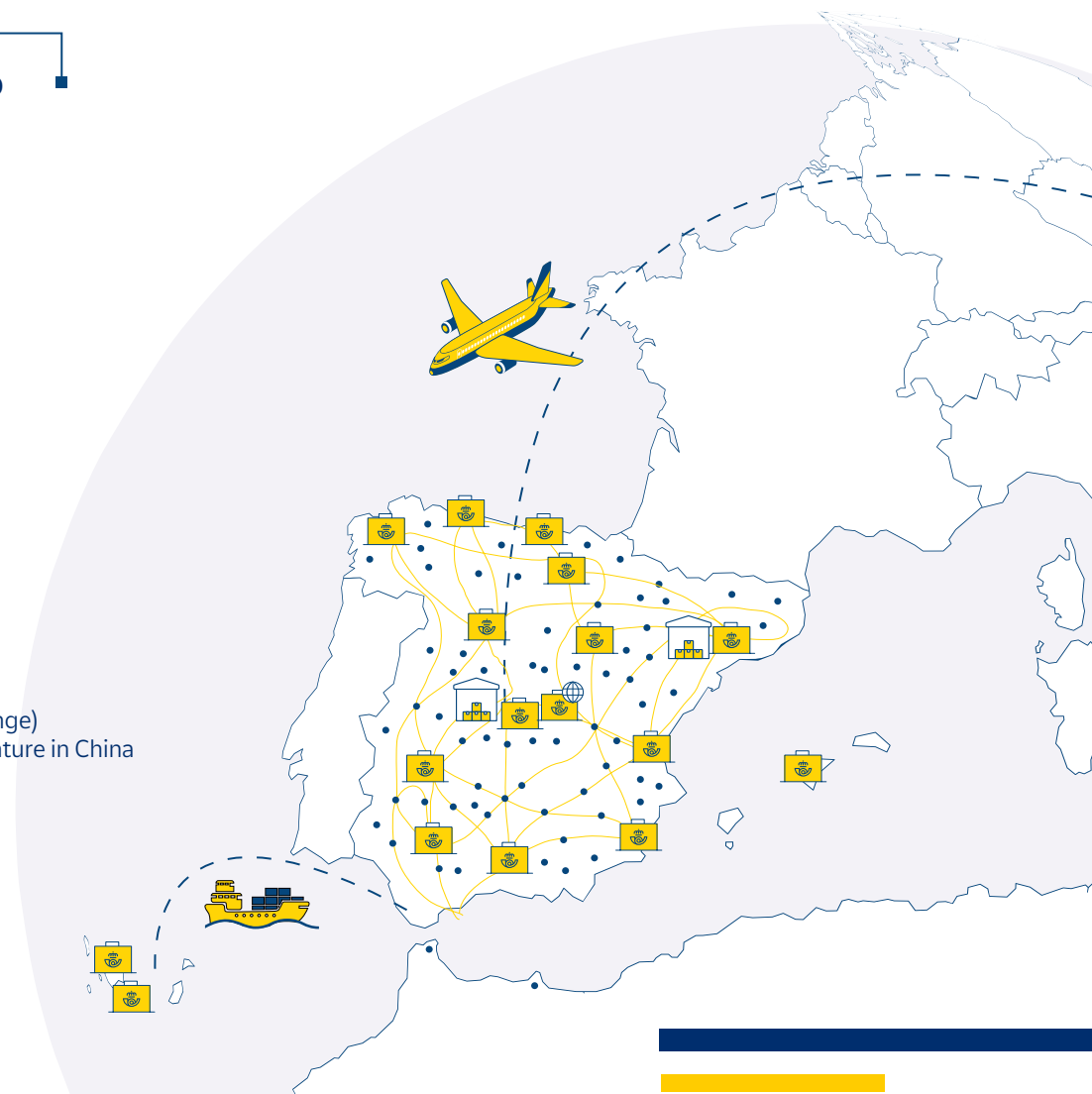


2 operating centres

Correos
Telecom



2.7 millions of metres of
telecommunications infrastructures



Analytical and predictive models for more secure and efficient management

In 2019 Correos began implementing a new **system for the integrated management and monitoring of the fleet**, and conducted the first pilot tests on different types of sensor-equipped vehicles.

This project, which is **underpinned by Big Data architecture** and analyses information related to the consumption, distribution and maintenance of the transport network, will enable Correos to design a **new, more efficient model for its fleet**.

The company has also used **AI-based technologies to help improve its key business processes and areas of activity**, thereby enabling:

- The **real-time processing of data** from each link in the **logistics chain**, using Big

Data and cloud-based architecture to detect and anticipate potential incidents.

- The development of **predictive models to forecast demand for parcel services**, which will allow the company to anticipate peaks of activity and assign the necessary human and technical resources to optimise its operations.

The company is using AI-based technologies to help improve its business processes and areas of activity



Optimising information systems on the move

All of the Correos employees who work in distribution (both urban and rural) use **smart devices (PDAs)** in their day-to-day activities in order to digitalise the processes involved in distribution. These devices are also used in post offices and processing centres to make admission and delivery faster and more flexible.

In 2019 Correos **purchased 1,330 new devices** for the staff at its special services units (USE) and international processing centre (CTI) in Madrid-Barajas. Additionally, it updated 1,700 terminals at the delivery units in Madrid and another 3,400 that are used by rural services. The company also created a centralised repository for these devices so that they can be distributed to additional employees during times of increased activity (e.g. election processes).

The devices were also updated with the addition of **new functions**, such as restrictive validations between attempts to deliver official

notifications, in order to ensure compliance with the legal time frames; the capacity to read pallets at processing centres, with a view to detecting incidents during the pre-admission stage; improved map visualisation and route optimisation; **voice recognition**; and, in general, a higher degree of automation for delivery-related tasks.

The new applications for these devices also allow for the development of additional lines of business related to distribution, such as **capturing information in public areas** regarding elements that are of interest to the company's customers (e.g. the condition of street furniture, or premises undergoing construction work). This initiative is being implemented through a pilot programme.



Expanding the technological and operational capacities of Correos Express

The **Correos Express investment plan for 2019-2023** aims to increase production capacity by **automating processes** in the company's centres, and to increase **workspace available** by creating or enlarging its work platforms.

This will enable the company to improve its facilities throughout Spain and particularly in medium-sized provinces, in order to be able to respond to the continued increase in parcel demand, **offer a 24-hour delivery service for the entire Iberian Peninsula** and maintain its high levels of quality.

In this respect, the subsidiary ended the last financial year with more than 145,000 m² of workspace, following the **enlargement of its facilities in Guarromán (Jaén) and Zaragoza** and the opening of a **new facility in Getafe** (Madrid).

With the addition of the latter, which is fitted with two **automated data-capture systems** and an additional two sorting machines for envelopes and parcels, Correos Express now boasts three facilities in the Spanish capital, covering an area of more than 25,000 m².

Moreover, by moving its Zaragoza facility to a new location in the city's Plaza logistics platform, the company has increased its processing capacity to 6,000 parcels per hour. The new site also boasts improved access for vehicles and 56 loading bays, thereby strengthening the presence of Correos Express in a geographical area that serves as the nerve centre of its network of processing and distribution facilities.

The subsidiary's investments in 2019 also included the **installation of parcel sorting equipment** at the facilities in Jerez (Cádiz), Murcia, Tarragona, Zaragoza, Oviedo, Burgos, Pamplona, Bilbao and Benavente (Zamora); the acquisition of automated data-capture systems for the facilities in Girona, Castellón and Tenerife; and the expansion of the sorting systems in Málaga, Valencia, Alicante, Granada,

Seville, Vigo (Pontevedra) and Guarromán (Jaén).

Additionally, Correos Express added **100 new lorry routes for distribution** (i.e. routes for lorries that transport goods to the company's various centres) and **replaced all of the smart devices (PDAs)** used by its delivery personnel.



► Efficient AI-based delivery systems

Correos Express boasts a **dynamic delivery system that uses AI**, mobility technology, geolocation algorithms and digital mapping to improve its monitoring processes and ensure full traceability of deliveries.

These technological applications allow **Correos Express to respond to the challenges of the last mile delivery**, which is a critical point in the e-commerce shopping experience.

In 2019 the subsidiary **extended this system to cover customer collection**, thereby increasing transparency and security while improving overall delivery times. With this new development, customers' needs can be identified in advance and routes can be regulated and adapted in line with the admitted volumes, thanks to the geolocation of up to 97% of parcels.



The internationalisation of the Correos Group

In light of the continuous growth in parcel market and increased trade between Spain and Portugal, the company's customers had been demanding an **integrated express delivery service for the entire Iberian Peninsula**.

How has the Correos Group responded?

- The company has **entered the Portuguese market by setting up its own subsidiary**, thereby moving forward with one of its main strategic objectives.
- The creation of **Correos Express Portugal**, a subsidiary of Correos Express, enables Correos to respond to its customers' demands for **24-hour delivery to any location within the Iberian Peninsula**.
- With this addition, the Group **has positioned itself within an expanding**



market that offers significant business opportunities in light of the growth potential for e-commerce in Portugal.

- Correos Express Portugal boasts 11 operating centres in mainland Portugal. For its part, Correos Express has 55 facilities within Spain.
- In 2019 the new subsidiary installed new automated sorting equipment at its facilities in Lisbon and Porto, as part of the company's **operational optimisation plan**. These modifications were complemented by the addition of nearly 200 portable smart devices (PDAs) on all

delivery and collection routes, along with the creation of a **new facility at Montijo** (Setúbal, Portugal).

- This expansion into the Portuguese market also boosted the increase in turnover reported by Correos Express in 2019, and will enable the **generation of synergies between the two companies**. With this move, the Correos Group aims to consolidate its position as a leader in express parcel services in both the **B2B (business-to-business) and B2C (business-to-consumer) segments**.



New operations in Southeast Asia

China, the world's largest e-commerce market, exports more than four billion parcels each year. Moreover, its average projected annual growth is in excess of 20%. While the products made by Spanish companies are experiencing increased demand across Asia, Spanish consumers are also importing Chinese products in ever-increasing numbers.

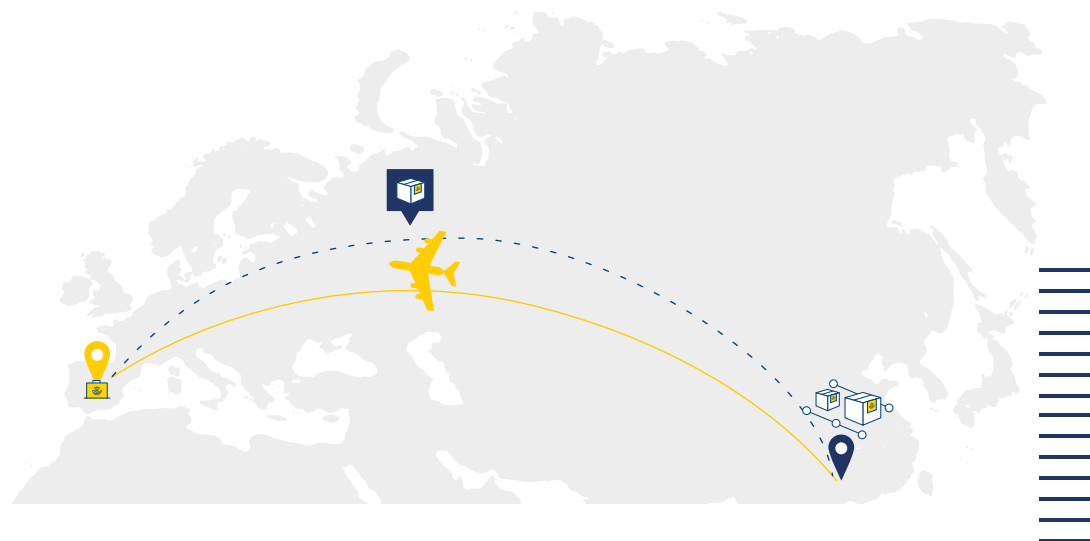
What is Correos doing?

- In 2019 Correos established a presence in Southeast Asia in the form of two joint ventures with the Chinese logistics companies Kerry Logistics Network Limited and Global Freight Systems (GFS). The focus of these joint ventures is the integrated management of **e-commerce parcel volumes from China and Hong Kong** to Spain and the rest of the world.
- The alliance includes the creation of an **admission and sorting centre for parcels** in China's Dongguan industrial area, which

is near Hong Kong and sits at the epicentre of the Asian giant's e-commerce activities. This modular facility has the **capacity to process up to 500,000 parcels per day**, with the possibility for future expansion.

- This move has enabled Correos to boost its integration with key Chinese customers, improve traceability, forecast demand more successfully and improve average delivery times, which have now been reduced to just 15 days (depending on the destination).

- Under the terms of this agreement, Correos will provide **integrated logistics services to large-scale senders of cross-border parcels**, including solutions for collection, sorting, customs processes, transport and last mile delivery, through the international networks to which the company belongs. This has enabled Correos to consolidate its position as a benchmark operator for parcel transport from China to the rest of the world.



Managing excellence in the company's operations

The Correos Group has a quality management system based on the UNE-EN ISO 9001 standard, through which the cycle of continuous improvement is applied to all activities and processes.

To this end, Correos uses **League of Excellence**, a tool that provides its operating units with personalised information related to their performance and contribution to corporate objectives. The results of this continuous assessment also enable the company to identify the best-performing post offices, head offices, centres and units each year.

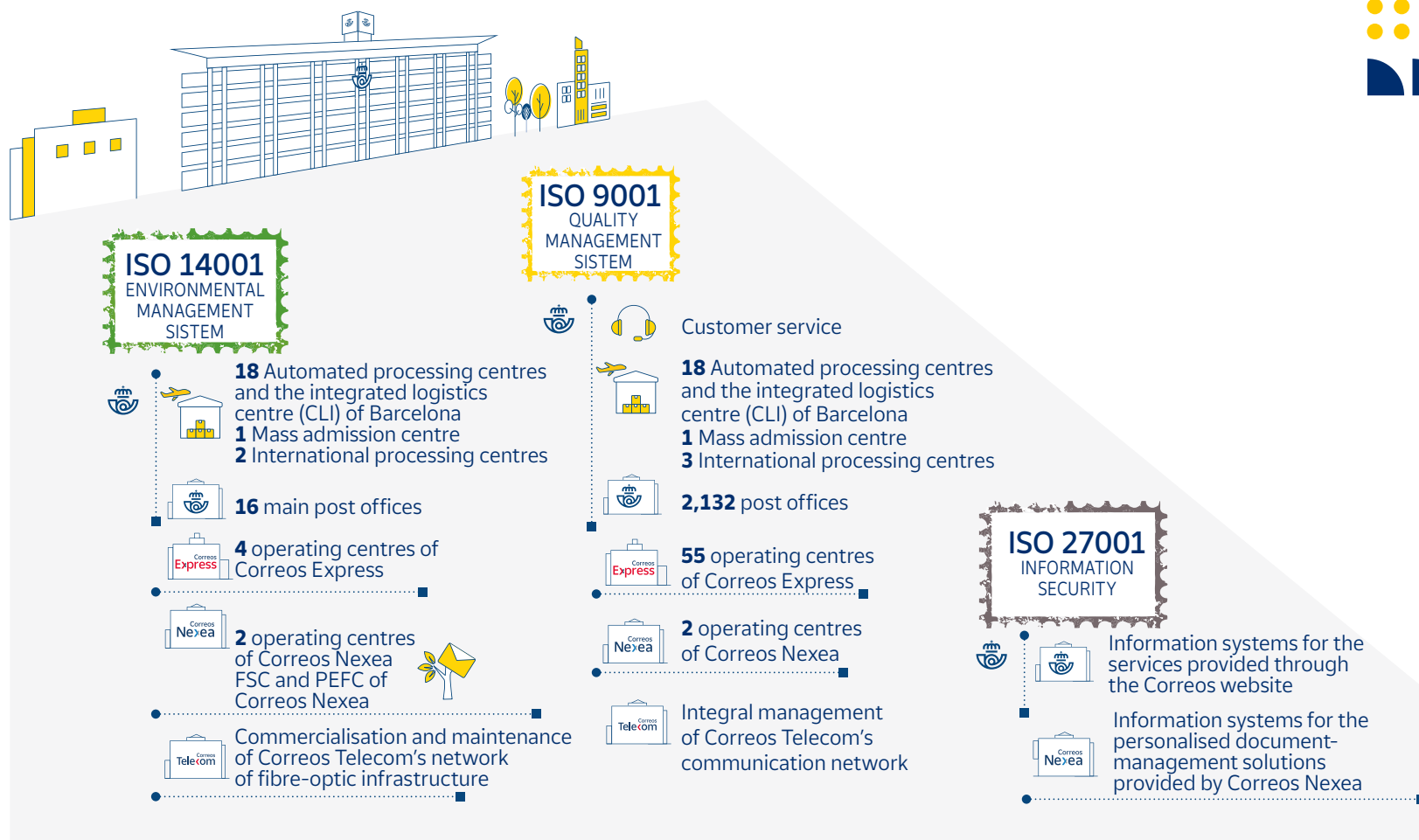
Similarly, since 2014 the company has used the **LEAN continuous improvement system**, which is aimed at achieving the highest levels of efficiency in processes in order to provide maximum value to customers. In 2019 this methodology was extended to automated processing centres (CTA) such as those in

Valladolid, Oviedo and Valencia, in order to optimise the parcel sorting process.

Finally, in 2019 the **exchange office** at the international processing centre (CTI) in **Madrid-Barajas once again renewed its certificate of excellence awarded by the International Post Corporation**, in recognition of its high quality standards in the processing and exchange of international items.



Certifications of Correos Group



The relevance of the Correos Group's services

Every year, Correos develops a Net Promoter Score (NPS) based on interviews with contractual customers, post office users, website visitors and recipients (home, post office and *CityPaq*). For the 2019 assessment, the number of **total 'promoters'** (i.e. those who gave the company a score of between 9 and 10) **grew to 39%**. For **post office** customers, the figure for **'promoters' exceeded 48%**.

The company's **NPS** (essentially, the difference between 'promoters' and 'detractors') was **22.5 points**, with a notable growth in the scores given to post office employees (an 18-point increase) and those involved in delivery (a 16-point increase).

The **satisfaction studies carried out by the Group's subsidiaries** also demonstrated renewed trust on the part of customers, who gave Correos Express a score of 7.1 out of 10 for the quality of its service, customer care and flexibility. In the case of Correos Nexea,

the overall score was 3.9 out of 5, while the customers of Correos Telecom gave the service a score of 36.6 out of 40.

The renewal of our brand

In 2019 Correos unveiled a **new brand image**, in the form of a modern, digitally inspired design that is in line with the company's own transformation. The launch achieved a significant impact, especially in social media, and generated high levels of interaction that served to cement the communicative links between the company and society.

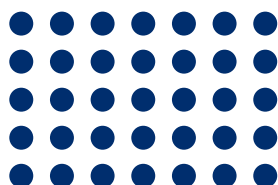
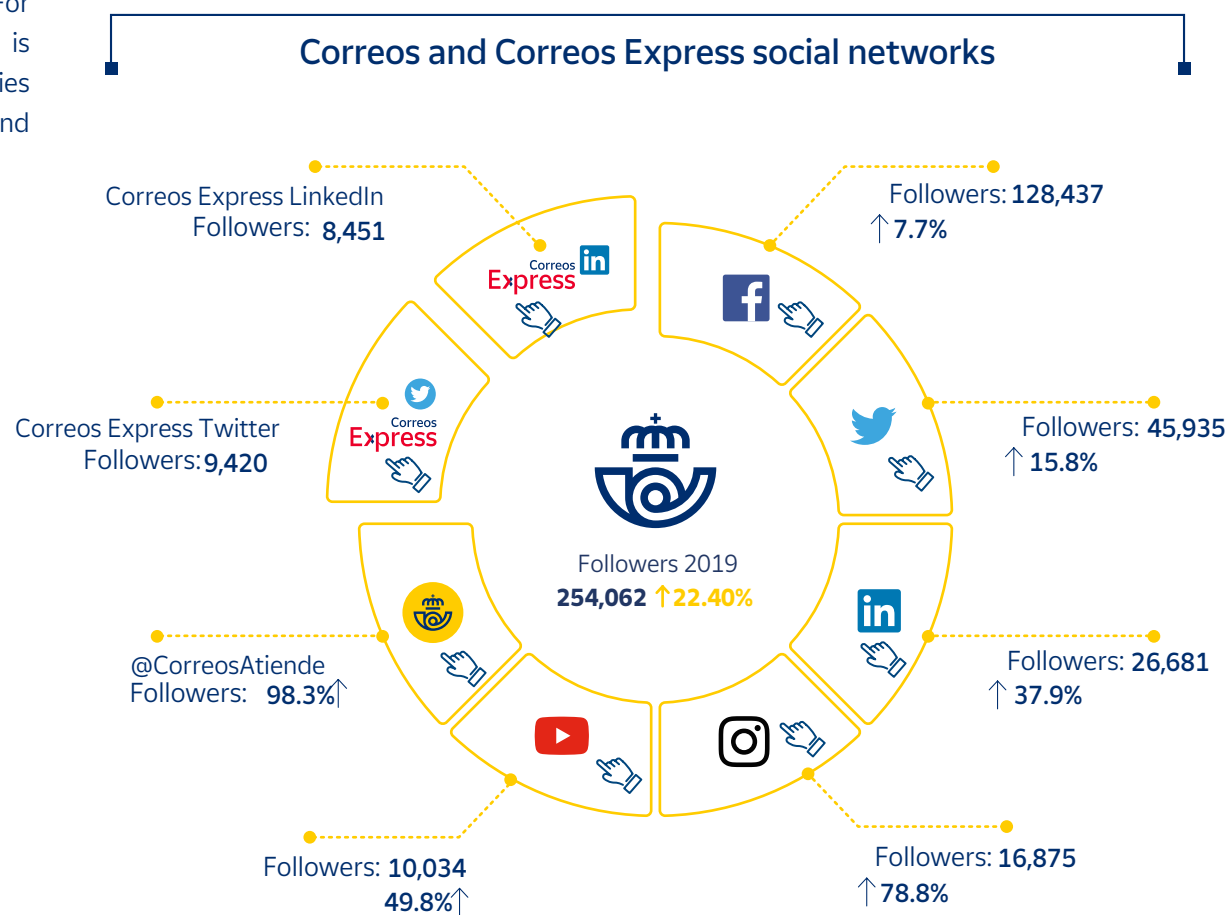
The new image was accompanied by the launch of a new **corporate website**, (which is separate from the **commercial website**), with the aim of improving corporate communication and providing citizens, companies and institutions with **flexible, transparent access to corporate information**.

The transformation of the Correos brand also involved redefining the company's **social media** strategy in order to adapt its content in

line with the new corporate identity. During the past year, **the number of followers** across all of the company's corporate profiles **grew by 22%** to 254,062.



This growth was particularly notable on Instagram, LinkedIn and the Twitter customer service account @CorreosAtiende. For customers who use social media, Twitter is the preferred channel for addressing queries regarding the company's products and services.



CRUZ DOBLE EME RAYA ESPIRAL



The content that attracted the most interest among the followers of Correos's different social media profiles included:

- The **#YoMeQuedo** ('I'm Staying') campaign to introduce **Correos Market**, the company's online market for local producers that choose to remain in Spain's rural areas.
- The **online series titled *Paquetes***, the stars of which (i.e. the parcels) told their own particular stories using the hashtag **#HistoriasEnUnCitypaq**.
- The launch of the **new Correos app**, which challenged the company's Instagram followers to try out its new functions.
- The **video** containing a **Christmas message from Correos**, which parodied the story of the Three Wise Men in order to highlight the important role played by parcel services during the festive season.
- The **#ProtestStamps** campaign, which included a collection of stamps portraying the voices of a generation against climate change. The collection was launched to mark the 2019 Climate Summit. The design

for one of the stamps was chosen via a competition that was organised through the Correos account on Instagram.

The company's increased presence in the media throughout 2019 was also consolidated through an increase of 67% in audience reach and an increased number of appearances in the press, radio and television, with a total of 32,611 mentions. These mentions, of which some 90% were positive, reinforced public influence in areas such as Correos's range of parcel and e-commerce services, the role played by its network of post offices and the products and services they offer citizens, the company's role as a public service, and its efforts in the area of sustainability, among other initiatives.

Correos unveiled a new brand image in line with the company's own transformation



Solutions for customers

GRI 102-2
 GRI 102-6
 GRI 203-2



Physical communication solutions

- Mail and registered products
- Bureaufax
- Direct marketing solutions
- Nexo multichannel communication platform
- ✓ Telecommunications products

Correos
Nexo

Correos
Telecom



Paquetería

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

Correos
Express

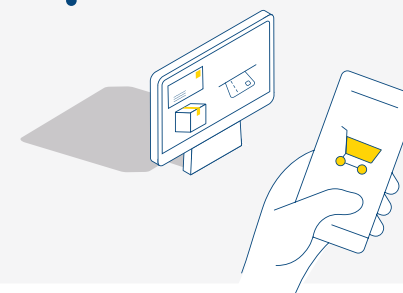
Retail sales and post offices services

- ✓ Mail, parcel and prepaid packaging products
- Financial services and bills payment
- Tickets sale
- Merchandising, philatelic and convenience products
- General Directorate for Traffic environmental stickers' sale
- Sale of services of other companies
- ORVE



Comprehensive solutions for e-commerce

- Correos Market
- E-commerce solutions
- Correos Prepago and Correos Regalo cards
- Online store



New parcel services to meet new needs

The Correos Group is a benchmark in the parcel services sector, and particularly the segment for e-commerce services within Spain. The Group's wide range of options for domestic and international parcel services includes **express solutions that offer guaranteed time delivery and are tailor-made** to meet the needs of companies and individuals.

The Group also offers **unmatched capillarity and geographical coverage**, as well as maximum **flexibility regarding delivery**, whether to homes, Correos post offices or *Citypaq* lockers. These advantages are particularly important to customers and end recipients.

Correos caters for the **most urgent** deliveries with its *Paq Today* service, which offers collection and delivery on the same day, and *Paq Premium*, which offers delivery in 24/48 hours. **More economical options** include *Paq Estándar* and *Paquete Azul*. Moreover, management of the growing numbers of

returns, particularly in the e-commerce sector, is made simpler and more flexible with the company's **reverse logistics solutions** *Paq Retorno* and *Paq Retorno Premium*.

In 2019 the company's commercial portfolio was expanded with the addition of *Paq Ligeró*: this new service is particularly well-suited to the e-commerce and publishing sectors, which require traceability for parcels of low value and reduced size or weight (up to 2 kg).

Additionally, Correos's *Paq Maletas* option allows customers to **send luggage** anywhere in the country, and complements the *Puerta a Puerta* luggage delivery solution that Correos already offers to passengers travelling on Spain's high-speed, long-distance AVE rail network and tourist trains.

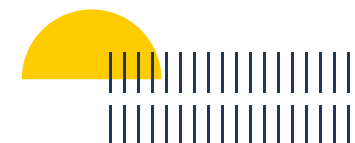
This catalogue of commercial services is completed by a variety of **added value** propositions that provide customers with additional information, security and flexibility. One such service is *Managed collection and delivery*, which allows customers to request additional services alongside delivery, such as collecting other parcels or checking documents.



The Correos Group offers unmatched capillarity and geographical coverage, as well as maximum flexibility regarding delivery

Correos is also the operator of choice for those who embark on the *Camino de Santiago (Way of Saint James)* each year. In 2019, the more than 300,000 pilgrims who made their way along the variants of the route were able to use services such as *Paq Mochila*, demand for which grew by 33%; *Paq Bicicleta*, which saw deliveries to France and Portugal double; *Paq Peregrino*; and the **luggage storage facility** at the Correos post office in Santiago de Compostela.

As part of its **commitment to preserve the cultural wealth of the Way of Saint James**, the company launched new versions of the  www.elcaminoconcorreos.com website in German, French, Italian and Korean, in order to facilitate access to information and services for pilgrims from those countries. Over the course of the year, **visits to the site grew by 26%**, reaching a total of nearly two million.



Information systems for effective delivery

The growing volume of e-commerce, society's increased connectivity, and modern lifestyles and habits generate new patterns of consumption. As a result, customers expect total flexibility for their deliveries and want the **estimated delivery time to be as precise as possible**.

What is the solution offered by Correos?

- The new **Correos Modify** app **facilitates more effective delivery** by allowing end customers to choose the most convenient time and place to receive their parcel deliveries.
- *Correos Modify* is a web-based app that allows users to check and **modify the delivery date and time, delivery address** and other related information, from any device and in accordance with the user's needs.

- This app can be used to manage domestic parcel deliveries to customers' homes and **offers customers greater convenience** while reducing the environmental impact of the delivery process.
- In the first six months following its launch, customers have redirected 12,000 deliveries to a new address, 24,000 to a *Citypaq* terminal, and 124,000 to a Correos post office (where mail can be kept for up to 21 days).



Solutions for international e-commerce

Correos has a **comprehensive portfolio of international postal and parcel services**, adapted to meet the needs of the growing volume of cross-border trade in today's globalised world. Customers can take advantage of the **experience, worldwide coverage and operational capacities offered by Correos**, thanks to the commercial agreements the company has entered into and the networks it is part of.

Correos's *Paq Premium Internacional* service offers express parcel delivery to more than 190 countries; *Paq Standard Internacional* is the ideal solution for priority deliveries at a competitive price; *Paq Light Internacional* allows for signature-free delivery of parcels up to 2 kg, with full traceability; while the *Paquete Económico Internacional* is the ideal option for non-urgent parcels.

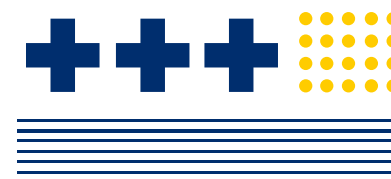
Customers can also opt for the **new *Paq Return Internacional*** service, which is specially designed to enable the simple and flexible return of online purchases made by customers in other countries.

In 2019 the **growing international demand for small parcel deliveries** (signature-free and traceable) was once again consolidated in terms of both imports and exports, through the use of products such as *Paq Light Internacional* (**demand for which doubled**). This trend is closely linked to the increase in cross-border e-commerce transactions.

With the aim of attracting business in the international parcel services market driven by e-commerce, Correos opened a **new Extraterritorial Office of Exchange in the United States**, thereby extending its presence outside Spain and particularly in the American market.

The Group also launched its **international expansion into Portugal and southeast Asia**. Both of these developments allow **Correos** to strengthen its position as a **benchmark**

international operator, capture deliveries to Spain and the rest of the world at their point of origin, and build a foundation for the development of future lines of business.



Correos Express: an integrated portfolio for Spain and Portugal

Correos Express is a subsidiary of the Correos Group and specialises in express B2B and B2C deliveries, with delivery at a guaranteed time to any domestic or international destination.

In 2019 the **creation of Correos Express Portugal**, a subsidiary of Correos Express, enabled the company to develop a range of services for the whole of the Iberian Peninsula, in order to serve customers who need to send parcels throughout the Peninsula while enjoying the same quality and speed that the Correos Group offers within Spain.

Correos Express offers a range of services for **guaranteed time delivery** such as *Paq 10*, *Paq 14* and *Paq 24*; it also offers bespoke business solutions such as *Paq Empresa 14* (for B2B shipments with delivery before 2 p.m.) and *ePaq 24* (specially designed for B2C e-commerce deliveries).

Additionally, individual customers can request the collection, **transportation and express delivery of luggage** weighing up to 25 kg with the *EquiPaq 24* option, which has also been available at Correos post offices since 2019. The company has also extended its **Saturday collection and delivery** service to the whole of the Iberian Peninsula, as well as offering home collection for Correos customers.

The range of services offered by Correos Express includes **bespoke solutions** for the optical industry, namely *OptiBox 10* and *OptiBag 15*, and *Valija Dental 12*, *Paq Dental 10*, *Paq Dental 14* and *Paq Dental 24* for the dental industry. The subsidiary has expanded its range for these industries by signing new agreements with the Spanish Dental Foundation (FDE), the Spanish Federation of Optical Sector Associations (FEDAO) and the General Council of Optical Optometrist Colleges (CGCOO).

The commercial portfolio of Correos Express is completed by options such as *Internacional Express* for urgent door-to-door airmail delivery worldwide; *Internacional Estándar* for less urgent deliveries to Europe; and specific

products for the Canary Islands and the Balearic Islands.

Finally, Correos Express also boasts a range of **technological solutions to enable its customers to manage their deliveries**: these include the *Entrega Flexible* (Flexible Delivery) service, which allows customers to view and modify the delivery date, time and address (including Correos post offices); a system that allows the addressee to be located immediately, if they are not at home; and the proactive management of incidents.



Technology and experience at the service of e-commerce

In Spain, online sales have continued to rise in recent years and companies need partners who will enable them to increase their visibility on the Internet and provide a high-quality, guaranteed delivery service for their products. The **Correos Group facilitates the development of e-commerce activities** for large and small companies alike by providing optimal solutions for their value chain.

The services offered by Correos range from web store creation through to marketing, payment methods and logistical management. This allows vendors to focus on their core business activities, **confident in the knowledge that they are supported by a leading company in integrated solutions for e-commerce.**

Correos's catalogue of **e-commerce solutions** also includes the following services:

- *Crea tu web*, which offers **personalised business website design** with a view to improving brand presence and visibility on the Internet.
- *Crea tu tienda online*, which enables customers to set up an **online business** on a step-by-step basis and with help from Correos, without the need for any prior knowledge.
- *Crea tu App*, which opens the door to the opportunities presented by **mobile applications** as a means of improving direct communication with customers.
- *Vende en marketplaces*, which facilitates the selling of any product via Amazon, eBay and other well-known **online sales platforms**.
- *Cross-border e-commerce*, which enables customers to expand their business into the most dynamic **international markets**, such as China.

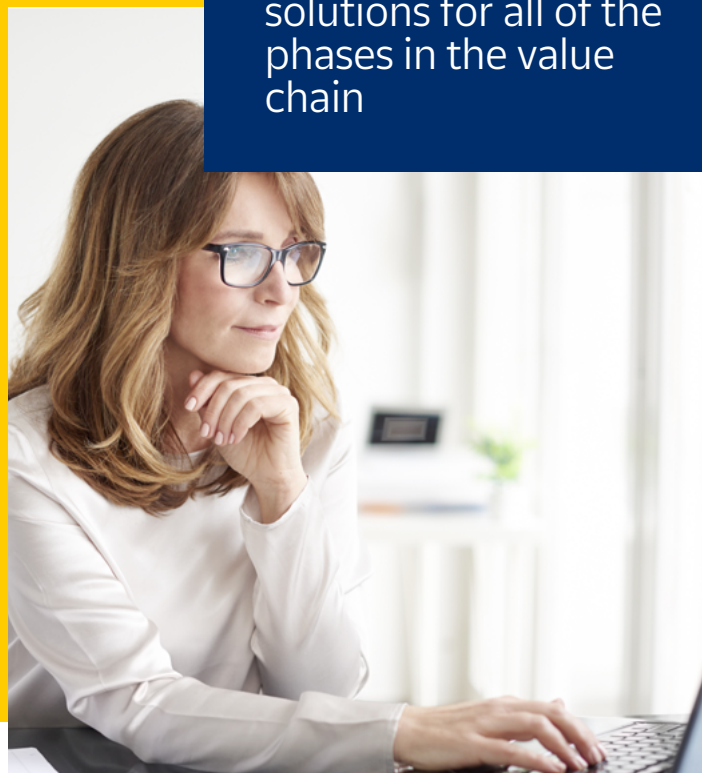
Strategic agreements to promote SMEs

At the international level, the company has forged a **new alliance with the Alibaba Group** that will facilitate the development of new lines of business. Correos is already Alibaba's key logistics partner for deliveries to its customers in Spain. Among other objectives, this collaboration aims to **promote exports from Spanish SMEs** to locations around the world (particularly the European Union and Latin America) through the AliExpress platform and Correos's own bespoke logistics solutions.

As such, the company offers **specific services** for Spanish SMEs that are designed to help them **exploit the commercial opportunities presented by international e-commerce**. The services include specialist training and boast worldwide coverage.

Additionally, as part of this agreement, a number of pilot projects involving online sales and Correos post offices (as points of sale and presentation) were implemented, with the aim of improving the buying experience for customers of AliExpress.

The Correos Group facilitates the development of e-commerce activities by providing optimal solutions for all of the phases in the value chain



In 2019 **the company also renewed its strategic agreement with Amazon** for the next three years, in order to offer Amazon customers an even faster and more reliable home delivery service, complemented by the option of delivery to the approximately 2,400 Correos post offices and 5,100 *Citypaq* parcel terminals throughout the country.

Additionally, the agreements the company signed with renowned marketplaces in order to promote the exportation of Spanish products to key global markets, along with the new delivery service for online orders placed by the customers of Ikea, served to both underline and extend Correos's commitment to the e-commerce sector.

Online purchases made more secure

The company has its own online store, which provides a channel for the sale of products such as packaging material, gifts, merchandising, stamp sets and other collector's items. These can all be delivered within 48 hours to a home

address or the nearest Correos post office or *Citypaq* terminal.

In 2019 the store's range was expanded to include limited edition collector's items, along with in-branch services such as *Reenvío Postal* and *Buzón de vacaciones*. A new section with a social focus was also created, with a range of products from foundations and NGOs.

Online payments have also been made simpler thanks to ***Tarjetas Correos Prepago, Correos Regalo and Correos Regalo AliExpress***, which allow customers to make purchases through the Internet as well as in physical stores with complete security and without requiring a link to a bank account. Moreover, the *Correos Prepago* card allows the option of withdrawing cash from ATMs and at Correos post offices.



Citypaq at the service of online buyers and sellers

For any e-commerce purchase, delivery is the most important part of the end customer's experience. Consequently, it is vital that the delivery is as flexible and convenient as possible for the recipient.

The network of *Citypaq* parcel lockers enables the collection and delivery of parcels 24 hours per day, 365 days per year, offering complete convenience and proximity for customers. They are available in three types of location:

- Places that are freely accessible, such as public transport hubs, shopping centres, petrol stations, universities, hospitals and supermarkets.
- Business head offices (available at 20 of the 35 IBEX companies).
- Within communities of property owners.

The convenience offered by *Citypaq* explains why the number of **parcels delivered to these terminals grew by 66%** in 2019, while the **number of registered users grew by 134%** to more than 331,000. Correos also revamped the mobile app for the service, while the *Citypaq* website received more than 500,000 unique visits.

Last year, the network was opened up via **new commercial agreements with other parcel operators**, allowing them to deposit their customers' parcels directly in Correos's terminals for collection. Additionally, **two new services** were created:

- *Citypaq Estafeta*, which centralises all of the user's deliveries in their chosen deposit box, whether in a business or residential location.
- *Citypaq Partners*, which enables clickandcollect deliveries to terminals located inside commercial establishments and premises.

The number of registered users of *Citypaq* grew by 134%



Lending visibility to high-quality products from rural Spain

In recent decades, as the country has made significant economic advances, it has also witnessed an increase in mass migration from rural areas into major cities. This phenomenon has resulted in the depopulation of thousands of towns and villages across Spain and the subsequent loss of opportunities and services in these areas.

How has Correos responded?

- The company has committed itself to promoting the development of rural economic activity with *Correos Market*, an **e-commerce platform** designed to **help local producers and artisans** promote their handmade or traditional products and local goods that have a designation of origin.

- This e-commerce portal aims to make their products more visible, facilitate their sale and **distribution throughout Spain**, and (in the near future) provide access to new international markets with logistical support from Correos.
- The company also promotes these rural producers through its **#YoMeQuedo** (‘I’m Staying’) advertising campaign, in which the stars of the ad (namely, the producers themselves) decide to stay where they are and **defend their right to choose where they want to live** and perform their professional activities.
- By the end of 2019, *Correos Market* had more than 1,000 products, spread across six categories (food, drink, crafts, fashion, home, and health and beauty), and more than 160 vendors. This number is expected to grow further throughout 2020.

Correos Market was named the best e-commerce platform at the 2019 eAwards prizes



Efficient solutions for physical and digital communication

Correos is the leading operator in the postal market and offers the widest range of **physical communication solutions**, with services including mail, registered and express products, books and publications, and personalised direct marketing services.

The company also sells a variety of digital services that complement its physical ones, such as digital letters and postcards, bureaufax services and online telegrams, all of which enjoy **the same levels of reliability, trust and security**.

In 2019 **Correos revamped its mobile app** and made improvements to performance and user experience. Via a single interface, the app allows users to check the status of a delivery and search for a post code, post office address, *Citypaq* terminal or post box. In its first two months of operation, the new app was downloaded more than 100,000 times.

In the field of electronic communications, Correos offers companies turnkey solutions that enable the **secure and centralised management of digital communications** with their own customers, through services such as *Mi Buzón*, *Mis Notificaciones* and the technological timestamp solution *Sellado de Tiempo*.

Integrating physical and digital communication

The Group's portfolio of digital solutions is completed by the **services of Correos Nexea**, a subsidiary specialising in the **comprehensive management of the document cycle**: from consultation, design, layout, digitalisation, data transfer and composition, through to printing, placing in envelopes, storage and certified destruction.

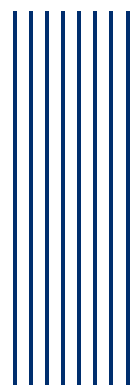
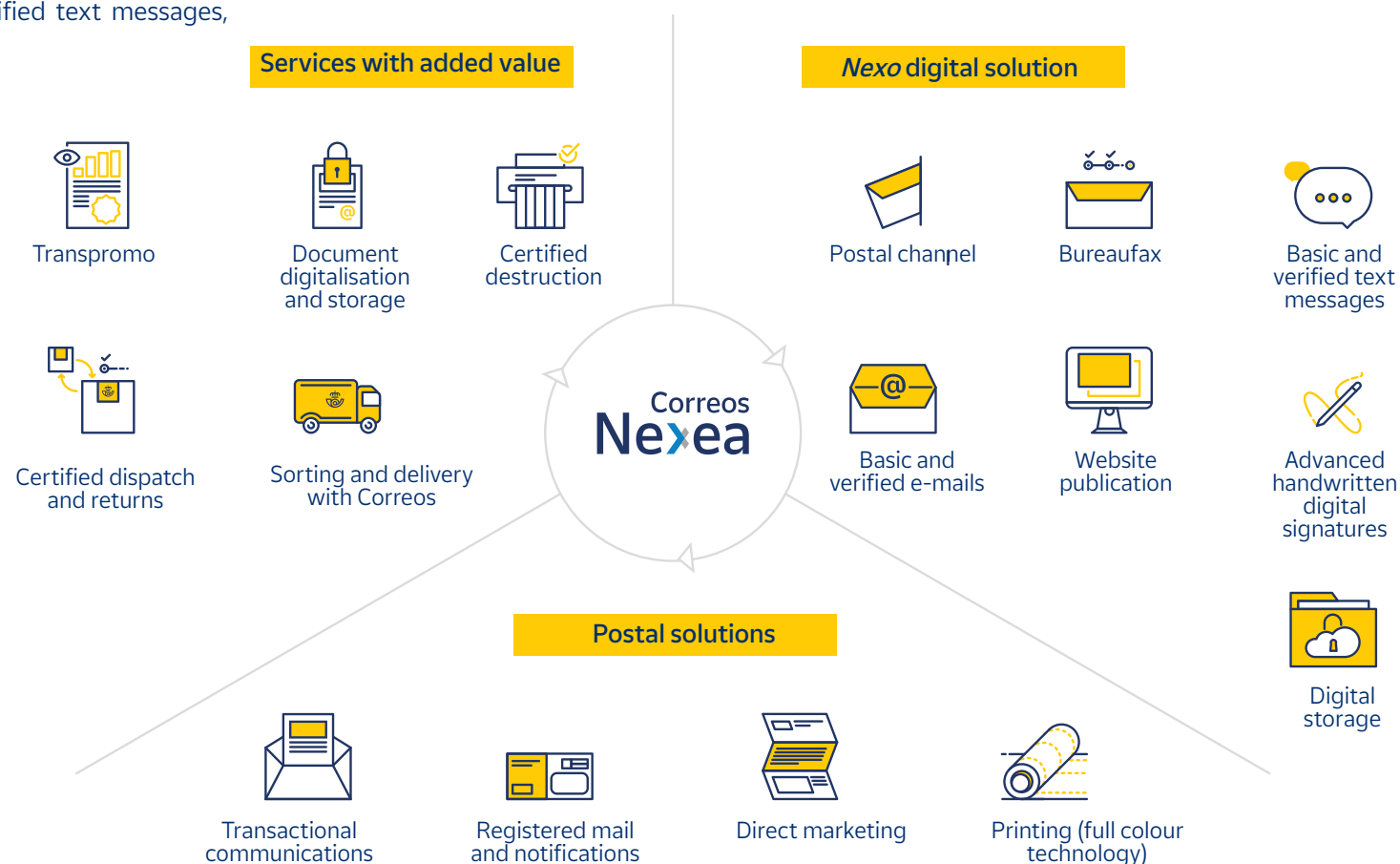
Through its **technological platform Nexa**, Correos Nexea facilitates the integration of its customers' physical and digital mass mailings across all formats and channels (e-mail, bureaufax, ordinary and registered mail, telegram, text message, and Correos's *Mi*

Buzón service). This enables the subsidiary to offer integrated management of all aspects of communication, thereby improving customers' production processes while ensuring complete security and traceability.

In 2019 *Nexo* added **new functions** that make it possible to send the same message through various channels, based on different criteria for segmentation and in accordance with different delivery frames (e.g. for scheduled promotional messages and the management of outstanding sums).

The capacities offered by *Nexo* make it possible to meet customers' needs in a range of different industries, such as banking, insurance, services and public administration. In relation to the latter, *Nexo* provides centralised sending and management for bureaufax and notifications on behalf of a number of Spain's autonomous communities, as well as - since last year - the Valencia Bar Association.

Correos Nexea also offers **digital services with proof of delivery**, which enables the sending of documents that require digital signatures and timestamps (e.g. verified text messages, e-mails and contracts).



The future of advertising: multi-channel and personalised

Companies are seeking to pivot their marketing activities towards personalised, multi-channel communication that raises the profile of their brand and has a greater impact on consumers. To do this, they require greater knowledge of their target audience and their expectations and needs.

What is Correos offering?

- *Correos Sampling* is a service that enables customers to carry out personalised marketing activities directed at consumers who are interested in receiving free product samples and promotions.
- The commercial mailings - both physical and digital - are designed in accordance with the tastes and preferences expressed by the registered users. This is complemented by the use of precision

geomarketing techniques, in order to boost the relevance of the campaigns.

- Correos offers a **360° solution** comprising brand and product promotion, appropriate segmentation, accredited registration, design, production, packaging, distribution, and the provision of reliable information.
- With the aim of adding value to the recipients of *Correos Sampling*, in 2019 the company added a **new option** that **allows companies to offer discount vouchers** for exclusive promotions.
- An additional service available to companies is *Correos Directo*, a **portfolio of comprehensive marketing solutions** that includes services such as *Correos Target*, *Correos Data*, *Correos Add*, *Publicorreo (Óptimo and Premium)*, *Publibuzón* and *Publi City*. The *Correos Directo* product range helps companies design and implement effective advertising campaigns that are adapted to suit their business, resulting in improved customer response and retention rates.



Post offices: platforms providing services to citizens

Correos's network of post offices **ensures access to the postal service for all citizens**, while contributing to territorial cohesion and economic development in both urban and rural areas.

Citizens and companies alike benefit from the **capillarity, flexibility and wide range of services** offered by post offices, which in turn become real hubs for the community. In 2019 the company's post offices were visited on 103 million occasions, 10.8% more than in 2018. Some 74% of customers gave a positive rating for the service they received¹.

The extensive range of products and services offered in these establishments goes beyond those related to mail and parcels. Customers can purchase prepaid packaging, stamp sets and collector's items, **tickets for shows** (also

available at www.entradascorreos.com), convenience goods and lottery tickets. They can also send cash and money orders with immediate effect, pay bills issued by more than 50 different companies and organisations, and verify their identity in person for certain online processes.

As part of the company's diversification strategy, Correos also offers other companies the opportunity to use its post offices as sales channels. In 2019 the company signed agreements with O2, Pepephone, Endesa and Renfe to **sell telephone, Internet, electricity and gas services, as well as train tickets**.

Correos also provides telephone companies with a solution for managing their **portability processes**, enabling mailing to be carried out while the delivery process is blocked and until the portability has been confirmed. Other services added in 2019 include **anti-fraud measures for the delivery and return of parcels**, which allow e-commerce customers to securely verify the contents of their parcels.

Correos is also a **strategic partner for financial entities**, particularly in rural areas where there are fewer bank branches. Correos has signed agreements with Banco Mediolanum, Tríodos Bank, Evo Bank and Bancofar to provide the latter's customers with access to the *CorreosCash* service, which allows them to perform banking operations (e.g. making deposits, withdrawing cash, making transfers) at the post office. Similarly, and thanks to the agreement signed with the General Society of Spanish Booksellers (SGEL), 300 display stands for the presentation and sale of books were installed in rural post offices.

Access to government services

Post offices are **access points for government services**. Through the Virtual Registry Office (ORVE) service, citizens can submit and receive official documents electronically from the organisations that form part of the ORVE initiative (including Spain's autonomous communities, over 1,100 local bodies, universities, and the Spanish National

¹ Spanish National Commission on Markets and Competition (CNMC) (2019). *CNMC Households Panel. First half of 2019. Postal Sector*.

Public Administration), thereby preventing unnecessary journeys.

In 2019 Correos expanded the number of **official procedures pertaining to the General Directorate for Traffic that can be carried out at post offices**. As such, customers can now obtain replacement vehicle registration documents, vehicle reports, and purchase environmental tags (to identify vehicles based on their polluting emissions).

Lastly, citizens can also use post offices to **pay local taxes**, thanks to the collaboration agreements that Correos has signed with local authorities such as Málaga Council.

► Advances in rolling out the new post office model

In 2019 **more than 1,150 post offices** (almost half of the entire network) **were operating under the new commercial model** that Correos has been implementing over the last few years, with the aim of improving the customer experience through the provision of

more immediate and personalised customer service.

