



2016

CORPORATE SOCIAL RESPONSIBILITY



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2016 CORPORATE SOCIAL RESPONSIBILITY REPORT

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1. LETTER FROM THE CHAIRMAN

Since 2002 when Duro Felguera joined the Spanish Network of the United Nations Global Compact, corporate social responsibility has taken on growing importance in the international context. In regulatory terms, this importance is reflected in European Directive 2014/95, on the disclosure of non-financial and diversity information, which requires large Spanish companies to publish information on social and environmental impacts in their annual reports.

DF has assumed this trend as a stimulus to progress in the development of procedures that facilitate the rigorous and unified analysis of the information regarding the Company's performance, as well as the proper communication of that information.

In 2016, we strengthened our commitment to fulfilment of the 10 principles of the United Nations Global Compact by renewing our membership in the Spanish Global Compact Network (the world's largest voluntary CSR initiative), preparing new codes of conduct, corporate policies and internal management standards, and improving our environmental performance.

Duro Felguera continues to integrate the environment as a key factor in its strategic outlook, maintaining the corporate Environmental Management System under the ISO 14001 Standard, as well as the specific environmental management systems for the manufacturing lines. In terms of environmental performance in offices and corporate headquarters, in 2016, energy audits were performed and will be used to identify improvement measures to reduce energy consumption.

DF wants to extend its commitment to the defence of sustainable development to its entire value chain, and to achieve this, in 2016 the company drafted a Code of Conduct for Suppliers that will promote the application of DF's ethical principles by its suppliers.

The growth of training actions carried out by the Company in recent years demonstrates Duro Felguera's commitment to the quality of its products and



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services, providing customers with a team made up of professionals who are fully qualified and in line with the Company's principles.

The reduction, for yet another year, in the number of accidents involving sick leave in 2016, which was the lowest since DF's Joint Prevention Service was implemented in 2003, also confirms the success of the Company's management to reduce job-related accidents. This performance has not gone unnoticed by our customers, who have acknowledged DF's excellence in the area of occupational health and safety through awards and recognitions such as the ones received by Felguera-IHI for its work for the Talara refinery (Peru), DF Mining & Handling at the iron-oxide pellet terminal in the Port of Sokhna (Egypt) and DF Energy for its work at the Carrington combined cycle power plant (United Kingdom).

The goals achieved in the area of corporate social responsibility encourage us to continue developing DF's activities in a sustainable and socially-responsible manner, based on continuous improvement and our commitment to the new more demanding business objectives. In 2017, we will intensify the dialogue that is already underway with our stakeholders and will apply stricter controls to ensure compliance by Duro Felguera and its suppliers, associates, subcontractors, etc. with the rules, values and principles that guide the Company in its professional activities.

Lastly, this year we will develop specific procedures to gather information based on unified criteria, in order to more efficiently communicate the Company's performance in regard to sustainable development and respect for human rights, with the conviction that actions like ours will help all of us to build a more egalitarian, just and environmentally-sustainable society.

Ángel A. del Valle Suárez



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2. COMPANY PROFILE

Background

The origins of DF today stretch back to 1858 when the company Duro y Compañía was formed by Pedro Duro Benito. Iron and steel production and extractive coal mining were the Company's principal activities in the early years.

The name of Duro y Compañía was changed to Sociedad Metalúrgica Duro Felguera in 1900. In 1905, the Company was listed on the Madrid Stock Market and by 1920, it was the largest coal company in Spain. The profits generated by its mining activities allowed the Company to undertake significant technological transformations in the iron and steel business.

By the mid-20th century, Duro dominated the iron and steel market in Spain, along with Altos Hornos de Vizcaya. In the 1960s, the Company formed the Unión de Siderúrgicas Asturianas (UNINSA), made up of DF, Fábrica de Mieres and Fábrica de la Sociedad Industrial Asturiana, to which DF transferred all of its iron and steel assets. In regard to coal, in 1967, DF and other mining companies transferred their assets to the public enterprise Hulleras del Norte, S.A. (HUNOSA).

The Company's experience as a manufacturer of industrial equipment for its own businesses enabled it to specialise in the production of capital goods, which was complemented years later by the addition of industrial installation activities.

The 1980s once again marked a turning point in the trajectory of Duro Felguera, focusing on projects for the energy and industrial sectors, while at the same time expanding its activities in the industrial services and manufacturing areas. The progressive process of the international expansion of the Company also began.



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Principal Milestones



1858

The company Duro y Cia. is set up to manufacture iron products at the factory in La Felguera (Asturias-Northern Spain)



1900

The company changes to become Sociedad Metalúrgica Duro Felguera (SMDF) and leads the domestic steel and coal markets for several years.



1905

SMDF shares start trading on the Madrid Stock Exchange.



1966-67

Sale of mining and steel assets and the company focuses its business on the capital goods manufacturing.



1970

International activities commence and the company evolves towards industrial construction and assembly.



1994

Specialisation in turnkey power generation and industrial projects.



2009

New headquarters in Gijón where engineering and projects are concentrated.



2015

Opening of the new office building in Madrid and celebration of the 40th anniversary of Felguera IHI

DF today

Duro Felguera currently operates under the DF brand and specialises in the turnkey execution of projects for the energy, mining and handling, and oil & gas industries.

The Company develops the entire process required for this type of project and offers a comprehensive service that covers from engineering to commissioning, including manufacturing, equipment supply, installation, civil works, operation and maintenance of the plants.

In addition, Duro Felguera's workshops stand out as the manufacturers of large equipment for the petrochemical industry, as well as railway crossings and track devices, among other types of industrial equipment.



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Main activities

The Company's activities are structured around five business areas:



Energy

Execution of turnkey projects for gas power plants, conventional thermal power plants, solar thermal plants, biomass plants and wind farms.



Mining & Handling

Turnkey execution of port terminals for handling bulk solids and ore handling facilities.



Oil & Gas

Turnkey projects for process installations in the oil and gas areas; individual equipment and fuel storage facilities.

Desarrollo de la carrera profesional



Services

Installation, commissioning, operation and maintenance of industrial and energy installations.



Other Activities

Smart-system integration and engineering projects in the areas of energy, environment, transport, ports, airports, security and defence. Design and manufacture of capital goods for the petrochemical and railway industries, as well as for infrastructure.



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Mission

A company specialised in the execution of turnkey projects for industrial, energy generation and oil&gas facilities, in the provision of industrial services and in the manufacture of industrial equipment. Dedicated to customer service with internationally oriented activities.