This new post office format allows for **more flexible management** by extending the use of graphics tablets, reducing waiting times, removing architectural barriers and providing **more personalised assistance** in the form of 'ambassadors': employees who provide customers with personalised guidance on the services that best suit their needs.

As part of its diversification strategy, Correos offers other companies the opportunity to use its post offices as sales channels



Connectivity and telecommunications services

Correos Telecom **sells** the spare capacity of **the Correos Group's telecommunications network**, offering the opportunity to lease high-capacity connectivity, linear infrastructure for cable-laying, dark fibre, and sites for telecommunications equipment and radio emissions.

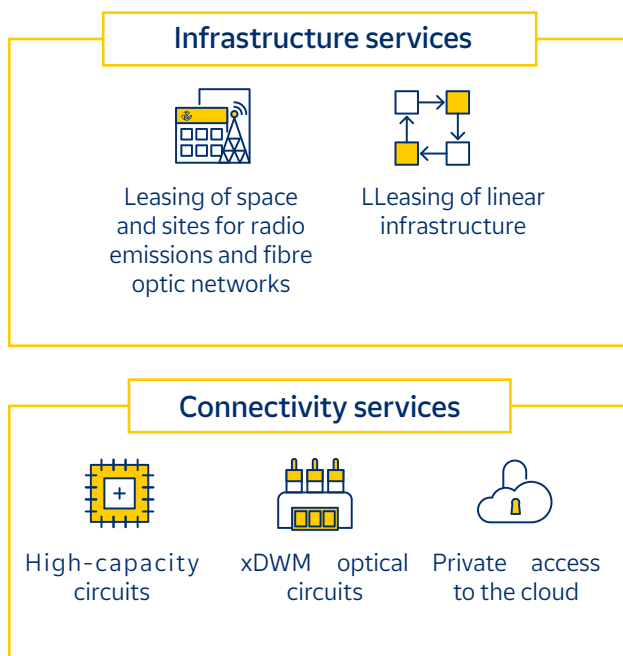
2019 witnessed continued growth in the infrastructure segment, which represents Correos Telecom's key area of activity, with an increase of 17% in turnover. Similarly, last year **turnover from the leasing of sites grew by 33%**, with **more than 100 new contracts** signed.

For the most part, this growth was a response to the **increased demand for space in Correos post offices** for the installation of header nodes for FTTH services, which are necessary in order to enable telecommunications companies to **deliver fibre-based Internet services**



to homes. Correos's network of premises, with locations throughout Spain, gives these companies a unique advantage in terms of delivering their services to communities of all types, and particularly those that are smaller in size.

Correos Telecom also offers **dark fibre infrastructure**, which is usually leased by telecommunications companies under long-term contracts or indefeasible right of use, so that it can be integrated into their trunk networks.



As part of the new commercial agreements that were signed last year, the subsidiary has begun laying a section of more than 100 kilometres of fibre optic cable between Zaragoza and Huesca, and has set up a number of data centres in the region. It has also begun laying out a network of more than 200 kilometres in the autonomous community of Madrid, and is continuing to recondition and improve the link between Puerto Lumbreras and Almería. This latter project is a continuation of the infrastructure network that has been laid out in recent years between Alicante and Almería.

Additionally, Correos Telecom has also expanded the capacity of a number of fibre optic lines in Madrid, with the aim of offering more **connectivity services** to other operators. The company also signed a contract to provide communication services for the data processing centres of a major international customer.

In 2019 the subsidiary also began supplying fibre optic connections to the mobile phone towers belonging to the main operator of this infrastructure. These connections, which are

forecast to grow over the coming years, are needed for the **installation of 5G technology**, in order to replace the existing radio links that are used for 2G, 3G and 4G technologies.

The range of products and services offered by Correos Telecom is completed by the leasing of IPv4 addresses and the provision of its own Internet access services. Moreover, the company is responsible for managing the Correos Group's telecommunications network and providing technological support to the other companies in the Group.



Philately as a reflection of society

In 2019 Correos oversaw 92 stamp issues, in which the company drove the **introduction of new themes and materials** such as acetate, wood, gold plating, parchment, 3D varnishes, photoluminescent ink, and even **the use of augmented-reality technology** as a means of providing audio or visual experiences.

Examples of this innovative approach to production include the stamp dedicated to the 'EuroLeague Basketball Final Four tournament at Vitoria-Gasteiz', which featured the official ball above a basketball hoop; the stamp issued to commemorate the '50th anniversary of the first man on the Moon', which featured a silvery effect; and the stamp dedicated to the 2019 Exfilna stamp fair in Santander, which featured an acetate coating that created the impression of being immersed in water; moreover, **for the first time in history, the postmark was applied under water.**

Additionally, as part of the digital service *TuSello*, which allows images and videos to be made into genuine stamps, Correos launched **SEYO3D**, in which an image of a person can be converted into a 3D-printed bas-relief in the shape of a postage stamp.

The company's stamps also contributed to **raising awareness of social issues** with the '2030 Agenda' charity stamp, in which 3% of the income from the sale of this stamp was donated to a social project; and the *Protest Stamps* collection issued to mark the Climate Summit.

Correos also sold a range of **other products related to stamp and coin collecting**, (such as folders, books, cases and coins). A notable example is the silver proof of the stamp dedicated to Ávila, a UNESCO World Heritage Site.

As part of its work to promote stamp collecting, Correos continued its collaboration with the Spanish Federation of Philatelic Societies (FESOFI), helping to organise exhibitions at 37 educational institutions and once again holding

the **Disello competition for the best stamp design**. As in previous years, the company also had a presence at more than 20 industry events, such as Exfilna and the National Stamp Fair.

Finally, in 2019 around 57,000 people visited the permanent collection and temporary exhibitions at the **Postal and Telegraphic Museum**, which takes visitors on a themed chronological journey through the history of communication. Similarly, more than 600 people attended the guided tours in Madrid and Barcelona on the history of the postal and telegraphic services.





Innovation

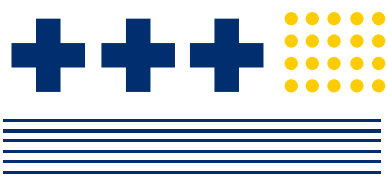
Correos promotes an internal culture of innovation and intrapreneurship. It acts as a lever to make the company more competitive and transform the latest technological advances into commercial solutions that add value for customers while helping to **respond to the major social, economic and environmental challenges**.

The company promotes the strengthening of ties with the entrepreneur ecosystem, with a focus on open innovation. To this end, in 2019 it partnered with SAS to organise the second edition of the SAS Hackathon, which chose the best initiatives in the field of **AI with a view to improving the environmental efficiency of Correos's logistics processes**.

The event also included a variety of conferences on subjects such as design thinking and the integration of open-source software with other technologies, as well as a presentation by DotGis, one of the winning start-ups from the second edition of the Lehnica Challenge, Correos's acceleration programme.

Last year, a team of the company's professionals also collaborated on the IDEA Project, which was organised by the Juan XXIII-Roncalli Foundation and aims to develop business ideas that will generate quality employment for people with learning difficulties. The purpose of this collaboration was to place Correos's talent at the service of society and to promote **entrepreneurship in sectors that are innovative and sustainable**.

Correos promotes an internal culture of innovation and intrapreneurship, which acts as a lever to make the company more competitive



Additionally, Correos continued to contribute its experience and knowledge to a varied range of collaborative R&D&I projects at both the national and international level, such as:

- The **Domus consortium**, which is experimenting with the **use of unmanned aircraft** for a variety of purposes (e.g. transporting parcels). The consortium forms part of a European network of U-space (drone-traffic management system) demonstrations, and last year completed its final stage of development with tests in Lugo and Jaén.
- The **DELOREAN** (Drones and Egnss for LOW aiRspace urbAN mobility) **consortium** was selected by the European Commission and aims to develop a **drone-based solution** for the management of **parcel deliveries and mobility in urban environments**.
- The **Entrepreneurial Promotion** initiative, which is promoted by the Government of Navarra through the state-owned company Navarra European Centre for Companies and Innovation (CEIN). In 2019 Correos once again mentored one of the companies taking part in this business acceleration programme.
- The **collaboration agreement with the Spanish Association for Autonomous Vehicles (AEVAC)** to promote autonomous and connected vehicles.
- Correos's contribution, alongside the Technological Institute of Packaging, Transport and Logistics (ITENE), the Basque Government-owned Environmental Management Agency (Ihobe), Ecoembes, and the Association of Manufacturers and Distributors of products of mass consumption (AECOC), to the working group focusing on optimising and **increasing the environmental efficiency of packaging for e-commerce**.

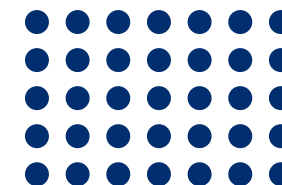


CorreosLabs

CorreosLabs is **the company's innovation centre**: a multi-disciplinary workspace where creativity and knowledge exchange is fomented through internal activities and collaboration with other companies. It is a laboratory for developing and experimenting with alternative business models, and is fully equipped with cutting-edge facilities and technological resources.

Since its opening four years ago, CorreosLabs has served as the company's incubator of ideas and a channel for innovation, providing a meeting point for major companies, institutions, start-ups and entrepreneurs.

The **CorreosLabs community of collaborators**, which brings together large and emerging tech companies, **continued to grow** throughout 2019 with the addition of organisations such as Zoomlo (Everis Initiatives), Lime, Qáurea, Blue Ocean Start, ProworkSpaces, NovaQuality, KPMG Impulsa, the Spanish Association of Start-ups, United Way Spain, Global Robot Expo and BerriUp. Last year, the centre also hosted seminars and workshops for more than 20 companies in the tech consulting and services sectors.



CorreosLabs: enhancing cocreation and ideas generation

Spaces for promoting and presenting ideas and projects

- + The Room**
- + The Square**
- + The Auditorium**
- + The Garage**

Six project-development areas



Logistics
distribution anywhere



E-commerce
your online business



Marketing
brand communication



Legal
counsel



Assistance
and public aids



Retail
to the sale point

Project mentoring

Internal and external advisory services



Correoslabs

Lehnica Challenge

CorreosLabs is also the home of the business initiatives that form part of the '**Lehnica Challenge**', **Correos's acceleration programme**, which celebrated its third edition in 2019.

The aim of the programme is to facilitate, within the framework of **jointly adding value to the market**, the **creation of innovative products and services** that offer potential synergies with the company's activities in the following areas:



Emerging technologies that facilitate the transformation of traditional businesses or the creation of new services through AI, blockchain solutions, machine learning, Big Data and the Internet of Things.



Logistics solutions that enable the improvement of the entire logistics process, or aspects thereof such as traceability, new delivery models, urban distribution, the circular economy, energy efficiency, drones, and autonomous vehicles.



Public services, specifically, ideas that improve the provision of public services.



Social awareness, i.e. solutions that contribute to the revitalisation of communities (and especially rural areas) by helping to retain a stable population and promoting ideas that support the transformation of the so-called 'empty Spain' or have a positive environmental impact.

The projects chosen receive a financial contribution towards their development, space within CorreosLabs to work and collaborate with other entrepreneurs, training, coaching and mentoring (both internal and external), for a duration of one year.

Correos promotes these new business models and boosts their commercial viability, while the entrepreneurs lend the company the flexibility to adapt in order to meet the new demands of its customers and thereby improve its services.

As part of the acceleration programme, in 2019 Correos launched pilot projects in conjunction with all of the winning start-ups from the previous edition of the programme, including the following:

- The distribution of environmentally sustainable organic food to companies with **Pleneat**, an initiative focusing on catering, restaurant services and the distribution of environmentally friendly meals within major cities.

- The design and implementation of a Big Data-based system for viewing spatial distribution data with **DotGIS**, which offers data analysis solutions for mapping applications.

- Improved GPS coordinate retrieval for Correos's digital delivery devices (PDAs), with the aim of facilitating the implementation of the **Homyhub** enterprise offering, which involves the delivery of parcels to customers' garages.

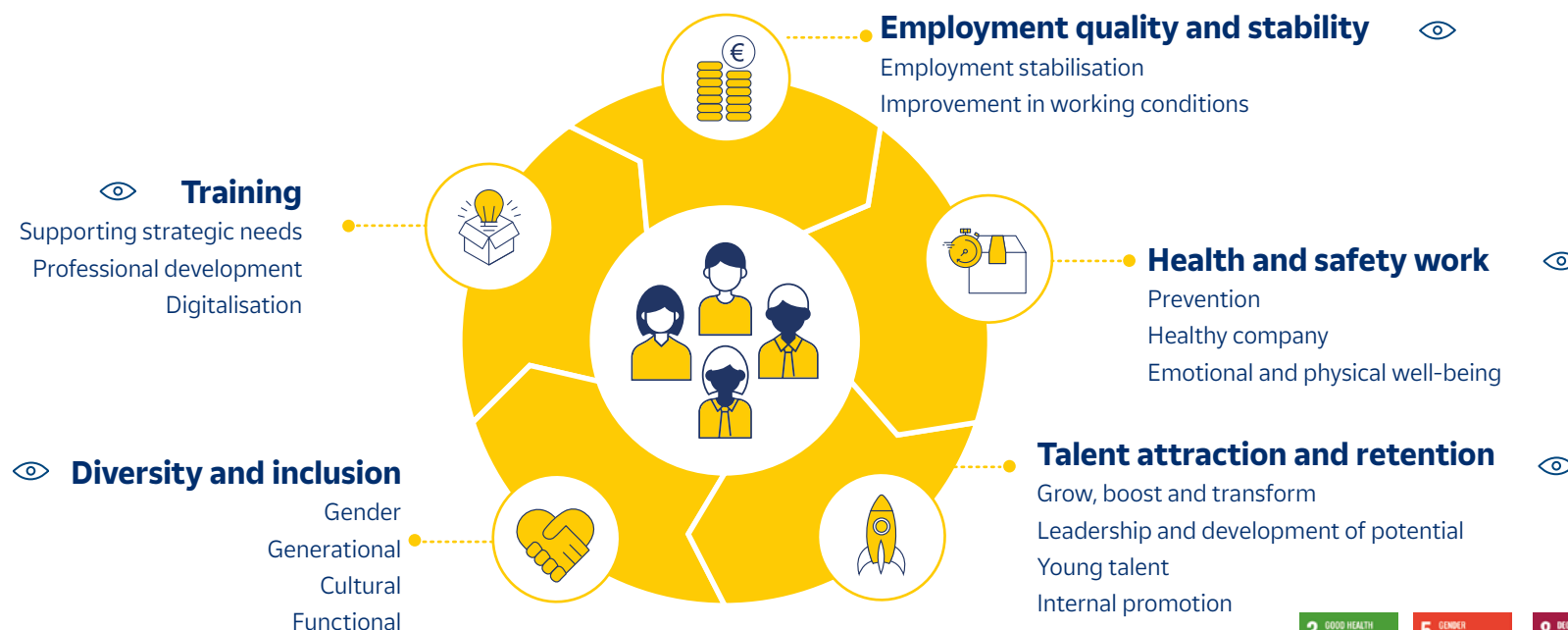
Winners of the past editions of the Lehnica Challenge





Comprehensive management of people

Foundations of the labour policy



Talent attraction and promotion cycle



Gender diversity and inclusivity

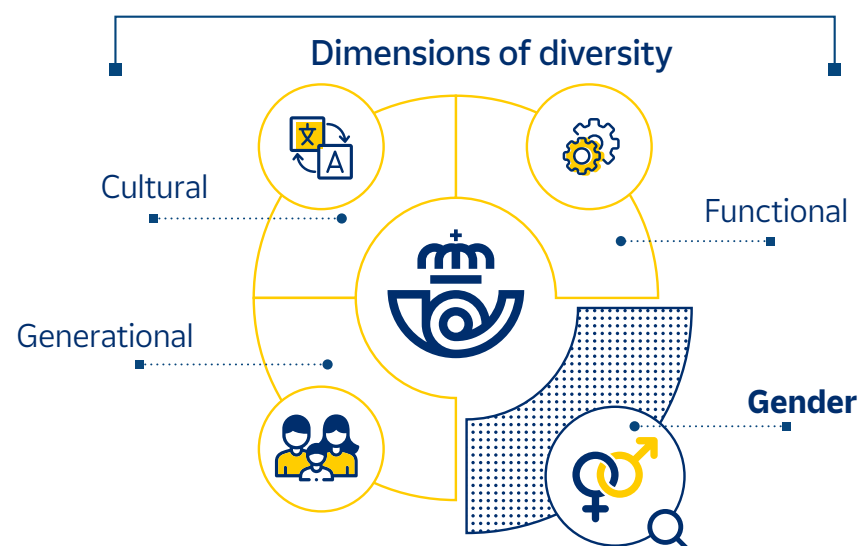
Equality among all people, regardless of their gender, is a fundamental human right. In the field of employment, promoting the equal treatment of men and women and equal access to opportunities creates enterprises that are open to mutual enrichment, are respectful of differences and are better equipped to serve an equally diverse society.

In 2019, 41% of the members of the Correos' Board of Directors were women

What is Correos doing?

- Correos has been a leader in the promotion of gender equality since 1881, when it hired its first female staff. In 2019, women accounted for 52 % of total employees and 46 % of middle managers.

- Promoting a Diversity and Inclusion Plan, which acts on four areas (gender, people with disabilities, generational and cultural) in a cross-cutting and global manner, based on the United Nations' Sustainable Development Goals.
- Promoting a culture of co-responsibility, flexibility and trust through measures geared towards work-life balance.
- Training, raising awareness and disseminating the diversity agenda within Correos, via internal and external communication channels.
- Supporting the eradication of gender-based violence through awareness-raising campaigns and victim protection measures within the company and implementing a protocol against workplace harassment.
- Promoting new Equality Plans within Correos Group companies.
- Supporting the inclusion of the LGBTI, through the Corporate Network for Diversity and LGBTI inclusion (REDI).








Towards a more sustainable future

Environmental sustainability strategy

Environmental impacts


CO₂, NO_x and
PM10 Emission generation


Energy consumption


Waste generation

Spheres of action of the 2014-2020 General Sustainability Plan


Reduction of
CO₂ emissions


Energy efficiency


Waste management

Environmental assessment and certification

Efficient distribution to reduce emissions

Efficient driving
Optimisation of delivery routes
Electric vehicles
CNG and LPG

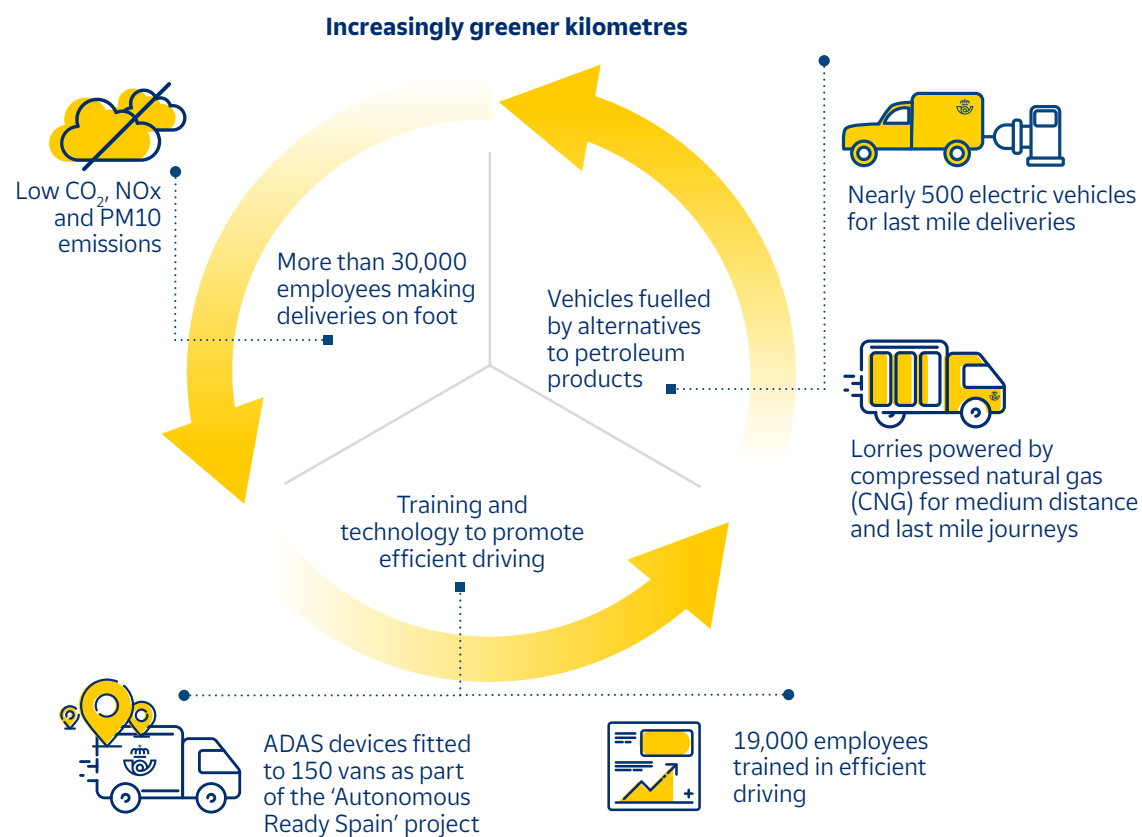
Sustainable use of natural resources

Sustainable procurement policy
Energy efficiency
Raising awareness

Circular economy and waste management

Efficient waste management
Forest Line products
Offsetting CO₂ emissions

Eco-efficient distribution



Areas of collaboration for reducing polluting emissions



First state-owned company and first company in the logistics sector to obtain the 'Calculate, Reduce, Offset' seal



Offsetting emissions to reduce the environmental footprint

Correos enables its customers to offset the emissions generated by the mail they send through its post offices, by providing support for blockchain-based mitigation projects in collaboration with the start-up Climate Trade.

Programme objectives



Agroforestry

Reduce the emissions created by deforestation and the degradation of tropical forest



Renewable energies

Replace fossil fuels and create green employment



Silvicultural solutions for areas of forest mass

Generate biomass energy while preventing forest fires



Environmental



Social

Projects supported by #Correos Compensa

1.- Arauco (Chile):

Biomass, preventing forest fires and conserving biodiversity

2.- Madre de Dios (Peru)

Protecting the Amazon rainforest

3.- Oaxaca (Mexico)

Renewable energies and green employment

4.-Recreio (Brazil)

Generating energy by recycling waste

5.- Navarredonda de Gredos (Spain)

Sustainable woodland in ecosystems affected by forest fires



Forest Line, a responsible alternative for consumers

Since 2000, Correos's Forest Line packaging has enabled the reforestation and recovery of degraded areas throughout Spain. The programme is funded by the contributions of customers who buy our sustainable packaging, which offers a sustainable alternative for their parcels.

119 Correos forests

- 92,000 native trees
- 260 hectares of land throughout Spain
- Planting carried out by employee volunteers and their families

Programme objectives

- Protect native flora and fauna
- Raise social awareness
- Reforest degraded areas

Partners



1999 → 2010

Bosques de la Tierra Foundation



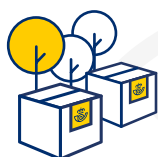
2013

Ardilla Connecting Life
Plantemos para el planeta



2010 → 2019

WWF Spain



The reforestation campaigns are funded through the sale of sustainable packaging materials

- 100% recycled cardboard
- Certificate of sustainable management
- Minimal use of water-based inks
- Recyclable




The programme's 20th anniversary was celebrated with a travelling exhibition of photographs, titled 'Correos's Forests: Recovering Lost Landscapes'



Solutions to the logistical challenge of e-commerce

The expansion of e-commerce is promoting the growth of parcel services. Additionally, the online purchases made on Black Friday, Cyber Monday, Singles Day and other key shopping dates serve to concentrate large volumes of deliveries into a handful of days. The process of distributing these parcels in urban areas is having an increasingly large impact, in the form of traffic congestion, polluting emissions, noise, and other concerns.

What is correos doing?

- Route optimisation using GPS technologies, the promotion of efficient driving through training and the use of ADAS technology, and the use of eco-efficient vehicles all help to **reduce emissions**. 
- The new mobile apps for Correos and Correos Express allow customers to manage their deliveries, with the aim of

making distribution more effective by requiring fewer journeys.

- The *Citypaq* network makes it possible to concentrate parcel deliveries in a single location, which is always near our customers' homes or workplaces.

- In addition, Correos travels more kilometres on foot (deliveries with zero emissions) to make deliveries than any other Spanish company, thanks to its more than 30,000 postmen and postwomen.



Correos at the 2019 Climate Summit

The European Commission is seeking to make Europe the first climate-neutral continent by 2050. The Green Deal aims to increase the commitment to reduce emissions from 40% to 50% by 2030 and promote the circular economy.



During the Climate Summit in Madrid, Correos...



- Was chosen from among the 101 #Porelclima ('For the Climate') COP25 initiatives for its project on 'zero emissions' delivery areas.



- Signed up to the CEO commitment to a European New Deal for sustainability (CSR Europe).



- Unveiled the new #Correos Compensa ('Correos Offsets') project, which enables post office customers to neutralise the emissions generated by the mail they send.



- Began pilot testing the *Redondeo Climático* ('Round Up for the Climate') initiative in its post offices, in which customers can donate to projects related to climate change.



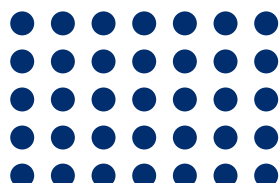
- Helped raise public awareness through its 'Protest Stamps' initiative, installed a giant vinyl display made from special materials that reduce the concentration of NOx in the environment, and placed posters promoting the Summit on 2,500 delivery trolleys around Madrid.





Partnerships to drive social impact

The three lines of action that make up Correos' Corporate Social Responsibility and Sustainability Plan contribute to the Sustainable Development Goals promoted by the United Nations



Correos Group's social impact



Correos and 2030 Agenda

On 25 September 2015, 193 countries committed themselves to the 17 United Nations Sustainable Development Goals. 2030 Agenda aims to achieve equality between people, the protection of the planet and prosperity in order to ensure sustainable development. Businesses, together with governments and citizens, are called upon to play an active role in achieving these goals in order to respond to society's major challenges.

What is Correos doing?

Updating its internal commitments for 2030:

- Reaching total neutrality in CO₂ emissions.
- Promoting circularity, in order to become a 'zero waste' company by 2030.

- Promoting intelligent mobility, with the use of alternative technologies in at least 50% of the fleet.
- Generating 'local value' by increasing opportunities in rural areas and expanding the supply of sustainable products through *Correos Market*.

Fostering partnerships to achieve these goals:

- Disseminating the #ODSéate campaign, promoted by the High Commissioner for 2030 Agenda and issuing a stamp commemorating Spain's membership, the sale of which helped to finance projects that benefit the most vulnerable children.
- Collaborating in the work of the CSR Action Group in Public Companies, promoted by Forética, to contribute towards 2030 Agenda.



Driving social inclusion and cohesion

Worldwide, some 262 million children are deprived of access to education, according to the United Nations. At the same time, in Spain it is estimated that there are more than 3.8 million differently abled men and women, which can be a barrier to their access to the world of work.

What is the Correos Group doing?

- The Group's companies collaborate with foundations, associations and non-profit organisations to support projects related to education and children's rights, the social and occupational integration of people with different abilities, environmental awareness and protection or social awareness.
- Correos sells solidarity products from different associations and organisations in its post offices network and *online* shop,

facilitating access to the whole of society through this extensive network.

- The Group's volunteers participate in various solidarity projects such as the reforestation days of the Forest Line, the campaigns to collect letters to the Three Wise Men and food for Food Banks or the collection of toys.

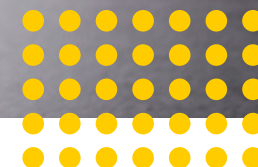
In 2019, Correos acquired goods and services from 33 special employment and occupational centres



2. Non-financial information



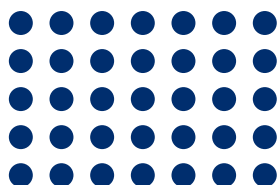
- + Correos Group's business model
- + Business environment and markets
- + Objectives and strategy
- + Future trends
- + Generated and distributed economic value
- + Risk management
- + Relationship with customers
- + Human team
- + Environmental sustainability
- + Social commitment of Correos Group
- + Corporate governance and ethical compliance
- + Reporting framework
- + Indicators used in the non-financial information statement
- + Atmospheric emissions indicators
- + External verification of non-financial information
- + GRI Content Index, Global Compact Principles and SDG





Correos Group's business model

(GRI 102-1)
 (GRI 102-4)
 (GRI 102-6)
 (GRI 102-10)



The Correos Group operates in the **physical and digital communications sector**, as well as in the parcel market. It is a market leader in the non-urgent transport sector, and is a benchmark for the e-commerce industry.

Correos, the Group's parent company, is Spain's leading postal company and one of the leading companies in the parcel delivery sector, thanks to the excellence and reliability of its service. It is also the operator designated by law to provide Spain's Universal Postal Service, with criteria of efficiency, quality and affordability, contributing to the sustainability of postal communications for all of the general public.

Correos complements its activity with that of its subsidiaries:

- **Correos Express**, dedicated to the express delivery of parcels for the B2B (business-to-business) and B2C (business-to-consumer) segments.
- **Correos Nexea**, specialised in multichannel solutions for physical and digital mass company communications.

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

- **Correos Express Portugal**, the Group's new subsidiary since May 2019, following the acquisition of 51% of Rangel Expresso by Correos Express. With this incorporation, the Group has begun the internationalisation process defined in its strategy, offering an integrated express parcel service for the entire Iberian market.

In May 2019, Correos' Governing Board also approved the formation of two new joint ventures with Asian operators Kerry Logistics Network Limited and Global Freight Systems (GFS), with a 35% stake in each. The shared companies KCG eCommerce Solutions I and II will carry out the comprehensive management of export parcels originating in China and Hong Kong, in response to increasing international activity arising from e-commerce.



Business environment and markets

🌐 GRI 102-4 🌐 GRI 102-6 🌐 GRI 102-10 🌐 GRI 102-15)



Parcel delivery market

In 2019, the Spanish business parcel market continued its trend towards **concentration** of supply, with new acquisitions of Spanish firms by European groups. As a result, almost half of the sector's turnover was generated by the five largest companies, of which only two are 100% Spanish owned (one of them being the Correos Group¹).

During the previous financial year, both foreign groups and national operators strengthened their **investments in infrastructure**, in order to cover the growing needs of e-commerce distribution in Spain (the fifth largest e-commerce market in Europe²). In this field of business, the Correos Group has become the **preferred option for the delivery of e-commerce³** orders over recent years, in addition to being the leading parcel delivery company of choice for private customers for their postal items⁴.

In 2019, the Correos Group also implemented its **internationalisation** strategy. With the creation of Correos Express Portugal, which is a subsidiary of Correos Express, the Group has established a commercial and logistics network that will meet the demand for 24-hour delivery services throughout the Iberian Peninsula.

Secondly, through the future creation of two Chinese joint ventures, the Group has also solidified its position in Southeast Asia, a region that exports more than four billion parcels annually and represents the epicentre of global e-commerce

1 DBK (2019). *Courier and Parcel Sectors*.

2 Ecommerce Europe (2019). *European eCommerce Report 2018*.

3 National Commission on Markets and Competition (CNMC) (2019). *Annual integrated report 2018*

4 National Commission on Markets and Competition (2019). *CNMC Households Panel. First half of 2019. Postal Sector*.



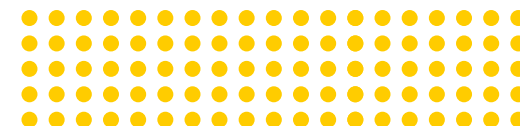
The rapid **increase in e-commerce**, as well as the concentration of these purchases at certain times of the year, was once again a logistical challenge for companies, both in terms of economic and environmental costs.

This **seasonality of demand** not only requires an adequate supply of productive resources, in order to provide an efficient response to vendors and end customers, but also implies increased travel to the final recipients, which increases the levels of pollution and congestion in urban areas.

The growing commitment of the parcels sector **to reduce its environmental impact**, increased public awareness and increasingly strict local mobility regulations are reshaping the scene. Within this framework, operators are moving towards more efficient and environmentally friendly last-mile delivery models through the use of emerging technologies and new logistics structures.

An example of this is the expansion of urban microhubs, small distribution centres for the consolidation and delivery of postal items in

the vicinity of the recipient, using eco-efficient vehicles. The **expansion of collection systems at convenience points or automated** lockers has also accelerated in recent years. Both of these trends also meet customer demands for speed and time flexibility. The Correos Group is leading this transformation, providing the largest network of delivery and admission points in Spain, thanks to some 2,400 post offices, 1,900 ordinary and express delivery units and more than 5,100 *CityPac* lockers.



Another consequence of the rise of e-commerce is the emergence of new companies (many belonging to the so-called collaborative economy) involved in various stages of the value chain. These include:

- Instant courier startups (delivery in two hours or less), which have become true logistics networks for the big online retailers;
- Companies that carry out both the delivery and the management of purchasing or supply consolidation of local shops in the vicinity;
- E-commerce logistics companies that specialise in the distribution of fresh produce;
- Aggregators or collaborative platforms used in the transport of parcels between individuals.

The Correos Group, a benchmark in the e-commerce sector due to its specialisation and reliability in each of these phases, not only offers a comprehensive service to large and

small online sellers, but is also participating in this emerging ecosystem, through a **strategy of open innovation and collaboration with entrepreneurs**.

On the demand side, there is a growing **need for flexible reverse logistics services**, for integrated B2B and B2C solutions (including collection, transport, customs processing, fulfilment, storage...) and for know-how in international distribution, in response to upcoming challenges (Brexit, new tax regulations for low-value non-EU shipments...) to which the Correos Group is also responding.

Lastly, companies in this sector continued to intensify their technological investments in order to improve their processing and distribution processes, increasingly adopting robotics in processing centres, applying artificial intelligence and Big Data to predict demand or improve the customer experience, introducing blockchain-based postal item traceability systems or experimenting with the integration of unmanned aerial vehicles into airspace.



Postal market

Correos is the only company in the postal market that provides national coverage to its customers. It is also the designated **operator to provide Spain's Universal Postal Service**, based on criteria of quality, affordability and accessibility, facilitating territorial cohesion and equal access to postal communications.

The provision of this service, which **implies the availability of an extensive human and infrastructure network**, requires sufficient and regular funding, given the scenario of continuous decline in activity and profitability. In order to properly identify the necessary resources and service levels required, the Universal Postal Service Plan was submitted by the Government to the European Union in order to ensure its compliance with EU regulations, prior to its regulatory processing.

During the previous financial year, the holding of general, regional, local and European **elections** also posed an enormous challenge for Correos, due to the need to allocate and increase all

its organisational, technological, material and human resources for the proper fulfilment of public service obligations.

It is also clear that the postal sector is a **mature market**. For decades, traditional shipping volumes have been declining each year due to digital technology, and in 2019 this trend was even more pronounced, with declines of more than 12%.

Against this backdrop, the main business opportunities continued to be linked to the **integration of physical and electronic communications**, through higher value-added multi-channel services such as those offered by Correos and its subsidiary **Correos Nexea**, especially for transactional communications and the direct marketing and e-commerce sectors. Correos Nexea is one of the two main companies in this business segment, focusing its value proposition on comprehensive communication solutions, which are efficient and adaptable to the needs of the customers.



Telecommunications and digital services market

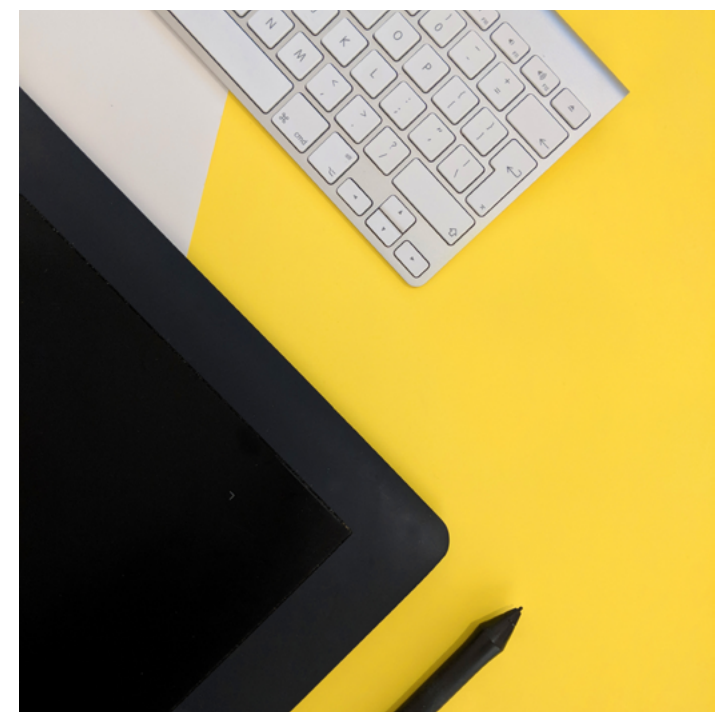
As with the parcels market, the Spanish telecommunications sector is marked by a **high concentration** of supply in a small number of operators and by a **high level of multi-service competition**.

The Correos Group, through its subsidiary **Correos Telecom**, provides services to the main telecommunications companies by offering its infrastructures, dark fibre, high capacity connectivity, Internet and public cloud access, as well as its telecommunications sites. In recent years, turnover for these inter-carrier wholesale services has increased in response to the **boom in fibre-to-the-home (FTTH) technology**.

Consumer demand for this technology has led to a growing migration of broadband access over copper lines (ADSL). Thus, with 48.7 million FTTH⁵ connections deployed throughout the country, Spain is one of the European countries

with the greatest coverage of this type of access.

Although companies in the sector have already carried out a large part of their FTTH technology deployment, **agreements between operators to share investments and mobile infrastructures** (particularly wholesale fibre access agreements at unregulated prices) remain essential, as well as the role of companies that market telecommunications infrastructure, dark fibre and mobile towers⁶, such as Correos Telecom.



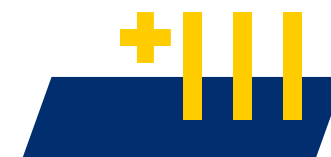
⁵ CNMC Data. Second quarter of 2019.

⁶ KPMG (2019). *Prospects for the telecommunications sector in 2019: setting the stage for 5G and The telecommunications sector facing the challenge of new growth*.

Similarly, the deployment of new technologies, especially 5G, will require equipping existing mobile phone nodes with **fibre optic connections** to the tower, such as those offered by Correos Telecom, to replace and/or complement existing radio links used to date in 2G, 3G and 4G technologies.

Correos has a wide range of digital solutions to meet the growing need of companies and individuals for identity **management and authentication services in the digital environment, secure electronic mailboxes or digital solutions** for the execution of public or private procedures.

In this business segment, the recent designation of digital services certification companies in Spain, in accordance with the European eIDAS⁷ regulation, will lead to an expected emergence of new market players, national or foreign, who may be trusted electronic services providers with legal validity.



⁷ Regulation (EU) 910/2014 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the Internal Market and repealing Directive 1999/93/EC.



Objectives and strategy

🌐 GRI 103-2 🌐 GRI 203-2

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

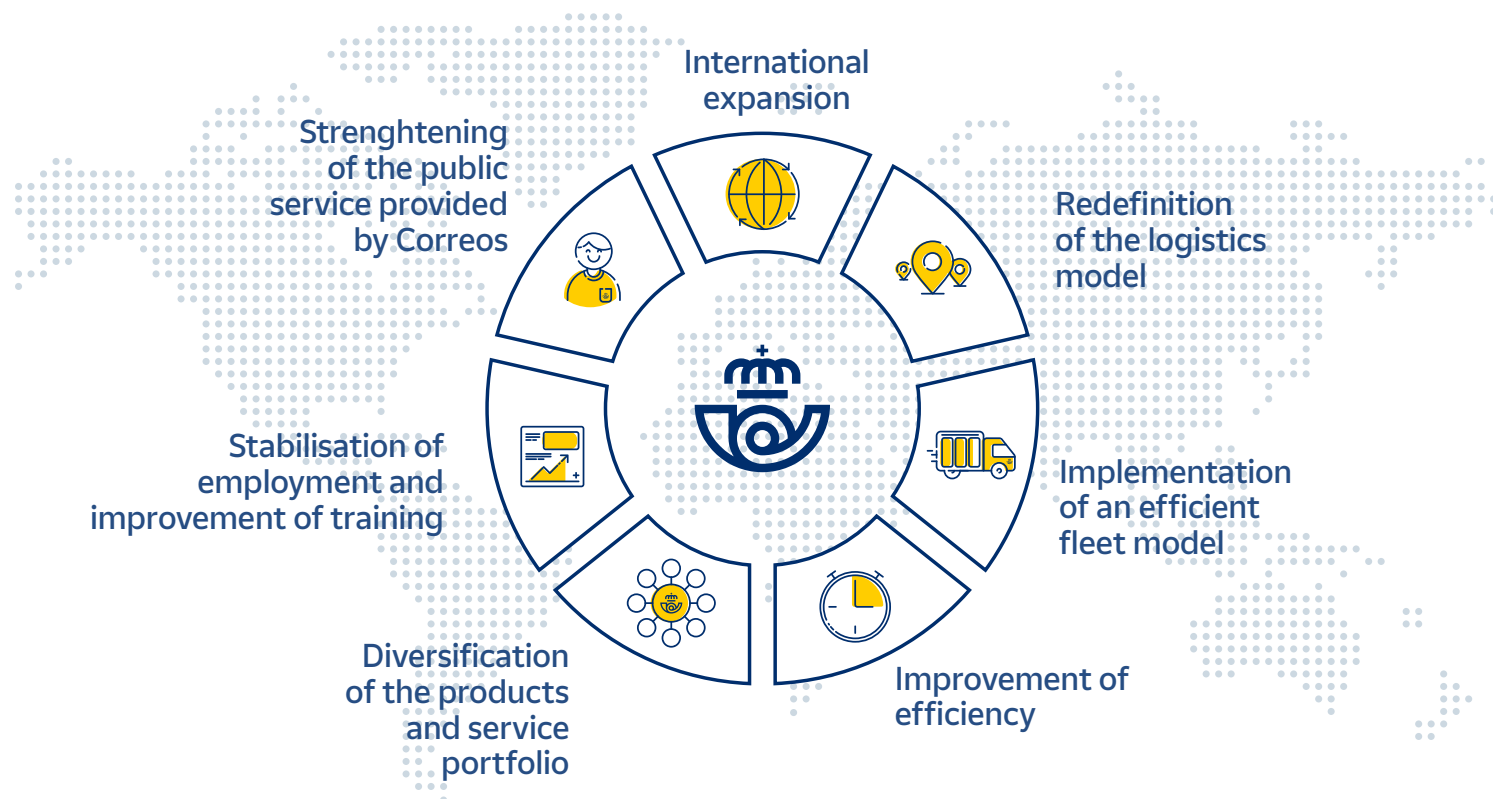
The achievement of these objectives is structured around **seven lines of action**, aimed at sustaining revenue growth, improving efficiency, optimising costs and positioning the

Group as a benchmark operator in the parcel delivery market.

In the second half of 2019, Correos began a phase of strategic reflection on its position within the sector, in order to undertake the preparation of the **new strategic plan 2020-2023**, which will define the lines of action to be developed over the next three years in order to consolidate the company's transformation process and guarantee long-term business sustainability.



Master Plan 2019: strategic lines of action





Future trends

🌐 GRI 102-15



The Correos Group has identified several **external factors with potential short, medium or long-term impact** on the markets in which it operates. These trends, which **represent both a challenge and an opportunity**, depending on the response provided by the Correos Group, include the following:

In the short and medium term:

Electronic substitution and the evolution of communications

- The gradual reduction of postal communications
- The advanced development of e-Government
- Changes in the regulation of the public service entrusted to the Group and the growing challenges for its efficient provision

New consumer habits

- The development of e-commerce

- Increased trade flows from Asia
- The growing use of digital and mobile payment methods
- The growth of the collaborative economy
- The increased societal demand for transparency, sustainability, diversity or better corporate governance and its impact on reputation and revenues

The digitisation of the economy and society

- The future regulation of the digital economy
- The rapid development of technologies applied to operational efficiency and customer experience: robotics and drones, IoT, BigData, artificial intelligence
- The protection of personal data and cyber security
- The demand from businesses and citizens for digital identity and security services
- The demand for new services for smart cities
- The continued existence of the digital divide



Demographic challenges

- The progressive ageing of the population
- The increasing concentration of citizens in urban environments
- Rural depopulation and the loss of services in these areas

Climate change

- The demand for sustainable urban logistics
- The new energy framework
- The strengthening of environmental sustainability policies in the public sector
- Boosting the circular economy and responsible consumption
- New requirements arising from the European Green Deal

New market dynamics

- The effects of Brexit and the uncertain evolution of the global economy
- The transformation of the European taxation and customs framework
- The global geopolitical landscape and its impact on international trade

In the short term, but also in the mid/long term:

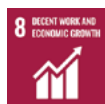
- The evolution of the European and Spanish regulatory framework
- Rapid changes in companies and general public demands
- The transfer of economic hegemony to rising Asian powers
- The importance of retaining talent and innovation within companies





Generated and distributed economic value

GRI 201-1
 GRI 201-4



In 2019, the **Correos Group once again posted a positive** result, obtaining a net profit of 13.4 million euros, compared with a loss of 153 million euros for the previous year. The entirety of this profit was generated within Spain.

The Correos Group used tax credits for this financial year, in accordance with the regulations on corporate income tax, from tax losses generated in previous years, and therefore the resulting aggregate income for corporate income tax for the year is 8.0 million euros.

Despite the decline in the traditional postal business, the **Group's net turnover increased by 11.3%** to 2,266.5 million euros, thanks to the growth in the parcels sector, new domestic and international business, the 2019 elections and improvements in the efficiency of key processes.

During the last financial year, Correos received 321,000 euros in **subsidies** for training, as well as grants associated with European projects for the promotion of safety, efficiency and sustainability in which the company participates. The Group's subsidiaries received no grants.





Risk management

🌐 GRI 102-15



The Correos Group's risk analysis and management system aims to identify, monitor, prevent and ensure an adequate response to risks that arise.

In 2019, the review of the Group's key risks and impacts catalogue was completed, in accordance with the COSO framework, and the results were presented to the Audit and Control Committee. As part of this review, new risk indicators are being defined that will be incorporated into the enterprise risk management (ERM) system to be implemented during 2020, as part of the Group's new strategy. With the broadening of the catalogue of non-financial risks, the Group has aligned itself with best business management practices, **in accordance with the recommendations of the CNMV**.

The activities of the different companies of the Group are conditioned by factors that are common to their sectors and by exclusive impacts that only affect each one of them. Among the most relevant are strategic, operational, employment, environmental, reputational, legal, fiscal or financial risks.

The **strategic risk** is due to, among other factors, the progressive decline in postal activity due to electronic substitution, increased competition, changes in the economic environment, the protection and profitability of innovation, the need for alliances or the emergence of disruptive technologies that lead to rapid changes in demand.

Operational risk, in turn, reflects the structural complexity of the Group, the necessity for an agile incorporation of new resources and equipment to increase efficiency in the distribution and delivery processes, the speed of adaptation of the production model to new demands, changes in international trade flows or the challenges of personal data management and cyber security.

As the employer of more than 54,000 professionals, the Correos Group also faces an **occupational risk** linked to the need to maintain a presence throughout the country, to the difficulties associated with rigid recruitment procedures, to health and safety at work or to the ability to retain talent.

Equally significant is the **environmental risk**, due to the impact of the extensive infrastructure network and the vehicle fleet, the growing regional and local regulations, as well as the future demands arising from the commitments made by Spain and the European Union. **Reputational risk** is associated with unforeseen changes in the Group's relations with its various stakeholders and inadequate information management.

Legal risks include those associated with non-compliance with regulations or codes of good governance and ethics by managers and employees, in terms of recruitment, use of funds, accountability, adoption of agreements, use of information or conflicts of interest, among others. To these risks we must add other risks associated with possible changes in

sectoral regulations and in the very operation of the company.

Lastly, Group companies are exposed to financial risks, including credit, liquidity and market risks, which in turn include interest rate, exchange rate and other price risks.





Relationship with customers

The Correos Group places its customers and the satisfaction of their needs at the centre of its strategy, and has procedures that allow them to exercise their right to submit complaints and claims, as well as to make enquiries on any matter related to the provision of the services.

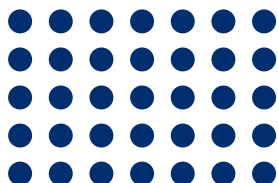
The Group companies offer commercial guidance and **specialised attention through different channels**, including commercial and after-sales networks, the telephone channel, mobile applications for customers, the corporate website and social networks.

Correos Group's office network also makes available to users, besides its own electronic customer service forms, official consumer complaints and claims forms from the respective Autonomous Communities. Both Correos offices and its customer service are also **certified in accordance with the UNE-EN ISO 9001:2015 standard**.

The Correos customer service system makes a distinction between:

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

During the previous financial year, Correos dealt with 128,278 service claims and 274,309 product claims, representing 167 claims per million shipments processed. The percentage of these claims that were resolved with compensation decreased from 28% to 20%.



The subsidiaries of the Group have their own customer service systems and complaints and claims procedures. The indicators of the management of the Group companies in this matter are the following:

	Correos		Correos Express		Correos Express Portugal	Correos Nexea		Correos Telecom	
	2019	2018	2019	2018	2019	2019	2018	2019	2018
Complaints and claims	402,587	325,695	281,692	265,797	2,875	146	235	2	4
Complaints (Service claims)	128,278	93,174	1,433	1,170	ND	115	227	2	4
Claims (Product claims)	274,309	232,521	280,259	264,627	2,875	31	8	0	0
Claims resolved with compensation (%)	20	28	11	9	58	6	63	0	0





Development of the customer service channels

In 2019, the website www.correos.es received around 402.8 million visits. Through this channel, **560,280 enquiries** were dealt with, 22.9% more than in the previous financial year. Correos also dealt with **3.2 million queries over the phone**.