Vision

International growth in the turnkey projects area, providing:

Customers: with a quality service that meets their needs in constructing industrial facilities.

Shareholders: with sustained profit.

Employees: with an opportunity to develop professionally.

Values

- Customer satisfaction with strict compliance with our contractual obligations in time and quality.
- Commitment to our shareholders, ensuring adequate return on their investments.
- Sustained growth through technological development and internationalisation.
- Reinvestment in assets and technological development to ensure constant competitiveness.
- Contribution to professional and personal development of our employees. Loyalty to our partners and collaborators.
- Integration with the community in the social environment in which we operate.
- Strict compliance with the applicable legislation in all countries where we operate.
- Respect for the environment and occupational health and safety.



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3. CSR STRATEGY

Without prejudice to the specific commitments that the Company may assume with its stakeholders, the corporate strategy of Duro Felguera on questions of sustainability, the environment and social issues is focussed especially on achieving a business model and setting up business goals and strategies that are sustainable and socially responsible.

The Company also endeavours to enhance the Group's competitiveness by assuming management practices based on innovation, efficiency, profitability and sustainability.

Furthermore, Duro Felguera shall foster application of the principles of equality, informative participation, transparency and trust in our dealings with stakeholders, thus helping to meet the present and future needs of the Company.

Contribution to the development of local communities and territories where the Group operates is a priority of Duro Felguera's corporate strategy with the aim of maximising the economic, social and environmental benefits of its businesses for all concerned. With this aim in mind, the Company shall endeavour to reduce the negative impact of its activities by fostering responsible and sustainable management of the risks inherent in the execution of the projects.

Respect for Human Rights

Duro Felguera is committed to the values represented by the various declarations of the United Nations in the field of human rights, employment, the environment and anti-corruption. The Company has therefore signed up to the 10 principles of the Global Compact, reflected in the good practices that it applies in the relationships it establishes with its stakeholders.



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Global Compact

In 2002, Duro Felguera signed up to the UN Global Compact promoted by the United Nations, by means of which firms undertake to fulfil 10 principles regarding respect for human rights, improved labour relations, protection of the environment and the fight against corruption, within the context of business.

In 2005, DF joined the Spanish Global Compact Association (ASEPAM), committing to implement initiatives for the development of corporate social responsibility.

The **10 principles of the Global Compact** are:

01	"Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence"	06	"Businesses should uphold the elimination of discrimination in respect of employment and occupation"
02	"Businesses should make sure that they are not complicit in human rights abuses"	07	"Businesses should support a precautionary approach to environmental challenges"
03	"Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining"	08	"Businesses should undertake initiatives to promote greater environmental responsibility"
04	"Businesses should uphold the elimination of all forms of forced and compulsory labour"	09	"Businesses should encourage the development and diffusion of environmentally friendly technologies"
05	"Businesses should uphold the effective abolition of child labour"	10	"Businesses should work against corruption in all its forms, including extortion and bribery"



Pacto Mundial
Red Española



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Duro Felguera's Management is guided, among others, by the following documents:

Corporate Social Responsibility Policy

On 23 December 2015, the Board of Directors of Duro Felguera approved the Company's Corporate Social Responsibility Policy, setting out the main aspects and undertakings of the Company and its group as regards Corporate Social Responsibility (CSR).

The document establishes the basic principles and general operational framework on which the different CSR initiatives will be based, along with specific actions to be taken with Duro Felguera's different stakeholders.

General Principles

- Firm commitment to respect the environment in the execution of all projects.
- Strict health and safety policies affecting the personnel, facilities and execution of projects.
- Quality policies aimed at continuous improvement of processes in all business lines of the Group and in the projects and services provided by the Company to its customers.
- Ongoing training sessions related to the execution of major projects and on technical issues that affect its various businesses for the Company's employees.
- Recruitment of young professionals into the workforce, providing them with training and professional development geared towards international business.
- Transparency in all dealings with shareholders and investors through both our communications via the website and through active participation in various national and international forums.
- A strategy of constant dialogue with social agents on labour-related issues.
- Cooperation in developing the communities where the Company carries out its projects, contributing to implementing various types of infrastructure needed in the surrounding areas.
- Collaboration with various social, cultural and sporting organisations in areas where the Company operates.



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- Compliance, supervision and monitoring of existing legislation, internal company standards and practices of good corporate governance assumed by Duro Felguera while fostering cooperation with authorities and regulators.

Among other goals, Duro Felguera's corporate strategy shall be based on sustainable actions aimed at adding value to the Company and its stakeholders.

In this regard, the Duro Felguera CSR policy details the commitments that the Company has taken on board with regard to each of its key stakeholders, such as Customers, Suppliers, Shareholders and Investors, Society, and the local communities where the Company operates.

The document likewise provides a breakdown of the undertakings that DF has espoused in the field of environmental protection, respect for human rights, people, and, of course, in the sphere of anti-corruption and the prevention of unlawful conduct.

This report details DF's CSR policies, guidelines and commitments, in accordance with the impact that the Company's activities could have on its stakeholders.

General Code of Conduct

Duro Felguera has had a General Code of Conduct in place since 2009, setting out the principles of integrity, honesty and transparency that must be followed by all Group employees.

DF firmly declares its commitment to this code of ethics, and ensures compliance with the law; human rights; professional development and equal opportunities for its professionals; ethical conduct on the part of Group employees; the prohibition of bribery and corruption in any form; care for the environment, and transparency and objectivity in financial information; transparency and honesty in its relationships with its customers and suppliers.

Supplier Code of Conduct

Duro Felguera promotes various practices amongst its suppliers, aligned with its General Code of Conduct in order to ensure compliance with the Company's ethical model, so as to provide a high-quality and socially-committed service.



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In this regard, DF drew up a Supplier Code of Conduct in 2016, setting out its commitment to good practices and the ethical principles that steer its operations.

Duro Felguera's aim through this is that all its suppliers and subcontractors should share and apply the principles described in the aforementioned Supplier Code of Conduct, so as to underpin mutual understanding and unify the criteria guaranteeing good practice at DF and its partners.

Crime prevention form

Duro Felguera has drawn up a crime prevention form for all companies belonging to the Duro Felguera Group, both in Spain and abroad, and also for its employees, directors and members of executive management bodies.

This document identifies the general criminal risks applicable to all legal entities, and those specifically relevant to the activities undertaken by the Duro Felguera Group, along with the particular penal risks that could affect each department of the Company.

Following the identification of risks, Duro Felguera details the procedures for internal control, internal auditing and re-evaluation of criminal risks, which will pivot on the Internal Audit Department and the Regulatory Compliance Committee, in collaboration with the Regulatory Compliance Officer and the Compliance Ambassadors.



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3.1 COMMITMENT IN TERMS OF ANTI-CORRUPTION

Principle 10 of the Global Compact "Businesses should work against corruption in all its forms, including extortion and bribery"

The Company's activity shall comply with the currently applicable legislation in all countries in which it operates, enforce Duro Felguera's internal code of conduct, implement the best practices of good corporate governance at all times and put mechanisms in place to prevent illegal conduct.

In particular, the Board of Directors shall ensure strict compliance with its commitment to combat corruption in business transactions.

The commitment of the Company and its group to combating corruption and illegal conduct shall be demonstrated by development of the Duro Felguera Crime Prevention Form, approved by the Board of Directors of the Company on 23 December 2015 on the basis of specific analysis of the risk of criminal conduct inherent in the size and organisational model of the Group and of the particular activities in which it is engaged.

Prohibited practices of corruption and bribery of individuals

Duro Felguera strictly prohibits corruption in all its forms. Specifically, directly or indirectly offering, promising or giving something of value in order to influence the receiver to perform or refrain from performing an act for the benefit of or advantage to the Company, other group companies or a third party, is prohibited.

Not only is it prohibited to offer, promise or give something of value, but also to request it, accept it or receive it as consideration in return for performing or refraining from performing an act for the benefit of or advantage to any third party.

Within the generic concept of corruption, Spain distinguishes between bribery and corruption between individuals, both of which are prohibited by the Group.



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4. CORPORATE GOVERNANCE

4.1 COMPOSITION AND MAINTENANCE

Duro Felguera has a sound corporate governance aligned with the standards set by the National Securities Market Commission (CNMV) with respect to the good corporate governance practices required for proper management of listed companies.

Coinciding with the publication of the **Code of Good Governance**, Duro Felguera has adapted the operation of its corporate bodies to the established recommendations in order to make improvements for the benefit of the Company by enshrining transparency as an essential factor for creating value, improving financial efficiency and strengthening investor confidence.

Thus our corporate governance model is based on the applicable regulations and on the recommendations of the CNMV and meets the quality and transparency standards set by the latter. Duro Felguera is aware of the need to incorporate these provisions and work to continuously improve them. To do so, it has at its disposal a variety of internal policies approved by the Board of Directors and applicable to all areas of the Company, which establish guidelines and procedures to be followed by all Group's employees.

The Company has a **Corporate Governance** aligned with Spanish standards and adapted to the recommendations laid down by the Code of Good Governance of listed companies. Duro Felguera's governing body is the General Meeting of Shareholders, the highest shareholder representation and decision-making body. At its Ordinary Annual General Meeting held on 21 April 2016, among others, several matters regarding good management were discussed and approved, approving also the Annual Financial Statements of the Group.

In order to improve communication with this stakeholder, Duro Felguera has made a specific section on its corporate website available to shareholders and investors, so that they can access and download content, documents and information of interest for attendance at the General Meeting. It also enabled an Electronic Shareholder Forum prior to the General Meeting in order to facilitate communication among shareholders.



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The Board of Directors of Duro Felguera is the highest executive body and is responsible for the Company's decision-making process, in addition to its supervisory role. The mission of DF's Board of Directors is to make decisions based on the corporate interest, ensuring that the Company strictly complies with the law, respects the customs and good practices of the sectors and countries in which it operates and respects the principles of social responsibility it has adopted.

The Board of Directors is suitably composed to ensure that it operates efficiently, fosters the participation of Board members, enables streamlined decision-making and represents diverse knowledge and experience.

The Board of Directors of Duro Felguera is composed of eight members, among which one is executive, three are proprietary, three independent and one external, in addition to the assistance of a non-member secretary for administrative purposes. Thus the independent directors represent 37.5% of the composition of the Board, a figure that reflects the commitment of Duro Felguera to compliance with the Good Governance recommendations of the National Securities Market Commission by ensuring the independence of the Board of Directors.

The Board of Directors met 17 times in 2016 with a 97.91% attendance and participation.

Board committees such as the **Audit Committee**, which held 11 meetings in 2016, and the Appointments and Remuneration Committee, which met twice, also play key roles in the Company's governance.

The Audit Committee, elected by the Board of Directors, is composed of three members with a majority of independent directors who hold office for a term of four years and may be reappointed for the same or shorter periods, in addition to the assistance of the Secretary of the Board of Directors who has speaking but not voting rights. The Audit Committee supervises the economic and financial information and the contents of the audit contract, ensuring that the auditor's opinion on the annual financial statements and the management report are drafted clearly and accurately. It reviews the Company accounts to enforce proper application of the generally accepted accounting criteria and supervises monitoring of good corporate governance, safeguarding the transparency of corporate activities, compliance with the rules of corporate governance and compliance with the Internal Code of Conduct. It informs the Board of any misconduct or



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infringements that may occur for rectification and, in the absence of rectification, reports them to the General Meeting.

The **Appointments and Remuneration Committee** is composed of three members in addition to the assistance of the Secretary of the Board of Directors who has speaking but not voting rights.

The purpose of this Committee is to assess the skills, knowledge and experience required on the Board of Directors. For these purposes, it defines the functions and skills required of candidates to fill vacancies on the Board and assesses the time and dedication necessary to carry out their duties efficiently. It also proposes the appointment of independent directors to the Board of Directors by co-optation or for submission to the decision of the General Meeting and proposes the re-election or removal of these directors by the General Meeting. It reports to the Board on proposals for the appointment of other directors and senior managers and on the basic conditions of their contracts; proposes the remuneration policy for directors, general managers and executives who perform their senior management duties reporting directly to the Board, the Executive Committee or Managing Directors, in addition to the individual remuneration and other contractual conditions of executive directors. Finally, it supervises the application of all the above conditions.

4.2 FISCAL POLICY

The definition of the **fiscal strategy** of the Company and the Group is a non-delegable power legally attributed to the Board of Directors of Duro Felguera.

Among the priorities of the Board of Directors is to draw up a responsible fiscal strategy with the main aim of ensuring compliance with the law and other regulations in force in the territories where the Duro Felguera group operates, all within the framework of achieving the corporate objectives, creating sustainable value and reducing the fiscal risks inherent in the activity carried out by the Company.