In view of the continuous growth of the website as the preferred channel for customers, last year more features were added to the **virtual consultation agents** (Sara and Alberto) and new content was added to the search engine in order to provide more accurate and agile responses to the queries made by users on a daily basis.

The network of post offices, in turn, received more than **103 million visits from customers**, 10.8% more than in 2018, who rated the service received with an overall degree of satisfaction of 74.3%¹.

With regard to the subsidiary **Correos Express**, it dealt with up to **3,700 daily interactions with customers** through all its service channels in 2019, reducing the average response time and access to information by 5.2%.

These channels are supported by an operational coordination centre (available 24/7), which detects and centrally manages any service incidents. The subsidiary has also **optimised the mobile application *Correos Express Clientes***, which notifies customers of any incident during the delivery process in order to arrange a new delivery attempt.

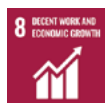
These actions, together with the training given to the customer service staff or the development of the 'support plan' for new customers, helped Correos Express maintain its position as 'customer service of the year' 2019, according to the consultancy firm Tempo ADvertising.

¹ National Commission on Markets and Competition (2019). *CNMC Households Panel. First half of 2019. Postal Sector*



Human team

GRI 102-8 GRI 102-41 GRI 203-2 GRI 402-1
 GRI 403-4



Comprehensive people management is one of the essential elements of the Correos Group's strategy, **one of the largest public groups in terms of both size and human capital**. Its main employment impacts are related to the quality and stability of employment, training and professional development, attraction and retention of talent, diversity, and occupational health and safety.

These impacts are managed through a policy whose lines of action and monitoring indicators are designed in accordance with current labour legislation and in line with the main reference frameworks in the Spanish public sector and the international postal sector.



Employment consolidation

In 2019, the Correos Group had an average workforce of 54,689 (FTE). The parent company, Correos, contributed the largest proportion, with 53,041 professionals, 1.5% more than in the previous year. Of that figure, 83% were non-civil servant staff and 17% were civil servants.



Average staff (<i>Full Time Equivalent</i>)	2019	2018
Correos	53,041	52,259
Correos Express	1,191	1,108
Correos Express Portugal	214	NA
Correos Nexea	199	193
Correos Telecom	44	45

▶ Development of the 2018-2020 multi-year agreement

As part of the **2018-2020 multi-year agreement, signed between Correos and the trade unions** in order to strengthen the public postal service and business activity, new advances were made last year in terms of job stability, remuneration, training, professional development and equality, including:

1. Implementing the **salary increases** provided for in the agreement.
2. **Job quality**, for the stabilisation and replacement of 11,200 jobs by 2020. In March 2019, 2,295 people joined the company as full-time employees, following the selection process carried out in 2018. In addition to these posts, there are another 4,005 operational positions, for which selective tests were held in January 2020 and for which more than 166,000 people enrolled.

These evaluations were conducted simultaneously in 29 cities, with the collaboration of 3,500 Correos

employees. The incorporation of those selected across all provinces is expected to be completed by June 2020.

In the area of career development, the general guidelines for the internal promotion of civil servants were published, proposing 395 positions, the first tests for which will be held in the first half of 2020.

Also, 1,610 people were selected for office management positions and heads of distribution and logistics units, with the aim of making those positions permanent.

Throughout this financial year, the permanent transfers system made it possible to meet the functional or geographical mobility expectations of 462 employees located in distribution, processing and office positions. A new call for applications was published in June 2019, and the contract was awarded in January 2020, with 1,090 people expected to be hired as of 1 February.

3. **Improvement in working conditions.** A negotiating committee was set up for the

second company's Equality Plan in 2019, with the aim of promoting new management models that promote the genuine equality of employment opportunities.

A new programme of partial retirements tied to a relief contract was also implemented, within the framework of current regulations and budgetary provisions. Correos also established full compensation coverage for temporary disability due to exceptional circumstances (such as surgery, hospitalisation, pregnancy and certain types of medical treatment).

Measures to improve working conditions also included the creation of a working group to establish a comprehensive plan on absenteeism or the incorporation of the general criterion of voluntary work on Saturdays, which is linked to the approval of the amendment to the regulations on special days, enabling Correos to be included in its scope.





With regard to employment stability policies in subsidiaries, thanks to the SEPI Group's approval of a common replacement rate for the Group, Correos Nexea consolidated 26 jobs, Correos Telecom another 3, while at the end of the year Correos Express called for a selective process to transform 251 temporary positions into permanent ones.

► Organising the social dialogue

Correos has a 'Framework agreement on labour relations', in force since March 2000, which establishes, among other aspects, the essential criteria for permanent dialogue between unions and companies.

This agreement regulates dialogue with union sections at the state level, implemented throughout the State, through its general secretaries and state executives and, in the territorial scope, through the provincial secretaries and executive bodies, in addition to the unitary organs (Works councils and Staff boards).

The document also states to the composition of the highest workforce bargaining bodies of workers under ordinary employment contracts (the Negotiating committee, made up of 12 members) and civil servants contracts (the Sectoral committee, made up of 18 members).

For its part, the collective agreement of the Correos workforce includes the general

principles of union participation and collective bargaining, and the functions of central joint committees (for central employment, social action, training, equality, working time, transfer system and occupational health) and provincial joint committees (on employment and working time, together with the provincial committees for security and health).

The agreement contains a specific section on the safety, health and occupational risk prevention policy, the own prevention plan and service, the prevention delegates and the information and consultation rights in this matter (channelled through the occupational health state committee and provincial health and safety committees, with joint representation of the company and unions).

As for the Group's subsidiaries, Correos Express has 41 centres providing legal representation for workers, of which 4 are set up as works councils. Elsewhere, the dialogue is conducted via staff representatives. In the area of occupational risk prevention, 41 work centres have prevention delegates, and a health and

safety committee has been set up in 4 of these centres.

Collective agreements applicable in Correos Express include those for road freight transport in the provinces where the company's centres are located (currently 48) and the collective agreement for the freight forwarding sector in Madrid, in addition to the II General Agreement for road freight transport companies at the state level.

In the two operational centres of Correos Nexea, union representation is organised through a works council under the graphic arts sector agreement¹. At Correos Telecom, employees have not sought to promote their union representation and company-worker relations are channelled directly through area managers, who collect their input.

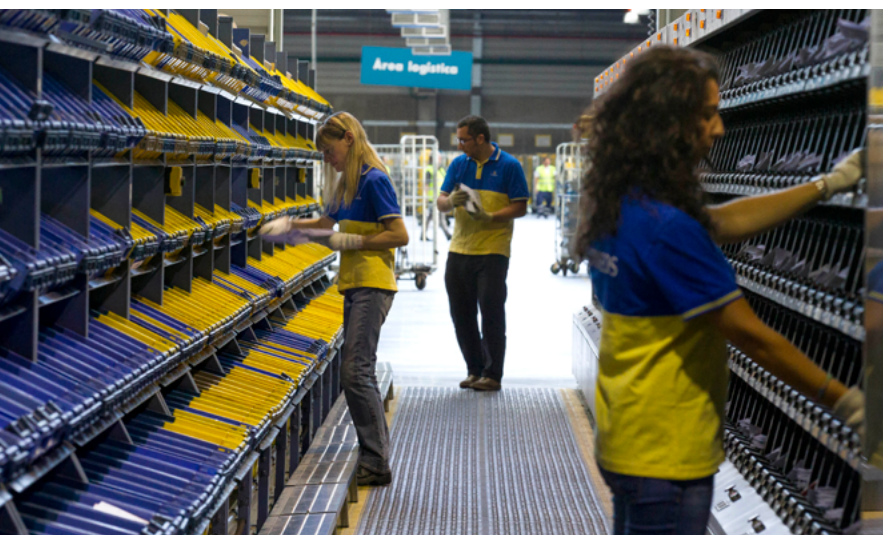
In 2019, the percentage of Correos employees covered by a collective agreement was 82%, 100% for Correos Express and Correos Express Portugal, 97% for Correos Nexea, while Correos Telecom does not have a collective agreement.

¹ State collective agreement for the graphic arts, paper handling, cardboard handling, publishing and auxiliary industries



► Organisation and flexibility of working time

During the last financial year, the main new **regulations affecting the organisation of working time** in the Group's companies were Royal Decree-Law 8/2019², which established the recording of working time, and Royal Decree-Law 6/2019³, which extended



paternity leave and introduced new regulations into the companies' Equality Plan.

At Correos there is a wide range of different working hours, given the heterogeneous nature of the services provided. In order to achieve a proper reconciliation of personal and professional life and the development of efficient work, the collective agreement includes the negotiation, participation and information competencies of the working time committee. Likewise, any substantial modification of the days, schedules and/or shifts, is subject to examination by the central employment committee or the provincial employment committees.

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

At Correos Express and Correos Nexea the operational staff has a continuous morning, afternoon and evening shift, while the management and supervisors have a split shift. Correos Nexea has also agreed to a specific arrangement of the working day in its Coslada centre on certain days of the month, to respond to the increased concentration of the workload.

At the Correos Telecom subsidiary, working hours are flexible, with the organisation of working time geared towards project management. In addition, in order to facilitate the reconciliation of personal and professional life, teleworking is being considered in certain situations.

² Royal Decree-Law 8/2019, of 8 March, on urgent measures for social protection and against precarious work in the working day.

³ Royal Decree-Law 6/2019, of 1 March, on urgent measures to guarantee equal treatment and opportunities for women and men in employment and occupation.

Promotion of talent and professional development

🌐 GRI 404-3

The Correos Group has a talent management policy whose purpose is to identify individuals with the capacity and potential to occupy key positions in the company and contribute to their personal and professional development, in line with the company's objectives.

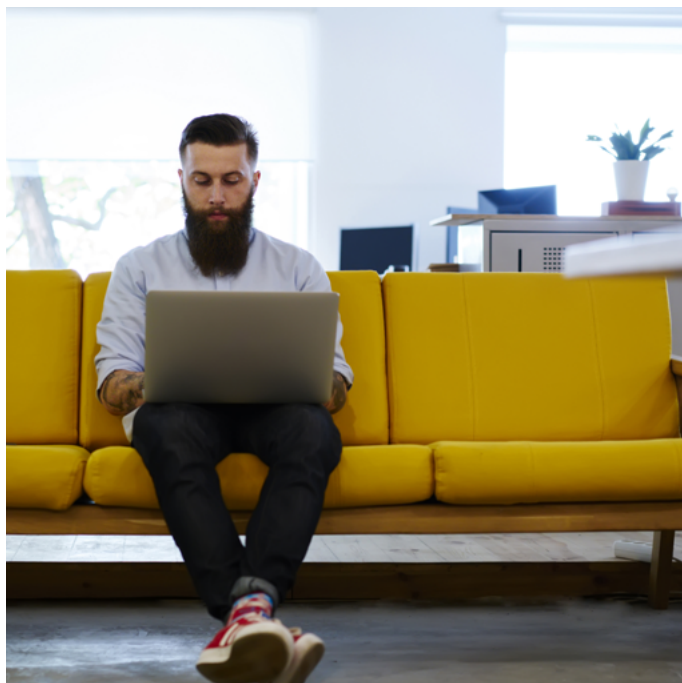
At Correos, this model for the attraction and promotion of internal and external talent is structured through:

1. The 'Clic' programme, which last year began a new cycle of talent 2019-2021, establishing 3 routes for professional development: 'Grow', 'Boost' and 'Transform'. Employees who participated in the last two routes undertook a 360° evaluation process, upon which they were later able to define a development objective.

Also, with the purpose of ascertaining the impact of the 'Four Steps to Leading' training action and helping those responsible in their development as leaders, a 180° questionnaire was carried out on key aspects of leadership.

As part of the company's Equality Plan, the **'Correos en femenino'** (Correos for women) initiative was launched, with the aim of promoting the highest proportion of women to positions of responsibility. Its first phase, to be carried out between 2019 and 2020, comprises three work sessions at the company's headquarters, aimed at area managers or professionals with high potential (included in the 'Transform' and 'Boost' routes of the 'Clic' programme). In a second phase, the programme will be extended to professionals in regional areas who are eligible for sector leadership positions.





2. The performance evaluation system

promotes greater alignment of individual performance with the company's objectives, and also ensures greater effectiveness of selection, promotion, training and professional development plans. In 2019, 1,645 employees took part in this programme, 3.1% of the total staff, including all managers, technicians and middle managers.

The Group's subsidiaries have their own performance evaluation systems, which in Correos Nexea are applied at management level (2.8% of total employees), in Correos Express to 13.3% of its employees and in the case of Correos Telecom to the entire workforce.

3. The 'Young Talents' programme,

aimed at university students who wish to complement their academic training with practical work experience. The aim is to increase their employability, while allowing the Group's companies to gain from new knowledge and ideas, as well as diverse cultural perspectives.

During the last financial year, 79 students, of 10 different nationalities, completed internships at the headquarters and area management of Correos, thanks to the 30 agreements in force with various universities and with the SEPI Foundation. In addition, they were able to complement their training project with guided visits to work centres, workshops to learn about the activity of some relevant areas or projects of the company (#start the day) and their participation in the 2nd Young Talent Challenge, aimed at promoting innovation.

The subsidiaries Correos Express and Correos Telecom also have programmes for the integration of young talent, through agreements with universities or professional training centres, for work experience placements in the business world.

Lastly, in 2019 the Correos launched the **'Talentiza tu perfil' (Add talent to your profile) programme**, with the aim of boosting the brand image through the company's employees, while at the same time encouraging their professional development.

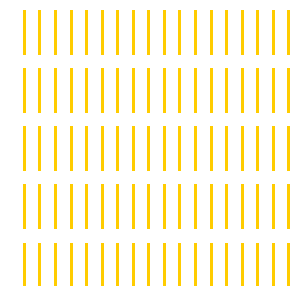
► Internal promotion processes

Correos Group views internal promotion as the most important factor in encouraging and retaining talent, through professional development plans. **The selective and labour mobility processes developed** last year included:

- The internal promotion of 1,180 workers.
- The aforementioned provision of team leader positions in offices, distribution and logistics, in order to strengthen the operational management structure.
- The replacements programme, in which 1,586 people participated and which trains professionals in operational positions to temporarily hold unfilled team leadership positions in post offices, delivery and logistics. As part of this plan, last year the digitalisation of the selection process was enhanced and geolocalisation tools were used to adjust proposed applications to the specific geographical needs of each area.

Last year also saw the launch of **the candidate experience project**, which concludes the process of measuring the global life cycle of the employee at Correos. Through more than 4,000 questionnaires, the employees who participated in selection processes during 2019 will evaluate their level of satisfaction throughout the entire process of joining the company in 2020. This will define the global experience map of the employee as well as future improvement plans.

The welcome and monitoring programme (ABACO), designed to train workers who join or change positions within the company, also included a new mobile application designed to help them access the programme. Temporary or new staff also have the Colearning platform, an online environment providing information on processes and applications related to operational positions to assist them in their first months as they adapt to their new roles and meet their development needs.



Training for new strategic needs

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

In 2019, Correos held 471 training events, most of which were conducted by internal trainers, with a total of 362,782 attendees and over **2.2 million training hours**, 18% more than in 2018.

49% of the employees were trained online using the Virtual Campus e-learning platform in support of a good work-life balance. The remaining 51% received face-to-face, distance and on-the-job training.

The company also offered its employees specialised teaching areas, such as:



- The **'Product School'**, a self-learning space in the Virtual Campus which last year included 10 courses on Correos' commercial offer, as well as video tutorials for the post office network on the main products they sell, and sales techniques.
- The **'Sales School'**, mainly aimed at the training of sales managers. In 2019, a specific training action was developed for the customer service and after-sales teams.
- The **'Trainers' School'**, which provided training as a community manager to internal trainers, to foster the revitalisation of the collaborative environments of the Virtual Campus.
- The **'Leadership School'**, which offered different training actions for managers, through various methodologies (role play, coaching, etc.).
- The **'Knowledge Experts'** projects, based on the collaboration of company employees with extensive experience in certain areas, for the creation and updating of educational content.
- The **accompaniment in post offices, logistics and distribution** programme, to promote the transfer of knowledge and adoption of best practices among their managers.
- The self-learning **'I am digital'** project, which promotes the development of digital skills among workers.
- The **'Managerial environment'** platform, with contents on management, personal development, competences and strategy, from recognised authors and business universities. This platform is available to all the executives and participants of the 'Clic' talent programme.

During the last financial year, specific training actions were also developed, such as the transformation and skills programme for the legal department or courses on electronic invoicing, internal recruitment procedures and customer experience.



The company also provided valuable training programmes for selection processes, aimed at participants in calls for employment consolidation, the replacements programme, the processes for making team leader positions permanent, the internal promotion of civil servants and transfer competition.

In addition, the performance evaluation system continued to offer 10 training courses focused on different skills (orientation towards excellence, objectives, teamwork or innovation) and knowledge (products and services, sector and regulation).

Correos continued to organise the **monthly conference programme on topics of interest to employees** (such as awareness of gender violence, breast cancer prevention, equality and diversity, proper use of the Internet by adolescents and mindfulness techniques, among others). These informative sessions were also broadcast on video on the Virtual Campus and corporate Intranet.

For its part, the subsidiary Correos Express developed a **leadership programme** for its managers, to which were added other training actions in digital and operational tools, training as a transport manager, commercial skills for the sales team, environmental and quality management, welcome courses for professional profiles, as well as occupational risk prevention and healthy habits.

Correos Nexea provided courses to its employees on skills (leadership, teamwork or project management), technical knowledge in digital and operational tools or main processes (FSC and PEFC chain of custody, information security).

Correos Express Portugal developed training actions on technological tools, customs procedures before Brexit, health and safety at work or new regulations applicable to the sector, among others. Lastly, Correos Telecom's training plans were oriented towards improving technical knowledge and management skills.



Internal communication

Correos Group's corporate Intranet, Conecta, is the main **communication channel for employees**. With an average of more than 5,400 visits per day, it is the space where professionals can consult and share relevant information about the company's management, business model, new plans and projects and corporate values.

In 2019, more than 230 national and 260 regional or local company news items were published on this channel, along with nearly 40 videos, photographs, infographics and other documents, which were also posted on the notice boards of all the operating centres.

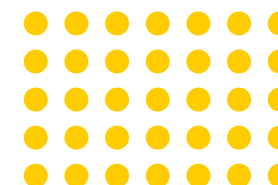
The **in-house magazine CONECTAD@S**, available to all the Group's employees, is another of the most popular channels. In addition, mass e-mails or WhatsApp's corporate channels were used to disseminate other strategic or business news from the company, and various communications on topics of interest to

employees were included in the payroll on a monthly basis.

The company organised five **'Meetings with the Chairman'**, attended by nearly 100 employees from different areas of activity, to suggest improvements and promote their role in coordinating and communicating with the people in their area of influence.

Last year also saw the launch of the **Correos brand ambassadors plan**, which included actions aimed at managers, middle managers and other employees with the capacity to act as spokespersons for the company both internally and externally. Some of the actions included in this programme involved the development of regional internal communication plans, to promote communication in the more than 5,000 work centres (by opening new regional WhatsApp channels for direct interaction between employees and the Regional management, raising awareness of access to the company's digital communication channels or personalised news, among other things).

A benchmarking study was also conducted on the use of internal communication channels and social networks by employees, together with 13 other large companies from various sectors. This study will make it possible to undertake, as of 2020, various programmes for the promotion of transformation working groups, as well as experiential and gamification dynamics to promote involvement with the brand.



Also, at the 'Annual Recognition Day' for employees, organised under the slogan 'Excellent people for new times' and attended by more than 260 employees, prizes were awarded to the winners of the recognition and continuous improvement programmes held each year: national awards for excellence, awards for environmental commitment, the Artemisa awards for the best business management and customer service practices and experience, the Atenea awards for people and their best practices and the award for solidarity in commitment to social projects.

Other **participation campaigns aimed at workers** or their families included the photography contest The symbols of the *Camino de Santiago* or drawing contests for children with the slogan How do you imagine the Correos of the future?, the monthly visits organised to *Palacio de Comunicaciones* in *Plaza de Cibeles* on the occasion of its centenary, the postal routes through historic buildings in Madrid and Barcelona or the promotion of their collaboration in solidarity races and social awareness events.

The Group's subsidiaries also have suggestion boxes and other communication channels, such as regular meetings with managers, notice boards, personalised letters and emails. Correos Telecom also has an employee portal, which publishes topics of interest and where employees can submit their contributions. Meanwhile, last year Correos Express implemented the internal communication portal 'Expressate'.



Diversity and inclusion policies

🌐 GRI 102-12 🌐 GRI 401-2

In 2019, **women** represented 51% of the staff of the Correos Group and **52% of the total number of Correos employees** –a pioneer company in Spain and a benchmark in ensuring equal opportunities between men and women. Last year the company also achieved virtual gender equality on its Board of Directors.

Correos' remuneration policy guarantees **wage equality between women and men** in jobs of equal value. In this sense, there is no salary gap. The salary scale and concepts of civil servants are those set for the rest of the public sector and published annually, which are reflected in the remuneration tables of workers under ordinary employment contracts.

The company has an **Equality Plan** (currently under review) which includes a protocol against occupational, moral or sexual harassment, in order to prevent and resolve situations of this type that may occur.

Correos also involves specific policies for helping and protecting the victims of gender-based violence, encouraging quick handling of incidents that guarantees confidentiality, with measures such as the reduction of the working day and consideration of the absences of the victim; leave as a result of gender-based violence and the guarantee of work relocation.

Since 2012, Correos has been a member of the **Network of Companies for a Society Free of Gender Violence**, promoted by the Government Office for Gender Violence. As part of this collaboration, the company was one of the sponsors of the 6th solidarity race against gender violence.

Furthermore, on the occasion of the International Day for the Elimination of Violence against Women, an information and awareness campaign was launched, with the message 'You are not alone. Correos is here to help you', which included the digital dissemination of a guide and an orientation leaflet against gender violence, the monitoring of the day with a minute's silence in all work centres and

its dissemination in the different corporate communication channels.

▶ The Correos Group's new Equality plans

Within the framework of the development of the 2018-2020 multi-year agreement, Correos presented to the negotiating committee of the new Equality Plan, the company's assessment of this issue, through the analysis of indicators on the co-responsibility of personal, family and working life rights, selection, professional promotion, remuneration, training or prevention of harassment. The company forwarded the actions to be implemented and the draft of the II Equality Plan to the trade unions, for assessment and the submission of proposals in 2020.

Meanwhile, the subsidiary Correos Express reached a preliminary agreement with union representatives to implement a new Equality Plan which, among various other measures, will include specific action plans to guarantee equal pay for women and men for work of

equal value. The subsidiary also has a protocol against sexual and gender-based harassment.

In compliance with Royal Decree-Law 6/2019⁴, Correos Nexea also initiated the development of its Equality Plan (which will integrate its current protocol against sexual and workplace harassment), and formed a negotiating committee in October. As Correos Telecom is not included in the scope of these regulations, it does not have a specific plan, although it promotes management that promotes equal opportunities.

In addition, the **Code of Conduct to which all Group companies subscribe** establishes measures to prevent any type of discrimination or harassment and to guarantee equal treatment and opportunities.

Work-life balance

With regard to policies on the right to digital disconnection⁵, the companies of the Correos Group do not have a specific protocol. However, the company promotes measures to reconcile family, **personal and professional lives through training** and awareness-raising activities, as well as through **measures included in its internal regulations**. The latter, applicable to all employees, in many cases provide for improvements with respect to current labour legislation (extension of breastfeeding leave, reduction of working hours to care for seriously ill family members or minors, leave of absence, etc.).

Diverse and inclusive management model

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

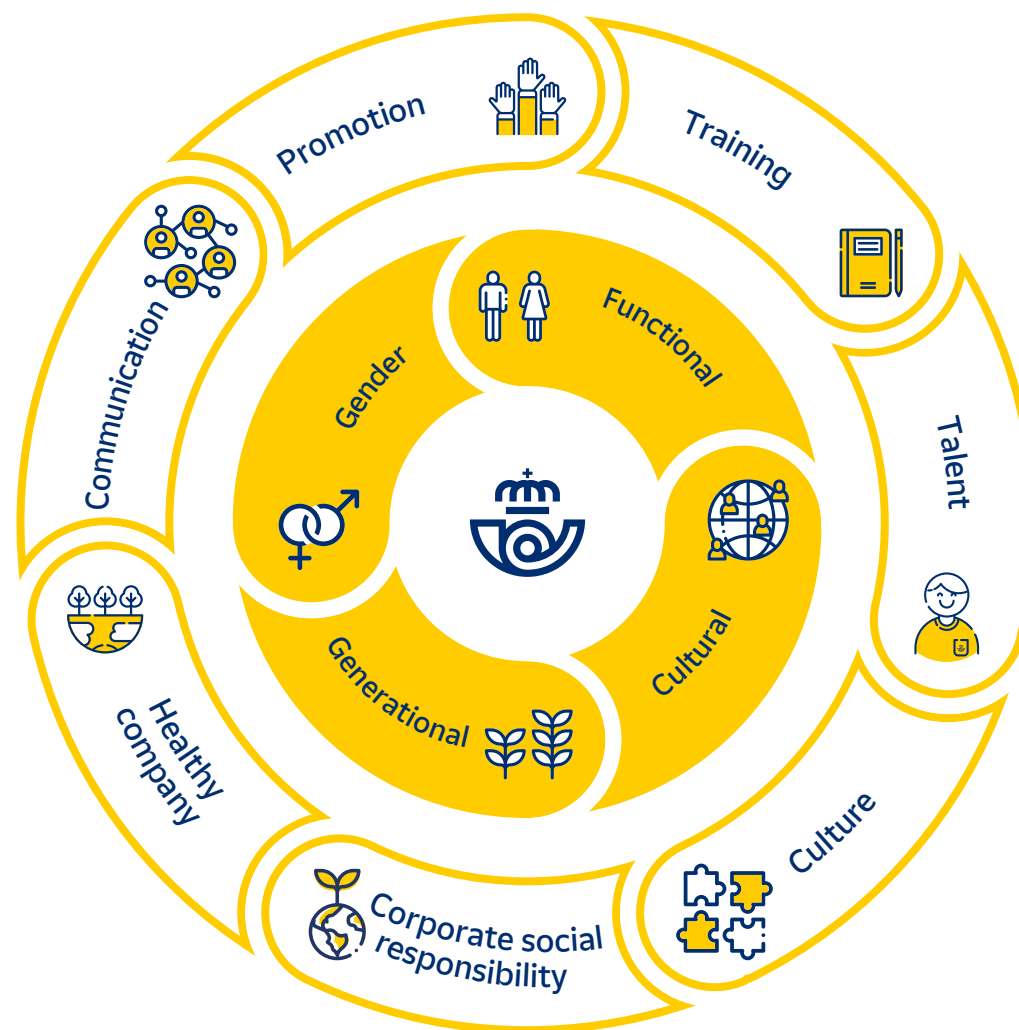
In order to do so, it promotes equal opportunities at work with special attention to gender, the integration of people at risk of social exclusion and any kind of disability, as well as the enriching coexistence of different generations and cultures.



⁴ Real Decreto-ley 6/2019, de 1 de marzo, de medidas urgentes para garantía de la igualdad de trato y de oportunidades entre mujeres y hombres en el empleo y la ocupación [Royal Decree-Law 6/2019, of 1 March, on urgent measures to guarantee equal treatment and opportunities for women and men in employment and occupation].

⁵ Ley Orgánica 3/2018, de 5 de diciembre, de Protección de Datos Personales y garantía de los derechos digitales [Organic Law 3/2018 of 5 December on the Protection of Personal Data and the Guarantee of Digital Rights].

In addition to the measures included in the collective bargaining agreement, the General Civil Service Staff Agreement and the **Equality Plan of the company**, Correos has a Diversity and Inclusion Plan. This programme focuses on four areas (gender, people with disabilities, age and culture), based on seven areas of work:



The Plan is transversal (as it impacts all areas of the company), global (acting on various dimensions), social and committed to those internal or external initiatives that support diversity and inclusion, including the Sustainable Development Goals.

In this way, Correos has joined the **Business Network for Diversity and Inclusion LGTBI** (REDI), with the aim of promoting the management of diversity and inclusion of this group in the working environment, as well as the European Diversity Charter, a code of conduct in which its signatories commit themselves to respecting social differences and implementing specific policies in favour of a working environment free of prejudice.

The company also sponsored the 2nd **Encuentro de Economía Sénior** (Meeting of Senior Economy), the TEDxBarcelonaWoman and Factor W events, as well as the study 'Senior Workers in European Companies', led by the Instituto de Empresa.

During the last financial year, various **initiatives were undertaken to disseminate the diversity agenda at Correos**, through internal and external communication channels, coinciding with various events such as International Women's Day, intergenerational diversity month, cultural diversity and sexual orientation month, International Rural Women's Day, International Breast Cancer Day and the International Day for the Elimination of Violence against Women.

Correos Group companies employ people with functional diversity (926 professionals in 2019) and collaborate, as required by regulation⁶, with **Foundations, Special Employment Centres and Occupational Centres**, which promote their full integration into the labour market.

► Social benefits for employees

Correos Group's **social action programme** contributes to improving the social and professional well-being of its employees and work-life balance. In 2019, **13,000** employees and their families applied for financial assistance for medical treatment, university studies, early childhood education, care for children with disabilities and death. Permanent staff were able to take advantage of advances and interest-free loans.

Employees also have a preferential offer of life and accident insurance policies, as well as a web platform for promotions and discounts on leisure, culture, health, sports equipment and consumer goods products and services.

Finally, Correos has a pension plan for its workers. However, since 2012, in compliance of Royal Decree 20/2011⁷, the company makes no contributions to that plan, although employees make them voluntarily. The Group's subsidiaries do not have pension plans

⁶ Royal Legislative Decree 1/2013, of 29 November, approving the consolidated text of the General Law on the Rights of persons with disabilities and their social inclusion.

⁷ Royal Decree-Law 20/2011, of 30 December, of urgent budgetary, fiscal and financial measures for the correction of the public deficit.

Safe and healthy working environment

 GRI 102-12
  GRI 403-2
  GRI 403-5
  GRI 403-6
  GRI 403-7

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

Since last year, the new Health Promotion Policy, signed by the Chairman of Correos, has been available on the corporate Intranet, outlining the company's commitments to the health and safety of its employees.

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

As part of its **'Healthy Company' project**, Correos promotes life habits that contribute to improving the health of its employees from a multidisciplinary perspective. As part of this initiative, a programme has been developed to **reduce cardiovascular risk factors** which, in conjunction with regular health check-ups, offers employees over the age of 40 an assessment of their individual risk level and information on healthy practices to reduce it.

These medical examinations also continued to provide workers with the opportunity to be tested for the early detection of colon cancer. This campaign, aimed primarily at people over 50 and/or with a personal or family history of this disease, aims to identify, inform and advise those employees at high risk and raise awareness of the importance of prevention and early detection.

Last year, the company also continued to develop campaigns on healthy eating and the promotion of physical activity, by circulating infographics (including specific exercises to strengthen the lower back muscles, the pelvic floor, prevent osteoporosis or increase health

as a family), via the corporate Intranet and information posters in centres.

In 2019, various **actions focused on women's health** were also carried out, such as the awareness campaign for the early detection of breast cancer through infographics, the collection of funds to support research on the disease and the conference given by the Spanish Association Against Cancer at the Correos headquarters.



Similarly, the **emotional well-being programme** offered professionals tools to develop mental resources and guidelines to manage situations more consciously, through workshops and conferences.

For the second year, Correos joined the awareness campaign promoted by the association 'Stop strokes', the Spanish Society of Neurology and the Cerebrovascular Disease Studies Group, coinciding with the World Stroke Day. The company contributed to its promotion through 2,500 post trolleys, visible in 45 locations throughout Spain, and information leaflets distributed among workers on how to prevent stroke through healthy living habits.

Correos was also one of the companies that collaborated in the *Ponle Freno* races, organised by the Atresmedia Foundation, to promote road safety and finance projects to help victims of road accidents.




Effective preventative management



Correos applies an essentially internal preventive management policy, with its own occupational risk prevention service, equipped with a central and peripheral structure, in each of the Correos' regions.

As it is aware that **road safety** is an essential component in the prevention of accidents at work, the company developed a specific programme, which included the holding of awareness and information days, held by the General Directorate for Traffic, at work centres selected for their volume of workers and accidents.

The company also offered online training in safe and efficient driving to nearly 19,000 employees and disseminated recommendations on the correct use of motorcycle helmets or the prohibition of the use of headsets in production areas via the corporate Intranet. These actions

were complemented by Correos' collaboration in the *Autonomous Ready Spain (Mobileye) road safety project*. 

Other actions carried out in 2019 for the identification and **prevention of occupational risks** included:

- The development of the 'safety from the first moment' manual, for the arrival of new workers, with all the relevant information on the prevention of occupational risks and the provision of individual protection equipment. This manual was accompanied by the publication of instructions from the Chairman for the enhancement of the use of personal protective equipment.
- The establishment of national and regional committees for personal protective equipment.
- Improved integration of occupational risk prevention in the company's structure, which in 2019 focused on analysing the management of personal protection equipment, through on-site evaluation



visits to various centres and the introduction of occupational risk prevention criteria in the internal audits carried out.

- **Specific training on prevention**, with 65,709 participants and 213,675 training hours, and the provision of 126,465 health and safety sheets to 43,371 employees, with information tailored to each job and work centre.
- Preparing 451 technical studies on hazards in centres, as well as 678 emergency plans.
- Carrying out 19,501 **preventive medical examinations**, adapted to the different jobs and personal circumstances, and also implementing the annual flu vaccination campaign.
- The dissemination of **awareness and education campaigns** to employees, through internal communication channels and the 'Atenea Award', in the occupational risk prevention category.

The Group's subsidiaries have their own occupational risk prevention systems, the management of which is integrated at all

organisational levels. Some of the preventive actions developed by Correos Express last year included carrying out occupational risk assessments in new work centres, redesigning workplaces, training in manual handling of loads and rotations of posts to reduce the risk of overexertion.

Correos Telecom's occupational risk prevention plan has been extended to its suppliers, and for 2019 the company will once again have recorded zero occupational accidents. The company carries out annual voluntary medical examinations of its employees and regularly provides information on healthy habits. The company also gave an online course on the prevention of occupational risks related to the use of display screens to all its employees last year.

Labour indicators

GRI 102-7 GRI 102-8 GRI 401-3 GRI 403-9
 GRI 403-10 GRI 404-1 GRI 405-1 GRI 405-2

The main labour indicators of the Correos Group are:

	Correos		Correos Express ¹		Correos Express Portugal	Correos Nexea		Correos Telecom ¹	
	2019	2018	2019	2018	2019	2019	2018	2019	2018
Employees by gender									
Women	27,519	26,918	344	320	57	83	80	11	10
Men	25,522	25,341	847	788	157	116	113	33	36
Employees by age									
Until 35	6,656	6,550	186	ND	72	42	ND	5	ND
From 36 to 45	12,650	12,307	358	ND	83	75	ND	20	ND
From 46 to 60	30,745	30,830	605	ND	54	73	ND	16	ND
More than 61	2,990	2,572	41	ND	5	9	ND	2	ND
Employees by nationality									
National	52,860	52,113	1,153	1,076	209	ND	ND	44	45
Other nationalities	181	146	38	32	5	ND	ND	0	0
Employees by professional category									
Managers/deputy managers	43	45	17	15	6	8	5	1	1
Technicians and middle managers	6,602	6,545	188	184	34	25	21	42	43
Administrative staff	1,148	1,195	305	296	105	20	16	1	1
Operational staff	45,248	44,474	681	612	69	146	151	0	0

¹ In some cases, the sum of the employment figures of Correos Express and Correos Telecom is altered to the decimal places.

	Correos		Correos Express ²		Correos Express Portugal	Correos Nexea		Correos Telecom	
Employees by contract type and gender	2019	2018	2019	2018	2019	2019	2018	2019	2018
Permanent staff									
Women	17,934	17,574	258	261	57	55	51	8	8
Men	17,211	17,417	627	646	157	79	70	27	29
Temporary staff									
Women	9,585	9,344	85	58	0	28	29	3	1
Men	8,311	7,924	220	142	0	37	43	6	7
Employees by type of work day and gender									
Full-time									
Women	24,694	24,157	252	239	57	82	79	11	10
Men	23,235	23,234	750	728	152	111	107	33	36
Part-time									
Women	2,825	2,761	92	81	0	1	1	0	0
Men	2,287	2,107	97	60	5	5	6	0	0

² In some cases, the sum of the employment figures of Correos Express is altered to the decimal places.

	Correos ³		Correos Express ³		Correos Express Portugal	Correos Nexea		Correos Telecom ³	
Employees by contract type and age	2019	2018	2019	2018	2019	2019	2018	2019	2018
Permanent staff									
Until 35	1,596	1,504	65	ND	72	20	ND	2	ND
From 36 to 45	6,941	6,675	266	ND	83	56	ND	18	ND
From 46 to 60	24,032	24,595	513	ND	54	50	ND	14	ND
More than 61	2,577	2,217	41	ND	5	7	ND	1	ND
Temporary staff									
Until 35	5,060	5,046	121	ND	0	22	ND	3	ND
From 36 to 45	5,709	5,632	92	ND	0	19	ND	2	ND
From 46 to 60	6,714	6,235	92	ND	0	23	ND	2	ND
More than 61	414	355	0	ND	0	2	ND	1	ND
Efectivos por tipo de jornada y edad									
Jornada completa									
Until 35	4,899	4,796	125	ND	71	39	ND	5	ND
From 36 to 45	11,136	10,874	287	ND	80	72	ND	20	ND
De 46 a 60	29,037	29,269	555	ND	53	73	ND	16	ND
More than 61	2,857	2,452	35	ND	5	9	ND	2	ND
Part-time									
Until 35	1,757	1,755	61	ND	1	3	ND	0	ND
From 36 to 45	1,514	1,433	72	ND	3	3	ND	0	ND
From 46 to 60	1,708	1,561	50	ND	1	0	ND	0	ND
More than 61	133	120	6	ND	0	0	ND	0	ND

3 In some cases, the sum of the employment figures of Correos, Correos Express and Correos Telecom is altered to the decimal places.

	Correos ⁴		Correos Express		Correos Express Portugal	Correos Nexea ⁴		Correos Telecom ⁴	
Employees by contract type and professional category	2019	2018	2019	2018	2019	2019	2018	2019	2018
Permanent staff									
Managers/deputy managers	42	43	14	ND	6	8	ND	1	ND
Technicians and middle managers	6,479	6,411	158	ND	34	14	ND	32	ND
Administrative staff	1,091	1,123	213	ND	105	15	ND	1	ND
Operational staff	27,532	27,413	501	ND	69	97	ND	0	ND
Temporary staff									
Managers/deputy managers	1	2	3	ND	0	0	ND	0	ND
Technicians and middle managers	123	134	30	ND	0	12	ND	9	ND
Administrative staff	56	72	92	ND	0	5	ND	0	ND
Operational staff	17,716	17,061	180	ND	0	49	ND	0	ND
Employees by type of work day and professional category									
Full-time									
Managers/deputy managers	43	45	17	ND	6	8	ND	1	ND
Technicians and middle managers	6,600	6,543	181	ND	34	25	ND	42	ND
Administrative staff	1,144	1,192	262	ND	101	19	ND	1	ND
Operational staff	40,141	39,610	542	ND	68	141	ND	0	ND
Part-time									
Managers/deputy managers	0	0	0	ND	0	0	ND	0	ND
Technicians and middle managers	2	2	7	ND	0	0	ND	0	ND
Administrative staff	4	3	43	ND	4	1	ND	0	ND
Operational staff	5,107	4,863	139	ND	1	5	ND	0	ND

⁴ In some cases, the sum of the employment figures of Correos, Correos Nexea and Correos Telecom is altered to the decimal places.

	Correos		Correos Express		Correos Express Portugal ⁵	Correos Nexea		Correos Telecom	
Dismissals by gender (%) ⁶	2019	2018	2019	2018	2019	2019	2018	2019	2018
Women	0.05	0.05	0.58	ND	29.82	1.20	ND	0.00	ND
Men	0.08	0.12	1.42	ND	22.29	0.00	ND	0.00	ND
Dismissals by age (%)									
Until 35	0.06	0.11	1.61	ND	25.00	0.00	ND	0.00	ND
From 36 to 45	0.07	0.07	1.67	ND	27.71	0.00	ND	0.00	ND
From 46 to 60	0.07	0.09	0.83	ND	18.52	1.37	ND	0.00	ND
More than 61	0.03	0.04	0.00	ND	20.00	0.00	ND	0.00	ND
Dismissals by professional category (%)									
Managers/deputy managers	11.50	13.22	0.00	ND	0.00	11.82	ND	0.00	ND
Technicians and middle managers	0.12	0.09	3.73	ND	23.53	0.00	ND	0.00	ND
Administrative staff	0.26	0.17	0.98	ND	26.67	0.00	ND	0.00	ND
Operational staff	0.04	0.07	0.59	ND	23.19	0.00	ND	0.00	ND

⁵ The figures for Correos Express Portugal correspond to the whole of the 2019 financial year, including the period prior to its acquisition by Correos Express.

⁶ Dismissals= number of dismissals of (women, men) / collective total (women, men)

Correos		2019	
Average remuneration by professional category and gender (thousands of euros) ⁷	Men	Women	Women remuneration compared to men remuneration (%)
Managers/deputy managers ⁸	47,361	44,348	93.6
Middle managers	26,343	25,575	97.1
Administrative staff	20,844	20,522	98.5
Operational staff and team leaders	18,851	18,754	99.5
Average remuneration by age and gender (thousands of euros)			
Until 35	18,942	18,916	99.9
From 36 to 45	19,340	19,110	98.8
From 46 to 60	19,406	19,017	98.0
More than 61	19,835	18,818	94.9

⁷ Average remuneration by professional classification (not including personal wage items, such as those related to seniority, residence, annual campaigns or vehicle contribution), according to public sector wage tables.

⁸ Calculation made with real remunerations, for not having direct equivalence in salary scales of the public sector.

Correos Express		2019	
Average remuneration by professional category and gender (thousands of euros)	Men	Women	Women remuneration compared to men remuneration (%)
Managers/deputy managers	39,950	29,560	74.0
Middle managers	31,990	31,620	98.8
Administrative staff	22,280	21,250	95.4
Operational staff and team leaders	19,830	17,780	89.7
Average remuneration by age and gender (thousands of euros)			
Until 35	17,150	16,700	97.4
From 36 to 45	21,550	21,070	97.8
From 46 to 60	25,110	23,070	91.9
More than 61	22,230	22,070	99.3

Correos Express Portugal ⁹		2019	
Average remuneration by professional category and gender (thousands of euros)	Men	Women	Women remuneration compared to men remuneration (%)
Managers/deputy managers	ND	ND	ND
Middle managers	ND	ND	ND
Administrative staff	ND	ND	ND
Operational staff and team leaders	ND	ND	ND
Average remuneration by age and gender (thousands of euros)			
Until 35	ND	ND	ND
From 36 to 45	ND	ND	ND
From 46 to 60	ND	ND	ND
More than 61	ND	ND	ND

⁹ Due to the date of its incorporation into the Correos Group, there are no data available on the average remuneration of Correos Express Portugal for the whole of the 2019 financial year. It is planned to report these data from the financial year 2020 onwards.

Correos Nexea		2019	
Average remuneration by professional category and gender (thousands of euros)	Men	Women	Women remuneration compared to men remuneration (%)
Managers/deputy managers	61,788	52,954	85.7
Middle managers	25,348	27,880	110.0
Administrative staff	25,912	16,741	64.6
Operational staff and team leaders	18,475	15,485	83.8
Average remuneration by age and gender (thousands of euros)			
Until 35	15,749	15,208	96.6
From 36 to 45	22,581	18,454	81.7
From 46 to 60	23,489	17,833	75.9
More than 61	49,888	16,042	32.2

Correos Telecom		2019	
Average remuneration by professional category and gender (thousands of euros)	Men	Women	Women remuneration compared to men remuneration (%)
Managers/deputy managers ¹⁰	NA	NA	NA
Middle managers	NA	NA	NA
Administrative staff	NA	NA	NA
Operational staff and team leaders	NA	NA	NA
Average remuneration by professional category and gender (thousands of euros)			
Until 35	32,749	27,130	82.8
From 36 to 45	42,206	37,309	88.4
From 46 to 60	46,991	41,221	87.7
More than 61	28,550	36,564	128.1

10 It is not possible to break down remuneration by professional classification and gender since, due to the low proportion of women in some professional categories, these could be clearly identifiable, not allowing their personal data to be preserved, in accordance with the regulations in force.

	Correos		Correos Express		Correos Express Portugal	Correos Nexea		Correos Telecom	
Average training hours by professional category	2019	2018	2019	2018	2019	2019	2018	2019	2018
Managers/deputy managers	28.2	ND	15.8	ND	ND	9.9	ND	20.0	ND
Technicians and middle managers	54.3	ND	8.5	ND	ND	6.0	ND	26.6	ND
Administrative staff	56.3	ND	6.6	ND	ND	5.5	ND	4.0	ND
Operational staff	29.4	ND	4.4	ND	ND	1.8	ND	0.0	ND
Average training hours by gender									
Women	36.8	30.1	19.7	19.2	ND	4.3	1.3	29.3	30.3
Men	30.9	25.1	17.4	16.9	ND	4.7	2.1	24.9	32.6

	Correos		Correos Express		Correos Express Portugal	Correos Nexea		Correos Telecom	
Paternity or maternity leave by gender ¹¹	2019	2018	2019	2018	2019	2019	2018	2019	2018
Women	269	289	11	10	ND	2	1	0	1
Men ¹²	485	482	25	20	ND	1	2	0	0

11 100% of the employees who benefited from paternity/maternity leave returned to their job when it was completed.

12 Includes both paternity leave and assignment of maternity leave.

	Correos		Correos Express		Correos Express Portugal	Correos Nexea		Correos Telecom	
	2019	2018	2019	2018	2019	2019	2018	2019	2018
Workplace accident frequency index ¹³	29.6	29.8	13.7	19.6	19.3	ND	ND	0.00	0.0
Workplace accident severity index ¹⁴	1.1	1.3	0.4	0.4	0.9	ND	ND	0.00	0.0
Absenteeism (thousands of days) ¹⁵	1,123.7	1,051.4	19.5	ND	ND	2.9	ND	0.0	0.0

13 IF = [Number of accidents with sick leave (excluding in itinere and relapses) / Number of effective hours worked]*106.

14 IG= [Number of days lost due to occupational accidents within the working day (including 'Aggravating factors due to death/permanent disability of the worker') / Number of effective hours worked]*103.

15 Actual days lost due to medical absenteeism (common illness + occupational accident) / 1000.

	Correos		Correos Express		Correos Express Portugal	Correos Nexea		Correos Telecom	
Occupational accident by gender ¹⁶	2019	2018	2019	2018	2019	2019	2018	2019	2018
Women									
Deaths ¹⁷	1	1	0	0	0	0	0	0	0
Very serious accidents	0	0	0	0	1	0	0	0	0
Serious accidents	5	1	0	0	0	0	0	0	0
Minor accidents	1,999	2,032	12	9	0	3	6	0	0
Accidents with sick leave	2,005	2,034	12	9	1	3	6	0	0
Men									
Deaths ¹⁷	1	2	0	0	0	0	0	0	0
Very serious accidents	1	0	0	0	4	0	0	0	0
Serious accidents	7	7	0	0	2	0	0	0	0
Minor accidents	1,819	1,769	34	33	0	1	7	0	0
Accidents with sick leave	1,828	1,778	34	33	6	1	7	0	0

¹⁶ Number of accidents with sick leave (in day + in itinere)

¹⁷ Deaths in 2019 at Correos due to traffic accidents during the working day and non-traumatic pathologies due to physiological causes during the working day.

* In 2019, Correos Group companies did not register any cases of occupational disease.



Environmental sustainability

🌐 GRI 203-2

For more than two decades, Correos has made ambitious commitments to reduce its environmental footprint. At present, its main objectives are:



- **Improving the air quality of cities** (cutting nitrogen oxide (NOx) and PM10 particulate emissions), thus helping to protect the health of inhabitants.



- **Combating climate change** (reducing carbon dioxide (CO₂) emissions).

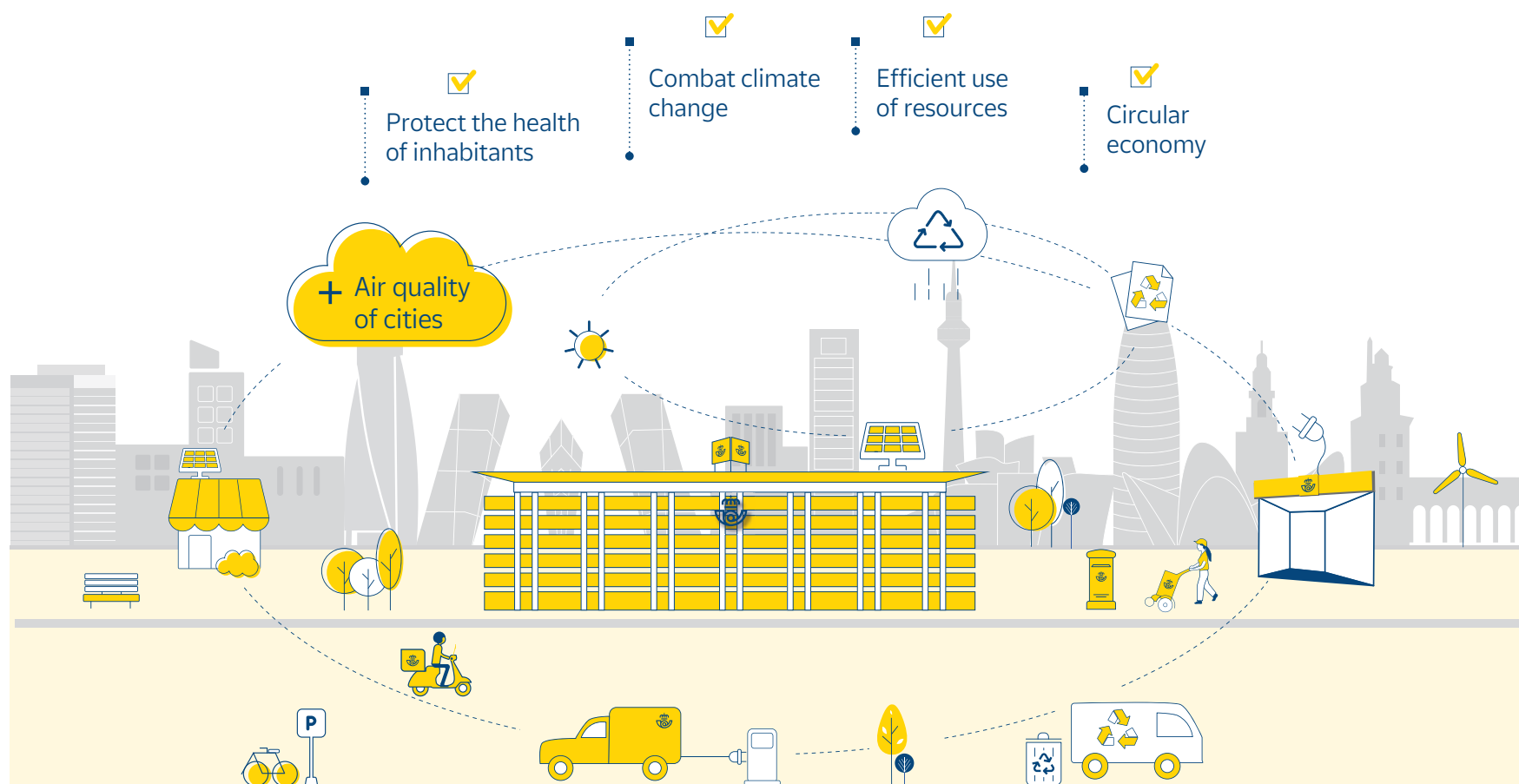


- **Consuming sustainably** (making efficient use of resources)



- **Promoting a circular economy** (increasing the percentages of recycling and reducing waste generated).