The agreements that the Board of Directors adopts within the framework of its fiscal strategy are guided by the following principles which in turn are rooted in the corporate values of the Company:



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- **Transparency and accuracy of information:** the Board of Directors ensures transparency and provides access to the information it deems important in the taxation field and in particular to all taxation and accounting information on the Duro Felguera group's activity that the Company provides to legitimate stakeholders.
- **Good faith and cooperation** with the competent tax authorities: the Company cooperates with the Spanish Tax Agency and other competent tax authorities based on the principles of good faith and truthfulness.
- **Principle of prudence:** the Company assesses the possible tax-related risks and implications arising from its decisions and strategies in advance, acting in a responsible manner with respect to assuming fiscal risks at all times.
- **Compliance with applicable rules** and adaptation to the best tax practices: the agreements adopted in relation to the fiscal strategy of the Company always comply with the law and all other applicable regulations, respect the internal rules of Duro Felguera and conform to the best taxation practices.

Duro Felguera Tax Practices

The tax-related activity of Duro Felguera is governed by adoption of and compliance with the following good tax practices, without prejudice to full payment of all taxes, levies and other fiscal obligations to which the Company is subject in the territories in which it operates.

Company management has developed a fiscal strategy based on the priority objective of reducing significant fiscal risks and preventing conduct that could generate them.

Within the framework of this commitment, the Company ensures that effective systems and mechanisms for reducing tax-related risks are defined, approved and applied.

Furthermore, Management avoids the use of opaque fiscal structures. Neither does the Company use artificial structures unrelated to the Group's inherent activities the only purpose of which would be to evade its tax burden. It does not transfer company profits to tax havens for exclusively fiscal purposes.



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Duro Felguera has designed responsible and justified fiscal structures so that the tax paid by all Group companies is consistent with the effective performance of an economic activity aimed at creating value.

The Board of Directors fosters transparent, clear and responsible reporting of its main taxation practices and, in particular, of the tax-related data and figures.

Before drawing up the annual financial statements and filing the corporation tax return, the Chief Financial Officer, as the person in charge of the Company's taxation affairs, informed the Board of the development and implementation of the fiscal policy during 2016, reporting on the tax-related consequences of the same when the transactions must be submitted to the approval of the Board of Directors.

Within the framework of the definition, approval and implementation of the Company's fiscal strategy, the Board of Directors and Management of Duro Felguera ensured that fiscally significant decisions were made on the basis of adequate analysis and reasonable interpretation of the applicable tax-related legislation in the context of the Company's activity.

The Board of Directors and Management of Duro Felguera fosters a relationship of mutual cooperation with the competent tax authorities based on the principles of trust, good faith and truthfulness. This commitment extends, on the one hand, to the duty of providing the competent tax authorities with all the fiscally relevant information and documents they require and, on the other, to the duty of cooperating with said authorities in the search for solutions in the field of fiscal practices.

The Board of Directors has worked constantly to ensure compliance with the law, the internal rules of the Company, the best fiscal practices assumed by Duro Felguera and other applicable tax-related regulations in the jurisdictions under which the group performs its activity, the international double taxation treaties and other international tax standards. For these purposes, Duro Felguera has adopted the recommendations of the Code of Best Tax Practices to the extent that it is applicable to the Company. On implementing these practices, the Economic and Financial Division has set up the control mechanisms and internal rules required to ensure compliance with the current tax legislation. This work will include all the countries and jurisdictions in which the Duro Felguera group is present and cover all areas and businesses in which we are engaged. This will enable the Company to



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obtain a coherent, integrated view of its fiscal positions and manage them along with other risks. To do so, the Economic and Financial Division, through its Taxation Department, has the qualified human resources and operating materials required to achieve the objectives and fiscal practices set forth in the Corporate Fiscal Policy.

The Company has developed a risk control and management system applicable to all departments and levels of the Company and its Group that ensures strict compliance with its tax obligations to the competent tax authorities.

The **Audit Committee** is responsible for overseeing the effectiveness of the Company's internal control, internal auditing and the fiscal risk management systems. It has discussed, with the auditors, the significant weaknesses in the internal control system detected during the last audit.



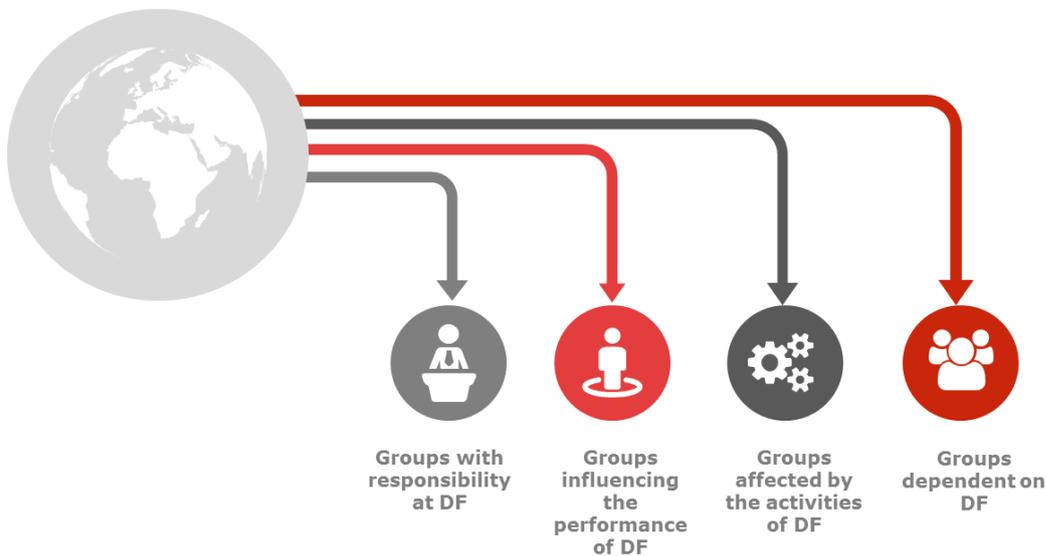
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5. SPECIFIC CSR PRACTICES WITH RESPECT TO STAKEHOLDERS

5.1 STAKEHOLDERS

Duro Felguera has identified its **stakeholders** by means of a process of interdepartmental internal consultations and a reflective exercise on the part of the managers of the Company's different areas. The analysis served to identify the stakeholders in accordance with the following dimensions:



DF has a continuous dialogue relationship with the resulting stakeholders, in order to determine which strategic CSR objectives require greater reinforcement so as to comply with the expectations of the different groups, reduce negative impacts on them and satisfy DF's needs.