Environmental management objectives



Management of environmental impacts

🌐 GRI 102-11

The **most significant** short-, medium- and long-term **impacts of Correos** on the environment include:

- The generation of CO₂, NO_x and PM10 **emissions**.
- **Energy consumption**.
- **Waste** generation.

These impacts are reviewed and evaluated on an annual basis and contrasted with the main international (COP, SDG, EU legislation) and national reference frameworks (regulations and recommendations, business initiatives and partnerships).

In this way, policies and investments in this area can be orientated towards initiatives that are likely to enable greater risk mitigation, thus maximising the precautionary principle.

Given their different areas of activity, the Group's subsidiaries have their own environmental management systems, designed to assess, prevent or mitigate their main impacts:

- The consumption of natural resources, as well as the generation of waste and emissions (linked to air conditioning) in their workplaces, in the case of Correos Express.
- The use of natural resources (mainly paper) and the generation of waste by Correos Nexea.
- Fuel consumption, CO₂ emissions and noise (related to internal travel in commercial and operational activities), as well as waste generation in works carried out, for Correos Telecom.



2014-2020 General Sustainability Plan



The management of Correos' environmental risks is structured through the 2014-2020 General Sustainability Plan, which focuses on three areas.

• **Reduction of CO₂ emissions.** Objectives for 2020 include:

- >Ensuring that emissions per delivery do not increase by more than 2% with respect to 2013 in light of the exponential growth of parcel volumes, which represent higher unit emissions per postal items.
- >Reducing scope 1, 2 and 3 CO₂ emissions by 15% compared to 2013.

Measures taken to achieve this include promoting a more efficient distribution model through the use of new transport and fuel technologies, optimising delivery routes and raising employee awareness.

• **Energy efficiency.** The objectives for 2020 are geared towards:

- >Reducing energy consumption in the company's buildings by 25% compared to 2010.

The achievement of this objective is linked to the optimisation of the energy needs of the centres, the replacement of lighting

and air-conditioning systems and the raising of awareness among employees.

• **Waste management.** Objectives for 2020 include:

- >Improving waste management in the main work centres.

The measures envisaged for its realisation include the implementation of a concentration model that improves segregation and increases recycling rates.



As part of the 2019 Climate Summit (COP 25) in Madrid, Correos announced its new environmental commitments for 2030, which include achieving carbon neutrality and achieving zero waste by 2030. These targets and the action plans for their achievement will be set out in the new Sustainability Plan, to be developed from 2020 onwards.

Environmental assessment and certification procedures

🌐 GRI 102-12




The environmental management systems of Correos Group companies enable the planning, prioritisation and monitoring of projects, as well as the monitoring and evaluation of risks and opportunities in this area.

These systems have been **certified according to the standard UNE-EN ISO 14001:2015** 'Environmental Management Systems':

- In **38 processing centres and post offices**.
- In 4 Correos Express operating centres. 
- At Correos Telecom, applied to marketing, design, operations and the maintenance of the fibre telecommunications infrastructure network.
- In the two Correos Nexea centres, which are also complemented by **PEFC and FSC certificates**, which ensure the correct 

traceability of paper and cardboard of sustainable origin used in their activity.

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

- Participation in the **Environmental Measurement and Monitoring System**  (EMMS) project, promoted by International Post Corporation, with the aim of reducing CO₂ emissions of the postal sector.
- The voluntary disclosure of emissions to **CDP**, an international framework for measuring the performance of companies and cities around the world in their management of climate change. 
- The environmental report according to the standards of the international consortium Climate Disclosure Standards Board (**CDSB**). 
- The use of the Universal Postal Union's **Online Solution for Carbon Analysis and Reporting** (OSCAR) environmental diagnostic and monitoring tool.
- Verification of the results of CO₂ emissions management according to the UNE-EN

ISO 14064-1:2012 'Greenhouse Gases' standard.

- Registration in the 'Register of Carbon Footprint, Offsetting and Carbon Dioxide Absorption Projects' of the Ministry for Ecological Transition and the Demographic Challenge (*Ministerio para la Transición Ecológica y el Reto Demográfico*). Within this framework, during the last financial year Correos was the first public company and the first in the logistics sector to obtain the 'I calculate, I reduce, I offset seal' (*sello 'Calculo, reduzco, compenso'*), awarded to those companies that, in addition to measuring their carbon footprint, comply with their annual commitments to reduce and/or offset emissions.

Participation in **Lean&Green**, the largest European platform for business collaboration to reduce greenhouse gas emissions, led in Spain by AECOC.

Efficient distribution for emission reduction

🌐 GRI 102-12 🌐 GRI 305-5 🌐 GRI 308-2 🌐 GRI 413-1



One of the main environmental footprints of Correos is in the transport and delivery of postal items in the last mile, which involves the emission of NOx, particles and CO₂ into the atmosphere. The policies developed to mitigate these effects are designed to:

- **Reduce the number of kilometres travelled** and the number of trips during delivery, by incorporating technologies that facilitate effective delivery on the first attempt, expanding the *CityPaq* locker network or optimising routes.
- **Make these kilometres greener**, through efficient driving and the use of vehicles that use alternative fuels to petroleum-based fuels. In addition, Correos travels more kilometres on foot (deliveries with

zero emissions) than any other Spanish company, thanks to its more than 30,000 postmen and postwomen.

Measures for efficient driving

Efficient driving is a key factor in reducing energy consumption, extending the life of vehicles and further reducing the number of accidents. In recognition of these benefits, last year Correos provided training in efficient driving to nearly 19,000 employees.

In addition, the company is participating in the Autonomous Ready Spain (Mobileye)

project, promoted by the General Directorate for Traffic and the Barcelona City Council, to reduce road accidents by incorporating ADAS (advanced driver assistance systems) technology.

These devices, installed in 150 Correos vans that operate in this city, monitor the road to warn the driver of possible dangers and also protect pedestrians or cyclists. Furthermore, the information they provide makes it possible to improve driving performance in the long term, so that it is safer and more efficient..



Electric mobility models



Since 1996, Correos has been evaluating and incorporating means of transport that use alternative fuels to those derived from oil, and currently has **one of the largest electric fleets in the sector**. In 2019, 35 electric vans and another 5 natural gas vans were incorporated into the fleet, with the acquisition

of 600 motorcycles and 216 additional electric vans and cars planned for 2020.

In total, the company's fleet of eco-efficient vehicles is made up of 499 vehicles, which are preferably used for home delivery in urban environments and historical centres, where the circulation of traditional combustion vehicles is increasingly restricted by new local mobility regulations.

This measure is **reinforced by the fact that the company only purchases 100% renewable** energy for the electricity supply of its delivery units for their operation of eco-efficient vehicles, thus contributing to creating areas of reduced emissions. The integral logistics centre of Barcelona (CLI) is also a centre with zero emissions, since it uses 100% renewable electricity and biomass for its heating and hot water systems.

The company also collaborates with a number of local authorities to ensure that its activities generate minimum environmental impact and contribute to achieving the emission reduction targets of Spain's main cities.

In recent years, different vehicles, such as electric scooters or pedal-assisted tricycles, have been tested for urgent distribution in areas with restricted access in several provinces. Similarly, Correos continued to participate in the European project REMOURBAN, in collaboration with the Valladolid City Council, to promote electric mobility in areas with high vehicle congestion and continued to contribute to the promotion of European Mobility Week, while sharing its **good practices**. 📌

In 2019, the company also began working with one of the winners of the second 'Lehnica Challenge' (Correos' entrepreneurship programme) to evaluate its Scoobic model (a 100% electric vehicle, especially suitable for last mile deliveries

Alternative technologies for transport

The company is also evaluating other alternative fuels, such as liquefied petroleum gas (LPG) or compressed natural gas (CNG), both in the long-haul fleet and in the last mile delivery fleet.

The main collaborations in this area include:

- The **POSTLowCIT project**, led by Correos in conjunction with the University of Deusto and the vehicle transformer Evarm since 2016. This programme, co-financed by the European Union within the framework of the CEF 'Connecting Europe Facility', combines the validation of transport technologies with low environmental impact (electric and liquid gas vehicles) with the use of information systems for route optimisation.

Correos' participation involves the use and evaluation of 73 electric vehicles in the last mile delivery and 4 long-distance trucks, adapted for the use of autogas (LPG), which

run routes between Barcelona, Madrid, Seville and Valencia.

- The **ECO-GATE programme**, also co-financed by the European Union, in which Correos has participated since 2017, testing the use of transformed or native compressed natural gas (CNG) vehicles for medium-haul and last mile transport, comparing their performance with that of diesel vehicles.

Correos Express MARES project

Since 2017, the subsidiary Correos Express has been developing the 'Environmentally Friendly and Sustainable Alternative Means of Delivery' (MARES) programme, for the **use of eco-efficient means of distribution** to reduce the impact of its activity on the environment. As part of this project, the company has begun a collaboration with suppliers who make part of the route on foot (called 'walkers').

In order to minimise the consumption of fossil fuels, the company has also promoted the contracting of routes made with electric

motorcycles and bicycles, to provide service to the centres of Madrid CTM, Madrid CTC and Barcelona (with a total of 175 ecological routes). Since 2019, the headquarters of Correos Express have also been equipped with recharging points for the electric vehicles used by the employees of that centre.

Lastly, the implementation of new dynamic distribution management technology, to optimise distribution operations, made it possible to reduce the generation of CO₂ emissions from the sub-contracted fleet.



Sustainable use of natural resources

🌐 GRI 302-4



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

Correos Group companies purchase **100% of their electricity from totally renewable energy sources**. Other energy efficiency measures developed by the Correos include:

- The promotion of a **sustainable purchasing** policy, especially for the supply of energy and transport.
- The replacement of lighting systems in centres with LED technology.

- The implementation of energy efficiency in the workplace in order to reduce the consumption of networked computer equipment, which in 2019 was extended to equipment in another 200 post offices.

- **Awareness-raising** among employees through:

- >The organisation of an annual 'Environmental Commitment Award' to identify best practices in energy efficiency in the company's buildings.

- >The dissemination of consumption reports from the company's main work centres, through the corporate Intranet, for individualised monitoring of progress made.

- >Training on Correos' environmental commitment provided to 20,000 employees throughout the year.

- >The dissemination of recommendations through internal communication channels.

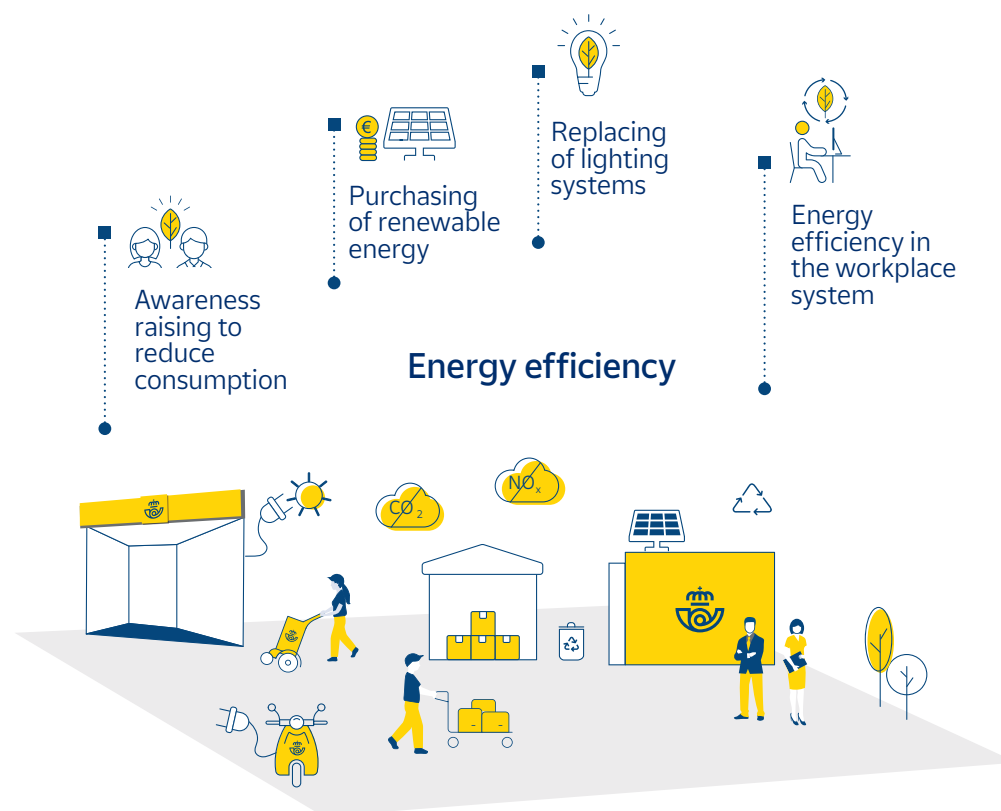
- >Participation in the 'Earth Hour' initiative, the largest global event in defence of the environment promoted by WWF, by symbolically turning off the lights in offices, delivery units and work centres, as well as internal and external awareness raising. In 2019, the event was also promoted through 12,195 post trolleys.

The subsidiaries Correos Express and Correos Nexea also have policies for reducing resource consumption (water or energy) in their operating centres, through employee awareness measures and the replacement of lighting systems.

Correos Express has an awareness programme, which includes information leaflets, posters and workshops at all the centres that have UNE-EN ISO 14001:2015 certification, as well as environmental training for new employees in positions of responsibility. Last year the subsidiary also revised the good environmental practices manual and created a specific scorecard.

Correos Express also prioritises **the efficient use of natural resources** in the manufacture of commercial and promotional materials, using, for example, recycled paper in its customer welcome packs, which also includes seeds used to promote the cultivation of a plant.

Owing to its activity, the main raw material used by Correos Nexea is paper. For this reason, for years the company has been using **FSC- and PEFC-certified** paper from sustainable sources in its printing and enveloping services, an option that is increasingly in demand from its customers.



Circular economy and waste management

🌐 GRI 102-12 🌐 GRI 304-3 🌐 GRI 413-1



Another line of action contemplated in Correos' General Sustainability Plan is to promote a circular economy, optimising the management and recycling of waste generated in its offices, administrative buildings and logistics centres.

In 2019, the company launched **the new Circular Economy Action Plan**, which aims to increase resource recovery (through the creation of new products) and will also include the new waste management policy.

Correos also contributes to increasing the use of computer equipment that undergoes regular maintenance, through its donation. In 2019, 1,205 computers and 300 mobile devices were delivered to nearly 90 foundations, non-profit organisations and educational centres, whose

objectives are associated with international cooperation, the integration of people at risk of social or educational exclusion.

Defence and protection of biodiversity

Correos also promotes the circular economy by promoting recycling and contributing to biodiversity protection projects. Accordingly, **the recently renamed Línea Bosques (Forest Line)** offers customers a responsible consumption alternative.

Forest Line packaging, which is sold in the post office network, is manufactured with completely recyclable materials and has a sustainable management certificate. A portion of its cost is also used **to finance reforestation projects**, in collaboration with WWF Spain's forest landscape restoration programme.

The actions developed as part of the Forest Line aim to promote the reforestation of the national territory and to raise society's awareness of the importance of preserving environmental values and biodiversity. In 2019, this initiative

led to **the recovery of the Campanarios de Azaba Biological Reserve**, between the municipalities of La Alamedilla and Espeja (Salamanca), in an area of approximately 30 hectares of Mediterranean forest.

Correos also has **programmes to compensate for CO₂ emissions**, by purchasing carbon credits on the voluntary emissions market, which mainly focus on three objectives: reducing emissions from the deforestation of tropical forests, promoting renewable energies and carrying out forestry management in forest areas to generate energy from biomass and prevent fires. Some of these programmes are being implemented in Oaxaca (Mexico), Madre de Dios (Peru), Recreio (Brazil) and Arauco (Chile).



To mark the Climate Summit 2019, held in Madrid, Correos also presented the new project **#Correos Compensa**, developed in collaboration with the startup company ClimateTrade. This initiative, selected by the UNFCC-Action Hub, enables the offsetting of emissions from shipments that customers arrange in the post office network, supporting mitigation projects through blockchain technology.

Another initiative developed during the Summit was the launch of the **Protest Stamps collection**, ten stamps illustrated with awareness-raising messages on global warming and climate change, reflecting the demands made by young people on their protest banners throughout 2019.

During this same international event, the company **was also acknowledged by the #PorElClima Community**, by highlighting its **environmental best practices** among its 101 initiatives. 

Correos has also started a pilot programme of 'climate rounding' in 8 post offices, with which customers who wish to do so can round up the final amount of their purchase in order to make a donation to projects related to the response to climate change.

With respect to the Group's subsidiaries, as with Correos, the impact of their operating centres on biodiversity is limited and does not in any way affect protected areas. In the case of Correos Telecom, one of the main objectives of its environmental management policy is the efficient use of natural resources and the appropriate management of the waste generated by its activity, promoting environmental control of the works carried out by its suppliers, so as to minimise the impact on the surrounding countryside and biodiversity.

Environmental indicators

GRI 301-1 GRI 302-1 GRI 303-1 GRI 305-1
 GRI 305-2 GRI 305-3 GRI 305-7

CO₂ and other pollutant emission indicators will be included in the Correos Group's 2019 integrated annual report, which is due to be published in June 2020. As these indicators are not available, at the date of preparation of this

statement of non-financial information, these indicators that refer to the year 2019 include data from the last available year.

	Correos		Correos Express ¹		Correos Nexea ²		Correos Telecom ³	
Greenhouse gas emissions (tCO ₂)	2018	2017	2018	2017	2018	2017	2018	2017
Direct (scope 1)	48,016	46,696	0	0	ND	ND	29	29
Indirect (scope 2)	2,292	9,800	ND	ND	ND	ND	NA	NA
Other indirect emissions (Scope 3)	119,675	118,628	ND	ND	ND	ND	ND	ND
Emissions per item (g CO ₂ /item)	18.6	21.3	ND	ND	NA	NA	NA	NA

CO₂ emissions are calculated using the GHG Protocol and verified in accordance with standard UNE-EN ISO 14064-1:2012 'Greenhouse gases'

¹ Correos Express does not measure scope 1 emissions, as it does not have its own fleet of vehicles and the air-conditioning systems at its operating centres are electric. Scope 2 emissions are expected to be reported from 2020 onwards.

² Correos Nexea's greenhouse gas emissions do not constitute a significant impact.

³ Correos Telecom does not generate its own scope 2 emissions as it shares its buildings with the Correos parent company.

	Correos		Correos Express ⁴		Correos Nexea ⁵		Correos Telecom ⁵	
Other atmospheric emissions (kg)	2018	2017	2018	2017	2018	2017	2018	2017
SOx	221	220	NA	NA	NA	NA	NA	NA
NOx	136,122	133,055	NA	NA	NA	NA	NA	NA
Particulates	12,133	11,833	NA	NA	NA	NA	NA	NA

CO₂ emissions are calculated using the GHG Protocol and verified in accordance with standard UNE-EN ISO 14064-1:2012 'Greenhouse gases'.

	Correos ⁶		Correos Express		Correos Express Portugal ⁷	Correos Nexea		Correos Telecom ⁸	
Raw materials consumption	2019	2018	2019	2018	2019	2019	2018	2019	2018
Water (m ³)	355,211	336,291	13,023	13,517	ND	1,827	1,891	NA	NA
Paper (kg)	742,803	755,880	63,805	56,108	ND	5,989,783	ND	ND	ND
Ink (units)	18,064	14,614	953	ND	ND	2,369	ND	ND	ND

Emissions are calculated using the CORINAIR methodology based on billed consumptions

4 Correos Express does not generate SOx, NOx and particulate emissions as it does not have its own fleet of vehicles and the air-conditioning systems at its operating centers are electric.

5 Emissions of SOx, NOx and particles do not constitute a relevant impact of Correos Nexea and Correos Telecom

6 Estimated consumption data of Correos..

7 Due to the date of its incorporation into the Correos Group, there are no consumption data available for Correos Express Portugal for the entirety of 2019. It is planned to report these data from the financial year 2020 onwards.

8 Correos Telecom does not measure water consumption, since it shares its buildings with Correos.

	Correos ⁹		Correos Express ¹⁰		Correo Express Portugal ¹¹	Correos Nexea		Correos Telecom ¹²	
Energy consumption (Gj)	2019	2018	2019	2018	2019	2019	2018	2019	2018
Electricity	497,466	494,278	21,202	21,282	ND	10,728	8,943	3,659	3,537
Natural gas	123,099	79,098	NA	NA	ND	1,397	3,920	NA	NA
Gasoil C	45,129	42,312	NA	NA	ND	NA	NA	NA	NA
Automotive diesel	357,703	350,432	NA	NA	ND	NA	NA	500	402
Petrol	7,533	55,676	NA	NA	ND	NA	NA	NA	NA
Others (carbon, butane and propane)	328,159	129,319	NA	NA	ND	NA	NA	NA	NA

Emissions are calculated using the CORINAIR methodology based on billed consumptions

⁹ Estimated consumption data of Correos

¹⁰ Correos Express does not consume fossil fuels, since it does not have its own fleet of vehicles.

¹¹ Due to the date of its incorporation into the Correos Group, there are no consumption data available for Correos Express Portugal for the entirety of 2019. It is planned to report these data from the financial year 2020 onwards.

¹² The electricity consumption of Correos Telecom corresponds to the locations available on the market.

	Correos ¹³		Correos Express		Correos Express Portugal ¹⁴	Correos Nexea		Correos Telecom ¹⁵	
Wasted generated (kg)	2019	2018	2019	2018	2019	2019	2018	2019	2018
Dangerous	ND	ND	390,119	263,546	ND	437,691	554,635	NA	NA
Non dangerous	ND	ND	226	103	ND	1,508	3,804	NA	NA

	Correos		Correos Express		Correos Express Portugal	Correos Nexea		Correos Telecom	
Resources for the prevention of environmental hazards (thousands of euros)	2019	2018	2019	2018	2019	2019	2018	2019	2018
Expenses	1,478.8	1,556.8	102.0	92.3	ND	7.3	11.5	8.9	ND
Investments	3,681.9	4,190.6	0	0	ND	0	0	0	0
Grants	12.0	74.0	0	0	ND	0	0	0	0

13 Correos will report its waste from the year 2020, in accordance with the new methodology to be implemented.

14 Due to the date of its incorporation into the Correos Group, there are no consumption data available for Correos Express Portugal for the entirety of 2019. It is planned to report these data from the financial year 2020 onwards.

15 Correos Telecom does not manage its waste, since it shares its buildings with the Correos parent company.



Social commitment of Correos Group

🌐 GRI 102-12 🌐 GRI 102-13 🌐 GRI 203-2

Over its more than three centuries of history, Correos has played an essential role in the structuring of the country and in social cohesion as a facilitator of communications and economic exchanges between companies and citizens.

The company is aware of the significance that its policies can have in helping to respond to society's major challenges, without forgetting its role as a provider of the Universal Postal Service. As a public sector company, **Correos aims to generate both an economic and social return** from its activity by supporting the development of the Spanish business fabric, especially in rural areas, encouraging the sustainable and inclusive progress of the entire population and promoting innovation and entrepreneurship.



Corporate social responsibility and sustainability policy

Correos' **Corporate Social Responsibility and Sustainability Plan** includes three main lines of action, identified as the main levers with which the company can generate the greatest positive impact on its diverse range of stakeholders:

Responsible business, through the design and marketing of sustainable products and services, aimed at responding to the main social and environmental challenges (rural depopulation, the digital divide, climate change, etc.).

Sustainable management, through internal policies for people development, diversity, responsibility in the supply chain, environmental protection or good governance.

Relationship with the community, through actions with a local impact to promote progress and social integration, in collaboration with various associations and entities.



These three lines also seek to influence two cross-cutting areas: the contribution the **Sustainable Development Goals** promoted by the United Nations and the response to the demographic challenge facing Spain.

Correos' contribution to 2030 Agenda

Companies providing public services for citizens are in a privileged position to promote the achievement of 2030 Agenda. Accordingly, Correos has identified its potential contribution to the Sustainable Development Goals, in order to develop those policies which have the greatest impact on their fulfilment.

Moreover, since 2015 it has promoted the Universal Postal Union (UPU) working group aimed specifically at analysing the important role played by postal operators as levers of public policy in this area.

In 2019, Correos joined the **#ODSéate information campaign**, promoted by the High Commissioner for 2030 Agenda, on the occasion of the fourth anniversary of Spain's accession to the programme. The company also issued a commemorative stamp dedicated to the anniversary, part of which was sold to social projects that benefit society's most vulnerable children.

Furthermore, the **VamOs! initiative**, disseminated through internal communication channels, informed employees of the Sustainable Development Goals, the contribution that the company makes and their possible personal contribution to increasing the positive impact.

As part of its participation in Forética, a corporate social responsibility and sustainability association, Correos also contributed to the work carried out by the CSR Action Group in Public Companies, which last year focused on promoting transparency and contributing to 2030 Agenda. It also continued to collaborate with Forética's Transparency, Good Governance and Integrity Cluster.



En Correos tenemos un objetivo común:
Llegar a todo el mundo para poder cambiarlo.



Responsible business

🌐 GRI 203-2, 🌐 GRI 413-1

The main initiatives developed by the company in the area of responsible business include:

- The offer of **sustainable products**, such as the **Forest Line** of ecological packaging, which promotes the financing of reforestation projects.
- The development of collaborative solutions, such as the emission-neutral shipping programme **#Correos Compensa**.
- The creation of proximity services to address the demographic challenge, such as the e-commerce platform for local producers **Correos Market**, which helps to curb rural depopulation and increase opportunities in these environments; Correos Cash, which facilitates access to financial services in rural areas; the electronic registration solution ORVE or the sale of train tickets, among others.

- The promotion of social innovation, with the announcement of a new social category in the **Lehnica Challenge**, Correos' entrepreneurship support programme.

The company also promotes, within its line of services for the *Camino de Santiago* (Way of St. James), initiatives that encourage the preservation of the environmental surroundings of the Pilgrim Routes, the protection of the rural territory and the promotion of local and neighbourhood commerce, as measures to stop rural depopulation and protect the natural heritage.



Community relationship

GRI 102-12
 GRI 203-2
 GRI 413-1



With a day-to-day presence in the country through its more than 30,000 postmen and postwomen and almost 2,400 post offices, Correos meets the communication needs of all citizens, regardless of their place of residence or income, with an efficient and quality service.

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

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

The company also supports a number of projects, in collaboration with associations, foundations and other third sector entities, which have a relevant local impact and whose objectives are focused on four areas of action:


- **Education and children:** through the 'Correos reparte sonrisas' programme, the sale of articles for the benefit of various NGOs, open days in centres and offices for schoolchildren, the Inicia2 'Valores de empresa' programme or participation in the 4th ESO+empresa initiative, promoted by the Community of Madrid.

- **Diversity and inclusion:** with initiatives especially aimed at women and people with disabilities (such as joining the campaign against gender violence, the business platform *Héroes de hoy* or the *X solidaria* campaign).
- Raising awareness of **climate change:** by participating in Earth Hour or donating computer equipment.
- Promoting **volunteer work** among the Group's employees: facilitating their participation in the reforestation days of the Forest Line, the campaigns to collect letters to the Three Wise Men (for the Spanish Christmas tradition held on 6 January) and food for the Food Banks, the collection of toys for the NGO Oxfam Intermon or the prize giving out solidarity, internal recognition given to participation in social projects.



Correos' commitments for 2030

In conjunction with the 2019 Climate Summit held in Madrid, Correos revealed the additional commitments it has made to sustainability for 2030, in the belief that more ambitious climate change targets need to be adopted. These objectives are:

- Reaching **total neutrality in CO₂ emissions**.
- Promoting circularity, in order to become a company that generates **'zero waste'** by 2030.
- Promoting **intelligent mobility**, to the point where 50% of the company's fleet uses alternative technologies.
- Generating **'local value'** by increasing the diversity of sustainable products on the  **Correos Market** online sales platform and in post offices, developing a network of local workshops for the exchange of experiences and promoting entrepreneurship in rural areas.



Contributions to foundations and non-profit entities

🌐 GRI 102-12 🌐 GRI 203-2



In 2019, Correos contributed 50,037 euros to foundations and non-profit organisations, to contribute to projects related to the defence of children, the social and labour integration of people with different abilities, environmental protection or social awareness. The Group subsidiaries did not make contributions to foundations and non-profit entities during the fiscal year.

Additionally, the company collaborated with different associations and organisations through **the sale of charitable products in its post office network:**

- UNICEF: Christmas cards, notebooks, pens, wristbands and diaries. Objective: To

support various projects for the protection of children's rights.

- Spanish Red Cross: entries in the Spanish Christmas Lottery and the Gold Lottery, as well as the provision of office space for information campaigns on its activities. Objective: To support the programmes carried out by this organisation in developing countries.

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

- *Fundación Mensajeros de la Paz* (Messengers of Peace Foundation): charity backpacks from the 'Help them back to school. Fill their backpacks with hope!' campaign. Objective: To help children whose families are experiencing financial

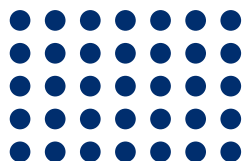
difficulties to begin their studies with the necessary school material.

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

Correos also contributed to promote the holistic **development of people with disabilities** through ordinary work that is consistent with each individual's abilities, by purchasing goods and services from 33 special employment and occupational centres.

To this same end, the company cooperates with La Caixa's '*Incorpora*' programme for the integration of people with different abilities and the provision of work experience. Correos was also one of the companies chosen by the Juan XXIII-Roncalli Foundation to participate in the IDEA Project, aimed at designing viable businesses that will generate quality employment for people with mental disabilities,





promoting entrepreneurship in innovative and sustainable sectors.

The company also organised, as in previous years, solidarity markets at the headquarters in Madrid, to benefit foundations such as Prodis and *Pequeño Deseo* (Little Wish), as well as the Candela Riera and APAMA associations.

Meanwhile, the subsidiary **Correos Express** cooperated, together with the Pinaroli Foundation and the Spanish Red Cross, in the project '*Lanzaderas de empleo*' (employment launchers), so that people at risk of social exclusion could obtain a comprehensive labour qualification, through theoretical and practical training. Similarly, it maintained its collaboration agreement with the Adsis Foundation and contracted the management of part of its telephone service with two special employment centres.

Correos Express also renewed its agreement with the Spanish Federation of Optical Sector Associations (FEDAO), which includes its participation in the information, awareness and prevention activities in the field of visual health developed by the Vision and Life association (such as the 'Seeing is Learning' campaign,

which promotes eye examinations for children to avoid school failure, or the publication of the White Paper on Vision in Spain).

Likewise, the subsidiary collaborates with the Esplai Eixida Foundation for the collection of toys, in order to help children and families at risk of social exclusion.

In turn, **Correos Telecom** has an agreement with the Down Madrid Foundation, for vocational training students to undertake work experience, in order to promote their integration into the workplace

Regarding the **universal accessibility** of people with disabilities to the services provided, Correos has developed in recent years a policy of physical accessibility to its public service centres, whereby all its new offices have been adapted to avoid the existence of architectural barriers. A large number of these establishments also offer assisted hearing devices for people with impaired hearing



Sponsorships

🌐 GRI 102-12 🌐 GRI 203-2

The Correos Group believes that supporting culture, art, the values of sport and entrepreneurship is also an effective instrument to promote awareness-raising, solidarity and social inclusion. In 2019, Correos supported a number of initiatives through:



6 sport sponsorships

Highlighting the backup to the The Spanish Olympic Team, via the Association of Olympic Sports (ADO), the Association of Olympic and Paralympic Sports (ADOP) and the Spanish Handball Federation. In addition to these, **Correos Express has sponsored three** more races for the benefit of several organisations such as the ASLEUVAL Association (Association for the fight against Leukaemia in the Valencian Community) or the Miquel Valls Catalan Foundation for Amyotrophic Lateral Sclerosis..



12 cultural and institutional sponsorships

Such as the contribution to the Royal Spanish Academy or the 8th centenary of Burgos Cathedral..



14 commercial sponsorships from Correos and 11 from Correos Express,

Of sectorial events dedicated to parcels, direct marketing or digital services, such as *HOY ES MARKETING*, Digital 1to1, South Summit or Mobile Commerce Congress.

The Group's Subsidiaries made no sponsorships during financial year.



Main associations in which Correos Group participates

 GRI 102-12
  GRI 102-13

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



Businesses

- *Fundación Consejo España China* (Spain China Council Foundation)
- AESPLA (*Asociación Española de Servicios de Prevención Laboral*) [Spanish Association of Occupational Health & Safety Services]
- PRL Innovación
- AUTELSI (*Asociación Española de Usuarios de Telecomunicaciones y de la Sociedad de la Información*) [Spanish Telecommunications Users and Information Society Association]
- AUSAPE (SAP Users Association Spain)
- Ametic (*Asociación de Empresas de Electrónica, Tecnologías de la Información, Telecomunicaciones y Contenidos Digitales*) [Association of electronics, information technologies, telecommunications and digital contents companies]
- Cloud Community Europe – EuroCloud España (association of companies offering products and services based on Cloud Computing and digital transformation technology)
- @asLAN (association of companies from the ICT sector)
- Silicon Alley Madrid (association of companies from the ICT sector)
- A-Digital (Spanish Association of Digital Economy)
- CEUSS (*Confederación Empresarial de Usuarios de Seguridad y Servicios*) [Business Confederation of Security and Services Users]
- Efitec forum
- AEA (*Asociación Española de Anunciantes*) [Spanish Advertisers' Association]
- AUTOCONTROL
- UNE (*Asociación Española de Normalización*) [Spanish Standardisation Association]
- DMAB (Direct Marketing Advisory Board)
- Internal communication forum
- DEC (*Asociación para el Desarrollo de la Experiencia de Cliente*) [Association for the Development of the Customer Experience]
- UNO (*Organización Empresarial de Logística y Transporte*) [Business Organization of Logistics and Transport]
- Portuguese Association of Express Operators (APOE)
- National Association of Public Inland Goods Transporters (ANTRAM)



International

- UPU (Universal Postal Union). Correos is a member of the Postal Operations Council and co-chairs the Remuneration Integration Group, as well as the vice chair of the PPS*Clearing User Group. It is also a member of the Management Boards of the Direct Marketing Advisory Board and the .POST Group. The company is part of the Contact Committee with the World Customs Organisation.
- IPC (International Post Corporation). An international body comprising the 25 most prominent postal operators.
- UPAEP (Postal Union of the Americas, Spain and Portugal). Correos is the cochair of the Philately Work Group. Besides, Spain has renewed its participation in the Management Board, as first vice chair until 2021.
- PostEurop. The company chairs the European Affairs Committee.
- PuMed (Postal Union for the Mediterranean). Correos belongs to its Management Committee
- EPG Group (E-Parcel Group). Group focusing on parcel services, mostly in Europe
- Kahala Post Group. Business Alliance with postal operators from Australia, China, South Korea, Hong Kong, Japan, United States, United Kingdom, France, Thailand and Canada



Sustainability and good governance

- 'Network of companies for a society free of gender violence', Government Office for Gender Violence
- LGBTI Business Network for Diversity and Inclusion (REDI)
- United Nations Global Compact Network Spain
- Forética
- SERES Foundation. Society and Responsible Company.
- Institute of Internal Auditors
- AEDIVE (*Asociación Empresarial para el Desarrollo e Impulso del Vehículo Eléctrico*) [Business Association for the Development and Promotion of Electric Vehicles]
- GASNAM (*Asociación Ibérica del Gas Natural para la Movilidad*) [Iberian Association of Natural Gas for Mobility]





Corporate governance and ethical compliance

🌐 GRI 102-5



Correos Group's structure and organisation

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

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

Correos Express Paquetería Urgente, S.A., S.M.E. has held 51% of CEP- Correos Express Portugal, S.A. since May 2019 (formerly Rangel Expresso, S.A.) which in turn is wholly owned by CEP II-Correos Express Portugal, S.A. (formerly Rangel Expresso II, S.A.).

Correos' Governing Board has also approved the acquisition of a 35% stake in the Chinese companies KCG eCommerce Solutions I and II.

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



¹ In accordance with the provisions of Article 3 of General Budgetary Act 47/2003, of 26 November, in coordination with Article 166 of Act 33/2003, of 3 November, on Public Authority Assets.

Correos' governing bodies

GRI 102-18
 GRI 102-23
 GRI 405-1

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

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



General Meeting of Shareholders



Chairman

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



Governing Board

Composed of a minimum of 12 and maximum of 15 members, who serve for a maximum period of five years, with the possibility of re-election. They are appointed and removed by the General Meeting of Shareholders. The Governing Board usually meets monthly to oversee the management of the company.



Executive Committee

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



Audit and Control Committee

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

The composition of the Governing Board of the S. E. Correos y Telégrafos, S.A., S.M.E. as of 31 December 2019 was as follows:



- **D. Juan Manuel Serrano Quintana**
Chief Executive Officer and President
- **D. José Ángel Partearroyo Martín**
Proprietary Director
- **D. David Benito Astudillo**
Independent External Director
- **D^a. Myriam Bonafé Tovar**
Independent External Director
- **D^a. Carmen Castaño Laorden**
Independent External Director
- **D. Aquilino González Hernando**
Independent External Director


- **D^a. Isabel Juliani Fernández de Córdoba**
Independent External Director
- **D. Jaime Pérez de la Cruz**
Independent External Director
- **D^a. M^a. José Pérez Ruiz**
Independent External Director
- **D. Alberto Requena Navarro**
Independent External Director
- **D^a. Isabel Riaño Ibáñez**
Independent External Director
- **D. Luis Gonzaga Serrano de Toledo**
Independent External Director

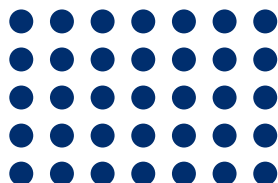
- **D. Tomás Suárez-Inclán González**
Independent External Director
- **D^a. Belén Triana Reyes**
Independent External Director
- **D^a. Belén Villar Sánchez.**
Independent External Director
- **D. Julio Víctor González García**
Secretary non-member of the Board
- **D. José Luis Pérez Pastor**
Vice Secretary non-member of the Board



Responsibilities of the Management Committee

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

Composed of the Chairman and managers of Correos and the general directors of the subsidiaries, it meets weekly at the request of the Chairman. The **members of the Management Committee** do not receive specific remuneration for their attendance. 



Governing bodies of Correos Group subsidiaries

🌐 GRI 102-18 🌐 GRI 102-23 🌐 GRI 405-1

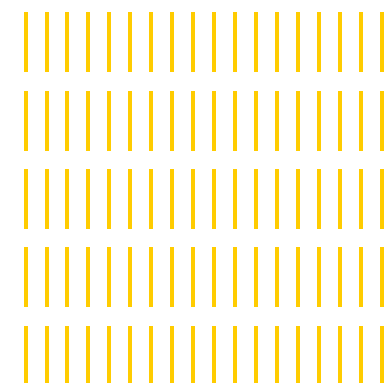
The governing bodies of the Group's subsidiaries are the General Meeting of Shareholders and the Governing Board.

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

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

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

	Governing Board meetings	Audit and Control Committee meetings
Correos	12	5
Correos Express	15	2
Correos Express Portugal	4	-
Correos Nexea	12	2
Correos Telecom	13	2





The composition of the respective Governing Boards of the subsidiaries of Correos Group at 31 December 2019 was as follows:

Correos Express

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

- D. Magín Blanco González
Chairman
- D. Roberto Ducay Azparren
- D. Julio Víctor González García
- D^a. Eva Pavo López
- D^a. Dolores Revilla Huerta
- D. Domingo Sebastián Bello
- D^a. Ana Medina Arespacochaga
Secretary non-member
of the Board

CEP-Correos Express Portugal, S.A.

- D. Avelino Castro López
Chairman
- D. Roberto Ducay Azparren
- D. Julio Víctor González García
- D. Luis Manuel
Dionisio Marqués
- D. Nuno Filipe Pereira Rangel

Correos Nexea

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

- D. Enrique Ramirez Palacín
Chairman
- D. Avelino Castro López
- D. Javier León Corrales
- D^a. Eva Pavo López
- D. Jose Luis Perez Pastor
- D^a. Dolores Revilla Huerta
- D^a. Ana Medina Arespacochaga
Secretary non-member
of the Board

Correos Telecom

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

- D. Enrique Ramirez Palacín
Chairman
- D. José Luis Alonso Nistal
- D^a. Elena Gil Valentín
- D. Alvar Maté Araus
- D. José Luis Pérez Pastor
- D^a. Ana Medina Arespacochaga
Secretary non-member
of the Board

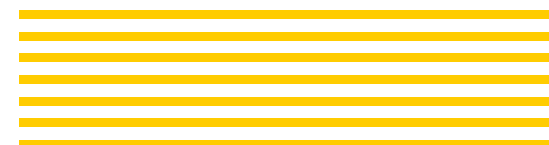
Remunerations of the Governing Board and the Management Committee

🌐 GRI 102-35

The members of the Correos Governing Board receive only attendance allowances, as approved by the General Meeting of Shareholders, under the provisions of Royal Decree 462/2002² and the legislation applicable to public bodies and corporations. In accordance with Act 3/2015³, the allowances of the senior management directors are paid into the Public Treasury. The Chairman does not receive allowances for attending the Governing Board.

Remuneration accrued for all items during the 2019 financial year by members of the Governing Board and senior management staff of the Group amounted to 1,911 million euros, of which 159,392 euros corresponded to allowances received by members of the Governing Board of Correos for attending Board meetings (12,261 euros per year on

average per director), and the rest covered wages and/or other remuneration items (including indemnities) of the Group's senior management staff (average remuneration of 145,967 euros per year).



² Royal Decree 462/2002, of 24 May, on remuneration for services

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

Legal framework of Correos Group's activities

🌐 GRI 102-12 🌐 GRI 102-16 🌐 GRI 102-17 🌐 GRI 205-2

The Spanish postal market was fully liberalised on 1 January 2011, following the entry into force of **Act 43/2010**⁴. By virtue of this law, Correos is the **operator designated to provide the Universal Postal Service in Spain** until 2025.

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

Correos and Correos Express also operate on the parcel delivery market, and are thus subject to legislation which applies to the land transport of goods sector.⁵ The activity of Correos Express Portugal is, in turn, subject to the postal and land transport regulations

applicable in Portugal⁶. Finally, the provision of services of electronic communications made by Correos and Correos Telecom is regulated by Act 9/2014⁷.

Transparency in management

The Correos Group's companies have the necessary mechanisms in place to comply with the reporting obligations laid down in Act 19/2013⁸. To this end, they have a **transparency portal and various other access channels** which the public can use to send requests for public information under the terms specified in such Act.

Ethical compliance and commitment

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

In addition, Correos Group has a 'Criminal Risk Prevention Programme'⁹, including a **General Code of Conduct**, which reflects the reference values that govern the actions of its employees. The document, which is available for consultation by all internal and external stakeholders, contains among others, **measures to prevent and eradicate corruption and bribery** (including guidelines for equal treatment and opportunities, fair competition, prevention of conflict of interests and the use of privileged information).

⁴ Act 43/2010, of 30 December, on the universal postal service, user rights and the postal market.

⁵ Act 16/1987, of 30 July, on the Land Transport and its Regulations, and Act 15/2009 of 11 November 2008, on Contracts for the Land Transport of Goods.

⁶ Act 17/2012 of 26 April and Decree-Law 239/2003 of 4 October.

⁷ Act 9/2014, of 9 May, General Law on Telecommunications.

⁸ Act 19/2013, of 9 December, on transparency, access to public information and good governance.

⁹ Adapted to the Circular of the Prosecutor's Office 1/2016 and the requirements of Art. 31 bis 2 of the Criminal Code (derived from the amendment introduced by Organic Law 10/1995 of 23 November on the Criminal Code).



From 2014, the Group also has a **Compliance Committee**, a collegiate body whose main function is to evaluate subjects relating to this matter, and report biannually to Correos' Governing Board through the Audit and Control Committee, on the content and results of the resolutions issued.

The Committee has a **communication and complaint channel** to facilitate compliance with the objectives of the General Code of Conduct. In 2019, the Compliance Committee received and analysed 152 validation communications, 32 enquiries and 6 complaints about possible incompatibilities with internal or external regulations, proceeding, in each case, as established in its operating regulation.

In accordance with the recommendations of the Audit and Control Directorate, between 2018 and 2020 the Committee is developing a procedure to review and adapt its prevention system.

Since 2019, Correos has also participated in the SEPI Group's compliance working group, whose purpose is to share best practices in criminal prevention among the different companies that make up the group, through training and debate.

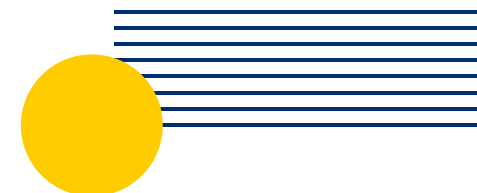
In 2019, the subsidiary Correos Express provided training on the prevention of corruption and bribery in business practices to its sales network; on the protection of personal data and privacy management to 15 managers and salespeople; and on the code of ethics, criminal risk programme and transparency procedure to another 135 employees.

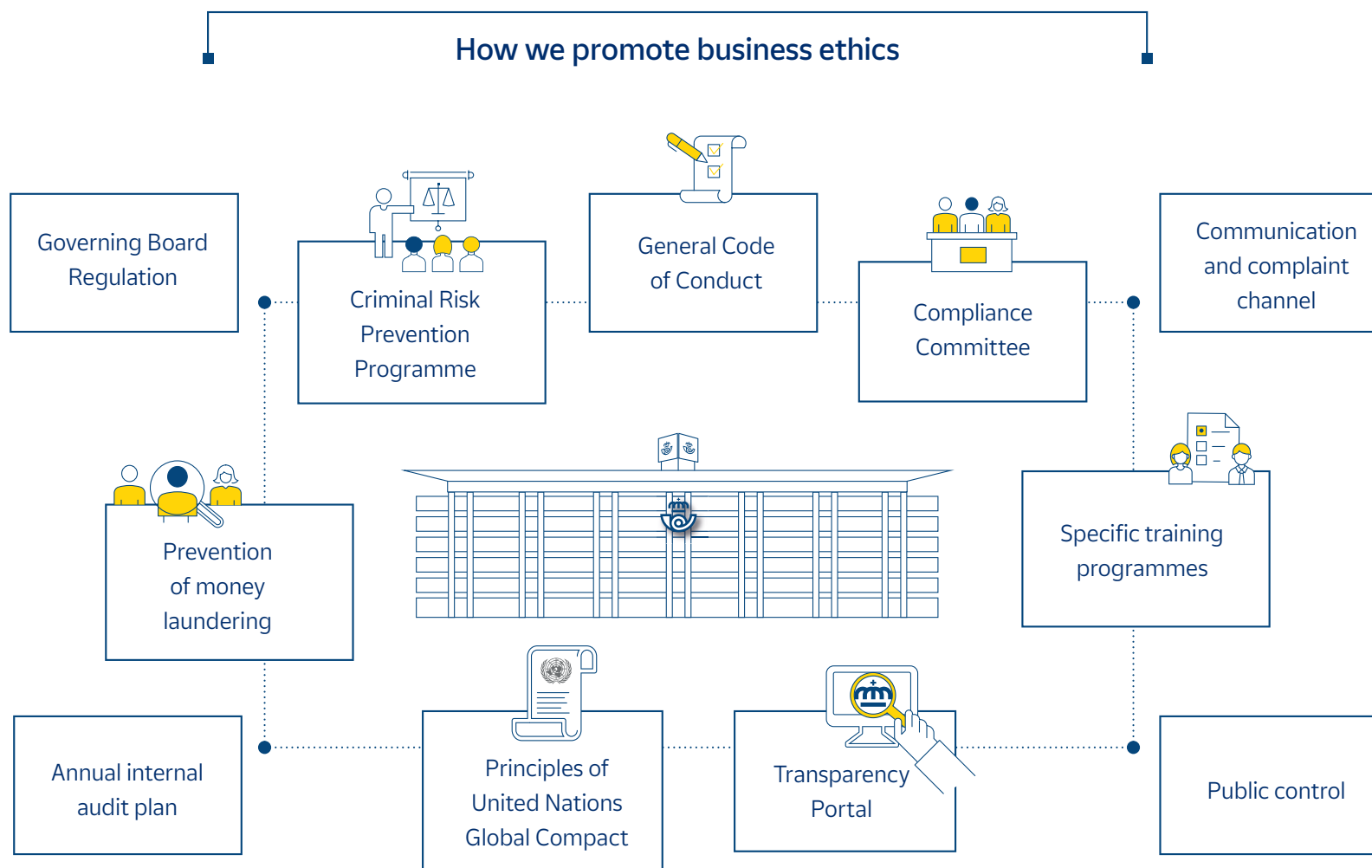
Respect for human rights

Since 2002, Correos has also been one of **the companies that signed the United Nations Global Compact**. Therefore the company undertakes to respect and promote the ten principles of the Compact in the fields of human and labour rights, the elimination of all forms of forced labour, the eradication of child labour, the abolition of discriminatory practices in

employment and occupation or the freedom of association and collective bargaining. This set of values has been assumed by the company as an integral part of the business strategy.

Similarly, the 'Programme for the Prevention of Criminal Risks' includes the **obligation to scrupulously respect fundamental rights and public liberties**. During the year, no infringement of human rights was found in the companies of the Correos Group.





Application of internal auditing procedures

🌐 GRI 102-30

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

The **annual internal audit plan** of the Correos Group, approved by SEPI and whose results are regularly reported, as well as reporting to the Audit and Control Committee of the Governing Board and the management team, envisaged the completion of 14 audits:

- 1 staff expenditure operation, on the reliability of the procedure and controls carried out.
- 1 on the follow-up of recommendations and action plans to remedy relevant deficiencies and non-compliance,

highlighted by previous Internal Audit plans and/or by the The General Comptroller of the State Administration (IGAE) and the Court of Audit.

- 4 of regulatory compliance, on contracting in Correos Express, on competition in Correos and Correos Express, on the obligation to inform official bodies under the General Budgetary Law and on Law 40/2015 on the Legal System of the Public Sector in collaboration agreements in the Correos Group.
- 3 of management, on the level of effectiveness and efficiency of procurement by means of external costs not supported by files, of the contracting of extraordinary conduits and of the recruitment of sponsorships of the Correos Group.
- 1 of internal control, verifying the measures established for the prevention of money laundering and financing of terrorism.
- 1 on the management of Correos' own fleet of vehicles, in the field of area management.

- 3 concerning the follow-up of recommendations, to verify the degree of implementation of those made by the internal audit plans in previous years, as well as by the audit report issued by the IGAE in 2018 and the reports of external audits carried out by the Court of Auditors during 2019 and previous years.

There were 54 internal audit recommendations implemented over the course of the financial year (6 from 2019 and 48 from previous years) and a specific action plan was implemented in relation to the IGAE recommendations on procurement of goods and services.



In addition, 1,131 financial and quality audits were carried out in post offices, processing centres and ordinary and urgent distribution units. In addition, the audit area carried out 444 investigations and provided specific information on possible abnormal or irregular actions by employees, including both ordinary operations and the electoral processes carried out during the year.

The Group's companies are subject to the **control of the IGAE and the Court of Auditors**. Its audited annual accounts (consolidated and individual) are available in the IGAE's Register of Public Accounts, which can be accessed through the State Administration's **Transparency Portal**. In addition, Correos was subject to a public spending and efficiency assessment by the Independent Authority for Spanish Fiscal Responsibility (AIReF).

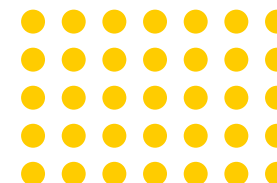
The Correos Group is also subject to **public control via the supervision mechanisms** applicable to its sole shareholder (more

information can be found on the [website](#) and in the SEPI Group annual report).

Prevention of money laundering



Regarding the obligations derived from Act 10/2010 and its Regulation¹⁰, Correos has an internal prevention manual. It also audits the money laundering prevention area internally and externally on an annual basis, and carries out continuous monitoring of the application of due diligence measures in offices, where the greatest risk exists, since they manage financial transactions on a daily basis.



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

Responsibility of contracting procedures

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

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

- Directive 2014/24/EU¹¹
- Directive 2014/25/EU¹².
- Act 9/2017¹³.
- Act 31/2007¹⁴.
- Act 33/2003¹⁵
- Royal Decree-Law 14/2019¹⁶.

- Royal Decree 716/2019¹⁷.
- The internal procurement instructions of the Correos Group, revised in 2018 to adapt them to the new regulations on contracting in the public sector.
- The Correos Group's rules for contracting assets.

The Group announces the tenders and awards of its contracts, according to their amount, on its **Contractor Profiles**, on the Public Sector Procurement Platform, in the Official State Gazette and in the Official Gazette of the European Union, where applicable. It also periodically sends information to the Court of Auditors and the Registry of Public Sector Contracts.

The Investment and Contracting Committee is the body that informs, approves and submits, where appropriate, to the Governing Board,

the contracts provided for in the Internal Contracting Instructions.

Last year saw the start of the project for the **full adoption of electronic procurement** in relations with suppliers, not only through the Public Sector Procurement Platform, but also through its integration into internal procurement management.

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

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

13 Act 9/2017 of 8 November on Public Sector Contracts, which entered into force on 09 March 2018.

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

15 Act 33/2003, of 3 November, on Public Administration Assets

16 Royal Decree-Law 14/2019 of 31 October adopting urgent measures for reasons of public security in the field of digital administration, public sector procurement and telecommunications

17 Royal Decree 716/2019 of 5 December amending Royal Decree 773/2015 of 28 August amending certain provisions of the General Regulations of the Law on Public Administration Contracts, approved by Royal Decree 1098/2001 of 12 October and Royal Decree 700/1988 of 1 July on administrative records of accounting liability arising from infringements under Title VII of the General Budgetary Law

In addition, a technical assessment and contract execution monitoring unit was created, with the aim of establishing an area specialising in the evaluation of the technical scope of the specifications, as well as the technical and solvency assessment of the tenders.

Other measures implemented in the area of contracting included the analysis of minor contracting and centralised contracting of the Group in cases exceeding 60,000 euros, to guarantee greater synergies and efficiency, as well as the implementation of the Purchasing Portal, a 'one-stop shop' for access to all the necessary documentation at any stage of the contracting process by the different areas of the company.

These actions were complemented by training actions for more than 340 managers in the company's headquarters and regional areas.

► Good practices in the supply chain

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

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

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

Owing to the dimensions and heterogeneity of activities carried out by the Group companies, these collaborate with a large number of suppliers in different sectors, in all phases of the supply chain.

Correos awarded contracts in 2019 worth of 457.7 million euros which were executed by 7,438 suppliers (289 investment contracts and 7,149 purchase contracts).

In turn, the subsidiaries awarded contracts worth 246.8 million euros. Correos Express entered into contracts with 1,876 suppliers and Correos Express Portugal with 773 others, mostly for transport; Correos Nexea, with 164 suppliers of paper, envelopes and equipment maintenance services; and Correos Telecom, with 122 companies providing operation and maintenance services for telecommunications assets or the supply of equipment



Operational and customer safety

🌐 GRI 203-2

Correos has a security operations centre, which receives signals and/or images from security elements installed in offices and centres throughout the country, effectively contributing to the security of people (customers and employees) and goods.

The company also regularly uses **scanners to inspect postal items requiring controls**. In 2019, more than 255 million items were examined. As a result, 18 postal items were detected with supposedly illegal content. These were handed in to the relevant authorities. In addition, some 36,000 postal items of dangerous goods for airmail traffic were intercepted and withdrawn.

The company maintains a **permanent collaboration with entities** such as the Postal

Security Group of the Universal Postal Union, with the State Security Forces and Corps, through the Blue Network of the National Police Corps, the Guardia Civil's Coopera portal, the *Xarxa de Col·laboració de los Mossos d'Esquadra*, as well as with judicial bodies for the exercise of their functions.

Correos is also accredited in 7 of its operational centres to accept, manage and **safely transport certain dangerous goods as air mail**, under the terms set forth in Order FOM/456/2014.

For its part, Correos Express has been awarded a **Certificate as an Authorised Economic Operator for Customs simplification (AEOC)**. The purpose of this certificate is to guarantee the reliability and security of goods being imported and exported. During the last financial year, the subsidiary also implemented a security control panel and improved the internal procedure for detecting and managing robberies.

Protection of privacy

In compliance with the regulations on personal data protection¹⁸, the Correos Group has a **Data Protection Officer (DPO)**, whose function is to manage and advise the Group on this matter, as well as to evaluate the risks inherent in the processing of this type of information by the Group's companies and/or their suppliers.

In this regard, the subsidiary Correos Express provides **training** to all new recruits on the protection of personal data, with 141 people trained last year.



¹⁸ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).

Meanwhile, Correos' **information security policy** prioritises its optimum integration with business processes, in order to guarantee the proper development of the activity and avoid possible risks for customers.

In 2019, Correos obtained the **UNE-ISO/IEC 27001:2013** certification for the information systems that support the services provided through the website. Since 2018, Correos has also had an Information Security Committee, responsible for ensuring the appropriate risk management and procedures necessary to preserve information, the systems that support it and the processes that deal with it.

Meanwhile, Correos Nexea renewed the **UNE-ISO/IEC 27001:2014** certification of its **information systems**, which support customised document management solutions for mass communication between companies and their customers.





Report frameworks

The contents and indicators included in this statement of non-financial information meet the requirements of Law 11/2018¹. The integrated annual report of the Correos Group 2019, to be published in June 2020, which contains this statement of non-financial information, together with the consolidated accounts of the Correos Group, provides additional information on the Group's economic, social and environmental sustainability policies.

The information included in this statement of non-financial information has been prepared, as recommended by Law 11/2018, using as reference the GRI Sustainability Reporting Standards of the **Global Reporting Initiative (GRI)**, in its 2019 version. This model makes it possible to show the three-way perspective of the Group's economic, social and environmental performance.

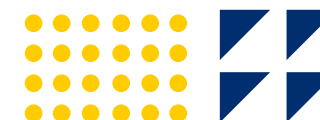
Furthermore, the guidelines of the 'Conceptual Framework for Drafting the Integrated Report' of the **International Integrated Reporting Council (IIRC)** were followed. This statement gives stakeholders a transversal and relevant view of the business model and the mechanisms for creating value in the short, medium and long term.

Since 2002, Correos has also been one of the companies that signed the United Nations Global Compact. Therefore the company undertakes to respect and promote the ten principles of the Compact in the fields of human and labour rights, the environment and anti-corruption. Every year the company prepares its progress report, which successfully retained its advanced level distinction in 2018 for the exhaustiveness of its information. The report is available on the pages at **Global Compact**, the **Spanish Global Compact Network** and **Correos**.

¹ Act 11/2018, of 28 December, amending the Commercial Code, the revised text of the Companies Act approved by Royal Legislative Decree 1/2010 of 2 July and Act 22/2015 of 20 July on the auditing of accounts, with regard to non-financial information and diversity.

In addition, the Correos Group has aligned its policies with the **United Nations Sustainable Development Goals** and reports its commitments and contributions to the achievement of 2030 Agenda.

social or corporate governance management systems, as it is foreseen that during 2020 the subsidiary will incorporate and subscribe to those established for the Correos Group.



This statement of non-financial information presents, in general, the most relevant information and quantitative indicators of the Correos Group. The contents referring to labour, environmental and social issues are, however, broken down by the various companies in the Group, according to the different nature, size and activity of each company.

Accordingly, due to the incorporation of the subsidiary Correos Express Portugal into the Group during the course of 2019, some of the data referring to this company are not available for this financial year, since the process of consolidating its information systems into those of the Group has not yet been completed. These indicators may be available from 2020 onwards. Likewise, no specific information has been reflected on its labour, environmental,





Indicators used in the non-financial information statement

	Indicator	External verification
Market and business environment	GRI 102-4, GRI 102-6	✓
Organisation and structure	GRI 102-5, GRI 102-18	✓
Markets served	GRI 102-4, GRI 102-6	✓
Objectives and strategies	GRI 102-15	✓
Factors and trends that may affect its future evolution	GRI 102-15	✓
Policies that the group applies with respect to these issues, which will include the due diligence procedures applied for the identification, evaluation, prevention and mitigation of significant risks and impacts, and for verification and control, including what measures have been adopted	GRI 103-2	✓
The outcome of these policies: non-financial key performance indicators to enable the monitoring and evaluation of progress and comparability across societies and sectors, in accordance with national, European or international reference frameworks	GRI 200, GRI 300, GRI 400	✓
Commercial relations, products or services that may have negative effects in these areas	GRI 102-9, GRI 102-15, SDG 16	✓
How the group manages these risks (procedures used to detect and evaluate them in accordance with national, European or international reference frameworks)	GRI 103-2, GRI 103-3, GRI 102-11 GRI 102-30	✓
Information on the impacts that have been detected, disaggregated, in particular on the main risks in the short, medium and long term.	GRI 103-1, GRI 102-11, GRI 102-15	✓

	Indicator	External verification
ENVIRONMENT		
Detailed information about the current and foreseeable effects of the company's activities on the environment and, where appropriate, health and safety	GRI 102-11, GRI 102-15, GRI 103-1, GRI 308-2	✓
Procedures for evaluation and environmental certification	-	✓
The resources allocated to the prevention of environmental risks	Global Compact Principles 7, 8, 9 SDG 13	✓
Application of the precautionary principle	GRI 102-11	✓
The amount of provisions and guarantees for environmental risks	SDG 13	✓
Pollution: measures to prevent, reduce or repair carbon emissions that seriously affect the environment; taking into account any form of air pollution specific to an activity, including noise and light pollution	GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-5, GRI 305-7 SDG 3, 7, 11, 12, 13	✓
Circular economy and <i>waste</i> prevention and management: prevention measures, recycling, reuse, other forms of recovery and waste disposal; actions to fight food waste	GRI 301-1, SDG 12	✓
Sustainable use of resources: water consumption and water supply according to local constraints; consumption of raw materials and the measures adopted to improve their use efficiency; direct and indirect consumption of energy , measures taken to improve energy efficiency and the use of renewable energies	GRI 301-1, GRI 302-1, GRI 302-4, GRI 303-1, SDG 7, 11, 12	✓
Climate change: the important elements of greenhouse gas emissions generated as a result of the company's activities; the measures adopted to adapt to the consequences of climate change; the reduction goals voluntarily established in the medium and long term to reduce greenhouse gas emissions and the means implemented for that purpose	GRI 302-4, GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-5, GRI 305-7 SDG 3, 7, 11, 12, 13	✓
Protection of biodiversity: measures taken to preserve or restore biodiversity; impacts of activities or operations in protected areas	GRI 304-3, SDG 12, 13, 15, 17	✓

	Indicator	External verification
SOCIAL		
Total number and distribution of employees by gender, age, country and professional classification	GRI 102-7, GRI 102-8, GRI 405-1 SDG 5, 8, 10	✓
Total number and distribution of work contract modalities, annual average of permanent contracts, temporary contracts and part-time contracts by gender, age and professional classification	GRI 102-8, SDG 5, 8, 10	✓
Number of dismissals by gender, age, country and professional classification	-	✓
Average remunerations and their evolution disaggregated by gender, age and professional classification or equal value	GRI 405-2, SDG 5, 8, 10	✓
Salary gap, remuneration of equal positions or average company remuneration	GRI 405-2, SDG 5, 8, 10	✓
Average remuneration of directors and executives, including variable remuneration, allowances, compensations	GRI 102-35	✓
Payment to long-term savings forecast systems and any other perception disaggregated by gender	GRI 401-2, SDG 8	✓
Implementation of work disconnection	-	✓
Disabled employees	GRI 405-1, SDG 8, 10	✓
Organization of working time	GRI 402-1	✓
Number of absenteeism hours	GRI 403-2, SDG 3, 8	✓
Measures aimed at facilitating conciliation and encouraging the co-responsible exercise by both parents	GRI 401-2, GRI 401-3, SDG 5, 8, 10	✓
Occupational safety and health at work conditions	GRI 103-2, GRI 103-3, GRI 403-2, GRI 403-4, GRI 403-5, GRI 403-6, GRI 403-7, GRI 403-8, GRI 403-9, GRI 403-10, SDG 3, 8	✓

	Indicator	External verification
Work accidents, in particular their frequency and severity, as well as occupational diseases; disaggregated by gender	GRI 403-9, GRI 403-10, SDG 3, 8	✓
Organization of social dialogue, including procedures to inform and consult staff and negotiate with them	Global Compact Principle 3 GRI 102-41, GRI 402-1, GRI 403-4, SDG 8	✓
Percentage of employees covered by collective agreement	GRI 102-41, SDG 8	✓
Balance of collective agreements, particularly in the field of health and safety at work	GRI 403-4, SDG 3, 8	✓
Implemented training policies	GRI 403-5, GRI 404-1, SDG 3, 8	✓
Training hours by professional category	GRI 404-1, SDG 5, 8	✓
Universal accessibility of people with disabilities	GRI 103-2, GRI 405-1, SDG 8, 10	✓
Measures adopted to promote equal treatment and opportunities between women and men	GRI 401-2, GRI 401-3, GRI 404-1, GRI 404-3, GRI 405-1, GRI 405-2, SDG 5, 8, 10	✓
Equality plans (Chapter III of Organic Act 3/2007, of 22 March, on effective equality for men and women)	Global Compact Principle 6, SDG 5	✓
Measures adopted to promote employment	-	✓
Protocols against sexual harassment and for gender reasons	Global Compact Principle 6	✓
Universal accessibility and integration of people with disabilities	GRI 103-2, GRI 405-1, SDG 8, 10	✓
Policy against all types of discrimination and, where appropriate, on management of diversity	GRI 103-2, GRI 103-3, GRI 405-1 SDG 5, 8, 10	✓

	Indicator	External verification
HUMAN RIGHTS		
Application of due diligence procedures in the field of human rights; prevention of the risks of infringement of human rights and, where appropriate, measures to mitigate, manage and repair possible abuses; complaints about cases of human rights violations	Global Compact Principles 1, 2 GRI 102-16, SDG 16	✓
Promotion and compliance with the provisions of the fundamental conventions of the International Labour Organization related to respect for freedom of association and the right to collective bargaining	Global Compact Principle 3 GRI 102-41, SDG 8	✓
Elimination of discrimination in work and occupation	Global Compact Principle 6 GRI 103-2, GRI 405-2, SDG 5, 8, 10	✓
Elimination of forced labor	Global Compact Principle 4 GRI 409-1, SDG 8, 16, 17	✓
Abolition of child labour	Global Compact Principle 5 GRI 408-1, SDG 8, 16, 17	✓
FIGHT AGAINST CORRUPTION AND BRIBERY		
Measures adopted to prevent corruption and bribery	GRI 102-16, GRI 102-17, GRI 102-25, GRI 205-2, SDG 16	✓
Measures to fight money laundering	GRI 102-16, GRI 102-17, SDG 16	✓
Contributions to foundations and non-profit entities	GRI 102-12, GRI 102-13 SDG 17	✓

	Indicator	External verification
SOCIAL COMMITMENT		
Impact of the company's activity on local development and employment	GRI 102-9, GRI 203-2, GRI 204-1, GRI 413-1, SDG 8, 16	✓
Impact of the company's activity on local populations and on the territory	GRI 102-9, GRI 203-2, GRI 413-1, SDG 8, 11, 16, 17	✓
Relationships maintained with the actors of local communities and the types of dialogue with them	GRI 102-43	✓
Partnership and sponsorship actions	GRI 102-12, GRI 102-13, SDG 17	✓
Inclusion in the purchasing policy of social, gender equality and environmental issues	GRI 308-1, SDG 5, 13	✓
Consideration in the relations with suppliers and subcontractors of their social and environmental responsibility	GRI 308-1, SDG 5, 13	✓
Monitoring and audit systems and their results	GRI 102-30, SDG 16	✓
Measures for the health and safety of consumers	GRI 305-5, GRI 305-7, SDG 3, 11, 12, 13	✓
Claims systems, complaints received and their resolution	-	✓
Profits obtained by country	GRI 201-1, SDG 8, 9	✓
Income tax paid	GRI 201-1, SDG 8, 9	✓
Public subsidies received	GRI 201-4	✓



Atmospheric emissions indicators

GRI 301-1 GRI 302-1 GRI 303-1 GRI 305-1
 GRI 305-2 GRI 305-3 GRI 305-7

	Correos		Correos Express ¹		Correos Nexea ²		Correos Telecom ³	
Greenhouse gas emissions (tCO ₂)	2019	2018	2019	2018	2019	2018	2019	2018
Direct (scope 1)	39,347	48,016	0	0	ND	ND	29	29
Indirect (scope 2)	2,986	2,292	ND	ND	ND	ND	NA	NA
Other indirect emissions (Scope 3)	127,819	119,675	ND	ND	ND	ND	ND	ND
Emissions per item (g CO ₂ /item)	17.47	18.6	ND	ND	NA	NA	NA	NA

CO₂ emissions are calculated using the GHC Protocol and verified in accordance with standard UNE-EN ISO 14064-1:2012 'Greenhouse gases'.

1 Correos Express does not measure scope 1 emissions, as it does not have its own fleet of vehicles and the air-conditioning systems at its operating centres are electric. Scope 2 emissions are expected to be reported from 2020 onwards.

2 Correos Nexea's greenhouse gas emissions do not constitute a significant impact.

3 Correos Telecom does not generate its own scope 2 emissions as it shares its buildings with the parent company.

	Correos		Correos Express ⁴		Correos Nexea ⁵		Correos Telecom	
Other atmospheric emissions (kg)	2019	2018	2019	2018	2019	2018	2019	2018
SOx	228	221	NA	NA	NA	NA	NA	NA
NOx	140,186	136,122	NA	NA	NA	NA	NA	NA
Particles	12,607	12,133	NA	NA	NA	NA	NA	NA

Emissions are calculated using the CORINAIR methodology based on billed consumptions.

⁴ Correos Express does not generate emissions of SOx, NOx and particles, as it does not have its own fleet of vehicles and the air-conditioning systems at its operating centres are electric.

⁵ Emissions of SOx, NOx and particles do not constitute a relevant impact of Correos Nexea and Correos Telecom.



External verification of non-financial information

**Independent verification report
on the non-financial information
and diversity statement
(consolidated) of Sociedad Estatal
Correos y Telégrafos, S.A., S.M.E.
(and subsidiaries)
for the year ended on 31
december 2019**

To the shareholders of **SOCIEDAD ESTATAL
CORREOS Y TELÉGRAFOS S.A., S.M.E.**

In accordance with Article 49 of the Commercial Code, we have performed the verification, with a limited assurance scope, of the (Consolidated) Non-Financial Information Statement, hereinafter referred to as EINF and attached as Annex I to this report, for the year ended 31 December 2019, of SOCIEDAD ESTATAL CORREOS Y TELEGRAFOS S.A., S.M.E. (and subsidiaries), hereinafter referred to as CORREOS, the entity or the Group.

The content of the Management Report includes additional information to that required by current commercial regulations on non-financial information that was not the subject of our verification work. Accordingly, our work

has been limited exclusively to the verification of the information contained in the EINF.

► Directors' Responsibility

The formulation of the EINF included in the CORREOS Management Report, as well as its content, is the responsibility of the Group's Directors. The EINF has been prepared in accordance with the contents of current business regulations and following the criteria of the selected Sustainability Reporting Standards of the Global Reporting Initiative (GRI standards).

This responsibility also includes the design, implementation and maintenance of any internal control deemed necessary to ensure that the EINF is free from material misstatement due to fraud or error.

The Group's Directors are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required for the preparation of the EINF is obtained.

► Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Accounting Professionals issued by the International Ethics Standards Board for Accountants (IESBA) which is based on the fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behaviour.

Our company follows International Standard on Quality Control 1 (ISQC 1) and thus has a comprehensive quality control system that includes documented policies and procedures relating to compliance with ethical requirements, professional standards and applicable laws and regulations.

The work team is composed of professionals who are experts in reviews of non-financial information and, specifically, in economic, social and environmental performance information.

► Our responsibility

Our responsibility is to report our findings in an independent limited assurance report, based on the work performed and pertaining exclusively to the 2019 financial year. Data corresponding to previous years [were not subject to the verification provided for in the commercial regulations in force]. We have conducted our work in accordance with the requirements set out in the current Revised International Standard on Assurance Engagements 3000, 'Non-Audit Engagements or Review of Historical Financial Information' (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and with the Action Guide on Assurance Engagements for Non-Financial Information issued by the Spanish Institute of Chartered Accountants.

In limited assurance work, the procedures carried out vary in nature and timing and are less extensive than those carried out in reasonable assurance work, and therefore the degree of safety achieved is substantially lower.

Our work consisted of submitting questions to Management, as well as to the various units of CORREOS, which participated in the preparation of the EINF, reviewing the processes for collecting and validating the information presented in the EINF, and applying certain analytical procedures and sample review tests as described below:

- Meetings with CORREOS staff in order to learn about the business model, policies and management approaches applied, the main risks related to these issues and to obtain the necessary information for the external review.
- An analysis of the scope, relevance and completeness of the contents included in the EINF for the 2019 financial year based on the materiality analysis carried out by the entity, taking into account the contents required by the commercial regulations in force.
- An analysis of the processes for collecting and validating the data presented in the EINF for the 2019 financial year.

- A review of risk information, policies and management approaches applied to the material aspects presented in the EINF for the 2019 financial year.
- The verification of the information related to the contents included in the EINF for the 2019 financial year and its proper compiling from the data provided by the information sources.
- Obtaining a representation letter from the Directors and Management.

Conclusion

On the basis of the procedures carried out in our verification process and the evidence we have obtained, no aspect has come to light that would lead us to believe that the EINF of SOCIEDAD ESTATAL CORREOS Y TELEGRAFOS S.A., S.M.E. (and subsidiaries), corresponding to the financial year ending on 31 December 2019, has not been prepared, in all its significant aspects, in accordance with the contents of the commercial regulations in force and following the criteria of the selected GRI standards.

Use and distribution

This report has been prepared to comply with the requirement of the commercial law in force in Spain and may not be suitable for other purposes and jurisdictions.

Crowe Servicios de Auditoría, S.L.P.
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Miembro nº 19866 del ROAC

Madrid, 26 March 2020.





GRI Content Index, Global Compact Principles and SDG



GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
GRI 102: General Disclosures 2019						
1. Organizational profile						
102-1	Name of the organization	Corporate structure and business model of Correos Group. Correos Group's business model	-	✓		
102-2	Activities, brands, products and services	Solutions for customers	-			
102-3	Location of the headquarters	Page 3	-			
102-4	Location of operations	Excellence in operations. Correos Group's business model. Business environment and markets. Report for the financial statement	-	✓		

GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
GRI 102: General Disclosures 2019						
102-5	Ownership and legal form	Corporate governance and ethical compliance	-	✓		
102-6	Markets served	Corporate structure and business model of Correos Group. Correos Group's business model. Business environment and markets. Solutions for customers	-	✓		
102-7	Scale of the organization	Key figures. Human team	-	✓		
102-8	Information on employees and other workers	Human team	-	✓	6	5,8,10
102-9	Supply chain	Corporate governance and ethical compliance	-	✓	1, 2, 4, 5, 6	16
102-10	Significant changes to the organization and its supply chain	Correos Group's business model. Business environment and markets	-	✓		
102-11	Precautionary Principle or approach	Environmental sustainability	-	✓	7, 8	

GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
GRI 102: General Disclosures 2019						
102-12	External initiatives	Human team. Environmental sustainability. Social commitment of Correos Group. Corporate governance and ethical compliance.	-	✓		17
102-13	Membership of associations	Social commitment of Correos Group	-	✓		17
2. Strategy						
102-14	Statement from senior decision-maker	Chairman's statement	-			
102-15	Key impacts, risks and opportunities	Business environment and markets. Future trends. Risk management	-	✓		
3. Ethics and integrity						
102-16	Values, principles, standards and norms of behavior	Corporate governance and ethical compliance.	-	✓	10	16
102-17	Mechanisms for advice and concerns about ethics	Corporate governance and ethical compliance.	-	✓	1,2,10	16

GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
GRI 102: General Disclosures 2019						
4. Governance						
102-18	Governance structure	Corporate governance and ethical compliance.	-	✓		
102-23	Chair of the highest governance body	Corporate governance and ethical compliance.		✓		
102-25	Conflicts of interest	Report for the financial statement			10	16
102-30	Effectiveness of risk management processes	Corporate governance and ethical compliance.		✓	10	
102-35	Remuneration policies	Corporate governance and ethical compliance. Report for the financial statement		✓	10	
5. Stakeholder engagement						
102-40	List of stakeholder groups	Stakeholders' relationships	-			
102-41	Collective bargaining agreements	Human team	-	✓	3	8

GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
GRI 102: General Disclosures 2019						
102-42	Identifying and selecting stakeholders	Stakeholders' relationships	-			
102-43	Approach to stakeholder engagement	Stakeholders' relationships	-			
102-44	Key topics and concerns raised	Stakeholders' relationships	-			
6. Reporting practice						
102-45	Entities included in the consolidated financial statements	Report for the financial statement	-			
102-46	Defining report content and topic boundaries	Stakeholders' relationships	-			
102-47	List of material topics	Stakeholders' relationships	-			
102-48	Restatements of information	-	-			
102-49	Changes in reporting	-	-			
102-50	Reporting period	Reporting framework	-			

GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
GRI 102: General Disclosures 2019						
102-51	Date of most recent report	Reporting framework	-			
102-52	Reporting cycle	Reporting framework	-			
102-53	Contact point for questions regarding the report	Page 2	-			
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option				
102-55	GRI content index	GRI Content Index, Global Compact Principles and SDG	-			
102-56	External assurance	External verification of non-financial information	-	✓		
201: Economic Performance 2019						
GRI 103: Management Approach		Correos Group's business model. Objectives and strategy				
201-1	Direct economic value generated and distributed	Generated and distributed economic value	-	✓		1, 8, 9
201-4	Financial assistance received from government	Generated and distributed economic value	-	✓		

GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
203: Indirect Economic Impacts 2019						
GRI 103: Management Approach		Correos Group's business model. Objectives and strategy				
203-2	Significant indirect economic impacts	Objectives and strategy. Solutions for customers. Human team. Innovation. Environmental sustainability. Social commitment of Correos Group. Corporate governance and ethical compliance.	-	✓	1, 2, 6, 7, 8, 10	8
204: Procurement Practices 2019						
GRI 103: Management Approach		Corporate governance and ethical compliance				
204-1	Proportion of spending on local suppliers	Corporate governance and ethical compliance.	-	✓		8

GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
205: Anti-corruption 2019						
GRI 103: Management Approach		Corporate governance and ethical compliance				
205-2	Communication and training about anti-corruption policies and procedures	Corporate governance and ethical compliance.	-	✓	10	16
301: Materials 2019						
GRI 103: Management Approach		Environmental sustainability				
301-1	Materials used by weight or volume	Environmental sustainability	-	✓	7, 8	12
302: Energy 2019						
GRI 103: Management Approach		Environmental sustainability				
302-1	Energy consumption within the organization	Environmental sustainability	-	✓	7, 8	7, 12, 13
302-4	Reduction of energy consumption	Environmental sustainability	-	✓	7, 8, 9	7, 11, 12, 13

GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
303: Water 2019						
GRI 103: Management Approach		Environmental sustainability				
303-1	Water withdrawal by source	Environmental sustainability	-	✓	7, 8	12
304: Biodiversity 2019						
GRI 103: Management Approach		Towards a more sustainable future. Environmental sustainability				
304-3	Habitats protected or restored	Towards a more sustainable future. Environmental sustainability	-	✓	7,8	13, 15, 17
305: Emissions 2019						
GRI 103: Management Approach		Environmental sustainability				
305-1	Direct (Scope 1) GHG emissions	Environmental sustainability	-	✓	7, 8	3, 7, 11, 12, 13, 15
305-2	Energy indirect (Scope 2) GHG emissions	Environmental sustainability	-	✓	7, 8	3, 7, 11, 12, 13, 15

GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
305-3	Other indirect (Scope 3) GHG emissions	Environmental sustainability	-	✓	7, 8	3, 7, 11, 12, 13, 15
305-5	Reduction of GHG emissions	Environmental sustainability	-	✓	7, 8, 9	3, 11, 12, 13, 15
305-7	NOx, SOx and other significant air emissions	Environmental sustainability	-	✓	7, 8	3, 11, 12, 13, 15
308: Supplier Environmental Assessment 2019						
GRI 103: Management Approach		Environmental sustainability. Corporate governance and ethical compliance				
308-1	New suppliers that were screened using environmental criteria	Corporate governance and ethical compliance.	-	✓	7, 8	13
308-2	Negative environmental impacts in the supply chain and actions taken	Environmental sustainability	-	✓	7, 8	13
401: Employment 2019						
GRI 103: Management Approach		Human team		✓		

GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Human team	-		6	3, 5,8,10
401-3	Parental leave	Human team	-	✓	6	5,8,10
402: Labor/Management Relations 2019						
GRI 103: Management Approach		Human team				
402-1	Minimum notice periods regarding operational changes	Human team	-	✓	3	
403: Occupational Health and Security 2019						
GRI 103: Management Approach		Human team				
403-2	Hazard identification, risk assessment, and incident investigation	Human team	-	✓		3,8
403-4	Worker participation, consultation, and communication on occupational health and safety	Human team	-	✓	3	3,8

GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
403-5	Worker training on occupational health and safety	Human team	-	✓		3,8
403-6	Promotion of worker health	Human team	-	✓		3,8
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Human team	-	✓		3,8
403-9	Work-related injuries	Human team	-	✓		3,8
403-10	Work-related ill health	Human team	-	✓		3,8
404: Training and Education 2019						
GRI 103: Management Approach		Human team				
404-1	Average hours of training per year per employee	Human team	-	✓	6	4, 5, 8, 10
404-3	Percentage of employees receiving regular performance and career development reviews	Human team	-	✓	6	8, 10

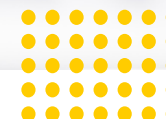
GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
405: Diversity and Equal Opportunity 2019						
GRI 103: Management Approach		Human team				
405-1	Diversity of governance bodies and employees	Human team. Corporate governance and ethical compliance.		✓	6	5,8,10
405-2	Ratio of basic salary and remuneration of women to men	Human team	-	✓	6	5,8,10
408: Child Labour 2019						
GRI 103: Management Approach		Corporate governance and ethical compliance.				
408-1	Operations and suppliers at significant risk for incidents of child labour	Corporate governance and ethical compliance.	-	✓	1, 2, 5	8, 16, 17
409: Forced or Compulsory Labour 2019						
GRI 103: Management Approach		Corporate governance and ethical compliance.				
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	Corporate governance and ethical compliance.	-	✓	1, 2, 4	8, 16, 17

GRI Content Index					Global Compact Principle	Sustainable Development Goals
GRI Standard	Disclosure	Chapter	Omission	External verification		
413: Local Communities 2019						
GRI 103: Management Approach		Environmental sustainability. Social commitment of Correos Group				
413-1	Operations with local community engagement, impact assessments and development programs	Environmental sustainability. Social commitment of Correos Group	-	✓		11,17

3. Consolidated annual accounts of Correos Group



- + Independent auditor's report
- + Consolidated balance sheet
- + Consolidated income statement
- + Consolidated cash flows statement
- + Consolidated Statement of Recognised Income and Expenses
- + Statement of total changes in the consolidated equity
- + Report for the financial statement
- + Management report
- + Governing Board statement





Independent auditor's report



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

Opinion

We have audited the consolidated annual accounts of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company) (the Parent Company) and its subsidiaries (the Group), comprising the balance sheet as of 31 December 2019, the income statement, the statement of total changes in the equity, the cash flows statement and the annual report, all consolidated, corresponding to the financial year ended on that date.

In our opinion, the accompanying consolidated annual accounts express, in all material respects, the true image of the Group's equity and financial position as of 31 December 2019, as well as its results and cash flows, all of which are consolidated, corresponding to the financial year ended on that date. All the above complies with the applicable regulatory framework for financial information (identified in note 3 of the

consolidated report) and, in particular, with the accounting principles and criteria contained therein.

Basis for opinion

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

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

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

Most relevant aspects of the audit

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

Revenue Recognition

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

- Sales of customers with contracts, amounting to 1,507,017 thousand euros,

corresponding to the sales of corporate clients and representing 66% of the Revenue' heading.

- Sales of cash collection, amounting to 367,932 thousand euros, representing 16% of the 'Revenue' heading.
- Sales of the international unit, amounting to 133,964 thousand euros, representing 6% of the 'Revenue' heading.

In accordance with the applicable regulatory financial reporting framework and as indicated in note 5.ñ of the attached consolidated report, the Group records revenue from the sale of goods and the provision of services at fair value of the consideration, already received or to be received, derived from them. This is after deducting any discount, reduction in price or other similar items that the Group may grant, as well as indirect taxes levied on the transactions and chargeable to third parties.

We have considered the recognition of revenue as a more relevant aspect of our audit and subject to material misstatement, in relation to the high number of transactions.

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

- An understanding of the policies and processes implemented by the Group in the revenue and accounts receivable cycle for each type of activity detailed above, including verification of the general controls of management information systems (IRIS and OCA) and accounting systems (SAP). We have also verified the effectiveness of different automatic and manual controls that have been considered key points, together with the automatic transfer of the revenue recorded in the management systems to the accounting system.
- We have carried out the following procedures for sales of clients with contracts:

We have obtained all accounting entries for this type of revenue recorded in the 2019 financial year, verifying whether the consideration complies with logical accounting standards.

- Obtaining external confirmations for a sample of customer invoices in relation to the outstanding balance. In the absence of confirmation, alternative procedures have been carried out by means of subsequent payment receipts or documentation supporting said invoicing.

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

We have obtained all accounting entries for these revenues recorded in the 2019 financial year, verifying whether the consideration complies with logical accounting standards.

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

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

We have obtained all accounting entries for this type of revenue recorded in the 2019

financial year, verifying whether the consideration complies with logical accounting

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

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

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

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

Evaluation of the existence and valuation of provisions and contingent liabilities

The Group recognised a total of 28,154 thousand euros under the Current Provisions' and Non-current Provisions' headings, relating to lawsuits and claims of a different nature.

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

We have considered this area as more relevant aspect of our audit and subject to material misstatement, in relation to the fact that the

recognition of provisions or their consideration as contingent liabilities implies a high degree of judgement and estimates by Management.

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

- Obtaining confirmation from legal and tax advisers, both internal and external, detailing the open lawsuits and claims as of 31 December 2019, which have been closed during that financial year.
- Obtaining the supporting documentation of those lawsuits and claims that we have considered significant, verifying that the amounts claimed are those reported in the responses of the legal and tax advisers.
- We have held meetings with the legal department of the Group in order to understand the nature of the different lawsuits and claims and confirm the assessment made by them and their external advisers through their responses to balance confirmation, in order to

determine their registration as provisions or contingent liabilities.

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

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

As described in note 7 of the accompanying consolidated report, the Group records the book value of the land and buildings of the Parent Company under the 'Property, plant and equipment' section, for a net amount of 1,142,271 thousand euros. This section includes a provision for impairment amounting to 111,124 thousand euros.

In relation to the impairment of the registered assets, as mentioned in note 3 of the attached consolidated report, since 2009 the Parent Company has applied the provisions of Order EHA/733/2010 of 25 March, which approves accounting aspects of public companies

that operate in certain circumstances, and therefore the Parent Company determines the impairment of its property, plant and equipment and intangible assets by referring to the depreciated replacement cost of each asset (note 5.e).

The Parent Company has requested an independent expert to evaluate a sample of assets.

This selection has been made considering those properties that have a significant risk of deterioration due to acquisitions made in years with bullish prices prior to the property crisis in Spain, and those with an impairment provision recorded as of 31 December 2019.

We have considered this area a more relevant aspect of our audit and subject to material misstatement, in relation to the fact that the value of property, plant and equipment represents 51% of the Group's total assets as of 31 December 2019, since every assessment is subject to a high degree of judgements and estimates. As a result of the assessment carried out by the Parent Company, a net reversal of

impairment was recorded in the consolidated income statement for the year, amounting to 3,731 thousand euros.

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

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

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

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

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

As described in notes 5.q and 17.c of the accompanying consolidated report, the Parent Company recognised under 'Other operating income' in the consolidated income statement for 2019 compensation for the benefit of the Universal Postal Service (hereinafter "UPS") amounting to 120,000 thousand euros. As a result of the lack of approval of a methodology and concepts that must be included for the calculation of the net cost of the UPS, the Parent Company records annually in the

consolidated income statement the amounts of compensation recognised in the extended General State Budgets found in a specified item in the General Directorate of the Treasury and Financial Policy and once the necessary requirements for its consideration as non-refundable have been met.

Also, as indicated in note 17-c of the attached consolidated report, a possible resolution made by the National Commission on Markets and Competition on the calculation of the net cost of the UPS in the financial years 2011 to 2019 differs from the amounts assigned in the extended General State Budgets, there could be a positive or negative impact on the amounts recorded. This final impact could not be calculated until the entry into force of the new Service Plan and calculation methodology, which are being developed by the Government of Spain, which is currently under negotiation with the European Commission. If the methodology and concepts for calculating the net cost are approved in the terms in which they are being negotiated, the directors of the Company, supported by their legal advisers,

consider that there is a remote risk of a negative impact in the consolidated annual accounts for 2019 and onwards, regarding the calculation of the net cost of the UPS between 2011 and 2019.

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

We have considered this area as the most relevant aspect of our audit and subject to material misstatement, in relation to the complexity of the compensation accrual principle and the lack of approval of the new Service Plan that includes a methodology for calculating compensations for services provided by the UPS.

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

- Obtaining written confirmation from the General Directorate of the Treasury and Financial Policy that the amount charged by the Parent Company in 2019 is 120,000 thousand euros, of which corresponds to 2019.
- We have held meetings with the financial department and with the analytical accounting and cost model department, as well as with the legal counsel of the Parent Company in order to assess the situation of the calculation methodology, previously detailed. This has served as the basis for the written confirmation that we have obtained from said Company in which it has considered that the risk of future returns for the period 2011-2019 is remote, as reflected in the consolidated annual accounts of the present year.
- We have verified that the information disclosed in the consolidated annual accounts is sufficient and adequate in accordance with the regulatory framework of applicable financial information.

Business combinations

As indicated in notes 2 and 21 of the attached consolidated report, Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company) acquired 51% of the shares of CEP - Correos Express Portugal, S.A., located in Portugal, which included in its balance sheet 100% of a subsidiary, also located in Portugal, known as CEP II - Correos Express Portugal, S.A. The management of Correos Express concluded that it has control over these companies, in accordance with Article 42 of the Commercial Code. This transaction has been treated as a business combination in accordance with the Regulations for Formulating Consolidated Annual Accounts ('RFCAA').

In accordance with the applicable financial reporting framework, as indicated in note 5-n to the accompanying consolidated financial statements, the Group recognises business combinations through the recognition at the acquisition date of the identifiable assets acquired and the liabilities assumed at their fair value, and the excess, at the acquisition date,

of the cost of the business combination over the corresponding value of the identifiable assets acquired less the liabilities assumed is recognised as goodwill on consolidation.

We have considered the business combination, as outlined above, to be a more significant aspect of our audit and susceptible to material misstatement, since it is based on estimates and judgements made by Group management.

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

- Obtaining an understanding of the nature of the transaction and the accounting treatment in accordance with RFCAA. In addition, we have obtained a complete understanding of the terms of the transaction, including the consideration provided, and the financial statements related to the acquisition.
- Analysis of the identification and valuation of the assets and liabilities acquired by the

Group with the guidance of an independent expert.

- Verification of the competence, capacity and independence of the expert by obtaining confirmation and evidence of its recognised standing in the market.
- Verification of the application of a commonly accepted methodology for the identification of the assets and liabilities acquired, questioning the main assumptions included in such valuation and involving our evaluation specialists when we have deemed it necessary.
- Verification that the information disclosed in the consolidated annual accounts is sufficient and appropriate in accordance with the applicable financial reporting framework.

Evaluation of the change in the estimate of the value lives of property, plant and equipment and intangible assets and investment property

As described in note 5-b to the attached consolidated report, the residual value, value life and depreciation methods are reviewed at least at each balance sheet date, and the value life is reviewed whenever there is evidence that it may have changed and, if appropriate, is adjusted prospectively. The Group has conducted an analysis in relation to the value life of property, plant and equipment and intangible assets and investment property, aimed at determining whether the economic activity being used up to 2018 to calculate accounting depreciation was in line with the value life of the various assets. All of this is in accordance with generally accepted best practices and based on internal technical reports from manufacturers and independent experts.

This change in the value lives of certain types of assets was applied prospectively and had no effect on previous years since it was a change in estimate. As a result of the change in depreciation rates, in 2019 a lower depreciation expense of 30.7 million euros was recorded and a lower income from the

allocation of a capital grant of 3.7 million euros was recorded than would have been the case had the aforementioned change in estimate not occurred.

We considered this area to be a more significant aspect of our audit and susceptible to material misstatement, in relation to which the assessment of the estimate of useful life involves a high degree of judgement and estimation by management.

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

- We have gained an understanding of the process documented by management for estimating the value lives of its various assets.
- We have obtained internal technical reports from the manufacturers and independent experts and have checked that their conclusions correspond to the new value lives of the assets granted by the Group.

- Verification of the competence, capacity and independence of the independent expert, where relevant, by obtaining confirmation and establishing their recognised standing in the market.
- We have recalculated the depreciation of the Group's assets in order to confirm that the depreciation expense recorded by the Group has been calculated taking into account the new estimated value life.
- Verification that the information disclosed in the consolidated annual accounts is sufficient and appropriate in accordance with the applicable financial reporting framework..

Other information: Consolidated management report

The other information comprises exclusively the consolidated management report for 2019, whose compilation is the responsibility of the Directors of the Parent Company and is not an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in the regulations governing the audit of accounts, which establishes two different levels:

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

b) A general level applicable to other information included in the consolidated management report, which consists of evaluating and reporting on the concordance of the aforementioned information with the consolidated annual accounts, based on the knowledge of the entity obtained during the audit of the

aforementioned accounts. This report contains no information other than that obtained as evidence during same and also consists of evaluating and reporting whether the content and presentation of this part of the management report are in accordance with the applicable regulations. If the work we have done leads us to conclude that there are material misstatements, we are obliged to report them.

On the basis of the work carried out, as described above, we have verified that the information mentioned in section a) above is presented in the separate report 'Statement of Non-Financial Information 2019 of Correos Group' to which reference is included in the consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that of the consolidated financial statements for 2019 and its content and presentation comply with the applicable regulations.

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

The Directors of the Parent Company are responsible for compiling the accompanying consolidated annual accounts, in order to give a true and fair view of the Group's assets, financial position and consolidated results, in accordance with the regulatory framework for financial information applicable to the Group in Spain. This also includes a view of the internal control that they consider necessary to allow for the preparation of consolidated annual accounts free of material misstatements, due to fraud or error. In the preparation of the consolidated annual accounts, the Directors of the Parent Company are responsible for assessing the Group's ability to continue as a going concern, revealing, as appropriate, the issues relating to the company in operation and using the accounting principle of this type of company unless the directors intend to liquidate the Group or cease operations, or there is no other realistic alternative.

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

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

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

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

As part of an audit in accordance with the regulations governing current account audits in Spain, we apply our professional judgement and maintain an attitude of professional scepticism throughout. Also:

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

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

- We evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosed information, and whether the consolidated annual accounts represent the underlying transactions and events in a way that manages to express the true image of the company.
- We obtain sufficient and adequate evidence in relation to the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the management, supervision and performance of the Group's audit process. We are solely responsible for our audit opinion.
- We communicate with the audit and control committee of the Parent Company regarding, among other items, the scope and timing of the planned audit and the significant findings thereof, as well as any significant internal control deficiencies that we identified during the course of the audit.

We also provide the Parent Company's audit and control committee with a statement that we have complied with applicable ethical requirements, including independence requirements, and have communicated with the Committee to report any matters that might reasonably be expected to threaten our independence and, where appropriate, the relevant safeguards.

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

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

Grant Thornton, S.L.P., Sole Shareholder
Company
ROAC N° S0231



David Calzada Criado
ROAC N° 22193
28 April 2020

This report corresponds
to distinctive stamp

N° 01/20/11776

issued by the Spanish
Institute of Chartered
Accountants



Consolidated balance sheet at the end of 2019

(Expressed in thousands of euros)

ASSETS	Notes	Balance at 31/12/2019	Balance at 31/12/2018
NON-CURRENT ASSETS		1,497,646	1,462,918
Intangible assets	6	47,284	25,365
Consolidated goodwill	6,1	8,161	-
Computer software		35,340	25,185
Other intangible assets		3,783	180
Property, plant and equipment	7	1,382,172	1,384,844
Land and buildings		1,156,892	1,174,145
Technical installations and other fixed assets		186,714	180,773
Assets under construction and advances		38,566	29,926
Investment property	8	16,630	13,625
Non-current financial investments	11	2,451	2,194
Other financial investments		2,451	2,194
Deferred tax assets	18	49,109	36,890
CURRENT ASSETS		733,831	621,716
Non-current assets held for sale	9	3,975	529
Inventories	10	9,611	5,188

ASSETS	Notes	Balance at 31/12/2019	Balance at 31/12/2018
Trade and other receivables	11	615,415	486,433
Clients for sales and provision of services		580,207	440,414
Clients, group companies and associates	20	-	57
Sundry debtors		26,023	25,254
Debtors, group companies and associates	20	483	12,934
Staff		7,420	7,521
Other receivables from public administration	18	1,282	253
Current financial investments	11	3,129	946
Current accruals		1,107	502
Cash and cash equivalents	11,12	100,594	128,118
TOTAL ASSETS		2,231,477	2,084,634

Notes 1 to 25 to the attached report form an integral part of the Correos Group's consolidated annual accounts for 31 December 2019.