As a socially-responsible company, Duro Felguera places importance on the perception that stakeholders have of the Company, since this will serve as the basis to build relationships based on mutual trust.



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5.1.1 IDENTIFICATION OF STAKEHOLDERS

Given the wide range of activities undertaken by DF and the large number of stakeholders resulting from them, this report identifies the main or primary stakeholders, in other words those groups with a direct interest in the Company and in the success of its activities.

Primary DF stakeholders:



5.1.2 RELATIONSHIP WITH STAKEHOLDERS

Duro Felguera's relationship with the different stakeholders is structured as follows:

Shareholders:

Any private or institutional investor may contact the Investor Relations Department to obtain detailed information on the evolution of the business and future strategy. This channel allows shareholders to present any request for information that they might deem relevant as regards the evolution of Duro Felguera.



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The Investor Relations Department can be contacted on the freephone line (900 714 342), at an email address (accionistas@durofelguera.com) or via a contact form on the Company's website (www.dfdurofelguera.com).

In 2016, the Investor Relations Department held more than 70 meetings with institutional investors, and attended 7 events, including conferences, roadshows and investor symposiums in Madrid, London, Paris and Zurich. DF likewise handled more than 400 queries from minority investors, through the numerous communication channels maintained with investors.

Customers:

Duro Felguera relates to its customers through periodic face-to-face meetings, telephone conversations, trade fairs, forums, seminars and conferences, along with the completion of product and service approval questionnaires and surveys. There is likewise a one-way channel of communication via the DF corporate website and the publication of the annual report.

List of trade fairs and events in 2016:

During 2016, Duro Felguera took part at various international trade fairs and events. The Company had a presence at such trade fairs as *WETEX*, *PowerGen Europe*, *Expomin Chile*, *World ATM Congress*, *Future Forces*, *Innotrans*, *Bauma* and the 18th edition of the *Conference & Exhibition on Liquefied Natural Gas* held in Perth, Australia, among other events.

Suppliers:

The corporate website serves as a means of communication with suppliers, along with the annual report and the Corporate Social Responsibility report. Quality surveys and presentations are likewise periodically conducted with suppliers. Direct contact is maintained with this group of stakeholders by telephone, email and through the numerous visits by suppliers to the premises of DF, along with inspections conducted by DF on the premises of suppliers.



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Employees:

Duro Felguera keeps various channels of communication open in its relationship with its employees: through the HR Department, the training initiatives conducted at the Company and interviews. The DF intranet also performs the function of a two-way communication channel, thanks to the Suggestions Box that has been enabled.

In July 2016, an internal communication day intended to improve the flow of information at the Company was set up. The managers of the different lines addressed DF's situation and its strategic approaches together with the other executives at the Company, in order to allow them in turn to pass the conclusions reached on to their respective teams on a trickle-down basis.

Society and Media:

The main avenues of communication are: corporate website, annual Company report, news and mentions in the media, contact with local organisations, business associations and public and private bodies.

During 2016, the Company had 230 contacts with the media, approximately 40% of which were proactive, the remainder being queries received from journalists.

As for social media, DF maintains accounts and profiles allowing it to obtain quantitative and qualitative information: YouTube, LinkedIn and Twitter.

5.1.3 IDENTIFICATION OF RELEVANT THEMES

For the identification of **relevant themes**, Duro Felguera conducts its own **materiality analysis**, considering as material those matters that are significant for DF's stakeholders, and at a secondary level, for the sector itself. The results of this analysis are compared and supplemented through different documented sources drawn from such leading CSR guidance bodies as the United Nations and the Global Compact, the Organisation for Economic Cooperation and Development (OECD), the Corporate Social Responsibility Observatory, and various sectoral publications and/or those specialising in any of the themes covered by this report.



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Relevant matters for stakeholders



Shareholders

- Evolution of the business
- Financial and economic situation of the Company
- Shareholder remuneration
- General Meeting of Shareholders



Customers

- Excellence in project execution
- Promotion of CSR themes
- Group reputation
- Respect for Human Rights
- Protection of the environment
- Compliance with the applicable legislation



DF Staff

- Employment conditions
- Health and safety conditions
- Training
- Professional career development
- Evolution of the business



Suppliers

- Relationship between the Procurement Department and suppliers
- Compliance with contractual undertakings
- Ethics and transparency
- Collaboration to generate mutual benefits



Society and Media

- Business-related themes (tenders and awarding of contracts, progress of construction works and delivery of projects)
- Regulatory issues
- Innovation
- DF's contribution to the community
- Financing
- Company strategy and positioning
- Environment



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Prioritisation of material matters

The identified matters of interest are compared by the internal committees and the departments involved in one way or another in the different actions, commitments and principles detailed in this report. This serves to generate an initial ordering of the themes in accordance with those matters that are relevant to stakeholders and have been detected by the different departments through such various communication channels as: meetings with customers, suppliers, attendance at trade fairs, conferences, roadshows, monitoring of social media, analysis of media impacts, opinion leaders and, in general, any action allowing the Company to keep abreast of those aspects that are relevant to its stakeholders in terms of society, economy, environment and ethical behaviour.

5.2 ENVIRONMENT

The environment at DF

Principle 7 of the Global Compact “Businesses should support a precautionary approach to environmental challenges”

In 2016, DF continued to integrate the environmental variable into its strategic management, as a key factor for maintaining its market position.

To do this, it continues to review activities and processes to ensure that they still fulfil the commitments established by Management in its environmental policy.

This ongoing revision ensures that DF not only complies with environmental requirements, but also identifies opportunities to achieve higher levels of environmental performance, associating them with a sustainable business focus.

Environmental management as future strategy

In 2012, DF, aware of the current situation and to respond to the growing demand for environmental preservation and sustainable development, obtained certification of its business lines under the corporate Environmental Management System for the ISO 14001 Standard, backed by Lloyd's Register.

In parallel, the Manufacturing line, with specific management systems for each activity, has had its own certification for more than 10 years.



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PRINCIPLES OF THE CORPORATE ENVIRONMENTAL MANAGEMENT SYSTEM

<p>Identify and control environmental aspects of our activities:</p> <ul style="list-style-type: none"> • EPC Projects • Services • Mining • Buildings and offices <p>Establish annual goals and targets to improve the Company's environmental performance.</p> <ul style="list-style-type: none"> - 2016 targets and goals programme 	<p>Minimise the impacts that our activities generate on the environment.</p> <ul style="list-style-type: none"> • <i>Generation of waste</i> • <i>Generation of wastewater</i> • <i>Generation of emissions</i> • <i>Consumption of resources</i> <p>Track goals using environmental indicators.</p> <ul style="list-style-type: none"> - <i>Environmental indicators 2016</i>
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The Annual Programme of environmental targets and goals approved in 2016 is intended to be the roadmap to verify DF's progress in continuous improvement.

	TARGET	GOALS	INDICATOR
Environmental performance	What is the objective? Implement a common company-wide system of environmental indicators	How will we achieve it? Define the methodology for measuring and comparing the environmental performance of our activities	How is it measured? No. of indicators fulfilled/Total No. of indicators
	Promote sustainable use of resources through systematic control of their consumption	Monitoring of energy efficiency in permanent offices	Energy consumption in MWh/No. of workers
		Monitoring of water consumption efficiency in permanent offices	m ³ water consumption/No. of workers
		Monitoring of paper consumption by buildings	Tonnes of paper consumed/No. of workers
	Monitoring of paper consumption by zones/departments	Tonnes of paper consumed/No. of workers associated with the zone/department	



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Environmental performance in offices and corporate headquarters

DF carries out a large share of its activities in the central offices in Gijón and Madrid.

The Environmental Department is working together with the Assets Department to ensure that the maintenance of all of the facilities is managed in accordance with the principles of energy efficiency. DF's offices in Gijón and Madrid have energy efficiency certifications of "D" and "C", respectively.

In 2016, energy audits were carried out on DF's facilities in order to comply with Royal Decree 56/2016, making it possible to identify improvement measures that could help reduce energy consumption.

- **Consumption of resources**

One of the principal environmental aspects that is generated by offices is the consumption of resources, such as electricity, water, gas or paper.

After the opening of the new central office in Madrid and the expansion of the offices in Gijón in 2015, the year 2016 had to be taken as the reference level for the collection of consumption data to define the resource reduction targets.

RESOURCE	CONSUMPTION	CO ₂ EQ EMISSIONS
Electricity	3,332,040 kw*h	2,341,678 kg
Water	7,522 m ³	2,407 kg
Gas	1,168,369 kw*h	213,858 kg
Paper	16,848 kg	40,772 kg
	TOTAL	2,598,715 kg



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- **Generation of waste**

The activities carried out in offices also generate a series of wastes that need to be minimised, controlled and managed.

Examples: paper, batteries, toner, waste electrical and electronic equipment (WEEE).

In 2016, the methodologies for the management and recycling of paper, cardboard and plastic were optimised.

Recycling points have been added in our offices so that employees can separate waste and help minimise the impact generated.

WASTE	QUANTITY
WEEE	251 kg
Fluorescent lights	247 units
Paper	3,867 kg
Batteries	1383 kg
Cardboard	173 kg

Environmental training in 2016

Principle 8 of the Global Compact **“Businesses should undertake initiatives to promote greater environmental responsibility”**

At DF, specific Environmental Training Plans have been developed to train employees in regard to environmental aspects, so that they can optimise their work.

	TARGET	GOALS	INDICATOR
Training	What is the objective?	How will we achieve it?	How is it measured?
	Promote environmental training programmes for workers involved in the subject	Execution of the Training Plan > 90% Evaluation of the effectiveness of the training > 7 (scale 0-10)	No. of participants/No. invited General level of satisfaction



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Result of the training indicator 2016:

Environmental Management System Training Plan	No. of participants/No. invited	> 90%
	Level of satisfaction (scale 1-10)	> 7

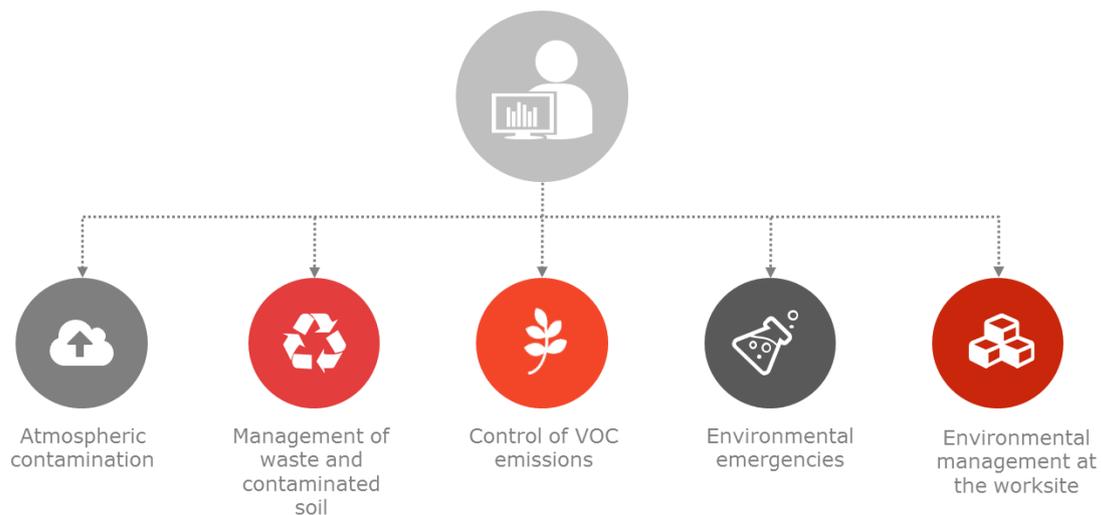
In 2016, several training actions were carried out in the environmental area, distributed as follows:

1 - Training of worksite personnel or personnel related to worksites: technical staff, site managers, inspectors:

DF places special importance on knowledge of the environmental risks generated by their activities. For this reason, in 2016 it continued its efforts to train employees who work at worksites, who need to know the Group's environmental strategy given their role as the principal agents in DF's projects.

In 2016, 3,975 man-hours of training were given in environmental risks prevention in DF projects.

The main topics covered in these training sessions were:





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2 - Training for office staff who supervise worksite activities: Technical staff and line managers.

- Management systems and environmental audits.

3 - Environmental awareness workshops and information in offices:

Following the actions of previous years, in 2016 several workshops were held to improve environmental awareness in the Company's offices.