EQUITY AND LIABILITIES	Notes	Balance at 31/12/2019	Balance at 31/12/2018
EQUITY		1,457,303	1,445,777
Shareholder's equity	13	1,219,092	1,204,728
Capital		611,521	611,521
Share Premium		250,938	250,938
Reserves		342,269	418,971
Result for the year attributable to Parent Company		14,364	(152,960)
Grants, donations and legacies received	14	236,946	241,049
External partners		1,265	-
External partners		2,215	-
Result for external partners		(950)	-
NON-CURRENT LIABILITIES		121,793	117,457
Non-current provisions	15	24,939	29,308
Non-current payables	16	14,628	7,404
Debts with credit institutions	11	11,256	-
Financial lease creditors		284	563
Other financial liabilities		3,088	6,841
Deferred tax	18	79,351	79,562
Non-current accruals		2,875	1,183

EQUITY AND LIABILITIES	Notes	Balance at 31/12/2019	Balance at 31/12/2018
CURRENT LIABILITIES		652,381	521,400
Current provisions		3,215	3,017
Current payables	11,16	42,742	32,478
Short-term debts with group companies and associates	11,16,20	3,495	1,285
Trade creditors and other accounts payable	11,16	596,698	479,020
Suppliers		3,219	3,196
Sundry creditors		292,796	241,312
Staff		25,198	38,951
Other debts with public administration	18	66,682	55,885
Customers advances		208,803	139,676
Current accruals		6,231	5,600
TOTAL EQUITY AND LIABILITIES		2,231,477	2,084,634



Consolidated income statement for 31 December 2019

(Expressed in thousands of euros)

CONTINUED OPERATIONS	Notes	Financial year 2019	Financial year 2018
Revenue	17-a)	2,266,483	2,035,632
Activities carried out by the company		-	-
Supplies		(336,881)	(294,669)
Merchandise used	17-b)	(11,826)	(15,032)
Impairment of merchandise, raw materials and other supplies	10	(424)	(661)
Work carried out by other companies	17-b)	(324,631)	(278,976)
Other operating income		124,341	126,342
Non-trading and other operating income		3,866	6,029
Compensation for provision of the UPS	17-c)	120,000	120,000
Operating grants included in the result of the financial year	17-c)	475	313
Staff costs	17-d)	(1,659,683)	(1,511,288)
Salaries, wages and similar		(1,310,846)	(1,205,302)
Social Security contributions		(340,468)	(296,039)
Other expenses		(8,369)	(9,947)
Other operating expenses		(344,676)	(329,934)
External services	17-e)	(323,446)	(312,255)

CONTINUED OPERATIONS	Notes	Financial year 2019	Financial year 2018
Taxes	17-f)	(7,477)	(7,521)
Losses, impairment and change in trade provisions	11	(2,627)	(4,021)
Other expenses from ordinary activities		(11,126)	(6,137)
Amortisation and depreciation	6,7,8	(60,204)	(95,034)
Non-financial and other capital subsidies	14	5,937	11,260
Provisions surpluses	15	-	-
Impairment and loss/gain on disposal of fixed assets	17-g)	2,796	4,226
Impairment and losses		2,887	(1,445)
Result from disposals and others		(91)	5,671
Other results	17-h)	(70)	(103,093)
OPERATING RESULT		(1,957)	(156,558)
Financial income	17-i)	111	2,246
From negotiable securities and other financial instruments:			
From group companies		44	75
From third parties		67	2,171
Financial expenses	17-i)	(175)	(20,253)
Debts with third parties		(175)	(20,253)
Restatement of provisions		-	-
Exchange-rate differences		7,404	6,610
FINANCIAL RESULT		7,340	(11,397)

CONTINUED OPERATIONS	Notes	Financial year 2019	Financial year 2018
RESULT BEFORE TAX		5,383	(167,955)
Income tax	18	8,031	14,995
CONSOLIDATED RESULT FOR THE FINANCIAL YEAR		13,414	(152,960)
Result for the parent company		14,364	(152,960)
Result for external partners		(950)	–



Consolidated cash flows statement for 31 December 2019

(Expressed in thousands of euros)

OPERATING ACTIVITIES	Notes	Financial year 2019	Financial year 2018
Result for the financial year before taxes			
Adjustments to the result		5,383	(167,955)
Amortisation and depreciation	6,7,8	60,204	95,034
Valuation adjustments due to impairment	7,10,11	(3,212)	2,106
Change in provisions		(15,630)	34,024
Allocation of capital subsidies	14	(5,937)	(11,260)
Recognition of compensation for provision of the UPS	17-c)	-	(120,000)
Operating grants included in the result of the financial year	17-c)	(475)	(313)
Result of removals and disposal of fixed assets		91	(5,671)
Financial income	17-h)	(111)	(2,246)
Financial expenses	17-h)	175	20,253
Exchange-rate differences		(7,404)	(6,610)
Other income and expenses		(281)	102,876
Changes in current capital			
Inventories		(4,098)	(1,189)
Trade and other receivables		(140,180)	111,784

OPERATING ACTIVITIES	Notes	Financial year 2019	Financial year 2018
Other current assets		(3,456)	(35)
Trade and other accounts payable		128,859	50,735
Other current liabilities		5,427	(433)
Other non-current assets and liabilities (+/-)		3,363	(5,241)
Other cash flows from operating activities			
Interest payments		(90)	(279)
Interest received		120	2,230
Income tax received		12,594	25,635
Other payments		-	(134,419)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		35,342	(10,974)
INVESTMENT ACTIVITIES			
Payments for investments			
Group companies and associates	21	(11,050)	-
Intangible assets		(15,170)	(10,266)
Property, plant and equipment		(61,179)	(59,935)
Proceeds from disposals			
Property, plant and equipment		1,575	607
Non-current assets held for sale		999	8,744
Other financial assets		24	-
TOTAL CASH FLOWS FROM INVESTMENT ACTIVITIES		(84,801)	(60,850)

	Notes	Financial year 2019	Financial year 2018
FINANCING ACTIVITIES			
Proceeds from and payment for equity instruments			
Proceeds from and payment for financial liability			
Debts with credit institutions		14,531	
Dividend payments and remuneration of other equity instruments			
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES			
		14,531	
D)EFFECT OF EXCHANGE RATE FLUCTUATIONS		7,404	-
NET VARIATION IN CASH OR EQUIVALENTS			
		(27,524)	(71,824)
Cash and cash equivalents at the start of the financial year	12	128,118	199,942
Cash and cash equivalents at the end of the financial year	12	100,594	128,118



Consolidated statement of recognised income and expenses for 31 December 2019

A) Consolidated statement of recognised income and expenses for the financial year ending 31 December 2019:

	Notes	Financial year 2019	Financial year 2018
Consolidated result for the financial year		13,414	(152,960)
Income and expenses directly attributed to consolidated equity:	14		
Grants, donations and bequests received		370	22
Return of 2004-2010 UPS Overcompensation		-	(11,495)
Tax effect		-	2,874
		370	(8,599)
Transfers to consolidated income statement:	14		
Grants, donations and bequests received:			
- due to amortisation		(5,807)	(10,543)
- due to adjustments for impairment		-	(219)
- due to disposals		(135)	(642)
Tax effect		1,476	2,806
		(4,466)	(8,598)

	Notes	Financial year 2019	Ejercicio 2018
TOTAL RECOGNISED CONSOLIDATED INCOME AND EXPENSES		9,318	(170,157)
Total income and expenses for the parent company		10,268	(170,157)
Total income and expenses for external partners		(950)	-



Consolidated statement of changes in equity corresponding to the financial year ended 31 December 2019

B) Statement of total changes in the consolidated equity corresponding to the financial year ended 31 December 2019:

	Capital	Share premium	Legal reserve	Voluntary, statutory reserves	Reserves in consolidated companies	Result for the financial year attributable to the Parent Company	Grants, donations and bequests received	External partners	TOTAL
BALANCE START OF 2017 FINANCIAL YEAR	611,521	250,938	100,070	532,025	10,100	(146,966)	258,246	-	1,615,934
Total recognised consolidated income and expenses	-	-	-	-	-	(152,960)	(17,197)	-	(170,157)
Operations with partners or owners: Distribution of dividends	-	-	-	-	-	-	-	-	-
Other variations in consolidated equity	-	-	-	(60,608)	(86,358)	146,966	-	-	-

	Capital	Share premium	Legal reserve	Voluntary, statutory reserves	Reserves in consolidated companies	Result for the financial year attributable to the Parent Company	Grants, donations and bequests received	External partners	TOTAL
BALANCE END OF 2018 FINANCIAL YEAR	611,521	250,938	100,070	471,417	(76,258)	(152,960)	241,049	-	1,445,777
Total recognised consolidated income and expenses	-	-	-	-	-	14,364	(4,096)	(950)	9,318
Operations with partners or owners: Distribution of dividends	—	—	—	—	—	—	—	—	—
Other variations in consolidated equity	-	-	-	(26,875)	(126,085)	152,960	(7)	2,215	2,208
BALANCE END OF 2019 FINANCIAL YEAR	611,521	250,938	100,070	444,542	(202,343)	14,364	236,946	1,265	1,457,303



Consolidated report corresponding to the financial year 2019

(Expressed in thousands of euros)

1. Activities of the Parent Company

Sociedad Estatal Correos y Telégrafos S.A., S.M.E. (Sole Shareholder Company) (hereinafter, Correos, the Parent Company, or the Company) was incorporated as a public limited company [*sociedad anónima estatal*] pursuant to article 6.1.a) of the Consolidated Text of the *Ley General Presupuestaria* [the Budget Act] enacted by *Real Decreto* [Royal Decree] 1091/1988, 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 (LOFAGE)* [Act 6/1997, of 14 April 1997, on the Central Government Organisation,], by a resolution of the Council of Ministers of 22 June 2001, under article 58.1 of *Ley 14/2000, de 29 de diciembre, de Medidas Fiscales, Administrativas y del Orden Social* [Act 14/2000, of 29 December 2000, on Tax, Administrative and Social Measures]. The Company is governed by *Ley de Sociedades de Capital* [the Capital Companies Act], by the rest of applicable laws and regulations, and by its Articles of Association.

On 1 February 2017 the Sole Shareholder, with the prior agreement of the Company's Governing Board held the 27 October 2016, agreed to change the Parent Company's name and amend Article 1 of their Articles of Association to adapt to the provisions of article 111 of the *Ley 40/2015, de 1 de octubre, de Régimen Jurídico del Sector Público* [Act 40/2015, of 1 October, on the Legal System for the Public Sector]. According to these provisions, the Company name changed and is hereafter known as Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company). The Sole Shareholder's decision was passed by a public deed by the company on the 1 February 2017 and recorded in the Companies Registry on the 20 February 2017.

Under articles 58.2 and 58.3 of the aforementioned Tax, Administrative and Social Measures Act, the Company began its operations, and was automatically subrogated to the activities, assets, rights and obligations of the former Entidad Pública Empresarial Correos y Telégrafos (hereinafter, 'the Entity'), on 3 July 2001, the day of registration with

the Companies Registry of the public deed of incorporation of the Company, dated 29 June 2001. From that day, the Company took over all the functions carried out by the former Entity and was subrogated to the status of authorised operator for the provision of the Universal Postal Service (hereinafter UPS) attributed to the latter in additional provision one of *Ley 24/1998, de 13 de julio, del Servicio Postal Universal y de Liberalización de los Servicios Postales* [Act 24/1998, of 13 July 1998, of the Universal Postal Service and the Liberalisation of Postal Services], and subsequently for a period of 15 years under *Ley 43/2010, de 30 de diciembre, del Servicio Postal Universal, de los derechos de los usuarios y del mercado postal* [Act 43/2010, of 30 December 2010, on the Universal Postal Services, Users' Rights and the Postal Market].

Pursuant to article 58.4 of Tax, Administrative and Social Measures Act, the Company owns, as of its incorporation, all the assets, rights and obligations of the former Entity. The state-owned assets transferred from the former Entity to the Company at the time

of its incorporation were removed pursuant to section four of the aforementioned Act. Nonetheless, the Central Government, through the *Dirección General del Patrimonio del Estado* [General Directorate 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 General Directorate 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 State-Owned Company decides to operate those buildings.

Under article 58.7 of Tax, Administrative and Social Measures Act, civil servants who were actively employed by the former Entity at the time of registration of the public deed of incorporation of the Company became employees of the Company without interruption, under the same employment terms and retaining their status as Central Government

civil servants in their respective divisions and grades, with length of service, established pay and acquired rights being wholly preserved. The legal relationship between this type of employee and the Company is governed by *Real Decreto 370/2004, de 5 de marzo* [Royal Decree 370/2004, of 5 March], which approved the Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. Workers' Statute. (Sole Shareholder Company).

In addition, and pursuant to article 58.17 of the aforementioned Tax, Administrative and Social Measures Act, any worker contracted by the Parent Company from the date of the start of its activity shall be engaged under an ordinary employment contract.

Some of the services provided by the Parent Company fall within the remit of the UPS and are regulated by the Act 43/2010, dated 30 December 2010, on Universal Postal Service, Users' Rights and the Postal Market [the Postal Act]. It sets out that these services will be provided in accordance with the UPS Service Plan and the regulatory contract (on the date of these financial statements both have not

been approved yet). This Act fundamentally regulates the collection, admission, distribution and delivery conditions for the UPS that may be demanded of the designated operator, as well as the cost and financing of the UPS obligations, the prices and other rate conditions for postal services.

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

the *Comité de Regulación Ferroviaria* [Rail Regulation Committee], the *Comisión Nacional del Sector Postal* [National Commission for the Postal Sector], the *Comisión de Regulación Económica Aeroportuaria* [Airport Economic Regulation Commission] and the *Consejo Estatal de Medios Audiovisuales* [State Audiovisual Media Council]. Pursuant to *Ley 3/2013, de 5 de junio* [Act 3/2013, of 5 June], the CNMC supervises and ensures the correct functioning of the postal market, in particular as regards the following functions:

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

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

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

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

Pursuant to the Postal Act, the main sources of financing for the fund will be the budget assigned by the Central Government in

its National Budgets, the annual postal contribution of the postal operator and the bearers of individual licences, and fees for granting individual administrative licenses.

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

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

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

According to the Postal Act, the Commission will be responsible for checking that the rates established in the contracts meet the principles of transparency and non-discrimination and that they cover the costs incurred by the owner of the network, and for verifying that the rates do not increase the financing needs of the UPS and the unjust deductible financial burden for the service provider.

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

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

Pursuant to article 2 of its Articles of Association, the corporate purpose of the Company, whose registered address is at Vía Dublín no. 7 in Madrid, is as follows:

- To manage and operate postal services of all kinds;
- To provide financial services relating to postal services, money order services and money transfers;
- To receive applications, written submissions and notices which the public send to government bodies, subject to applicable laws and regulations;
- To serve government and court notices in accordance with applicable laws and regulations;
- To provide telegram, teleprinter and bureau fax services and undertake other activities and services relating to telecommunications.
- To propose stamps to be issued, issue all other forms of payment for postal services, and sell and deliver its products and issues;

- To provide, on a mandatory basis, such services relating to its purpose as government bodies may order.
- To carry out any other activities or services complementing the above or which may be needed for the proper undertaking of the Company's purpose. To this end the Company may create and control holdings in other companies.

Since June 2012 the Company has been part of the group of companies called SEPI Group of which SEPI, a public law entity, is the parent company. SEPI has its registered office in Calle Velázquez no. 134 in Madrid, and is the sole shareholder, which means that the Company has a single-shareholder status pursuant to the provisions in article 12 of Royal Decree 1/2010, of 2 July, which approves the amended text of the *Ley de Sociedades de Capital* [the Capital Companies Act]. Pursuant to the provisions in article 136.4 of the *Ley 47/2003, de 20 de noviembre, de la Ley General Presupuestaria* [Act 47/2003, of 20 November 2003, the Budget Act], SEPI is not obliged to submit its consolidated financial statements at the

Companies Registry, as it is not a trading company.

Correos is the parent company of Correos Group. The annual accounts of the Company corresponding to the financial year ended 31 December 2018, both individual and consolidated, were drawn up by the Governing Board of Correos on 28 February 2019, approved by the Sole Shareholder of the Parent Company on 28 June 2019. The annual accounts are filed at Madrid's Companies Registry.

2. Structure of the Correos Group

The subsidiaries that comprise the Correos Group (hereinafter the Group) and which fall within the scope of consolidation as of 31 December 2019 are the following:

Name of the company	Principal activity	Registered address
Correos Telecom, S.A., S.M.E. M.P. (Sole Shareholder Company)	Management of the network of Telecommunications of the Parent Company	C/ Conde de Peñalver, 19 (Madrid)
Nexea Gestión Documental, S.A., S.M.E. (Sole Shareholder Company)	Hybrid mail services	C/ Rejas, 9 (Madrid)
Correos Express Paquetería Urgente, S.A. , S.M.E. (Sole Shareholder Company)	Transportation services of documents and small parcels	Avenida de Europa, 8 Coslada (Madrid)
CEP – Correos Express Portugal, S.A.	Transportation services of documents and small parcels	Rua do Barreiro nº553, Moreira Maia
CEP II – Correos Express Portugal, S.A.	Goods transport services in the national and international market.	Rua da Serra nº654, Moreira Maia

Change in the scope of consolidation during the financial year 2019:

Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company), acquired 51% of the shares of the company Rangel Expreso S.A. (REXI) on 29 April 2019, located in Portugal, which included in its balance sheet 100% of a subsidiary, also located in Portugal, called Rangel Expreso II S.A. (REXII). The management of Grupo Correos has concluded that it has control over these companies, in accordance with Article 42 of the Commercial Code.

In this purchase and sale transaction a put and call contract was signed for the possible acquisition of a larger stake in the subsidiary CEP. These options can only be activated in a number of circumstances which did not arise at year-end or at the date of preparation of these consolidated annual accounts. The contract has been awarded free of charge.

On 5 August 2019, the decision of the shareholders of the subsidiary companies

regarding the modification of the corporate name of the companies was made public:

Name of the company
CEP – Correos Express Portugal, S.A.
CEP II – Correos Express Portugal, S.A.
Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company), whose registered office is at Avenida de Europa, 8, Coslada (Madrid), has as its corporate purpose the provision of goods transport services, activities ancillary and complementary to transport and the provision of collection, sorting and distribution services for goods and parcels. The main activity of Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company), is the transport of corporate documents and small parcels, both nationally and internationally.
Correos Telecom, S.A., S.M.E., M.P. (Sole Shareholder Company) has its registered address at Calle Conde de Peñalver, 19 in Madrid and its corporate purpose, coinciding

with its principal activity, consists of managing the telecommunications network owned by the Parent Company, providing telecommunication services mainly to the Parent Company and then to third parties; mediating, promoting and selling surplus capacity of the Parent Company's telecommunications network and providing postal service-related telecommunication services.

Nexea Gestión Documental, S.A., S.M.E. (Sole Shareholder Company), has its registered address at Calle Rejas, 9 in Madrid and its corporate purpose, coinciding with its principal activity, consists of providing hybrid postal services. Hybrid refers to postal services which allow the client to send documentation to Nexea Gestión Documental, S.A. telematically or electronically. The latter becomes responsible for printing the contents sheets which are subsequently sealed in envelopes and deposited in the Parent Company's admission centres for delivery to addressees.

CEP – Corres Express Portugal, S.A., (hereinafter 'CEP') with registered office at Rua de Barreiro N°553, Crestins feligresía de Moreira,

municipality of Maia (C.P. 4470-573 Moreira Maia) Portugal, has as its corporate purpose the provision of express and courier services, in particular non-universal postal services, and to ensure, as a public road haulage operator and transport commissioner, the management of the transport of goods, the receipt, transport and delivery of volumes and documentation, under the applicable legal and regulatory conditions. The main activity of CEP - Correos Express Portugal, S.A, is the express transport of documents and small business packages, both to national and international destinations.

CEP II - Correos Express Portugal, S.A., (hereinafter 'CEP II') with registered office at Ruada Serra N°654, Folgosa parish, municipality of Maia (C. P. 4446-909 Ermesinde) Portugal, has as its corporate purpose the transportation of goods, the organisation and management of the transportation of goods in the national and international market by a variety of means; the organisation of transport, the coordination of the flow of goods and information, the management and control of stocks, storage and logistics, international trade, import and export, transport consultancy and foreign

trade services, freight forwarding, customs activity and similar support to transport, with powers to make declarations to the authorities on behalf of third parties and the provision of postal services. The main activity of CEP II - Correos Express Portugal, S.A, is the express transport of documents and small business parcels, both to national and international destinations.

No changes have occurred within the scope of consolidation for the 2018 financial year.

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

On 1 February 2017 the Sole Shareholder of each of the Correos Group's companies, with the prior agreement of their respective Governing Boards held in October 2016, agreed to change the companies' names and amend Article 1 of their Articles of Association to adapt to the provisions of article 111 of the *Ley 40/2015, de 1 de octubre, de Régimen Jurídico del Sector Público* (Act 40/2015, of 1 October, on the Legal System for the Public Sector). According to these provisions the name of all Correos

Group's companies changed and are hereafter known as:

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

The Sole Shareholder's decision was passed by a public deed by each company, and recorded in the Companies Registry for all of the Group's companies.

The detail as of 31 December 2019 and 2018 for the equity instruments of the subsidiaries included in the consolidation of Correos Group, before the standardisation and/or consolidation adjustments, are as follows

Financial year 2019	Correos Express PU., S.A., S.M.E; S.U	Correos Telecom, S.A., S.M.E., M.P; S.U.	Nexea GD., S.A., S.M.E S.U.	CEP Consolidated (*)
Net book value	134,942	1,503	-	11,050
-Direct shareholding (%)	100%	100%	100%	51%
Share capital	66	1,503	974	375
Share premium	6,415	-	-	-
Legal reserve	1,231	301	128	74
Other reserves	6,464	3,942	(60)	885
Results of previous financial years	-	-		(2,696)
Result of the financial year	22,636	1,739	(498)	(1,307)
Other equity instruments (**)	-	-	-	4,600
Grants	-	-	332	27
Total equity	36,812	7,484	(3,713)	1,958
Operating result (***)	13,177	2,368	(379)	(1,121)

(*) These are aggregate figures of CEP I and CEP II for 100%.

(**) In Portugal they are called ancillary services regulated by Article 287 of the Portuguese Commercial Companies Code, having the same amount CEP I recorded as a credit claim with CEP II.

(***) In CEP Consolidated it refers to the operating result generated since the date of acquisition, on 29 April 2019

Financial year 2018	Correos Express PU., S.A., S.M.E.	Correos Telecom, S.A., S.M.E. M.P.	Nexea G.D., S.A., S.M.E.
Net book value	110,824	1,503	-
-Direct shareholding (%)	100%	100%	100%
Share capital	66	1,503	974
Share premium	6,415	-	-
Legal reserve	99	300	128
Other reserves	1,937	3,941	(60)
Results of previous financial years	-	-	(4,148)
Result of the financial year	5,659	1,740	(440)
Total equity	14,176	7,484	(3,546)
Operating result	6,269	2,345	(242)

3. Basis for presenting the consolidated annual accounts

When preparing these consolidated annual accounts, the Parent Company's Directors applied the accounting regulations included in the new Spanish General Accountancy Plan (GAP) approved by Royal Decree 1514/2007 and the modifications to them arising from Royal Decree 1159/2010 which approved the criteria applicable when preparing Consolidated Annual Accounts, and Royal Decree 602/2016, in addition to all other commercial legislation in force on 31 December 2019. 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.
- In the 2019 financial year, the acquisition of the Portuguese subsidiaries was accounted for as a business combination, the acquisition

date in the business combination being 29 April 2019. Therefore, the consolidated income statement, statement of changes in equity and cash flows statement include the income statement, statement of changes in equity and cash flows statement of the Portuguese subsidiaries (CEP I and CEP II) since the acquisition of control, this is from 1 May 2019 (since the effect between the date of the takeover on 29 April and 1 May 2019 is considered not to have been material and does not have a material effect on any of the foregoing consolidated accounts).

- Where subsidiaries have followed materially different accounting or valuation principles from those of the Parent Company, adjustments have been made as needed to present the consolidated annual accounts of the Group in a standardised manner.
- The different items on the previously standardised individual annual accounts are aggregated according to item type.
- The representative book values of the equity instruments belonging to all of

the Parent Company's subsidiaries are compensated with their equity.

- The Inter-Group balances, transactions and cash flows between Correos Group companies have been eliminated in the consolidation process. Similarly, all results from internal operations are eliminated and deferred until performed for third parties which are not part of the Group.
- The variations in reserves belonging to different subsidiaries between their respective dates of coming under the control of the Parent Company or of first consolidation and 31 December 2019 are covered by the item 'Reserves in consolidated companies' on the consolidated balance sheet.

As regards the impairment of the assets registered under the 'Property, plant and equipment' heading, since the 2009 financial year the Parent Company has applied the stipulations of Order EHA/733/2010, of 25 March, approving accounting aspects for public companies operating in certain circumstances. The Order is mandatory on the member bodies of the public business sector at national, regional and local levels, regardless of their legal nature, which should apply the accounting principles and regulations in the Commercial Code and in the Spanish General Accountancy Plan (GAP) and which, given the strategic or public interest nature of their activities, regularly deliver goods or provide services to other bodies or users without remuneration, or in exchange for a fee, or according to a pricing policy set directly or indirectly by the Government.

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

a) Fair presentation

These consolidated annual accounts, made up of the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and the consolidated report, made up of notes 1 to 25, have been prepared on the basis of the accounting records of the companies that make up Correos Group, and in accordance with the legal regulations on accounting in force at 31 December 2019, in order to provide a fair presentation of the assets, financial situation and results of the Group, together with the accuracy of the cash flows shown on the consolidated cash flows statement. The consolidated cash flows statement has been prepared with the aim of truthfully reporting the origin and the use of the monetary assets representing cash and other equivalent liquid assets of the Group.

The figures contained in these consolidated annual accounts are expressed in thousands of euros, unless otherwise stated, with the Euro being the functional currency of the Parent

Company and of the companies included within the scope of consolidation.

b) Critical aspects of the valuation and estimation of uncertainty

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

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

were made, if they affect only that period, or the period of review and future periods, if the review affects both of these.

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

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

> Leasing obligations – Correos Group as lessee

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

contracts will be classified as operating or financial leasing contracts.

>Leasing obligations – Correos Group as lessor

Correos Group maintains different agreements with third parties to lease certain assets under its ownership. The Group has determined that, based on the evaluation of the terms and conditions of these contracts, it retains all ownership risks and benefits of the assets, thereby recognising these contracts as operating leases.

>Taxation

As set out in current legislation, taxes may not be deemed definitively settled until the filed tax statements have been inspected by the tax authorities or the statute of limitations has passed. In the opinion of the Parent Company's Board of Directors, at 31 December 2019 there are no contingencies other than those recorded in these consolidated annual accounts which could represent significant liabilities for the

Parent Company and/or its subsidiaries in the event of an audit.

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

>Deferred tax assets

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

>Provisions

Correos Group recognises provisions for risks, in accordance with the accounting policy stated in note (5-k) of this report on 'Provisions and contingency liabilities'. The Correos Group makes judgements and estimates regarding the probability with which said risks may occur,

as well as their amount. It records a provision when the risk has been considered likely, is a present debt from past events, either legal or rightful, and when the costs can be reliably estimated.

>Impairment of non-financial assets

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

>Calculation of fair values, values in use, present values and recoverable amounts

The calculation of reasonable values, values in use, current values and recoverable amounts implies the calculation of future cash flows and assuming hypotheses relating to the future values of the flows, as well as the discount rates applicable to them, also bearing in mind the expected time when the respective debt will be collected. The related estimates and

assumptions are based on historical data and on other diverse factors which are understood to be reasonable in accordance with the circumstances.

► c) Comparison of information

As indicated in the fourth Section of the 'Criteria applicable for the preparation of consolidated annual accounts', the Parent Company Directors have included quantitative information corresponding to the previous financial year in this report.

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

► d) Classification of current and non-current items

For the classification of current items, a maximum period of one year from the date of these consolidated annual accounts has been considered.

4. Application of the results of the Parent Company

The proposed use of profit for 2019 put forth by the Parent Company Directors and pending approval by the Sole Shareholder, as well as the

proposal approved for the 2018 financial year, is as follows:

	Financial year 2019	Financial year 2018
Result for the financial year	17,771	(142,841)
Distribution base:		
Legal reserve	1,777	
Voluntary reserves	15,994	(142,841)
Total	17,771	(142,841)

On 28 June 2019, the Parent Company's Sole Shareholder approved the proposed use of the profits from the 2018 financial year.

Limitations on the distribution of results and dividends

Pursuant to Article 274 of the Capital Companies Act approved by Royal Legislative Decree 1/2010 of 2 July, companies are obliged to use 10% of the profits from each financial year to establish the Legal Reserve until the reserve reaches at least 20% of the Share

Capital. This reserve cannot be distributed to the shareholders, and it can only be used to cover the negative balance of the income statement in the event that other reserves are not available.

5. Recording and valuation rules

The main recording and valuation criteria used by the Parent Company in preparing these consolidated annual accounts, pursuant to the terms set out in the Spanish Generally Accepted Accounting Practices approved by Royal Decree 1514/2007 and the amendments incorporated by Royal Decrees 1159/2010 and 602/2016, are as follows:

Subsidiary companies

Subsidiary companies are those over which the Company, directly or indirectly through subsidiaries, exercises control, as provided for in Article 42 of the Commercial Code.

For presentation and breakdown purposes only, Group companies are considered to be those controlled by any means by one or more natural or legal persons acting jointly or under single management by virtue of agreements or statutory clauses.

The subsidiaries were consolidated using a full consolidation method.

Note 2 includes information on the subsidiaries included in the consolidation of the Correos Group.

Transactions and balances with subsidiaries and unrealised gains or losses have been eliminated in the consolidation process.

The subsidiaries' accounting policies have been adapted to Correos Group's accounting policies for transactions and other events in similar circumstances. The effect of the standardisation on the annual consolidated accounts for 2019 was not significant.

The annual accounts or financial statements of the subsidiaries used in the consolidation process refer to the same date of presentation and period as those of the Parent Company.

External partners

External partners in the acquired subsidiaries were recognised at the percentage of ownership in the subsidiaries' equity at the year-end date. External partners are presented in the consolidated equity of the consolidated balance sheet separately from the equity attributed to the Parent Company. The share of external partners in the profit or loss for the year is also presented separately in the consolidated income statement.

The share of the Correos Group and external partners in the profits or losses and changes in the equity of the subsidiaries, after considering the adjustments and eliminations arising from consolidation, is determined on the basis of the percentages of ownership existing at the end of the year, without considering the possible exercise or conversion of potential voting rights and after discounting the effect of dividends, whether or not agreed, on preference shares with cumulative rights that have been classified in equity accounts.

The results and income and expenses recognised in equity of the subsidiaries are allocated to equity attributable to the Parent Company and to external partners in proportion to their ownership interests, even if this involves a debit balance from external partners. Agreements between the Correos Express Group and external partners are recognised as a separate operation.

► Control acquisition

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

The acquisition cost is determined as the sum of the fair values, at acquisition date, of the assets delivered, the liabilities incurred or assumed and the equity instruments issued by the acquirer, and the fair value of any contingent consideration that depends on future events or on the fulfilment of certain conditions, which must be recorded as an asset, a liability or as equity according to their nature.

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

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

liabilities representing the share capital of the acquired company, is recognised as goodwill. In such an exceptional case when this amount is higher than the cost of the business combination, the excess will be recorded in the consolidated income statement as an income.

► Consolidation method

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

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

period that the consolidated accounts refer to.

- **Standardised valuation.** The assets and liabilities, income and expenditure and other entries in the annual accounts of the Group's entities were valued according to uniform methods. The assets or liabilities or income or expenditure entries that were valued under non-uniform criteria with respect to the ones applied in consolidation were valued again with the necessary adjustments made, solely for consolidation purposes.
- **Aggregation.** The different items on the previously standardised individual annual accounts are aggregated according to item type.
- **Equity investment elimination.** The representative accounting values for the equity instruments of the subsidiary entity directly or indirectly owned by the Parent Company are balanced with the proportional part of the equity entries of that subsidiary allocated to these holdings, generally, on the basis of the resulting

values for applying the above mentioned acquisition method. In consolidations subsequent to the financial year in which the control was acquired, the surplus or shortfall of the equity generated by the subsidiary from the acquisition data that is allocated to the parent company is presented in the consolidated balance sheet inside the entries for reserves or adjustment for changes in value, according to their nature. The share attributable to external partners, if any, is recorded under the heading 'External Partners'.

- **Involvement of external partners.** The evaluation of external partners is carried out on the basis of their effective participation in the subsidiary's equity after incorporating the above adjustments. Goodwill on consolidation is not attributed to external partners. The excess between the losses attributable to external shareholders of a subsidiary and their proportional share of the equity is attributed to the latter, even if this involves a debit balance under this item.

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

(a) Intangible assets

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

An intangible fixed asset with a defined service life is systematically amortised throughout its estimated service life and its recoverability is analysed when events or changes take place that indicate that the net book value may not

be recoverable. The amortisation methods and periods applied are reviewed at the close of the financial year, and they are adjusted prospectively as appropriate

Goodwill on consolidation

At 2019 year-end, goodwill on consolidation relates to the positive difference arising between the carrying amount of the investment and the value attributed to that investment from the fair value of the assets acquired and liabilities assumed from the companies acquired in 2019 (see Note 2).

Goodwill is allocated to each of the cash-generating units on which the proceeds of the business combination are expected to be allocated and, where appropriate, the related valuation adjustment is recognised.

In the event that an impairment loss must be recognised for a cash-generating unit to which all or part of the goodwill has been allocated, the carrying amount of the goodwill for that unit is first reduced. If the impairment exceeds the amount of the latter, the second is reduced

in proportion to the carrying amount of the other assets of the cash-generating unit, up to the limit of the higher of the following: fair value less costs to sell, value in use and zero. The impairment loss is recorded with a charge to the results for the year.

When an impairment loss subsequently reverses (which is not permitted in the specific case of goodwill), the carrying amount of the asset or cash-generating unit is increased by the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Such a reversal of an impairment loss is recognised as income in the consolidated income statement.

Goodwill is amortised on a straight-line basis over ten years. The value life is determined separately for each cash-generating unit to which goodwill is allocated.

Computer software and other intangible fixed assets

Computer software is recorded at cost and amortised on a straight-line basis over its estimated useful life, which is generally five years (see change in estimate of useful lives in note 5.b). The computer software maintenance costs are recognised in expenses when they are incurred.

On the other hand, as a result of the allocation of the price paid in the acquisition of the subsidiaries, computer applications amounting to 3,629 thousand euros and with an estimated useful life of five years have been recorded as 'Computer Applications'.

Other intangible assets

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

The following intangible assets were also recognised as 'Other Intangible Assets' in 2019 as a result of the allocation of the price paid to acquire the subsidiaries

- Client relations amounting to 4,173 thousand euros and an estimated useful life of five years.

Patents, licences and similar

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

(b) Property, plant and equipment

Property, plant and equipment are valued at their acquisition cost or contribution value

to the Parent Company by the former Entity (see Note (1) on Parent Company's Activity), reduced by the accumulated amortisation and, as appropriate, by the accumulated amount of the recognised valuation adjustments for impairment. Indirect taxes on property, plant and equipment are included in the purchase price when they cannot be recovered directly from the Tax Authorities.

Property, plant and equipment are depreciated from the time at which they are made available for commissioning and are depreciated systematically and rationally (on the basis of

their service life and of their residual value), using a straight-line method during the following years of estimated service life. The residual value, useful life and depreciation methods shall be reviewed at least at the end of each financial year, and the useful life shall be reviewed when there is evidence that it may have changed and, if appropriate, adjusted prospectively. The periods of useful life used for the depreciation of the different assets are presented below:

Type of asset	Useful life 2018 (years)	Useful life 2019 (years)
Computer software	3	5
Buildings	10 to 50	10 to 75
Technical installations	4	4 to 18
Machinery	10	10 to 18
Other installations	10	10
Furniture	10	15
IT equipment	4	4 to 7
Transportation elements	7	7 to 12

In 2019, the management of the Correos Group carried out an analysis of the useful life of property, plant and equipment and intangible assets and investment property in order to determine whether the economic life being used up to 2018 to calculate the accounting depreciation was in line with the useful life of the various assets. All of this is in accordance with generally accepted best practices and based on internal technical reports from manufacturers and independent experts.

This change in the useful lives has been applied prospectively and has no impact on previous years since it was a change in estimate. As a result of the change in depreciation rates, in 2019 a lower depreciation expense of 30.7 million euros was recorded and a lower income from the allocation of a capital grant of 3.7 million euros was recorded than would have been the case had the change in estimate not occurred.

Likewise, should there be signs of impairment, Correos Group evaluates the need to make valuation adjustments to the elements that form part of its tangible fixed assets, with the

aim of consistently allocating to them the lesser of either their book value or their recoverable amount.

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

Maintenance and repair costs for property, plant and equipment that do not improve their use or lengthen their lifetime are entered in the income statement at the time of accrual.

The investments made by Correos Group in property owned by third parties that meet the requirements to be considered as operating leases are valued, provided that these are not separated from the leased or assigned asset in use, at the cost of said investments. The amortisation of these investments are made according to their useful life, which will be the

duration of the lease or assignment contract, including the renewal period when there are evidences that they can support it, when this is lower than the asset's economic life.

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

(c) Investment property

Investment property comprises land and buildings owned by the Parent Company and leased to third parties to obtain long-term income. The items included under this heading are valued at their acquisition cost, minus their corresponding accumulated amortisation and any impairment loss. Investment property is depreciated on a straight-line basis over its estimated useful life of 50-75 years (see change in the estimate of useful lives in note 5.b).

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

(d) Operating and financial leases

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

Correos Group as lessee

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

Payments for operating leases are recorded as expenses in the consolidated income statement based on their accrual on a straight-line basis of the total lease period.

Correos Group as lessor

Earnings from operating leases are recorded in the consolidated income statement based on their accrual a straight-line basis of the total lease period. The direct costs that can be allocated to the agreement are included as the highest value of the leased asset and are recognised by applying the same criterion used for recognising the revenue from the lease.

(e) Impairment of value for non-current, non-financial assets*Assets not generating cash flows*

The Parent Company's main activity is the provision of a general interest public service, the Universal Postal Service, in exchange for which it receives a price that complies with the principles established in law. In this way, the vast majority of the property comprising the

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

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

Remaining assets

Should there be signs of impairment, the book value of the non-current, non-financial assets of Correos Group is reviewed, by the date of the close of the financial year at the latest, in order to determine whether such indices prevail. Should such signs exist and, the value of these assets that can be recovered is estimated.

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

Impairment losses are recognised for those assets or, as appropriate, for the cash-generating units comprising them, when their book value exceeds the corresponding recoverable amount. In the event that an impairment loss must be recognised for a cash-generating unit to which all or part of the goodwill has been allocated, the carrying amount of the goodwill for that unit is first reduced. If the impairment exceeds the amount of the latter, the second is reduced in proportion to the carrying amount of the other assets of the cash-generating unit,

up to the limit of the higher of the following: fair value less costs to sell, value in use and zero. Impairment losses are recorded within the income statement and are reverted, except where they originate from goodwill if there have been changes in the estimates used in order to determine the recoverable amount. The reversal of an impairment loss is recorded in the income statement, with the restriction that the book value of the asset after the reversal cannot exceed the amount, net of amortisations, that would appear in the books had the aforementioned impairment loss not been previously recognised.

(f) Financial assets

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

Correos Group classifies its financial assets into the following categories for the purposes of their valuation:

- Loans and entries receivable: these include the financial assets which, not being negotiated in any organised asset market, have expected cash flow in a determined or determinable sum and for which it is estimated that the whole of the outlay made by the Company can be recovered, except for reasons attributed to the solvency of the debtor. This category contains the loans for trade and non-trade operations, loans to staff, the debtor accounts with government bodies, as well as deposits and guarantees given.
- Cash and other cash equivalents : see Note 5 (i).

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

When they are initially recognised, financial assets are recorded at their reasonable value which, unless there is evidence to the contrary, is

the price of the transaction plus the transaction costs that are directly attributable thereto.

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

- The financial assets included in the category of 'Loans and entries receivable' are valued at the amortised cost.
- Cash and other cash equivalents: see Note 5 (j).

Notwithstanding the above, the loans for trade operations maturing in one year or less and which do not have a contractual interest rate are valued at their nominal value, both in the initial valuation and in the subsequent valuation, when the effect of not updating the cash flow is not significant.

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

Correos Group cancels a financial asset, or a part thereof, when the contractual rights over the cash flows of the financial asset expire or are transferred. It is necessary for the risks and benefits inherent in their ownership to be substantially transferred. These circumstances are evaluated by comparing the exposure of Correos Group, before and after the transfer, to the variation in the amounts and in the scheduling of the net cash flow of the transferred asset.

(g) Impairment of financial assets

The book value of the financial assets is corrected by debiting the consolidated income statement when there is objective evidence that an impairment loss has occurred. In order to determine impairment losses, Correos Group evaluates the possible losses of both the individual assets and the groups of assets with similar risk characteristics by the end of the financial year at the latest.

There is objective evidence of impairment when non-payments, breaches, refinancings or possibilities of not recovering all of the cash

flows have taken place, or there is delay in collecting payment.

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

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

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

(h) Non-current assets held for sale

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

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

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

(i) Cash and other cash equivalents

Cash and other cash equivalents make up the cash and bank funds, and the deposits and other financial assets that can be converted into cash and whose maturity, at time of their

acquisition, is no longer than three months, are not subject to a significant risk of change in value and that form part of the normal cash flows management policy of Correos Group.

(j) Inventories

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

When the net realisable value of the inventory is lower than its acquisition price or its production cost, the appropriate valuation adjustments are made, with these being recognised as a cost in the consolidated income statement.

(k) Provisions and contingent liabilities

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

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

The Parent Company Directors consider contingent liabilities to be those obligations that may arise due to past events, and whose appearance is subject to whether or not future events occur, outside the control of the Group. Said contingent liabilities are not subject to book recording, with details and an explanation of said liabilities included in the Note (23) on contingent liabilities.

These consolidated annual accounts include all the provisions with respect to which it is estimated that the probability of having to meet

the obligation is greater than the opposite. Contingent liabilities are not recognised in the consolidated annual accounts, but are reported in the consolidated report.

(l) Financial liabilities

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

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

Financial liabilities maturing less than 12 months from the date of the consolidated balance sheet are classified as current, while those maturing afterwards are classified as non-current.

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

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

Nevertheless, the debits for trade operations which mature in less than one year and that do not have a contractual interest rate and whose amount is expected to be paid in the short-term, both in the initial valuation and in the subsequent valuation, are valued at their nominal value, since the effect of updating the cash flows is not significant.

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

(m) Foreign currency transactions

Monetary entries

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

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

(n) Business combinations

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognised at fair value, provided that such fair value can be measured with sufficient reliability, with the following exceptions:

- Non-current assets that are classified as held for sale: these are recognised at fair value less costs to sell.
- Deferred tax assets and liabilities are measured at the amount expected to be recovered or paid, depending on the tax rates that will apply in the years when the

assets are expected to be realised or the liabilities are expected to be paid, on the basis of the regulations in force or those approved but not yet published, at the date of acquisition. Deferred tax assets and liabilities are not discounted.

- Assets and liabilities associated with defined benefit pension plans: these are recognised, at the acquisition date, at the present value of the committed remuneration less the fair value of the assets assigned to the commitments with which the obligations will be settled.
- Intangible assets whose valuation cannot be carried out by reference to an active market and which would entail the recording of a revenue in the income statement: these have been deducted from the negative difference calculated.
- Assets received as compensation for contingencies and uncertainties: these are recorded and valued in a manner consistent with the element that generates the contingency or uncertainty.

• Repurchased rights recognised as intangible assets: these are valued and amortised on the basis of the contractual period remaining until their completion.

- Obligations classified as contingent liabilities: these are recognised as a liability for the fair value of assuming such obligations, provided that the liability is a present obligation arising from past events and its fair value can be measured with sufficient reliability although it is not probable that an outflow of economic resources will be required to settle the obligation.

The excess, at the acquisition date, of the cost of the business combination over the corresponding value of the identifiable assets acquired less the liabilities assumed is recognised as goodwill on consolidation.

If the amount of the identifiable assets acquired less the liabilities assumed were greater than the cost of the business combination, this excess would be recognised in the income statement as income. Before recognising such income, it

would be reassessed whether the identifiable assets acquired and liabilities assumed and the cost of the business combination have been identified and measured.

At year-end the evaluation process required to apply the acquisition method could not be completed and, therefore, the consolidated financial statements were prepared using provisional values (see Note 21).

As indicated in note 2 of the attached consolidated report, Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company), acquired control of CEP and CEP II on 29 April 2019 and therefore the acquisition date for the business combination was 1 May 2019, since it is considered that the impact between 29 April 2019 and 1 May 2019 was not material and does not have a material effect on any of the foregoing consolidated financial accounts.

(ñ) Income and expenses

Income and expenses are allocated on the basis of actual movement of goods and services that

they represent and regardless of the time when the monetary or financial movement resulting from these takes place.

Revenue from sales and provision of services

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

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

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

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. In particular, revenue derived from postal services for which the consideration is received through the sale of postage items (stamps or similar) is recorded at the time of sale regardless of the time of actual provision of the service and revenue derived from the provision of services relating to the distribution of mail is recognised when the goods are received.

For all other postal services, as well as money orders and telegrams, revenues are recognised upon actual provision of the service, i.e., when the actual transaction occurs.

Interest income

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

(o) Liabilities for remunerations to staff

Pension supplements

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

and Royal Decree 304/2004, of 20 February, enacting the Pension Regulations and its subsequent amendments.

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

As of 31 December 2019 and 2018, the Parent Company had no additional commitment to the participants in the above scheme other than the sums actually contributed since the date of the creation of the plan. The total amount of the contributions made by the Parent Company since the 2000 financial year, when the fund was created, is 125,556 thousand euros.

Compensation for dismissal

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

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

Retirement bonuses

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

which varies from various fixed sums to a set number of monthly payments if they have provided services to the company for between 10 and 30 years (depending on the applicable collective bargaining agreement).

(p) Current and deferred taxes

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

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

Due to the integration of Correos Group into the SEPI in June 2012, the Fiscal Group No. 38/11 was dissolved and the companies of this group were integrated in the Consolidated Fiscal Group with the No. 9/86 effective for the 2012 financial year.

For the purposes of Corporation Tax, the companies of Correos Group, with the exception of CEP and CEP II, are part of Consolidated Fiscal Group No. 9/86, made up of the SEPI and its companies based in Spain where its direct or indirect shareholdings are at least 75% and it has the majority of voting rights, in line with the provisions in article 58 of *Ley 27/2014, del Impuesto sobre Sociedades* [Act 27/2014, on the Corporation Tax].

The assets and liabilities for current taxes are the estimated amounts payable or receivable from government bodies, in accordance with the taxable rates in force on the date of the balance sheet. They are registered under the balance sheet heading 'Debtors, group companies and associates' and 'Short-term debts with group companies and associates' respectively, as the

entity having to pay is the parent company of the Consolidated Fiscal Group, i.e. SEPI.

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

The subsidiaries, with the exception of CEP and CEP II, and the Parent Company of the Correos Group, recognise deferred tax assets for all of the deductible temporary differences, unused tax credits and negative taxable bases that are not applied, to the extent that it is likely that the Group Company that has generated them has future tax gains that make the application of these assets possible, or that they can rationally be expected to be recovered within the Tax Consolidation Group; however, in any case, the negative tax amounts generated by the Correos Group Companies starting from their incorporation in the consolidated fiscal group 9/86 were acquired by SEPI at a rate of 28% until financial year 2015 and from financial year 2016 at a rate of 25%. With the exception of CEP and CEP II, with regard to the negative tax

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

In addition, the subsidiaries CEP and CEP II, which are domiciled in Portugal, pay corporate income tax in Portugal at a rate of 21%.

The assets and liabilities for deferred taxes are valued at the anticipated tax rates at the time they are reversed, in accordance with the approved effective regulations, and according to the manner in which it can rationally be expected to recover or pay for the asset or liability for deferred tax. The adjustments of the values of the assets and liabilities for deferred

taxes are allocated to the consolidated annual account, except insofar as the assets and liabilities for deferred taxes affected have been charged or paid directly to the net equity.

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

(q) Grants, donations, bequests and compensations received for costs derived from providing the UPS

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

Grants, donations and bequests are considered non-refundable when there is an individual agreement for granting them in favour of the Company, when the conditions established for

granting them have been met and when there are no reasonable doubts about their receipt.

On this basis, the Parent Company recognised in financial year 2019 Compensation for provision of the UPS for an amount of 120,000 thousand euros (Note 17.c), once the necessary requirements to be considered as non refundable have been met.

Non-refundable compensations received by the Parent Company, up to the 2010 financial year, as capital contributions to offset the costs derived from provision of the UPS are allocated to the consolidated income statement during the period of time equivalent to the service life of the components of the fixed assets financed with said contributions, unless these assets are transferred, impaired or are eliminated, in which case they are allocated to the consolidated income statement, either totally or according to the theoretical percentage of the impairment of the assets covered by the contributions, at such time as this occurs. The allocation to the consolidated income statement of the compensations used for the financing of land

is deferred until the financial year in which their transfer or impairment takes place.

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

Non-refundable grants, donations and bequests and cost compensations received by the Parent Company to compensate the operation deficits derived from the provision of UPS are recorded in the consolidated income statement in the examination period, regardless of their actual collection.

It is possible that if the CNMC resolution on the calculation of the net cost of the UPS in the financial years 2011 to 2019 differs from the amounts assigned in the General State Budgets, there could be a positive or negative impact on the amounts recorded. Any such final impact cannot be calculated until the

new Service Plan, which is being developed by the Spanish Government and is currently being processed and negotiated with the European Commission, comes into force. If the methodology and the concepts for calculating the net cost are approved in the terms in which they are being negotiated, the Parent Company Directors consider that there is a remote risk of a negative impact on the consolidated annual accounts of this year and the following, relative to the calculation of the net cost of UPS for the period 2011 to 2019.

(r) Transactions with related parties

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

(s) Value Added Tax

The non-deductible value added tax (hereinafter, VAT) forms part of the acquisition price of the capital goods, as well as the cost of the goods and services under transactions subject to value-added tax. Adjustments for non-deductible value-added tax borne as a result of the regularisation associated with the

Parent Company's final pro rata determinations, including the regularisation of capital goods, do not alter the initial valuations of those goods. Therefore, any such effect is recorded in the consolidated income statement.