The goal of the workshops was to improve the understanding and application of the Manual of Best Environmental Practices in Offices through discussions to develop small-scale actions that can be put in place to reduce the environmental impacts of DF's activity, while at the same time strengthening the Company's environmental image with its customers, workers and collaborators.

Commitment to the environment and society

In 2016, no incidents were recorded in any of our projects that resulted in environmental, criminal or administrative penalties, achieving the goal of "zero environmental penalties".

	TARGET	GOALS	INDICATOR
	What is the objective?	How will we achieve it?	How is it measured?
Communication	Improvement of channels of communication with stakeholders	<p>Maintain constructive dialogue with the public administrations involved in the projects</p> <p>Improve environmental information at worksites to ensure that subcontractors comply with the environmental commitments that have been made</p> <p>Improve environmental information in offices to ensure that workers carry out the best possible environmental practices</p>	<p>Zero environmental penalties</p> <p>Man-Hours of environmental information at worksites/month</p> <p>Man-Hours of environmental information in offices/month</p>



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Environmental excellence in project execution

As a multinational company, the environmental impacts generated by our activities are varied and are closely tied to the regions in which the projects are executed.

The Company is aware of this situation and consequently designs, builds and operates in accordance with environmental licences, which include environmental protection and compliance with the legally applicable operating parameters.

For this reason, DF exhaustively monitors the environmental legal requirements in each country, ensuring that the activities and operations associated with significant aspects are carried out under controlled conditions.

Before starting any project, and to ensure compliance with the environmental requirements of each country, DF carries out a detailed evaluation of the legal requirements, both regional and national, to anticipate possible requests required to obtain permits and licences, which are critical points for the proper development of projects.

- **Projects completed in 2016:**

Carrington (Manchester) and Chilca Plus (Peru) projects stand out with especially stringent environmental standards, as a result of both customer and country requirements.



Carrington Project

55 permits were processed, including: Water collection permit, Discharge permit, Environmental Licence, Small-scale waste producer licence, and Construction permits for the water treatment plant.



Chilca Plus Project

11 permits were processed before the activities commenced, including: Building licence and Authorisation of deterioration of roads and footpaths.



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The corporate Environmental Management System is adapted to each project through a specific Environmental Management Plan that identifies the most significant environmental aspects and proposes measures to control them.

The principal structure of all of the plans includes the following sections:

a. Integration of new workers

Training is one of the principal tools to ensure that DF's employees take part in the Company's environmental culture, continuous improvement and fulfilment of the commitments taken on by the Company.

Worksite environmental technicians are responsible for giving an environmental awareness talk to all people who access the worksite.

The main content of the integration programme includes:

- Significant environmental aspects at the worksite.
- Operational control: measures to control and mitigate the significant environmental aspects.
- Actions in case of environmental emergencies.

In addition to the general integration programme provided upon joining the personnel at the worksite, awareness talks are also given on more specific environmental topics.

The Aconcagua Cogeneration Project is one example of the scope of this type of awareness action in a DF project.

- Prevention of water, soil and air pollution.
- Waste management.
- Protection of native flora and fauna.
- Reduction of resource consumption.



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The Man-Hours given as part of Duro Felguera projects over the course of 2016 were:

MAN - HOURS ENVIRONMENTAL AWARENESS					
Year	Aconcagua	Chilca	Djelfa	Termocentro	Carrington
2016	933	3,585	33	468	127

b. Consumption Monitoring

In order to minimise consumption of raw materials, resources and auxiliary resources that have a direct impact on the environment, DF keeps a monthly record of the consumption of resources for each one of its projects. This makes it possible for the Company to ensure that resources are being used responsibly and sustainably.

The resource consumption data for the principal projects over the course of 2016 are presented below:

CONSUMPTION OF RESOURCES						
		Carrington	Djelfa	Aconcagua	Chilca	Termocentro
Electricity	Kw·h	2,188	119,000	19,767	99,440	165,028
Water	m ³	120,073	7,746	7	577	1,162,500
Fuel	MW·h	1,611	60,789			
Diesel	L			5,565	51,780	27,100
Paper	Kg		5,028	240	657	200

c. Monitoring

Monitoring programmes are carried out to ensure that both the atmospheric emissions and effluents generated by project activities are within environmentally acceptable and tolerable limits.

The purpose is to verify that the mitigation measures that are implemented in each project (wetting ground, speed controls, installation of acoustic panels, installation of water treatment plants, etc.) are sufficiently effective to avoid altering the quality of the air or water.



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The frequency of the monitoring depends on the environmental requirements of each project.

- Monitoring Air Quality:** Before the start of each project, an atmospheric analysis is carried out to detect critical points to be evaluated in the monitoring, in order to ensure compliance with the regulations in effect.

FREQUENCY OF AIR QUALITY MONITORING				
Year	Aconcagua	Chilca	Termocentro	Carrington
2016	Monthly	Six months	Annual	Monthly

- Monitoring of Noise Levels:** Noise levels are monitored in potential impact zones.

FREQUENCY OF MONITORING OF NOISE LEVELS				
Year	Aconcagua	Chilca	Termocentro	Carrington
2016	Monthly	Quarterly	Annual	Possible noisy activity

- Monitoring of Water Quality:** to monitor water quality, the most environmentally-significant parameters are analysed (concentration of chlorides, nitrates, metals, coliform bacteria, etc.), in order to verify that the values comply with the limits specified in the legislation that applies to each project.

FREQUENCY OF WATER QUALITY MONITORING					
Year	Aconcagua	Chilca	Termocentro	Djelfa	Carrington
2016	Monthly	Six months	Six months	Monthly	Quarterly

d. Waste management

DF's objective is to apply waste handling and management strategies aimed at minimising, reusing and recycling the waste generated during the development of the activities in its projects. Waste is handled in accordance with the environmental



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legal framework, DF's policies and procedures regarding proper handling practices and the final disposal methods for each type of waste generated.

It is important to note that in all of its projects, DF carries out proper separation and management of its waste, paying special attention to hazardous waste, due to its highly contaminating nature.

Duro Felguera manages a considerable quantity of waste in international projects. DF records the principal magnitudes of the waste that is managed based on its characteristics and hazardousness. The figures for 2016 were:

NON-HAZARDOUS WASTE	UNIT	HAZARDOUS WASTE	UNIT
Waste similar to urban waste	223 Tonnes	Solid waste	41 Tonnes
Paper and cardboard	46 Tonnes	Used oil	6,280 litres
Plastics	96 Tonnes		
Wood	293 Tonnes		
Iron	119 Tonnes		

e. Environmental emergencies

Duro Felguera develops an environmental contingency plan for each one of its projects, in order to define the steps to identify and respond to potential environmental accidents and emergencies, and to prevent and reduce the environmental impacts that may be associated with them.