Article 2 of the *Ley 23/2005, de 18 de noviembre, de Reformas en Materia Tributaria para el Impulso a la Productividad* [Act 23/2005, of 18 November 2005, 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 capital goods within the legally prescribed deadlines. For each of the financial years, the total revenue from such restatements has been stated under the item 'Taxes' in the heading

'Other operating expenses' of the consolidated income statement.

Article 22.2 of the Postal Act establishes, with effect from 1 January 2011, that the operator designated by the State to provide the universal postal service is exempt from paying tax on its universal postal service activities, with the exception of Corporation Tax. As regards Value Added Tax, the application of this legislative change has resulted in an increase in the number of services considered exempt from VAT, whereas the regulations applicable until 31 December 2010 limited exemptions to the scope of the postal services reserved to said operator.

As a result of decreasing the proportion of services subject to and not exempt from VAT out of the total number of services provided by the Parent Company, there was a significant reduction in the pro rata VAT deduction and, thus, an increase in the non-deductible VAT paid for acquisition of capital goods and goods and services subject to VAT.

(t) Consolidated cash flows statement

The consolidated cash flow statements have been prepared using the indirect method and contain the use of the following expressions and their respective meanings:

- Operating activities: activities that constitute ordinary Group revenues, as well as other activities that cannot be qualified as investing or financing.
- Investing activities: acquisition, sale or disposal and other means of assets in the long-term and other investments not included in cash and cash equivalents.
- Financing activities: activities that generate changes in the size and composition of equity and liabilities that do not form part of operating activities.

6. Computer software and other intangible fixed assets

The detail of activity in the 2019 and 2018 financial years is as follows:

Financial year 2019	Balance at 01/01/2019	Registrations from business combinations (Note 21)	Additions	Disposals	Other	Balance at 31/12/2019
Cost						
Development					366	366
Patents, licences and similar	344		-	-	248	592
Computer software	268,687	3,802	15,881	(715)	392	288,047
Other intangible assets	502	4,173	-	-	-	4,675
Total cost	269,533	7,975	15,881	(715)	1,006	293,680
Accumulated amortisation-						
Development					(366)	(366)
Patents, licences and similar	(344)		-		(248)	(592)
Computer software	(243,502)	(162)	(9,350)	701	-	(252,313)
Other intangible assets	(322)		(572)	-	(392)	(1,286)
Total accumulated amortisation	(244,168)	(162)	(9,922)	701	(1,006)	(254,557)
Net value	25,365					(39,123)

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

The registrations seen during financial year correspond in the main o investments made by the Parent Company to acquire user licences and new IT programs, in addition to the updates to others, for the approximate sum of 15,860 thousand euros (with the investment

registered during the 2018 financial year being 6,720 thousand euros).

Financial year 2018	Balance at 01/01/2018	Registrations from business combinations (Note 21)	Additions	Disposals	Transfers	Balance at 31/12/2018
Cost						
Patents, licences and Similar	344	-	-	-	-	344
Computer software	258,543	-	10,514	(370)	-	268,687
Other intangible assets	502	-	-	-	-	502
Total cost	259,389	-	10,514	(370)	-	269,533
Accumulated amortisation-						
Patents, licences and Similar	(344)	-	-	-	-	(344)
Computer software	(225,775)	-	(18,097)	370	-	(243,502)
Other intangible assets	(308)	-	(14)	-	-	(322)
Total accumulated amortisation	(226,427)	-	(18,111)	370	-	(244,168)
Net value	32,962					25,365

The cost of the wholly amortised items that formed part of the intangible fixed assets of the Correos Group as of 31 December 2019 amounts to 216,179 thousand euros (222,189 thousand euros in 2018).

At 31 December 2019, the Parent Company held binding agreements for the acquisition of IT applications and evolutionary enhancements to IT systems for the sum of 14,006 thousand euros (25,750 thousand euros in 2018). On that date there were no binding agreements of sale involving any intangible assets owned by Correos Group.

6.1 Goodwill on consolidation

The balances and changes in the "Goodwill on Consolidation" account are as follows:

	2019
Gross opening balance	—
Inflows (Business Combination) (Note 21)	8,744
	8,744
Accumulated depreciation, opening balance	—
Arrivals	(583)
	(583)
Net closing balance	8,161

The Correos Group recognised goodwill on consolidation in 2019 as a result of the fact that the acquisition price of CEP was higher than the fair value of the assets and liabilities acquired (see Note 21).

The goodwill acquired through the business combination (see Note 21) has been attributed to a single cash-generating unit, which corresponds to all the activity of the subsidiaries acquired in Portugal, once they have been acquired as a whole in the same operation (see Note 2), they are managed as a single unit and the merger of the two subsidiaries is planned for 2020. This goodwill is primarily allocated to the workforce.

At the end of 2019, taking into account the performance of the subsidiaries, the Correos Group considers that the best evidence of the recoverable amount of its goodwill and intangible assets acquired in the business combination is their value in use.

The Correos Group tests goodwill and intangible assets acquired in the business combination for impairment on an annual basis. For 2019, the recoverable amount of the cash-generating unit (CGU) was determined on the basis of value in use calculations requiring the use of certain assumptions.

In this connection, the Correos Group engaged an independent expert to determine the value in use of the subsidiaries, which consisted of discounting future cash flows constructed on the basis of the subsidiaries' budget and business plan for the next five years, in accordance with the performance of the markets in which they operate. The discount rate used, 8.2%, was calculated on the basis of the risk-free rate for 10-year bonds issued by Portugal, adjusted by a risk premium to reflect the risk arising from the market in which it operates and that of the subsidiary itself. A growth rate of 1.1% in perpetuity has also been used.

A comparison of the recoverable amount calculated by the discounted cash flow method and the net carrying amount of goodwill and intangible assets acquired in the business combination did not reveal any impairment.

7. Property, plant and equipment

The detail of activity in the 2019 and 2018 financial years is as follows:

Financial year 2019	Balance at 01/01/2019	Registrations from business combinations (Note 21)	Registrations and provisions	Disposals	Transfers	Other	Balance at 31/12/2019
Cost							
Land	385,562	-	2	(245)	(2,567)		382,752
Buildings	1,481,647	401	3,364	(2,850)	(6,454)	2,118	1,478,226
Technical installations and other fixed assets	703,892	1,681	33,607	(33,238)	1,700	(32)	707,610
Assets under construction and advances	31,209	-	14,371	-	(5,451)	(280)	39,849
Total cost	2,602,310	2,082	51,344	(36,333)	(12,772)	1,806	2,608,437
Accumulated amortisation-							
Buildings	(573,251)	-	(20,556)	1,510	5,239	(1,835)	(588,893)
Technical installations and other fixed assets	(520,230)	(1,965)	(28,803)	31,181	219	1,552	(518,046)
Total accumulated amortisation	(1,093,481)	(1,965)	(49,359)	32,691	5,458	(283)	(1,106,939)

Financial year 2019	Balance at 01/01/2019	Registrations from business combinations (Note21)	Registrations and provisions	Disposals	Transfers	Other	Balance at 31/12/2019
Adjustments for impairment-							
Land and buildings	(119,813)	-	(2,327)	5,947	1,000	-	(115,193)
Technical installations and other fixed assets	(2,889)	-	-	-	39	-	(2,850)
Assets under construction and advances	(1,283)	-	-	-	(292)	292	(1,283)
Total adjustments for impairment	(123,985)	-	(2,327)	5,947	747	292	(119,326)
Net value	1,384,844						1,382,172

Financial year 2018	Balance at 01/01/2018	Registrations and provisions	Disposals	Transfers	Balance at 31/12/2018
Cost-					
Land					
Buildings	379,856	-	-	5,706	385,562
Technical installations and other	1,463,939	4,238	(1,410)	14,880	1,481,647
Fixed assets under construction and advances	25,880	16,031	-	(10,702)	31,209
Total cost	2,552,613	66,690	(32,703)	15,710	2,602,310

Financial year 2018	Balance at 01/01/2018	Registrations and provisions	Disposals	Transfers	Balance at 31/12/2018
Accumulated amortisation-					
Buildings	(534,459)	(36,064)	777	(3,505)	(573,251)
Technical installations and other fixed assets	(510,343)	(40,616)	31,086	(357)	(520,230)
Total accumulated amortisation	(1,044,802)	(76,680)	31,863	(3,862)	(1,093,481)
Adjustments for impairment-					
Land and buildings	(114,802)	(8,587)	7,180	(3,604)	(119,813)
Technical installations and other fixed assets	(2,845)	-	-	(44)	(2,889)
Fixed assets under construction and advances	(2,216)	-	-	993	(1,283)
Total adjustments for impairment	(119,863)	(8,587)	7,180	(2,715)	(123,985)
Net value	1,387,948				1,384,844

The additions recognised under 'land and buildings' and 'Assets under construction and advances' in the year relate to the Parent Company and relate to the refurbishment and adaptation of existing premises and properties and to the investments made in logistics centres for postal processing and distribution.

The heading 'Technical installations and other fixed assets' includes the plant investments

made at the properties used by the Group (whether or not it owns them), together with the investments made in machinery, IT equipment, motor vehicles and furniture. The most important recordings made under this heading during the financial year correspond to the purchase by the Parent Company of motor vehicles, machinery, IT equipment and furniture for sums of 11,831, 6,223, 1,866 and 5,262 thousand euros, respectively (in the 2018

financial year the amounts for motor vehicles, IT equipment, machinery and furniture were 5,669, 8,909, 11,310 and 8,464 thousand euros respectively).

Of the total sum for disposals of property, plant and equipment, most relate to fully depreciated assets derecognised by the Parent Company, mainly IT equipment, furniture, machinery and vehicles (the depreciation of fully depreciated assets recognised by the Parent Company in 2018 amounted to 31,206 thousand euros).

As mentioned in Note 5.e) of this Parent Company report, in light of the stipulations of Order EHA/733/2010, of 25 March which approved accounting aspects for public companies operating in certain circumstances, the impairment of the assets included under the heading tangible fixed assets was recorded as per the value in use, as stipulated in the aforementioned Order. In this regard, the Parent Company compared the book value of the assets with their recoverable amount by using the value in use method, determined with reference to their depreciated replacement cost.

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

a) Obtaining market studies and evaluation of the components of the assets regarding land and overall construction, undertaken by independent experts using different methods including the comparison method, the cost method and the residual value method, in addition to statistical studies on property market behaviour.

b) Capitalised cost of the renovations applied to buildings, reduced by the accumulated amortisation, in order to reflect the use already made of the asset.

c) Cost of the indirect expenses for the acquisitions and renovations.

The comparison of the replacement cost depreciated by the net book value of the assets assessed by the Parent Company has shown a net reversal of the impairment of 'Property, plant and equipment', of 3,731 thousand euros (allocation of 290 thousand euros and reversal of 4,021 thousand euros), which was recorded in the 2019 income statement. A net reversal for impairment of 4,989 thousand euros was recognised in 2018 (allocation of

2,077 thousand euros and a reversal of 7,066 thousand euros).

In the financial year 2019, the Parent Company recognised an impairment loss of 7,351 thousand euros in anticipation of the expected derecognition of assets due to property refurbishment (6,418 thousand euros in 2018).

As of 31 December 2019, the Parent Company had signed contracts to purchase property, plant and equipment worth 43,726 thousand euros (37,005 thousand euros in the 2018 financial year). At the close of the financial year, the Company has no final commitments involving sale of assets.

The cost of the wholly amortised items that formed part of the property, plant and equipment of the Correos Group as of 31 December 2019 amounts to 444,523 thousand euros (458,040 thousand euros as of 31 December 2018).

The net book value of the dwellings, premises and plots of land making up the property, plant and equipment of the Parent Company not

involved in the operation amounts to 42,472 thousand euros (39,646 thousand euros as of 31 December 2018), and their acquisition cost was 76,218 thousand euros (67,384 thousand euros at 31 December 2018).

Correos Group has insurance policies in place to cover those risks that could affect most of its property, plant and equipment.

8. Investment property

The detail of activity in the 2019 and 2018 financial years is as follows:

	Balance at 01/01/2018	Registrations and provisions	Transfers	Balance at 31/12/2018	Registrations and provisions	Transfers	Balance at 31/12/2019
Cost-							
Land	4,101	-	305	4,406	-	1,060	5,466
Buildings	14,015	4	649	14,668	56	2,467	17,191
Total cost	18,116	4	954	19,074	56	3,527	22,657
Accumulated amortisation-							
Buildings	(4,835)	(243)	(243)	(5,312)	(340)	(322)	(5,974)
Adjustments for impairment-							
Land and buildings	(137)	-	-	(137)	4	79	(54)
Net book value	13,144			13,625			16,630

Investment property corresponds to premises that the Parent Company has leased to third parties. The income from these contracts recorded in the consolidated income statement amounted to 1,397 thousand euros in the 2019 financial year (1,393 thousand euros in the 2018 financial year).

The costs associated with property investments mostly correspond to their annual amortisation and maintenance costs, and amounted to 731 thousand euros during the 2019 financial year (536 thousand euros during the 2018 financial year). All of these expenses were recorded in the consolidated income statement based on the accrual principle.

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

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

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

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

	Financial year 2019	Financial year 2018
Up to one year	1,370	784
Between one and five years	1,472	1,096
More than five years	459	264
	3,301	2,144

9. Non-current assets held for sale

The detail and movement under this heading during the 2019 and 2018 financial years is as follows:

	Balance at 01/01/2018	Registrations and provisions	Disposals	Transfers	Balance at 31/12/2019
Cost-					
Land	469	-	(468)	1,774	1,775
Buildings	72	43	(115)	8,142	8,142
Other installations	-	10	-	232	242
Total cost	541	53	(583)	10,148	10,159
Accumulated amortisation-					
Buildings	(12)	-	12	(4,918)	(4,918)
Other installations	-	-	-	(219)	(219)
Total accumulated amortisation	(12)	-	12	(5,137)	(5,137)
Adjustments for impairment-					
Land and buildings	-	(209)	-	(838)	(1,047)
Net book value	529				3,975

At the close of 2019, the Group classified 3,975 thousand euros (529 thousand euros in the 2018 financial year) under the heading 'Non-current assets held for sale', corresponding to the investments in land, buildings and property

assets owned by the Company which are available for immediate sale and that they are highly likely to be sold. The main change in 2019 is due to the reclassification from 'Property, Plant and Equipment' to 'Investments in

Property' of a cost of 10,148 thousand euros and depreciation of 5,137 thousand euros.

In 2018 the Parent Company reclassified to 'Property, Plant and Equipment' investments

in property, plant and equipment with a cost of 16,151 thousand euros and accumulated depreciation of 3,844 thousand euros, since these assets no longer met the requirements to be classified as held for sale, and the assets were adjusted for the depreciation that would have been recognised had they not been

classified as held for sale, amounting to 719 thousand euros, which was recognised in the consolidated income statement for 2018.

Also, the Parent Company disposed of assets worth 583 thousand euros and accumulated amortisation of 12 thousand euros in 2019

(cost of 2,607 thousand euros and accumulated amortisation of 698 thousand euros in 2018), and the result obtained from the sale of property was 901 thousand euros (5.8 million euros in 2018).

	Balance at 01/01/2018	Registrations and provisions	Disposals	Transfers	Balance at 31/12/2018
Cost-					
Land	7,194	-	(1,163)	(5,562)	469
Buildings	12,194	-	(1,426)	(10,696)	72
Other installations	424	-	(18)	(406)	0
Total cost	19,812	-	(2,607)	(16,664)	541
Accumulated amortisation-					
Buildings	(4,431)	-	680	3,739	(12)
Other installations	(375)	-	18	357	-
Total accumulated amortisation	(4,806)	-	698	4,096	(12)
Adjustments for impairment-					
Land and buildings	(2,735)	-	20	2,715	-
Net book value	12,271				529

10. Inventories

Details of this item as of 31 December 2019 and 2018 are as follows:

	Balance at 31/12/2019	Balance at 31/12/2018
Inventories valued at cost-		
Stamps in the possession of third parties	232	209
Stamps at Company's post offices and warehouses	1,976	1,699
Philately Stamps	4,157	4,669
Wardrobe	2,567	—
Other stocks	4,513	2,792
	13,444	9,369
Valuation adjustments due to impairment-	(3,834)	(4,181)
	9,611	5,188

The movement of the valuation adjustments for impairment of inventories during financial years 2019 and 2018 is as follows:

	Valuation adjustments		
	Stamps	Other	Total
Balance at 01 January 2018	3,688	641	4,329
Valuation adjustments due to impairment	568	93	661
Application against cost of stock	(758)	(51)	(809)
Balance at 31 December 2018	3,498	683	4,181
Valuation adjustments due to impairment	876	—	876
Reversal of valuation adjustments	(1,191)	(8)	(1,199)
Application against cost of stock	—	(24)	(24)
Balance at 31 December 2019	3,182	652	3,834

Correos Group has maintained valuation adjustments for the impairment of stamps for a value of 3,182 thousand euros (3,498 thousand euros in 2018) in those cases in which it was estimated that its net realisable value was lower than its book value.

Periodically, the Parent Company destroys those stocks of stamps whose age and/or the reason for their issue make their use impossible.

For that reason, completely impaired stamps worth 24 thousand euros were destroyed over the financial year (809 thousand euros in 2018).

11. Current and non-current financial assets

The composition of Correos Group current and non-current financial assets as of 31 December 2019 and 2018, excluding cash and other cash equivalents described in Note (12), including the balances with

government bodies not considered financial instruments, is as follows:

	Balance at 31/12/2019	Balance at 31/12/2018
Non-current financial investments-		
Deposits and guarantees	2,363	2,067
Other	88	127
	2,451	2,194
Trade debtors and other receivables-		
Clients from sales and provision of services	580,207	440,414
Clients, group companies and associates (Note 20)		57
Sundry debtors	26,023	25,254
Debtors, group companies and associates (Note 20)	483	12,934
Staff	7,420	7,521
Public administration (Note 18)	1,282	253
	615,415	486,433
Current financial investments-		
Deposits and guarantees	3,129	946

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

11.1.) Trade and other receivables

The headings 'Clients from sales and provision of services' and 'Sundry debtors' include 245,492 thousand euros in fees to be collected by the Parent Company from third-country postal operators for the provision of postal

and telegram services (which stood at 191,821 thousand euros as of 31 December 2018).

The 'Staff' heading contains the amounts delivered by the Parent Company to different employees as advance payroll payments in accordance with a specific plan designed by the

Company and that are still pending recovery at the close of the financial year.

The headings 'Clients from sales and provision of services' and 'Sundry debtors' are shown as net valuation adjustments for impairment, with their movements during the 2019 and 2018 financial years being as follows:

Valuation adjustments	Clients	Debtors	Total
Balance at 01 January 2018	22,668	990	23,658
Valuation adjustments due to impairment	6,436	1	6,437
Reversals of valuation adjustments	(6,870)	—	(6,870)
Balance at 31 December 2018	22,234	991	23,225
Valuation adjustments due to impairment	5,145	—	5,145
Reversals of valuation adjustments	(2,963)	(476)	(3,438)
Balance at 31 December 2019	24,416	515	24,931

Under the item 'Losses, impairment and change in trade provisions' of the consolidated income statement, the Correos Group recorded

an expense of 921 thousand euros due to a direct cancellation of defaulting debts (having registered an expense of 4,455 thousand euros

for this same item during the 2018 financial year).

11.2.) Non-current and current financial investments

The current 'Deposits and guarantees' item mostly records court bonds with various labour

courts for actions brought by the employees and former employees of the Parent Company.

'Non-current financial investments' comprises the following:

	Balance at 31/12/2019	Balance at 31/12/2018
Non-current financial investments		
Other financial investments	2,451	2,194
	2,451	2,194

The heading 'Non-current financial investments' of the Parent Company includes guarantees and deposits for 1,121 thousand euros and also includes 18 thousand euros, which correspond to the acquisition of shares in the International Post Corporation (IPC). In financial year 2018, the Parent Company

reclassified under short term 999 thousand euros pending collection for the sale with deferred payment of a building.

The different companies in Correos Group perform a solvency analysis for each of their clients. These analyses are used for awarding

or denying contracts with postponed payment to clients. The authorisations for the signing of these contracts are classified according to the amount of the loan.

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

The risk management policies of the Group are laid down by the Management Committee of the Parent Company, after having been approved by its Parent Company Directors. On the basis of these policies, a set of procedures and controls was established to make it possible

to identify, measure and manage risks deriving from the financial instruments, which expose the Group to credit, market and liquidity risks:

11.3.1) Credit risks

A credit risk arising due to the possible loss caused by a breach of the contractual obligations of the Parent Company's counterparts, that is, due to the possibility of

not recovering the financial assets for the sum recorded in the set period.

The maximum exposure to credit risk of Correos Group at 31 December 2019 and 2018 is as follows:

Correos Group	Balance at 31/12/2019	Balance at 31/12/2018
Non-current financial investments	2,451	2,194
Clients for sales and provision of services	580,207	440,414
Sundry debtors	26,023	25,254
Current financial investments	3,129	946
Banks and credit institutions (Note 12)	65,605	80,342
Current deposits (Note 12)	—	20,000
Accrued interest not due (Note 12)	4	—
	677,419	569,150

'Sundry debtors' is composed as follows:

Trade and other receivables		
Sundry debtors - rest	26,023	25,254
	26,023	25,254

'Sundry debtors-rest' includes, among others, the balances pending settlement due to provisional payments of international mail of the Parent Company amounting to 17,043 thousand euros (15,711 thousand euros).

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

The breakdown of the concentration of credit risks per counterpart under the 'Clients from sales and provision of services' and 'Sundry debtors' sections of Correos Group as of 31 December 2019 and 2018 is as follows:

Financial year 2019	Parent Company		Rest of companies	
	Number	Thousands of euros	Number	Thousands of euros
Clients and debtors-				
With balance greater than 1,000 thousand euros	30	141,008	—	—
With balance between 500 and 1,000 thousand euros	55	38,505	—	—
With balance below 500 thousand euros	24,156	91,081	27,326	77,130
	24,241	270,594	27,326	77,130
Foreign postal operators		245,492	—	—
Other financial assets		13,360	—	137
		258,852		137
		529,446		77,267

Financial year 2018	Parent Company		Rest of companies	
	Number	Thousands of euros	Number	Thousands of euros
Clients and debtors:				
With balance greater than 1,000 thousand euros	27	76,298	1	1,014
With balance between 500 and 1,000 thousand euros	41	28,228	—	—
With balance below 500 thousand euros	24,164	101,305	14,322	53,151
	24,232	205,831	14,323	54,165
Foreign postal operators		191,821	—	—
Other financial assets		13,539	—	312
		205,360		312
		411,191		54,477

At 31 December 2019 and 2018, the breakdown of the 'Clients' and 'Foreign postal operators' of Correos Group's Parent Company by maturity,

since they are the most representative, is as follows:

	Financial year 2019		Financial year 2018	
	Parent Company		Parent Company	
	Clients	Foreign postal operators	Clients	Foreign postal operators
Not due	119,157	81,725	134,369	82,349
Due, non-doubtful:				
Less than 30 days	97,024	3,530	39,527	454
Between 30 and 60 days	19,848	258	13,928	2,942
Between 60 and 90 days	10,816	165	4,116	244
Between 90 and 120 days	5,155	176	3,833	347
Over 120 days	18,593	142,594	10,058	89,774
Provisional payments	—	17,043	—	15,711
	270,594	245,492	205,831	191,821
Doubtful clients	12,776	1,305	12,023	1,071
Adjustments for impairment	(12,776)	(1,305)	(12,023)	(1,071)
	270,594	245,492	205,831	191,821

The provisional payments correspond to sums paid by the Parent Company to other foreign operators for the provision of their postal services prior to final settlement. The balance of advances collected from foreign operators by the Parent Company amounts to 200,598 thousand euros as of 31 December 2019 (131,164 thousand euros as of 31 December 2018).

The Parent Company streamlined the cash flow surpluses during the 2019 financial year by actively managing the funds deposited in current accounts in highly solvent national financial entities. Over the course of the 2019 financial year, the Parent Company also lent cash flow to its Sole Shareholder (SEPI), payable in less than one month at market interest rates (See Notes 12, 17 i) and 20).

11.3.2) Market risks

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

the interest rate risk, exchange rate risk and other price risks.

Interest rate risks

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

Given that practically all financial assets of Correos Group mature in less than twelve months, the exposure of these to exchange rate risk in interest rates is not significant.

Exchange rate risks

An exchange rate risk arises due to the possible loss caused by variations in the exchange rate. The exposure of Correos Group to the risk of exchange rate fluctuations is due primarily to sales made in currencies other than the functional currency. These balances result from the services provided to and received by foreign postal operators and from the provision of the international money order service.

In this regard, the Parent Company's exposure to this risk largely corresponds to the accounts receivable and payable deriving from international mail. Given that the net value of these balances as of 31 December 2019 amounted to 34,022 thousand euros payable (67,292 thousand as of 31 December 2018), the Parent Company's Directors do not consider this risk significant.

11.3.3) Liquidity risks

A liquidity risk occurs due to the possibility of Correos Group not having liquid funds or access to them in a sufficient amount and at the right cost to meet its payment obligations at all times. The objective of the Group is to maintain the necessary liquid availability. The Parent Company has contracted lines of credit to meet any liquidity needs, which have not been used during 2019.

The breakdown of the current financial assets and liabilities of the Group as of 31 December 2019 and 2018, and, by difference, its ability to meet its payment obligations in the short-term, is as follows:

	Balance at 31/12/2019	Balance at 31/12/2018
Current financial assets-		
Clients for sales and provision of services	580,207	440,414
Sundry debtors	26,023	25,254
Financial investments	3,129	946
Cash and other liquid resources	100,594	128,118
Current financial liabilities-		
Current debts	(42,742)	(32,478)
Trade creditors and other accounts payable	(596,698)	(479,020)
Difference	70,513	8,234

12. Cash and cash equivalents

Details of this item as of 31 December 2019 and 2018 are as follows:

	Balance at 31/12/2019	Balance at 31/12/2018
Cash:		
Cash	34,985	27,776
Banks and lending institutions	65,605	80,342
Cash equivalents:		
Current deposits (Note 11.3.1) 20))	—	20.000
Accrued interest not due:		
From third parties	4	—
	100,594	128,118

As of 31 December 2019, the Parent Company held a restricted deposit of 213 thousand euros (766 thousand euros in 2018) in order to meet

the IBI [property tax] settlements received from local entities (see Note 17 h)), as a result of the decision of the European Commission that

declared the exemption from this tax as illegal aid.

13. Shareholder's equity

The breakdown of the movement of the Correos Group's equity is shown in the consolidated statement of changes in equity, which is an integral part of the consolidated annual accounts.

a) Declared capital

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

b) Share premium

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

The Parent Company's share premium was 250,938 thousand euros at 31 December 2019 and 2018.

c) Reserves

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

The Legal Reserve can only be used to increase the Share Capital by the part of its balance that exceeds the 10% of the previously increased capital. Except for the purpose mentioned above, and as long as 20% of the Share Capital is not exceeded, this reserve will only be used to offset losses, provided that there are no other sufficient reserves available for this purpose.

As of 31 December 2019, the Statutory Reserves of the Parent Company totalled 214,119 thousand euros (at 31 December

2018, these totalled 214,119 thousand euros) while the Voluntary Reserves stood at 230,423 thousand euros (at 31 December 2018, these totalled 257,298 thousand euros).

The Parent Company Directors plan to request authorisation from the sole shareholder in 2020 to redistribute the entire balance of the Statutory Reserves to Voluntary Reserves.

Details of Reserves:

The detail as of December 31, 2019 is as follows:

	Balance at 31/12/2019
Details of reservations	
Legal reserve	100,070
Statutory Reserves	214,119
Voluntary Reserves	230,423
Reserves in Fully Consolidated Companies	(202,343)
Total	342,269

The detail of reserves at consolidated companies is as follows:

	Balance at 31/12/2019
Details of reserves in consolidated companies:	
Correos Telecom, S.A., S.M.E., M.P.S.U.	4,242
Nexea Gestión Documental, S.A., S.M.E. S.U	(11,362)
Correos Express Paquetería Urgente, S.A., S.M.E. S.U	(195,223)
Total	(202,343)

d) Consolidated results of Correos Group

Correos Group's consolidated profits for the 2019 and 2018 financial years are as follows:

2019	Individual results	Consolidation adjustments	Consolidated results
Correos y Telégrafos, S.A., S.M.E.	17,771	(25,336)	(7,566)
Correos Telecom, S.A., S.M.E., M.P.S.U.	1,739	—	1,739
Nexea Gestión Documental, S.A., S.M.E.S.U.	(498)	—	(498)
Grupo CEX	21,115	(1,377)	19,738
	40,127	(26,713)	13,414

2018	Individual results	Consolidation adjustments	Consolidated results
Correos y Telégrafos, S.A.	(142,841)	(17,078)	(159,919)
Correos Telecom, S.A.	1,740	—	1,740
Nexea Gestión Documental, S.A.	(440)	—	(440)
Correos Express Paquetería Urgente, S.A.	5,659	—	5,659
	(135,882)	(17,078)	(152,960)

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

The detail of movements during financial years 2019 and 2018 of compensations received as capital subsidies is as follows:

Financial year 2018	Thousands euros
Initial balance at 01 January 2018	258,246
Grants, donations and bequests recognised	22
2004-2010 UPS overcompensation	(11,495)
Tax effect Overcompensation SPU 2004-2010	2,874
Allocation of the income statement:	
- due to amortisation	(10,543)
- due to adjustments for impairment	(219)
- due to disposals	(642)
Tax effect	2,806
Final balance at 31 December 2018	241,049

Financial year 2019	Thousands euros
Initial balance at 01 January 2019	241,049
Grants, donations and bequests recognised	370
2004-2010 UPS overcompensation	—
Tax effect Overcompensation SPU 2004-2010	—
Allocation of the income statement:	
- due to amortisation	(5,807)
- Others	(7)
- due to disposals	(135)
Tax effect	1,476
Final balance at 31 December 2019	236,946

The Parent Company values the liabilities from deferred tax resulting from capital compensations received up to the 2010 financial

year at the tax rates expected at the time they were reversed, as per the applicable regulation at 31 December 2019, and acknowledges this

change in the Company's net equity (see Note 5q) and 18).

15. Non-current and current provisions

The itemised list of long-term and short-term provisions for the 2019 and 2018 financial years is as follows:

Non-current provisions					
	Provision for taxes	Provision claims from the staff	Provision for court actions	Other provisions	Total
Balance at 01 January 2018	3,233	7,961	18,758	443	30,395
Provisions	694	3,563	191	—	4,448
Applications / payments	(419)	—	(4,800)	—	(5,219)
Reversals / excesses	(12)	(242)	(27)	(35)	(316)
Reclassifications	—	408	-	(408)	—
Balance at 31 December 2018	3,496	11,690	14,122	—	29,308
Provisions	103	280	35	—	417
Registrations (Business combinations)	—	—	69	—	69
Applications / payments	(359)	(68)	-	—	(427)
Reversals / excesses	(1,945)	(1,706)	(778)	—	(4,428)
Reclassifications	—	—	—	—	—
Balance at 31 December 2019	1,295	10,196	13,448	—	24,939

Non-current provisions for the financial year, amounting to 417 thousand euros, have been charged to the consolidated income statement according to their type (4,448 thousand euros in 2018).

The origin of the application of non-current provisions lies in court decisions that have been unfavourable for Correos Group during financial year 2019 and which have involved the actual payment of certain amounts.

The reversals of long-term provisions for the financial year, amounting to 4,428 thousand euros, have been charged to the consolidated income statement (316 thousand euros in 2018).

► Provision for claims from the staff

The balance of this provision as of 31 December 2019 records the estimated sums to be paid for claims and court actions in labour-law proceedings against Correos Group.

► Provision for court actions

The balance of this provision as of 31 December 2019 and 2018 records the sums to be paid by the Parent Company for penalties imposed by the CNMC which the former has appealed against.

On 8 March 2018, the CNMC issued a resolution in which it fined Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company) for a total of 19,635 thousand euros for alleged infringements of the fair competition regulations.

Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company) obtained in May 2018, the precautionary suspension of the payment of the fines imposed, demonstrating that the payment thereof may result in harm to the company that may be difficult or impossible to remedy; also, it appealed the National Court against the above mentioned resolution.

The Directors of the Parent Company and of Correos Express Paquetería Urgente S.A.,

S.M.E. (Sole Shareholder Company), based on the assessment and opinions of external legal advisers and the legal department of the Group, consider that it is likely that the National Court shall uphold the appeal, and that there will be a reduction of the penalty of at least 50%, therefore the provision registered by Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company) in financial year 2017 amounted to 9,818 thousand euros, and has not changed in the present financial year as a consequence of the estimates made by the Directors of Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company) and based on the assessment of experts.

16. Financial liabilities

The composition of Correos Group's long-term and short-term financial liabilities as of 31 December 2019 and 2018, including balances with government bodies not considered financial instruments, is as follows::

Non-current payables:	Balance at 31/12/2019	Balance at 31/12/2018
Debts with credit institutions	11,256	—
Creditors for fixed assets	1,687	5,505
Deposits and guarantees	1,252	1,157
Financial lease creditors	284	563
Other non-current payables	149	179
Total non-current payables	14,628	7,404

Current payables:	Balance at 31/12/2019	Balance at 31/12/2018
Debts with credit institutions	3,785	—
Creditors for fixed assets	18,372	20,471
Money order deposits	10,097	3,429
Deposits and guarantees	6,700	6,629
Financial lease creditors	425	415
Other current payables	3,366	1,534
Total current payables	42,742	32,478
Short-term debts with group companies and associates (Note 20)	3,495	1,285
Trade and other payable:		
Suppliers	3,219	3,196
Suppliers, group companies and associates (Note 20)	—	—
Sundry creditors	292,796	241,312
Staff (unpaid wages)	25,198	38,951
Other debts with government bodies (Note 18)	66,682	55,885
Customers advances	208,803	139,676
Total trade and other payable	596,698	479,020
Current accruals	6,231	5,600

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 2019 and pending payment by the Parent Company to their recipients at that date.

The 'Sundry creditors' heading includes amounts received by the Parent Company from third parties totalling 23,183 thousand euros (27,439 thousand euros in the 2018 financial year).

On 31 December 2018, the heading 'Staff (unpaid wages)' of the Parent Company included 21,000 thousand euros corresponding to the remuneration increases accrued but not paid in accordance with the provisions of Act 6/2018, of 3 July, on State General Budgets for the year 2018, and the joint resolution of 17 July 2018, of the State Secretariat of Budgets and Expenditures and the State Secretariat of

Public Function, dictating the instructions on the payment to the State Public Sector officials of the arrears corresponding to the increases foreseen in Act 6/2018. As of 31 December 2019, an amount of 3,799 thousand euros is pending payment for this item, which will be paid in 2020.

Also, the headings 'Sundry creditors' and 'Customers advances' include 279,514 thousand euros whose origin lies in pending payments to different third-country postal operators for postal services received from them (191,889 thousand euros at 31 December 2018). The heading 'Customers advances' also includes the amounts received by Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company) from third parties when carrying out the service of delivery with refund at the request of customers, of 2,196 thousand euros (1,668 thousand euros in financial year 2018).

16.1 Long-term and short-term debts to credit institutions

In financial year 2019, subsidiary Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company) arranged a fixed-interest credit policy with Bankinter, S.A. for an amount of 15,000 thousand euros.

On 23 April 2019, Bankinter, S.A. delivered the amount of 5,000 thousand euros to the company. In addition, on 26 April 2019, it granted an extension to this policy amounting to 10,000 thousand euros.

The conditions of the policy are, a fixed interest rate of 0.73%, with 4 annual payments and a term of 5 years. The arrangement fee was 0.15%. Because it is not representative, the Subsidiary recorded this fee as an expense for the period and did not record the policy at amortised cost. This policy does not incorporate any kind of covenant.

The detail of the amortisation table for the 5 years of the loan is as follows:

ANNUITY	CAPITAL PENDING	RATE	FEES	FEE INTEREST	FEE AMORTISATION	CAPITAL AMORTISED
	15,000	0.730%				
2019	13,500	0.730%	-1,555	55	1,500	1,500
2020	10,500	0.730%	-3,092	92	3,000	4,500
2021	7,500	0.730%	-3,069	69	3,000	7,500
2022	4,500	0.730%	-3,047	47	3,000	10,500
2023	1,500	0.730%	-3,025	25	3,000	13,500
Other	0	0.730%	-1,504	4	1,500	15,000
Total			-15,292	292	15,000	

Additionally, the Group also has other financial liabilities with credit institutions, the most representative of which is a loan granted by

Bankinter, S.A. to the Portuguese company CEP for an amount of 1,000 thousand euros, dated October 2019, the conditions of which are a

fixed interest rate of 1.347%, with monthly payments and a term of 5 years.

The detail of the amortisation table for the 5 years of the loan is as follows:

ANNUITY	CAPITAL PENDING	RATE	FEES	FEE INTEREST	FEE AMORTISATION	CAPITAL AMORTISED
	1,000	1.347%				
2.019	948	1.347%	52	3.3	48.4	48
2.020	741	1.347%	207	11.6	195.3	244
2.021	534	1.347%	207	9.0	198.0	442
2.022	327	1.347%	207	6.3	200.6	642
2.023	121	1.347%	207	3.6	203.4	846
Other	0	1.347%	155	0.9	154.3	1,000
Total			1,035	35	1,000	

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

In accordance with the provisions of Act 15/2010 and the ICAC's Resolution of 29 January 2016, the information from the Parent Company on the average period for payment to suppliers in commercial transactions at 31

December 2019 and 2018, since it is the most representative of the Group, is as follows:

	Financial year 2019	Financial year 2018
	Days	Days
Average settlement period for supplier invoices	19	23
Ratio of paid transactions	20	24
Ratio of outstanding transactions	16	15
	Thousand euros	Thousand euros
Total payments made	458,875	435,590
Total outstanding payments	24,048	28,580

17. Income and expenses

a) Revenue

The distribution of Correos Group's revenue corresponding to its ordinary activities by activity category, as well as by geographical

markets, for the 2019 and 2018 financial years, is as follows:

	Financial year 2019	Financial year 2018
Segmentation by origin-		
Clients with contract	1,507,017	1,411,209
Cash collections	367,932	381,367
Franking machines	42,944	42,871
International (ETOE and activity in Portugal)	133,964	133,954
Other	214,626	66,231
Total	2,266,483	2,035,632
Segmentation by geographical markets-		
Nacional	2,240,796	2,020,459
Internacional	25,687	15,173
Total	2,266,483	2,035,632

The heading 'Clients with contract' is shown net of the figure for volume discounts granted by the Correos Group to its clients during the financial year for the sum of 1,843 thousand

euros (this figure is 2,835 thousand euros for the year 2018).

b) Supplies

The breakdown of the heading 'Supplies' in the attached consolidated income statement during the 2019 and 2018 financial years is as follows:

	Financial year 2019	Financial year 2018
National purchases of merchandise-		
Stamps and other franking signs	4,361	4,978
Other products	12,130	11,042
Changes in inventories	(4,665)	(988)
Merchandise consumed	11,826	15,032
Impairment of merchandise, raw materials and other supplies	424	661
Activities carried out by other companies	324,631	278,976
Supplies	336,881	294,669

'Activities carried out by other companies' includes the 'International mail expenditure' of the Parent Company, which includes the costs that the postal operators of different countries invoice to the Company in relation to

the provision of postal and telegram services whose recipients reside in these countries, amounting to 63,493 thousand euros in 2019 (55,356 thousand euros in 2018). It also includes transport expenses contracted with

third parties, 88,495 thousand euros in financial year 2018 (81,406 thousand euros in financial year 2018).

c) Compensations received for costs derived from provision of the UPS

In financial year 2019, the Ministerio de Fomento [Public Works Ministry] transferred to the Treasury 120,000 thousand euros, corresponding to the amount assigned to the Parent in the Public Works Ministry's budget for the provision of the Universal Postal Service within programme 491 Universal Postal Service, in the General State Budgets for financial year 2019. In view of the foregoing, in 2019 the Company recorded revenue of 120,000 thousand euros (120,000 thousand euros in 2018) for this item, as stated in Note 5-q).

However, on the date these annual accounts were drafted, the resolutions on the determination of

the net cost of the Universal Postal Services for the years 2011 to 2019 had yet to be issued and approved by the CNMC. Therefore, until these resolutions are issued and this net cost can be determined, advance payments made by the Public Works Ministry cannot be considered as a final settlement, although, as established in Note 5-r) to this Report, it is considered that an individual agreement for granting exists, all the conditions for such granting are met and there are no reasonable doubts about their receipt.

It is possible that if the CNMC resolution on the calculation of the net cost of the UPS in the financial years 2011 to 2019 differs from the amounts assigned in the General State Budgets, there could be a positive or negative impact on the amounts recorded. Any such final impact cannot be calculated until the new Service Plan, which is being developed

by the Spanish Government and is currently being processed and negotiated with the European Commission, comes into force. If the methodology and concepts for calculating the net cost are approved in the terms in which they are being negotiated, the Company's directors consider that there is a remote risk of a negative impact on the financial statements for 2019 and subsequent years, relating to the calculation of the net cost of the SPU from 2011 to 2019.

	Compensation for provision of the UPS pending collection as of 01 January 2018 (Deposited in the Treasury)	24,895
Financial year 2018	UPS Treasury compensation - pending payment	120,000
	UPS compensation collected by the Treasury	(144,895)
	Compensation for provision of the UPS pending collection as of 31 December 2018 (Deposited in the Treasury)	—
Financial year 2019	UPS Treasury compensation - pending payment	120,000
	UPS compensation collected by the Treasury	(120,000)
	Compensation for provision of the UPS pending collection as of 31 December 2018 (Deposited in the Treasury)	—

Over the course of financial year 2019, the Parent Company has collected 120,000 thousand euros as compensation for costs derived from provision of the UPS (144,895 thousand euros in financial year 2018).

The Parent Company received other subsidies during financial year 2019, worth 321 thousand euros (208 thousand euros in financial year 2018).

d) Staff costs

The breakdown of the heading 'Staff costs' for the financial years ending on 31 December 2019 and 2018 is as follows:

	Financial year 2019	Financial year 2018
Salaries, wages and similar	1,310,846	1,205,302
Social Security contributions	340,468	296,039
Other expenses	8,369	9,947
	1,659,683	1,511,288

Social security contributions for the financial years 2019 and 2018 do not include any amount for pension contributions and allowances. On the basis of the provisions of article two of Royal Decree 20/2011, of 30 December, on

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

e) External services

The breakdown of the heading 'External Services' for the financial years ended at 31 December 2019 and 2018 is as follows:

	Financial year 2019	Financial year 2018
Leases	44,455	44,158
Repairs, preservation and maintenance	80,820	80,890
Independent professionals	84,923	77,225
Insurance premiums	3,316	3,255
Supplies	45,086	43,124
Advertising, marketing and public relations	16,034	12,405
Banking and similar services	777	665
Other expenses	48,035	50,833
	323,446	312,555

The 'Other expenses' heading includes, inter alia, the costs arising from the maintenance service and management by a third party of the data processing centres, legal expenses and the Group's advisory and consultancy services.

As of 31 December 2019 and 2018, the future minimum payments that cannot be cancelled deriving from the operating lease contracts signed by different companies in Correos Group are itemised in the following table:

	Financial year 2019	Financial year 2018
Up to one year	27,034	14,845
Between one and five years	15,042	19,611
More than five years	28,033	32,467
	70,109	66,923

f) Taxes

Under the heading 'Taxes' the Parent Company records, among other things, the effect of the restatement of the indirect taxes pro rata figure determined for capital goods of previous financial years and the restatement effect of the definitive pro rata of the 2019 financial year (see Note 5-s)). In the financial year 2019 it was not necessary to register a definitive pro-rata adjustment of VAT, although a revenue

of 37 thousand euros was registered as an adjustment of the VAT paid on acquisitions of capital goods in previous years (in the financial year 2018 a revenue of 2,081 thousand euros was registered as an adjustment of the definitive pro-rata for the financial year and an expense of 102 thousand euros as an adjustment of the capital goods of previous years).

Other taxes, such as the property tax cost represented an expenditure of 5,850 thousand

euros in financial year 2018 (5,750 thousand euros in the financial year 2018).

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

The detail of the balances held by the Group with government bodies as of 31 December 2019 and 2018 is as follows:

Financial year 2019

I. Fixed assets and non-current assets held for sale

	Intangible fixed assets	Land and buildings	Other assets	Technical installations	Total
Adjustments for impairment:					
Provisions	-	2,500	-	-	2,500
Reversals	-	(5,387)	-	-	(5,387)
Reclassifications	-	-	-	-	-
	-	(2,887)	-	-	(2,887)
Income from disposals and other results:					
Provisions	-	(673)	(235)	-	(908)
Losses	-	624	362	13	999
	-	(49)	127	13	91
	-	(2,936)	127	13	(2,796)

Financial year 2018

I. Fixed assets and non-current assets held for sale

	Intangible fixed assets	Land and buildings	Other assets	Technical installations	Total
Adjustments for impairment:					
Provisions	-	8,587	-	-	8,587
Reversals	-	(7,142)	-	-	(7,142)
Reclassifications	-	-	-	-	-
	-	1,445	-	-	1,445
Income from disposals and other results:					
Provisions	-	(5,650)	(728)	-	(6,378)
Losses	-	527	180	-	707
	-	(5,123)	(548)	-	(5,671)
	-	(3,678)	(548)	-	(4,226)

h) Other results

On 11 February 2016 the European Commission (hereinafter, the EC) initiated the formal investigation process established in article 108, paragraph 2, of the Treaty on the Functioning of the European Union with regard to the compensations for the USO (currently UPS) awarded to the Parent Company under the Postal Act of 1998, the exemptions from the Property Tax (IBI) and the Economic Activity Tax (IAE), the three capital increases awarded in 2004, 2005 and 2006, and the compensation awarded to the Parent Company for the distribution of electoral materials, thus launching an investigation during which the Parent Company submitted claims and which ended with the EC decision dated 10 July 2018.

The EC, in its Decision, considered the existence of illegal state aid in relation to compensation for UPS for the period 2004-2010, IBI exemptions for the period 2008-2013, IAE exemptions for the period 2004-2017. The amounts to be returned by the Parent Company for each of the measures are:

- Return to the Kingdom of Spain due to 2004-2010 UPS compensation of 134,419 thousand euros, where 19,903 thousand euros are included for interests for delays (see Note 17 i)).
- 2008-2013 IBI of 753 thousand euros to be paid to Local Entities, plus the corresponding interests for delays agreed

upon with the EC (Note 12, restricted amount in cash flows).

- 2004-2017 IAE of 114 thousand euros to be paid to the Spanish Tax Agency, plus the corresponding interests for delays agreed upon with the EC.

Upon implementation by the Parent Company of all the obligations arising from the Decision, the European Commission announced on 5 November 2018 that it will proceed to the provisional administrative closure of the procedure.

The Parent Company allocated on a pro rata basis the amount of the UPS refund that had been transferred to the income statement in 2018 up to the date of the resolution (103,021 thousand euros recorded under the 'Other results' heading) and removed from equity the portion pending transfer to the income statement (11,495 thousand recorded under the 'Grants, Donations and Bequests Received' heading, see Note 14), correcting its tax effect

(2,874 thousand, see Note 14)). Also, it recorded the financial expenses agreed upon with the EC (19,972 thousand euros, see Note 17 i)).

Regarding IAE and IBI, the Parent Company recorded the returned amount in the consolidated income statement, under 'Taxes'.

The breakdown of this heading for the 2019 and 2018 financial years is as follows:

i) Financial income and expenses

	Financial year 2019	Financial year 2018
Financial income-		
From group companies:		
Short-term deposits (Note 20)	44	75
From third parties:		
Other financial income	67	2,171
	111	2,246
Financial expenses-		
From third parties::		
Other financial expenses	175	20,253
	175	20,253

Over the course of the 2019 financial year, the Parent Company also lent cash flow to its Sole Shareholder (SEPI), payable in less than one month at 0.1% rate. At the close of financial year 2019 there were cash assignments of 0 thousand euros (20,000 thousand euros at 31 December 2018) (See Notes 11.3, 12 and 20) pending collection. The consequent revenue

generated stood at 43 thousand euros in the 2019 financial year (75 thousand euros in financial year 2018).

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

The Parent Company recorded financial expenses for state aid in 2018 for a total of 19,972 thousand euros (see Note 17 h)).

18. Tax situation

The detail of the balances held by the Group with government bodies as of 31 December 2019 and 2018 is as follows:

	Balance at 31/12/2019	Balance at 31/12/2018
Non-current assets-		
Deferred tax assets	49,109	36,890
Total non-current assets with public administration	49,109	36,890
Current assets-		
Others (Note 11)	1,282	253
Total current assets with public administration	1,282	253
Non-current liabilities-	(Note 11)	(Note 11)
Deferred tax liabilities	79,351	79,562
Current liabilities-		
Personal Income Tax – [IRPF in Spanish]	23,841	18,211
Value-added tax - VAT	8,029	6,009
Social security	32,668	29,073
MUFACE (public employee mutual soc.) and liability fees	1,459	1,669
Other	685	923
Total current liabilities with public administration	66,682	55,885
	(Note 16)	(Note 16)

In the 2011 financial year Correos Group paid its taxes under the fiscal consolidation regime. The number of the Fiscal Group is No. 38/11 and comprises all the companies of Correos Group with Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company) as the Parent Company.

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

This integration has been effective since 1 January of the 2012 financial year, and was communicated by SEPI (as the Parent Company of the Fiscal Group) to the Central Office of Large-Scale Taxpayers of the Fiscal

Authorities when the second instalment of the corporation tax payment for 2012 was made in compliance with the provisions in article 70.6 of the amended text of the Corporation Tax Act.

The taxable income of the Tax Group is determined by adding together the individual taxable income of the companies in the Group, taking into account that they would be outside the Tax Group detailed above, CEP and CEP II. In spite of this, all Group Companies submit their settlement separately.

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

To determine the individual taxable amounts, certain adjustments or eliminations to transactions within the group are made at an individual level, i.e. they are transferred to the individual taxable amounts of the Group Companies instead of having them at a consolidated level. These transactions most often are those relating to the dividends received by the Group Companies and the provisions for impairments of the shareholdings in affiliated companies. The objective of this so-called 'homogenisation' of the taxable bases that are integrated in the base of the Fiscal Group No. 9/86 is to avoid doubling up in the calculation of the tax debts and credits.

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

	Financial year 2019	Financial year 2018
Temporary differences:		
Provision for risks and expenses	1,008	980
Amortisation of goodwill	2,306	2,697
Provisions related to staff	658	162
Provisions related to fixed assets	4,825	4,531
Amortisation of fixed assets	7,319	8,481
Other	492	492
	16,608	17,343
Adjustment due to change to tax rate	(185)	(195)
Intangibles generated from Business Combination	1,071	-
Credits for negative tax bases	22,630	10,648
Credits for deductions	8,984	9,094
Deferred tax assets	49,109	36,890
Temporary differences:		
Tax effect of UPS capital compensations received up to 2010	77,931	79,398
Intangibles generated from Business Combination	1,420	-
Other temporary adjustments	-	164
Deferred tax liabilities	79,351	79,562

The movement of assets due to deferred payment of the Corporation Tax during the 2019 and 2018 financial years is as follows:

	Balance at 01/01/2019	Additions	Adjustments	Reversal	Balance at 31/12/2019
Deferred tax base	106,818	66,245	-	(15,369)	157,694
Tax effect:					
Temporary differences	17,148	2,610	(185)	(3,149)	16,424
Credits for losses to be compensated (Portugal)	-	1,071	-	-	1,071
Credits for losses to be compensated (Spain)	10,648	12,676	-	(694)	22,630
Credits for deductions	9,094	3,499	74	(3,683)	8,984
Total assets for deferred tax	36,890	19,856	(111)	(7,526)	49,109

	Balance at 01/01/2018	Additions	Adjustments	Reversal	Balance at 31/12/2018
Deferred tax base	100,759	33,253	-	(27,463)	106,818
Tax effect:					
Temporary differences	16,004	7,817	(195)	(6,478)	17,148
Credits for losses to be compensated	10,472	563	-	(387)	10,648
Credits for losses to be compensated	6,769	2,363	288	(326)	9,094
Total assets for deferred tax	33,245	10,743	93	(7,191)	36,890

The main temporary differences for the year 2019 correspond, on the one hand, to the corrections of value due to deterioration of assets (2,125 thousand euros) recorded by the Parent Company, as well as to the provisions for risks and expenses made by Correos Express Paquetería Urgente, SA. S.M.E. (Sole Shareholder Company), highlighting in this case the provision to cover claims and credits (2,901 thousand euros). The indicated expenses are considered as non-deductible expenses in accordance with the provisions of Act 27/2014 on Corporation Tax and, therefore, they have meant an increase in the positive temporary differences originated in the 2019 fiscal year.

On the other hand, the amount of the temporary differences recoveries recorded in the year 2019 corresponds mainly to the reversal of the temporary measures established by Act 16/2012, establishing various tax measures aimed at the consolidation of public finances and to the boost of the economic activity, by virtue of which the deductibility of the depreciation expense of the fixed assets in 2013 and 2014 was limited to 70%, establishing

its recovery in the years beginning on or after 1 January 2015. The amount corresponding to such recovery in 2019 is 3,693 thousand euros for the Parent Company, and 252 thousand euros for all Subsidiaries. Also, derived from the tax depreciation of the Goodwills of the subsidiary Correos Express Paquetería Urgente, SA. S.M.E. (Sole Shareholder Company), said entity reduced its tax base amount by 1,565 thousand euros. All these adjustments made on the tax base have meant a reduction of the temporary differences originated in previous years.

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

their deferred tax assets as of 31 December 2017 at a rate of 25%, which is the expected rate at which the assets will revert.

The movement of liabilities due to deferred payment of the Corporation Tax during the 2019 and 2018 financial years is as follows

Financial year 2019					
	Balance at 01/01/2019	Additions	Adjustment Exchange Rates	Reversal	Balance at 31/12/2019
Liabilities due to deferred taxed compensation UPS capital	79,398	—	—	(1,467)	77,931
Deferred tax liability for business combination	—	1,638	—	(218)	1,420
Temporary differences	657	—	—	(657)	—
Temporary differences tax effect	164	—	—	(164)	—
Total liabilities for deferred tax	79,562	1,638	—	(1,849)	79,351
Financial year 2018					
	Balance at 01/01/2019	Additions	Adjustment Exchange Rates	Reversal	Balance at 31/12/2019
Liabilities due to deferred taxed compensation UPS capital	85,069	—	—	(5,671)	79,398
Temporary differences	1,315	—	—	(658)	657
Temporary differences tax effect	329	—	—	(165)	164
Total liabilities for deferred tax	85,398	—	—	(5,836)	79,562

The reconciliation of the consolidated result with the taxable income as of 31 December 2019 and 2018:

Financial year 2019			
	Increases	Decreases	Total
Aggregate results before taxes	—	—	32,308
Consolidation adjustments	—	—	(26,925)
Consolidated pre-tax results			5,383
Permanent differences:			
- of each company	1,641	(1,852)	(211)
-of the consolidation adjustments			
-Arising in the year	26,925	—	26,925
Temporary differences:			
-Arising in the year	10,828	(39)	10,789
-Arising in previous years	657	(12,680)	(12,023)
Previous taxable income (tax result)			30,863
Previous taxable income Spain			32,195
Previous taxable income Portugal			(1,332)
Compensation BINs generated before inclusion in the SEPI Tax Group			(2,778)
Compensation BINs generated in the SEPI Tax Group			(4,735)
Taxable base			23,350

Financial year 2018			
	Increases	Decreases	Total
Aggregate result	—	—	(150,885)
Consolidation adjustments	—	—	(17,069)
Permanent differences:			
- of each company	104,678	(1,834)	102,844
Temporary differences:			
- of each company			
-Arising in the year	15,531	(15)	15,516
-Arising in previous years	658	(9,647)	(8,989)
Taxable base (tax result)	—	—	(58,583)
Compensation BINs generated before inclusion in the SEPI Tax Group			(1,553)
Taxable base			(60,136)

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

	Financial year 2019	Financial year 2018
	Consolidated Income statement	Consolidated Income statement
Aggregate results before taxes	32,308	(150,885)
Consolidation adjustments	(26,925)	(17,069)
Aggregate results before taxes	5,383	(167,954)
Breakdown of aggregate results before taxes:		
- Positive accounting basis	32,847	8,591
- Negative accounting basis	(539)	(159,476)
- Non-taxable accounting basis	(26,925)	(17,069)
	5,383	(167,954)
Theoretical tax charge	(7,850)	(2,148)
Tax credit	323	39,869
Non-calculable income	494	480
Non-deductible expenses	(507)	(26,169)
Deductions	3,764	2,231
Effective aggregate taxable income / (expense)	(3,776)	14,263
Breakdown of effective aggregate taxable income / (expense):		
Current taxes	(2,394)	(1,415)
Tax credit buyback	(1,184)	
Tax credit	229	12,508

	Financial year 2019	Financial year 2018
Deferred taxes	(428)	3,170
Total effective aggregate taxable income / (expense)	(3,776)	14,263
Tax rate change adjustment	(185)	(195)
Tax Rate Adjustment Tax Credit Buyback	(142)	
Adjustment previous financial year Corporation Tax	74	390
Activation of negative tax bases and temporary differences	11,850	545
Consolidation adjustment	210	(8)
Aggregate Income / (Expense) by Corporation Tax	8,031	14,995

The calculated Corporation Tax pending payment and collection as of 31 December 2019 and 2018 is as follows:

	Financial year 2019		Financial year 2018	
	Debtor current tax	ImCreditor current tax	Debtor current tax	ImCreditor current tax
Aggregate current tax	229	(2,169)	12,508	(1,285)
SEPI tax credit buyback	—	(1,326)	—	—
Tax withholdings and prepayments	442	—	427	—

The amount recorded as the SEPI Tax Credit Buyback is attributable to the Parent Company. To the extent that the latter has generated a positive tax base in 2019, and in previous years obtained from SEPI the compensation for the tax credits incorporated in the SEPI Tax Group (derived from negative tax bases generated in tax consolidation), the Parent Company must reimburse these tax credits to SEPI by way of tax credit buybacks. This tax credit refund amounts to 1,326 thousand euros (4,735 thousand euros at base).

In accordance with the Corporation Tax Act 27/2014, effective in financial years starting from 1 January 2015, if a company's tax base is negative as calculated using the applicable rules, there is no maximum period for said amount to be offset. The offset must be made upon filing the Corporation Tax return, and is subject to the tax authorities' power of verification.

The negative tax amounts from before the integration in the Fiscal Group No. 9/86 that Companies of Correos Group generated in the

2011 financial year or before, can be subject to compensation with future taxable amounts generated by these companies, as SEPI, the Parent Company of this consolidated fiscal group, allows it. In any case, and in accordance with the Fifteenth Additional Provision of Act 27/2014 after the approval of the Royal Decree Act 3/2016, the maximum compensation limit will be applied, by virtue of which the companies whose net revenue in the 12 months prior to the start date of the tax period is greater than 60,000 thousand euros may offset a maximum of 25 percent of the previous positive taxable base.

In 2019, the Parent Company of the Correos Group offset 4,735 thousand euros from the tax losses generated by this company in 2015 within the SEPI Tax Group.

In financial year 2019 Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company) offset 2,778 thousand euros (1,553 thousand euros in 2018) from the negative tax base generated by said subsidiary

prior to its inclusion within the SEPI Fiscal Group.

As of 31 December 2019, the Group companies, except for CEP and CEP II, had tax loss carryforwards of 193,857 thousand euros (generated before their inclusion in the SEPI Tax Group) to be offset against any future tax benefits (196,635 thousand euros in 2018). These tax bases correspond to Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company) (191,156 thousand euros) and to Nexea Gestión Documental S.A. S.M.E. (Sole Shareholder Company) (2,701 thousand euros) and are detailed below:

Financial year	Correos Express Paquetería Urgente S.A, S.M.E.	Nexea Gestión Documental S.A. S.M.E.
1999	836	-
2000	1,801	-
2001	11,138	-
2002	19,350	-
2003	52,569	83
2004	38,670	135
2005	22,011	-
2006	11,179	-
2007	9,769	-
2008	1,475	-
2009	6,134	947
2010	6,933	115
2011	9,291	1,421
	191,156	2,701

The tax loss carryforwards of the CEP and CEP II companies outstanding as of 31 December 2019 amounted to 5,104 thousand euros and are detailed in the following table:

Year of Creation	Year of Expiration	BIN'S
2015	2026	1,271
2016	2027	1,061
2017	2023	789
2018	2024	978
2019	2025	1,005
		5,104

CEP and CEP II are taxed at 21% in Portugal and CEP II, which has been incurring losses since previous years, has capitalised tax losses 1,071 thousand for 2015-2019, and the directors consider that taxable profit will be generated in the next five years, in accordance with Portuguese legislation, at this company, which will enable this asset to be recovered, since it is expected that in 2020 the merger of CEPI and CEP II will take place, in which CEP II will absorb CEPI and, therefore, in accordance with Portuguese tax legislation, CEP II will maintain its tax losses.

In addition, there is a tax credit arising from the tax deductions generated and not applied by the Group's Parent amounting to 8,984 thousand euros. This credit corresponds to deductions for technological innovation (5,498 thousand euros), investments in fixed assets made in the Canary Islands (2,222 thousand euros), investments in events of exceptional public interest (989 thousand euros) and the deduction for the reversal of temporary measures under Law 16/2012 (275 thousand euros).

Correos Express Paquetería Urgente S.A., S.M.E. (Sole Shareholder Company), after entering into a path of profits initiated in 2016, activated from 2017 the taxable income for income tax purposes for the future 10 years, in addition to the existing temporary differences and deductions, generating a positive impact on the income statement of 11,982 thousand euros in 2019 (871 thousand euros in 2018).

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 2019, the companies that make up Correos Group had all applicable taxes since 01 January 2015 open to inspection by the tax authorities. The Parent Company's Directors do not expect significant additional liabilities to accrue in any inspection procedure.

19. Other information

a) Number of employees

The breakdown of the Group's average workforce (Full Time Equivalent) by number of employees during the 2019 and 2018 financial years was as follows:

	Financial year 2019	Financial year 2018
Management Committee	13	15
Rest of workforce:		
Civil servants	9,272	10,582
Employees	45,404	43,008
	54,689	53,605

As of 31 December 2019 and 2018, the number of employees of Correos Group broken down by job categories and gender was as follows:

	Data at 31/12/2019			Data at 31/12/2018		
	Men	Women	Total Staff	Men	Women	Total staff
Management Committee	9	3	12	13	2	15
Rest of workforce:						
Civil servants	5,951	2,825	8,776	6,851	3,121	9,972
Employees	21,533	26,050	47,583	20,841	25,463	46,304
	27,493	28,879	56,372	27,705	28,586	56,291

The average workforce (*Full time equivalent*) of the Group with disabilities of 33% or more during the 2019 and 2018 financial years was as follows:

	Financial year 2019	Financial year 2018
Civil servants	240	266
Employees	685	633
	925	899

► b) Commitments and contingencies

As of 31 December 2019, the guarantees granted by various financial institutions to the Correos Group amounted to 62,223 thousand euros, of which 36,220 thousand euros are derived from contracts with customers, 23,042 thousand euros are derived from legal matters and the rest are derived from other causes (75,818 thousand euros at 31 December 2018).

The Directors of the Parent Company believe that any additional liabilities that may arise from the guarantees provided to third parties will not be in any way significant.

► c) Fees for accounts auditors and group and associated companies

The amounts accrued during 2019 for the audit services of Grant Thornton S.L.P. amounted

to 172 thousand euros excluding VAT (130 thousand euros in 2018).

Furthermore, the fees accrued during 2019 and 2018 by other companies in the Grant Thornton, S.L.P. network amount to zero euros.

20. Related party transactions

a) Associated companies

Associated companies with which Correos Group companies have conducted business in 2019 and 2018, and the nature of these relationships, are as follows:

Name of the company	Nature of association
Sociedad Estatal de Participaciones Industriales (SEPI)	Parent company of tax group No 9/86
SEPI group	SEPI group companies
Rangel Invest, S.A.	Rangel Group Company (Portugal)
Rangel Invest Africa, S.A.	Rangel Group Company (Portugal)
Eduardo Rangel Despachante Oficial, Lda	Rangel Group Company (Portugal)
Rangel Transitários, S.A.	Rangel Group Company (Portugal)
Rangel Distribuição e Logística, S.A.	Rangel Group Company (Portugal)
Rangel Internacional- Aérea e Marítima, S.A.	Rangel Group Company (Portugal)
Gerastro, SGPS	Rangel Group Company (Portugal)

The balances receivable from and payable to the related companies detailed in the table above as of 31 December 2019 are as follows:

	Clients Group company clients		Suppliers	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Rangel Group	4,391	—	4,563	—
SEPI Group, remainder	13	57	-	—
	4,404	57	4,563	—
	(Note 11)	(Note 11)	(Note 16)	(Note16)

	Cash flows and interests		Short-term debts	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
SEPI	—	20,000	1,820	—
Rangel Group	2,023	—	1,950	—
	2,023	20,000	3,770	—
	(Note 12)	(Note 12)		

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

Balances Fiscal Group No. 9/86				
	Debtors Group companies		Debts Group companies	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
SEPI	483	12,934	1,676	1,285
	483	12,934	1,676	1,285
	(Note 18)	(Note 18)	(Note 18)	(Note 18)

The transactions with the companies of the SEPI Group in the 2019 and 2018 financial years are as follows:

	Income from provision of services		Operating Expenses	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
SEPI	2	2	—	—
Rangel Group	5,806	—	2,482	—
SEPI Group, remainder	174	300	—	37
	5,982	302	2,482	37

Financial income		
	31/12/2019	31/12/2018
SEPI	44	75
	44	75
	(Note 17h)	(Note 17h)

b) Directors and Senior Management of the Parent Company

The members of the Governing Board and the Management Committee of the Parent Company did not participate, either directly or indirectly, in unusual and/or relevant transactions with Correos Group companies during the 2019 and 2018 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 2019 financial year by members of the Parent Company's Governing Board and Management Committee totalled 1,911 thousand euros (2,156 thousand euros in 2018), 159 thousand of which correspond to assistance fees paid to members of the Governing Board of the Parent Company for attending Board meetings (163 thousand in 2018); the rest was paid as salaries and/or other pay items (including

compensation) to the members of the Governing Board of the Parent Company.

As of 31 December 2019, no member of the Parent Company's Governing Board or Management Committee had receivable or payable balances with the Parent Company, nor did the Company have obligations contracted with them concerning pensions and/or life insurance.

- **Other information regarding the Governing Board**

In order to avoid conflicts with the interests of the Group's companies, the Directors holding positions on the Governing Board of the Parent Company complied with all of the obligations set out in article 228 of the amended text of the Capital Companies Act. Moreover, both the members of the Board and the people associated with them have refrained from falling into any of the conflict of interest scenarios set out in article 229 of said Act.

On the date of preparing these financial statements, the Governing Board of the Parent Company was made up of 8 men and 6 women.

21. Business combinations

The acquisition of CEP, which has 100% of CEP II, is part of the Correos Group's internationalisation process.

Correos Express paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company), acquired 51% of the shares of the company Rangel Expreso S.A. (REX) on 29 April 2019, located in Portugal, which included in its balance sheet 100% of a subsidiary, also located in Portugal, called Rangel Expreso II S.A. (REXII). The Management of the Parent Company has concluded that it has control over these companies, in accordance with Article 42 of the Commercial Code. Therefore, from that moment onwards the Company is the head of a group of subsidiaries and, in accordance with current legislation, is obliged to prepare separate consolidated accounts, not having availed itself of any of the exemptions established in Article 43 of the Commercial Code. The price paid for the acquisition of the aforementioned shares amounted to 11,220

thousand euros. This amount was paid in cash. In accordance with the provisions of the contract, in October 2019 an adjustment was made to the price in the amount of 170 thousand euros, which was paid in December 2019 by the seller to Correos Express and, therefore, the valuation of the consideration paid for the acquisition of REX was changed.

On 5 August 2019, the decision of the shareholders of the subsidiary companies regarding the modification of the corporate name of the companies was made public:

Name of the company

CEP – Correos Express Portugal, S.A.

CEP II – Correos Express Portugal, S.A.

The Management of the Parent Company has concluded that with this 51% it has control over CEP on the basis of the provisions of the Commercial Code and the NOFCAC.

In this purchase and sale transaction a put and call contract was signed for the possible

acquisition of a larger stake in the subsidiary CEP. These options can only be activated in a number of circumstances which did not arise at year-end or at the date of preparation of these consolidated annual accounts. The contract has been awarded free of charge.

In view of the background to the deal, as detailed above, and the fact that the Correos Group has taken control of CEP - Correos Express Portugal, S.A. and CEP II, it has been determined that Correos Express Paquetería Urgente, S.A., S.M.E. (Sole Shareholder Company) is the acquiring company, with 1 May 2019 as the acquisition date (since the effect of taking 29 April and 1 May as the acquisition date is not significant).

Details of the consideration given, the fair value of the net assets acquired and the goodwill are as follows:

	Euros (thousands)
Fair Value Consideration Given	
Payment in cash	11,050
Total, Consideration Given (1)	11,050
	Euros (thousands)
Identifiable net assets acquired	
Intangible assets (Note 5)	11
Property, plant and equipment (Note 7)	117
Non-current financial investments	37
Deferred tax assets	948
Non-current provisions (Note 12)	(69)
Grants	(27)
Current Assets	12,715
Current liabilities	(15,374)
New fair value assets acquired	
Intangible assets (a) (Note 5)	7,802
Deferred tax liability (a) * 21%.	(1.638)
Fair value of total identifiable net assets acquired	4,522
Fair value of identifiable net assets acquired (51%) (2)	2,306
Goodwill on first consolidation (Note 6.1) (1) - (2)	8,744

The Correos Group has hired an independent expert to assign the fair values of the assets and liabilities acquired, and has identified intangible assets amounting to 7,802 thousand euros. Specifically, 3,629 thousand euros corresponds to the software of these acquired companies and 4,173 thousand euros to customer relations. In addition, a deferred tax liability of 1,638 thousand euros was recorded in relation to these intangibles due to their

non-deductibility for tax purposes, taking into account the tax rate of 21% applicable in Portugal, since the expected flows from these intangibles are generated almost entirely in Portugal.

As a result of the recording of the aforementioned assets and liabilities, there was first-time consolidation goodwill amounting to 8,744 thousand euros (Note 6.1).

The income and profit attributable to the combination from the date of acquisition to 2019 year-end are as follows, in thousands of euros:

	Amount (Thousands of euros)
Revenue	14,854
Result for the financial year	(1,145)

If the above mentioned business combination had been achieved at the beginning of 2019, the amount of the acquired companies' income and profit for the year would have been as follows:

	Amount (Thousands of euros)
Revenue	24,904
Result for the financial year	(975)

At the date of preparation of these consolidated financial accounts, there was a contingent consideration that could reduce the final price paid for the acquisition detailed above by a maximum of 206 thousand euros, and the price currently paid could not be increased, except for the exercise of the purchase options detailed above.

Based on the foregoing, at the date of preparation of these consolidated financial accounts, the accounting for the business combination detailed above is provisional, the deadline for defining the amount being the first quarter of 2020. The impact between the provisional and definitive posting is not deemed to be relevant, however.

22. Segment results

Correos Group's segment results for the 2019 and 2018 financial years, as well as the balance sheet and the statement of cash flows are as follows:

Financial year 2019				
	Postal, telegraphs and Parcels	Urgent Parcel and Others	Homogenisations and Eliminations	Total
Revenue	1,967,033	312,609	(13,158)	2,266,483
Supplies	(159,781)	(181,388)	4,288	(336,881)
UPS compensation	120,000	-	-	120,000
Staff costs	(1,605,273)	(54,442)	32	(1,659,683)
Other results	(302,749)	(65,297)	(16,490)	(384,536)
Result before tax	19,231	11,481	(25,328)	5,383
Financial year 2018				
	Postal, telegraphs and Parcels	Urgent Parcel and Others	Homogenisations and Eliminations	Total
Revenue	1,784,267	251,365	-	2,035,632
Supplies	(148,786)	(145,883)	-	(294,669)
UPS compensation	120,000	-	-	120,000
Staff costs	(1,462,305)	(48,983)	-	(1,511,288)
2004-2010 UPS overcompensation	(124,009)	-	-	(124,009)
Other results	(328,096)	(50,053)	(15,472)	(393,621)
Result before tax	(158,929)	6,446	(15,472)	(167,955)

Balance at 31/12/2019				
	Postal, telegraphs and Parcels	Urgent Parcel and Others	Homogenisations and Eliminations	Total
Fixed assets and investment property	1,389,178	56,907	-	1,446,086
Non-current investments in Group companies	138,403	-	(138,403)	0
Other non-current assets	1,139	1,324	(12)	2,451
Deferred tax assets	21,885	27,224	-	49,109
Non-Current Assets	1,550,605	85,456	(138,415)	1,497,645
Trade and other receivables	537,471	86,177	(8,233)	615,415
Other current assets	20,687	5,129	(7,994)	17,822
Cash	97,310	3,284	-	100,594
Current Assets	655,467	94,590	(16,227)	733,831
Total Assets	2,206,072	180,046	(154,642)	2,231,477

Balance at 31/12/2018				
	Postal, telegraphs and Parcels	Urgent Parcel and Others	Homogenisations and Eliminations	Total
Fixed assets and investment property	1,386,223	37,611	-	1,423,834
Non-current investments in Group companies	114,781	-	(114,781)	-
Other non-current assets	1,130	1,076	(12)	2,194
Deferred tax assets	22,183	14,707	-	36,890
Non-Current Assets	1,524,317	53,394	(114,793)	1,462,918
Trade and other receivables	432,435	57,874	(3,876)	486,433
Other current assets	16,488	2,935	(12,258)	7,165
Cash	125,643	2,475	-	128,118
Current Assets	574,566	63,284	(16,134)	621,716
Total Assets	2,098,883	116,678	(130,927)	2,084,634

Balance at 31/12/2019	Postal, telegraphs and Parcels	Urgent Parcel and Others	Homogenisations and Eliminations	Total
Shareholder's equity	1,314,307	38,305	(133,520)	1,219,092
External Partners	-	1,265	-	1,265
Grants, donations and bequest received	235,099	358	1,489	236,946
Equity	1,549,406	39,928	(132,031)	1,457,303
Non-current provisions	14,858	10,080	-	24,939
Deferred tax liabilities	78,303	1,420	(372)	79,351
Other non-current liabilities	3,100	20,415	(6,012)	17,503
Non-current liabilities	96,261	31,916	(6,384)	121,793
Current payables	36,419	4,372	1,951	42,742
Trade and other payables	507,926	90,958	(2,186)	596,698
Other current liabilities	16,060	12,872	(15,990)	12,941
Current liabilities	560,405	108,202	(16,225)	652,382
Total Equity and Liabilities	2,206,072	180,046	(154,640)	2,231,477

Balance at 31/12/2018	Postal, telegraphs and Parcels	Urgent Parcel and Others	Homogenisations and Eliminations	Total
Shareholder's equity	1,296,536	18,114	(109,922)	1,204,728
Grants, donations and bequest received	239,526	-	1,523	241,049
Equity	1,536,062	18,114	(108,399)	1,445,777
Non-current provisions	19,299	10,009	-	29,308
Deferred tax liabilities	79,943	-	(381)	79,562
Other non-current liabilities	6,852	7,747	(6,021)	8,587
Non-current liabilities	106,094	17,756	(6,393)	117,457
Current payables	31,425	1,063	(10)	32,478
Trade and other payables	416,865	66,021	(3,866)	479,020
Other current liabilities	8,437	13,724	(12,259)	9,902
Current liabilities	456,727	80,808	(16,135)	521,400
Total Equity and Liabilities	2,098,883	116,678	(130,927)	2,084,634

Financial year 2019				
	Postal, telegraphs and Parcels	Urgent Parcel and Others	Homogenisations and Eliminations	Total
Operating activities				
Result for the financial year before taxes	19,231	11,481	(25,329)	5,383
Adjustments to the result	(3,848)	9,702	21,566	27,420
Changes in current capital	(3,834)	1,372	(7,623)	(10,085)
Other cash flows from operating activities	14,376	(1,327)	(425)	12,624
Total cash flows from operating activities	25,925	21,228	(11,811)	35,342
Investment activities				
Payments for investments	(64,240)	(28,634)	5,475	(87,399)
Proceeds from disposals	2,574	471	(471)	2,574
Other financial assets	-	-	24	24
Total cash flows from investment activities	(61,666)	(28,163)	5,028	(84,801)
Financing activities				
Total cash flows from financing activities	-	7,743	6,788	14,531
Effect of exchange rates fluctuations	7,408	-	(4)	7,404
Net variation in cash or equivalents	(28,334)	808	-	(27,524)
Cash and other cash equivalents at the start of the financial year	125,643	2,475		128,118
Cash and other cash equivalents at the end of the financial year	97,310	3,285		100,594

Financial year 2018				
	Postal, telegraphs and Parcels	Urgent Parcel and Others	Homogenisations and Eliminations	Total
Operating activities				
Result for the financial year before taxes	(158,929)	8,043	(17,069)	(167,955)
Adjustments to the result	81,992	9,549	16,652	108,193
Changes in current capital	158,180	(1,885)	(674)	155,621
Other cash flows from operating activities	(104,320)	(805)	(1,708)	(106,833)
Total cash flows from operating activities	(23,077)	14,902	(2,799)	(10,974)
Investment activities				
Payments for investments	(58,535)	(11,764)	98	(70,201)
Proceeds from disposals	9,351	(179)	179	9,351
Total cash flows from investment activities	(49,184)	(11,943)	277	(60,850)
Financing activities				
Total cash flows from financing activities	-	(2,522)	2,522	-
Net variation in cash or equivalents	(72,261)	437	-	(71,824)
Cash and other cash equivalents at the start of the financial year	197,904	2,038	-	199,942
Cash and other cash equivalents at the end of the financial year	125,643	2,475		128,118

23. Environmental information

The itemised details of the Parent Company's investments and costs in environmental protection and improvement in financial years 2019 and 2018 are as follows:

	Financial year 2019	Financial year 2018
-Investments	3,682	4,191
-Costs		
Environmental protection services	196	145
Environmental management costs	67	88
Environmental taxes	707	922
Clean-up costs	96	89
Prevention costs	413	312
Total Expenses	1,479	1,556

Environmental subsidies were received during the financial year amounting to 12 thousand euros (74 thousand in 2018).

The Parent Company's Directors take the view that no significant contingencies exist in relation to environmental protection and improvement, and therefore do not think it

necessary to allocate any environmental items to the provision for risks and expenses as of 31 December 2019.

24. Contingent assets and liabilities

On 22 November 2019, the Spanish National Commission on Markets and Competition (CNMC) issued a resolution to initiate a sanctioning file, in relation to discounts to large customers offered by the Parent Company. It is currently in the investigation phase, without having received the List of Charges, with the alleged infractions and their classification. The agreement may lead to a fine, which will be appealed through contentious-administrative proceedings before the National Court. At the date of preparation of these consolidated annual accounts, it is not possible to make a reliable quantification of the fine, as the procedure is in an initial phase.

25. Subsequent events

During the financial year 2019, the necessary steps were taken to create two joint venture companies, of Chinese nationality, which will enable Correos to enter the Chinese market, with a broad commercial perspective, both to address new flows of parcels from China to the rest of the world, and to enable Correos to offer value-added logistics solutions to both new and existing customers. Correos will have a 35% stake in these two companies. The creation of these two companies will take place in the first quarter of 2020, with the amounts committed by Correos totalling 5,659 thousand euros, of which 2,280 thousand euros will be in the form of capital and the rest in 5-year loans. At the date of preparation of these consolidated financial accounts, the amount spent in 2020 was 979 thousand euros.

Following the declaration of the state of alert by Royal Decree 463/2020 of 14 March, the Parent Company is focusing its efforts on complying with the Postal Service Obligations, as the provider of the Universal Postal Service for the period 2011-2025. The Correos Group

has established the corresponding action protocols to guarantee the continuity of the service, while the Parent Company is the Universal Postal Service provider throughout Spain. These measures were implemented to preserve the continuity of the public service and, at the same time, ensure the safety and health of workers, customers and suppliers. Among them, and with respect to the workforce, the indications of the Government of Spain have been strictly followed, among which are the reduction of hours of attention to the public in post offices, the temporary reduction of work shifts in the logistics processing centres and the suspension of activity in some delivery units, among others. This exceptional situation means that economic and financial impacts may occur that, in no case, will pose a risk to the continuity of the activity.

As of 26 March 2020, the date of formulation of these consolidated annual accounts, although it is not possible to make a reliable estimate of all the impacts that may arise from the current situation, certain reductions in the volumes are taking place. The equity strength of the Correos Group, with equity of more than 1.2 billion

euros, a positive working capital of 82 million euros, the non-existence of financial debts with third parties subject to covenants, liquidity and financial capacity of the Correos Group, along with the fact that both the provision of the Universal Postal Service and the distribution and logistics power developed by the Correos Group are, as is being demonstrated in this phase of the COVID-19 crisis, critical for the activity and the proper functioning of the country means that the activity of the Correos Group is not compromised.

Except for the matters indicated above, from year-end to the date of preparation of these consolidated financial accounts, the Parent Company Directors do not expect any events to have a significant impact on these consolidated financial accounts.



Management Report Financial Year 2019

1. Business model and evolution

The Correos Group operates in the physical and digital communications sector, as well as in the parcel market. It is a market leader in the non-urgent transport sector, and is a benchmark for the e-commerce industry.

Correos, the Group's parent company, is Spain's leading postal company and one of the leading companies in the parcel delivery sector, thanks to the excellence and reliability of its service. It is also the operator designated by law to provide Spain's Universal Postal Service, with criteria of efficiency, quality and affordability, contributing to the sustainability of postal communications for all of the general public.

Correos complements its activity with that of its subsidiaries:

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

- Correos Nexea, specialised in multichannel solutions for physical and digital mass company communications.
- Correos Telecom, responsible for the management and marketing of Correos telecommunications infrastructures, as well as providing all other Group companies with technological support.
- Correos Express Portugal, the Group's new subsidiary since April 2019, following the acquisition of 51% of Rangel Expresso by Correos Express. With this incorporation, the Group has begun the internationalisation process defined in its strategy, offering an integrated express parcel service for the entire Iberian market.

In May 2019, Correos' Governing Board also approved the creation of two new joint ventures with Asian operators Kerry Logistics Network Limited and Global Freight Systems (GFS), with a 35% stake in each. The shared companies KCG eCommerce Solutions I and II will carry out the comprehensive management of export parcels originating in China and Hong Kong, in response to increasing international activity arising from e-commerce.

2. Market and business environment

Parcel delivery market

In 2019, the Spanish business parcel market continued its trend towards concentration of supply, with new acquisitions of Spanish firms by European groups. As a result, almost half of the sector's turnover was generated by the five largest companies, of which only two are 100% Spanish owned (one of them being the Correos Group)¹.

During the previous financial year, both foreign groups and national operators strengthened their investments in infrastructure, in order to cover the growing needs of e-commerce distribution in Spain (the fifth largest e-commerce market in Europe²). In this field of business, the Correos Group has become the preferred option for the delivery of e-commerce orders over recent years³, in addition to being

the leading parcel delivery company of choice for private customers for their postal items⁴.

In 2019, the Correos Group also implemented its internationalisation strategy. With the creation of Correos Express Portugal, which is a subsidiary of Correos Express, the Group has established a commercial and logistics network that will meet the demand for 24-hour delivery services throughout the Iberian Peninsula.

Secondly, through the creation of two Chinese joint ventures, the Group has also solidified its position in South-east Asia, a region that exports more than four billion parcels annually and represents the epicentre of global e-commerce.

The rapid increase in e-commerce, as well as the concentration of these purchases at certain times of the year, was once again a logistical challenge for companies, both in terms of economic and environmental costs.

This seasonality of demand not only requires an adequate supply of productive resources, in order to provide an efficient response to vendors and end customers, but also implies increased travel to the final recipients, which increases the levels of pollution and congestion in urban areas.

The growing commitment of the parcels sector to reduce its environmental impact, increased public awareness and increasingly strict local mobility regulations are reshaping the scene. Within this framework, operators are moving towards more efficient and environmentally friendly last-mile delivery models through the use of emerging technologies and new logistics structures.

An example of this is the expansion of urban microhubs, small distribution centres for the consolidation and delivery of postal items in the vicinity of the recipient, using eco-efficient vehicles. The expansion of collection systems at convenience points or automated lockers

¹ DBK (2019). Courier and Parcel Sectors.

² Ecommerce Europe (2019). European eCommerce Report 2018.

³ Spanish National Commission on Markets and Competition (CNMC) (2019). Annual integrated report 2018.

⁴ Spanish National Commission on Markets and Competition (2019). CNMC Households Panel. First half of 2019. Postal Sector.

has also accelerated in recent years. Both of these trends also meet customer demands for speed and time flexibility. The Correos Group is leading this transformation, providing the largest network of delivery and admission points in Spain, thanks to some 2,400 post offices, 1,900 ordinary and express delivery units and more than 5,100 *Citypaq* lockers.

Another consequence of the rise of e-commerce is the emergence of new companies (many belonging to the so-called collaborative economy) involved in various stages of the value chain. These include:

- instant messaging startups (delivery in two hours or less), which have become true logistics networks for the big online retailers;
- companies that carry out both the delivery and the management of purchasing or supply consolidation of local shops in the vicinity;

- e-commerce logistics companies that specialise in the distribution of fresh products;
- aggregators or collaborative platforms used in the transport of parcels between individuals.

The Correos Group, a benchmark in the e-commerce sector due to its specialisation and reliability in each of these phases, not only offers a comprehensive service to large and small online sellers, but is also participating in this emerging ecosystem, through a strategy of open innovation and collaboration with entrepreneurs.

On the demand side, there is a growing need for flexible reverse logistics services, for integrated B2B and B2C solutions (including collection, transport, customs processing, fulfilment, storage...) and for know-how in international distribution, in response to upcoming challenges (Brexit, new tax regulations for low-value non-EU shipments...) to which the Correos Group is also responding.

Lastly, companies in this sector continued to intensify their technological investments in order to improve their processing and distribution processes, increasingly adopting robotics in processing centres, applying artificial intelligence and Big Data to predict demand or improve the customer experience, introducing blockchain-based postal item traceability systems or experimenting with the integration of unmanned aerial vehicles.

► Postal market

Correos is the only company in the postal market that provides national coverage to its customers. It is also the designated operator to provide Spain's Universal Postal Service, based on criteria of quality, affordability and accessibility, facilitating territorial cohesion and equal access to postal communications.

The provision of this service, which implies the availability of an extensive human and infrastructure network, requires sufficient and regular funding, given the scenario of continuous decline in activity and profitability. In order to properly identify the necessary resources and service levels required, the Universal Postal Service Plan was submitted by the Government to the European Union in order to ensure its compliance with EU regulations, prior to its regulatory processing.

During the previous financial year, the holding of general, regional, local and European elections also posed an enormous challenge for Correos, due to the need to allocate and increase all

its organisational, technological, material and human resources for the proper fulfilment of public service obligations.

It is also clear that the postal sector is a mature market. For decades, traditional shipping volumes have been declining each year due to digital technology, and in 2019 this trend was even more pronounced, with declines of more than 12%.

Against this backdrop, the main business opportunities continued to be linked to the integration of physical and electronic communications, through higher value-added multi-channel services such as those offered by Correos and its subsidiary Correos Nexea, especially for transactional communications and the direct marketing and e-commerce sectors. Correos Nexea is one of the two main companies in this business segment, focusing its value proposition on comprehensive communication solutions, which are efficient and adaptable to the needs of the customers.

► Telecommunications and digital services market

As with the parcels market, the Spanish telecommunications sector is marked by a high concentration of supply in a small number of operators and by a high level of multi-service competition.

The Correos Group, through its subsidiary Correos Telecom, provides services to the main telecommunications companies by offering its infrastructures, dark fibre, high capacity connectivity, Internet and public cloud access, as well as its telecommunications sites. In recent years, turnover for these inter-carrier wholesale services has increased in response to the boom in fibre-to-the-home (FTTH) technology.

Consumer demand for this technology has led to a growing migration of broadband access over copper lines (ADSL). Thus, with 48.7 million FTTH⁵ connections deployed throughout the country, Spain is one of the European countries with the greatest coverage of this type of access.

⁵ CNMC Data. Second quarter of 2019.

Although companies in the sector have already carried out a large part of their FTTH technology deployment, agreements between operators to share investments and mobile infrastructures (particularly wholesale fibre access agreements at unregulated prices) remain essential, as well as the role of companies that market telecommunications infrastructure, dark fibre and mobile towers,⁶ such as Correos Telecom.

Similarly, the deployment of new technologies, especially 5G, will require equipping existing mobile phone nodes with fibre optic connections to the tower, such as those offered by Correos Telecom, to replace and/or complement existing radio links used to date in 2G, 3G and 4G technologies.

Correos has a wide range of digital solutions to meet the growing need of companies and individuals for identity management and authentication services in the digital environment, secure electronic mailboxes or

digital solutions for the execution of public or private procedures.

In this business segment, the recent designation of digital services certification companies in Spain, in accordance with the European eIDAS⁷ regulation, will lead to an expected emergence of new market players, national or foreign, who may be reliable and legally established providers of electronic services.

⁶ KPMG (2019). *Prospects for the telecommunications sector in 2019: setting the stage for 5G* and *The telecommunications sector facing the challenge of new growth*.

⁷ Regulation (EU) 910/2014 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the Internal Market and repealing Directive 1999/93/EC.

3. Objectives and strategy

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

The achievement of these objectives is structured around seven lines of action, aimed at sustaining revenue growth, improving efficiency, optimising costs and positioning the Group as a benchmark operator in the parcel delivery market.

In the second half of 2019, Correos began a phase of strategic reflection on its position within the sector, in order to undertake the preparation of the new strategic plan 2020-2023, which will define the lines of action to be developed over the next three years in order to consolidate the company's transformation process and guarantee long-term business sustainability.

4. Future trends

The Correos Group has identified several external factors with potential short, medium or long-term impact on the markets in which it operates. These trends, which represent both a challenge and an opportunity, depending on the response provided by the Correos Group, include the following:

In the short and medium term:

Electronic substitution and the evolution of communications

- The gradual reduction of postal communications
- The advanced development of e-Government
- Changes in the regulation of the public service entrusted to the Group and the growing challenges for its efficient provision

New consumer habits

- The development of e-commerce
- Increased trade flows from Asia
- The growing use of digital and mobile payment methods
- The growth of the collaborative economy
- The increased social demand for transparency, sustainability, diversity or better corporate governance and its impact on reputation and revenues

The digitisation of the economy and society

- The future regulation of the digital economy
- The rapid development of technologies applied to operational efficiency and customer experience: robotics and drones, IoT, BigData, artificial intelligence
- The protection of personal data and cyber security
- The demand from businesses and citizens for digital identity and security services

- The demand for new services for smart cities
- The continued existence of the digital divide

Demographic challenges

- The progressive ageing of the population
- The increasing concentration of citizens in urban environments
- Rural depopulation and the loss of services in these areas

Climate change

- The demand for sustainable urban logistics

- The new energy framework
- The strengthening of environmental sustainability policies in the public sector
- Boosting the circular economy and responsible consumption
- New requirements arising from the European Green Deal

New market dynamics

- The effects of Brexit and the uncertain evolution of the global economy
- The transformation of the European taxation and customs framework

- The global geopolitical landscape and its impact on international trade

In the short term, but also in the mid/long term:

- Evolution of the European and Spanish regulatory framework
- Rapid changes in companies and general public demands
- The transfer of economic hegemony to rising Asian powers
- The importance of retaining talent and innovation within companies



5. Generated and distributed economic value

In 2019, the Correos Group once again posted a positive result, obtaining a net profit of 14.4 million euros, compared with a loss of 153 million euros for the previous year. The entirety of this profit was generated within Spain. The Correos Group used tax credits for this financial year, in accordance with the regulations

on corporate income tax, from tax losses generated in previous years, and therefore the resulting aggregate income for corporate income tax for the year is 8 million euros.

Despite the decline in the traditional postal business, the Group's net turnover increased by 11.3% to 2,266.5 million euros, thanks to the growth in the parcels sector, new domestic and international business, the 2019 elections and improvements in the efficiency of key processes.

During the last financial year, Correos received 321,000 euros in subsidies for training, as well as grants associated with European projects for the promotion of safety, efficiency and sustainability in which the company participates. The Group's subsidiaries received no grants.

6. Risk management

The Correos Group's risk analysis and management system aims to identify, monitor, prevent and ensure an adequate response to risks that arise.

In 2019, the review of the Group's key risks and impacts catalogue was completed, in accordance with the COSO II framework, and the results were presented to the Audit and Control Committee. As part of this review, new risk indicators are being defined that will be incorporated into the enterprise risk management (ERM) system to be implemented during 2020, as part of the Group's new strategy. With the broadening of the catalogue of non-financial risks, the Group has aligned itself with best business management practices, in accordance with the recommendations of the CNMV.

The activities of the different companies of the Group are conditioned by factors that are common to their sectors and by exclusive impacts that only affect each one of them. Among the most relevant are strategic,

operational, employment, environmental, reputational, legal, fiscal or financial risks.

The strategic risk is due to, among other factors, the progressive decline in postal activity due to electronic substitution, increased competition, changes in the economic environment, the protection and profitability of innovation, the need for alliances or the emergence of disruptive technologies that lead to rapid changes in demand.

Operational risk, in turn, reflects the structural complexity of the Group, the necessity for an agile incorporation of new resources and equipment to increase efficiency in the distribution and delivery processes, the speed of adaptation of the production model to new demands, changes in international trade flows or the challenges of personal data management and cyber security.

As the employer of more than 54,000 professionals, the Correos Group also faces an occupational risk linked to the need to maintain a presence throughout the country, to the difficulties associated with rigid recruitment procedures, to health and safety at work or to the ability to retain talent.

Equally significant is the environmental risk, due to the impact of the extensive infrastructure network and the vehicle fleet, the growing regional and local regulations, as well as the future demands arising from the commitments made by Spain and the European Union. Reputational risk is associated with unforeseen changes in the Group's relations with its various stakeholders and inadequate information management.

Legal risks include those associated with non-compliance with regulations or codes of good governance and ethics by managers and employees, in terms of recruitment, use of funds, accountability, adoption of agreements, use of information or conflicts of interest, among others. To these risks we must add other risks associated with possible changes in sectoral regulations and in the very operation of the company.

Lastly, Group companies are exposed to financial risks, including credit, liquidity and market risks, which in turn include interest rate, exchange rate and other price risks

7. Staff

In 2019, the Correos Group had an average workforce of 54,689 (FTE). The parent company, Correos, contributed the largest proportion, with 53,041 professionals, 1.5% more than in the previous year. Of that figure, 83% were non-civil servant staff and 17% were civil servants.

Average number of staff <i>(Full Time Equivalent)</i>	2019	2018
Correos	53,041	52,259
Correos Express	1,191	1,108
Correos Express Portugal	214	NA
Correos Nexea	199	193
Correos Telecom	44	45

8. Environment protection

The information about environmental activities is included in Note 23) to the Annual Accounts Report of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E. (Sole Shareholder Company) and its Subsidiaries corresponding to the financial year ended 31 December 2019

9. Subsequent events

During the financial year 2019, the necessary steps were taken to create two joint venture companies, of Chinese nationality, which will enable Correos to enter the Chinese market, with a broad commercial perspective, both to address new flows of parcels from China to the rest of the world, and to enable Correos to offer value-added logistics solutions to both new and existing customers. Correos will have a 35% stake in these two companies. The creation of these two companies will take place in the first quarter of 2020, with the amounts committed by Correos totalling 5,659 thousand euros, of which 2,280 thousand euros will be in the form of capital and the rest in 5-year loans. At the date of preparation of these consolidated financial accounts, the amount spent in 2020 was 979 thousand euros.

Following the declaration of the state of alert by Royal Decree 463/2020 of 14 March, the Parent Company is focusing its efforts on complying with the Postal Service Obligations, as the provider of the Universal Postal Service for the period 2011-2025. The Correos Group

has established the corresponding action protocols to guarantee the continuity of the service, while the Parent Company is the Universal Postal Service provider throughout Spain. These measures were implemented to preserve the continuity of the public service and, at the same time, ensure the safety and health of workers, customers and suppliers. Among them, and with respect to the workforce, the indications of the Government of Spain have been strictly followed, among which are the reduction of hours of attention to the public in post offices, the temporary reduction of work shifts in the logistics processing centres and the suspension of activity in some delivery units, among others. This exceptional situation means that economic and financial impacts may occur that, in no case, will pose a risk to the continuity of the activity.

As of 26 March 2020, the date of formulation of these consolidated annual accounts, although it is not possible to make a reliable estimate of all the impacts that may arise from the current situation, certain reductions in the volumes are taking place. The equity strength of the Correos Group, with equity of more than 1.2 billion

euros, a positive working capital of 82 million euros, the non-existence of financial debts with third parties subject to covenants, liquidity and financial capacity of the Correos Group, along with the fact that both the provision of the Universal Postal Service and the distribution and logistics power developed by the Correos Group are, as is being demonstrated in this phase of the COVID-19 crisis, critical for the activity and the proper functioning of the country means that the activity of the Correos Group is not compromised.

Except for the matters indicated above, from year-end to the date of preparation of these consolidated financial accounts, the Parent Company Directors do not expect any events to have a significant impact on these consolidated financial accounts.

10. Others

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

In accordance with the provisions of Act 15/2010 and the ICAC's Resolution of 29 January 2016, the information from the Parent Company on the average period for payment to suppliers in commercial transactions at 31

December 2019 and 2018, since it is the most representative of the Group, is as follows:

	Financial year 2019	Financial year 2018
	Days	Days
Average settlement period for supplier invoices	19	23
Ratio of paid transactions	20	24
Ratio of outstanding transactions	16	15
	Thousands euros	Thousands euros
Total payments made	458,875	435,590
Total outstanding payments	24,048	28,580

Correos Group holds no treasury shares, nor did it conduct transactions with financial products during the 2019 financial year.

Correos Group made investments in R&D&i during the 2019 financial year.



11. Non-financial information statement

The 'Non-Financial Information Statement 2019 of the Correos Group' forms part of this Consolidated Management Report, which is presented in a separate 63-page document, which is included with this Consolidated Management Report.

**CONSOLIDATED ANNUAL ACCOUNTS
AND MANAGEMENT REPORT FOR THE
FINANCIAL YEAR ENDED 31 DECEMBER
2019 OF SOCIEDAD ESTATAL CORREOS
Y TELÉGRAFOS S.A., S.M.E. AND
SUBSIDIARIES**

The previous **CONSOLIDATED** Annual Accounts of Sociedad Estatal Correos y Telégrafos, S.A., S.M.E, comprising the Consolidated Balance Sheet (on two pages of ordinary paper), the Consolidated Income statement (on one page of ordinary paper), the Consolidated Cash Flows Statement (on one page of ordinary paper), the Consolidated Statement of Recognised Income and

Expenses (on one page of ordinary paper), the consolidated statement of changes in equity (on a single page of common paper) and the accompanying consolidated annual report on the common sheets of paper numbered consecutively from page 1 to 85 (both inclusive) for the year ended **31 December 2019**, as well as the management report for the same year contained on the pages numbered consecutively from page 1 to 10 (both inclusive), were submitted for approval by the Board of Directors of the Parent Company on 26 March 2020.

In accordance with the extraordinary measures derived from the implementation of the state

of alarm decreed by RD 463/2020 of 14 March and the provisions of RD-Law 8/2020 of 17 March, the Board of Directors of the Company has approved the CONSOLIDATED annual accounts today, 26 March 2020, by means of a written vote without a meeting.

Therefore, the lack of signature of the directors is attributable to the circumstance described above.

For the record, I hereby sign this signature form, which forms part of these CONSOLIDATED annual accounts.

In Madrid on 26 March 2020.

Secretary

Don Julio González García



Chairman

Don Juan Manuel Serrano Quintana