In order to periodically verify the effectiveness of the Contingency Plan, exercises (drills) that simulate the defined emergencies are carried out.

When the aforementioned drills cannot be held, training activities are carried out. These activities may consist of information and training courses/talks that lay out the guidelines for action in the Environmental Contingencies Plan.

The frequency of the drills varies depending on the project.

EMERGENCY DRILLS					
Number Frequency	Aconcagua	Chilca	Djelfa	Termocentro	Carrington
	2	2	1		2
	Six months	Six months	Annual	Training	Six months



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f. Worksite audits

To verify compliance with environmental standards, periodic audits are carried out at worksites during the execution of the activities.

If any deviations from any environmental requirements are noted (work standards, practices, procedures, legal requirements, etc.), a "Non-Conformity" will be opened.

The person in charge will be informed immediately of this "Non-Conformity" so that it can be quickly corrected.

In 2016, several internal audits were performed, including the **Djelfa (Algeria) and Carrington (Manchester) projects**, which were audited in June and July, respectively.

In both cases, the results were satisfactory and there were no "Non-Conformities".

g. Subcontractor and workshop inspections

For projects that do not require the mobilisation of workers, environmental monitoring is done for both the main subcontractors as well as the workshops that manufacture large equipment (conveyor belts, ship unloaders, etc.).

During the manufacturing phase, DF inspectors will visit the workshops, request documentation and verify compliance with the environmental requirements.

If any improvement opportunities or "Non-Conformities" are detected during these inspections, the subcontractor will be notified in order to comply with DF's environmental standards.

Environmental alternatives during the design phase

Principle 9 of the Global Compact **"Businesses should encourage the development and diffusion of environmentally friendly technologies"**

During the design phase, Duro Felguera proposes alternatives to its customers to minimise the negative impact of projects during the operation phase. These innovative solutions translate into reduced consumption of resources and emissions to the environment, which improves environmental performance.



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Puerto Ventanas

Expansion, upgrading and modernisation of the new Copper Concentrate Shipment System



In the Puerto Ventanas Project, a belt system inside an enclosed gallery was proposed to the customer to prevent the emission of dust particles to the environment, in addition to scrubber systems at points with a risk of dust emissions.

Workshops

Duro Felguera has invested heavily in its manufacturing workshops, placing special emphasis on the devices and equipment that take better care of the environment.

DF Rail has invested in equipment that reduces the emission of suspended particles to the atmosphere, noise pollution and resource consumption.

New foundry

In DF Rail's new foundry, an enclosure made up of an 80 mm-thick sandwich panel with rock wool filling and a perforated interior sheet was installed to reduce the noise generated by the machinery.

The medium frequency induction melting furnaces installed in the new foundry avoid the emission of GHE gases during the melting process that were generated with the old equipment, in addition to being more energy-efficient to reduce the amount of electricity consumed per tonne smelted. The furnace intake is equipped with the best technology available on the market to ensure that emissions to the atmosphere contain the minimal amount of particles.

The raw material used in the melting process consists of 75% scrap, using some of the scrap metal generated by other workshops in the Group or other sections of DF Rail, which allows this waste to be reused.



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Moulding process

Only inorganic binders are used in the moulding process, which avoids the use of substances that contain aromatic hydrocarbons (phenol and toluene derivatives) and other organic compounds such as formaldehyde and furfuryl alcohol.

The installation of a paint cabinet for moulds allows operators to work in a clean atmosphere, because the exhaust system continually refreshes the air in the cabinet, avoiding the concentration of volatile organic compounds (VOCs).

The mould removal process is done in a soundproofed cabinet built with sound-absorbing panels, which in addition to reducing the noise generated in the activity, keeps the dust from being transferred to the rest of the building, thus preventing diffuse emission of particles and improving the work environment inside the building.



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5.3 PEOPLE MANAGEMENT

5.3.1 RESPONSIBLE PEOPLE MANAGEMENT POLICY

"DF's staff are the Company's main asset"

DF has a range of companies operating in **different sectors and countries**. By the end of 2016, DF's average workforce* stood at levels similar to those seen in previous years (1,978 employees). DF thereby ensures that it covers the full spectrum of professionals required by a group with a clear industrial service provision vocation.

Distribution of workforce by professional groups



During 2016, the Human Resources Department concentrated much of its effort on support for the international projects of the different lines, mainly developing the phases prior to the deployment of DF professionals abroad.

People and talent management at DF have likewise focused on the identification and capture of qualified talent, in particular for the Oil & Gas and Energy business lines.

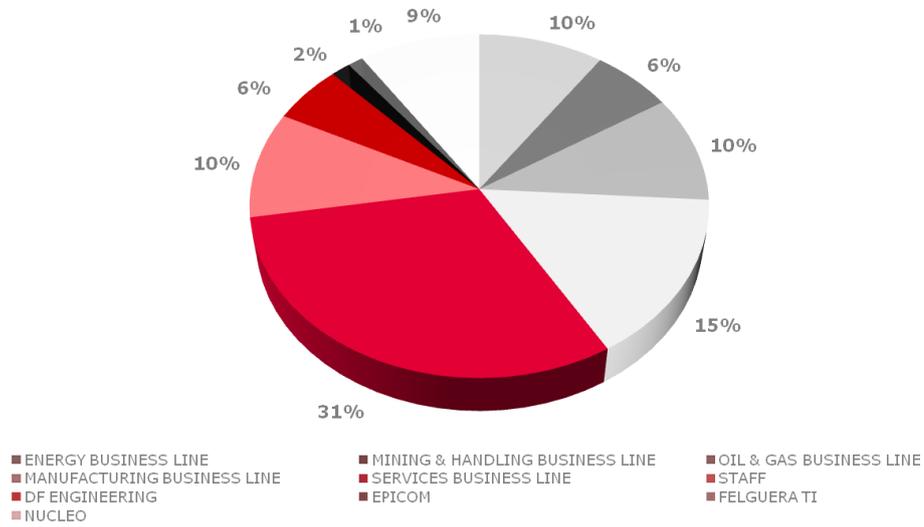
*The group's team is supplemented with local personnel at each location, comprising 402 people at the end of the year (an average of 371 people during the year).



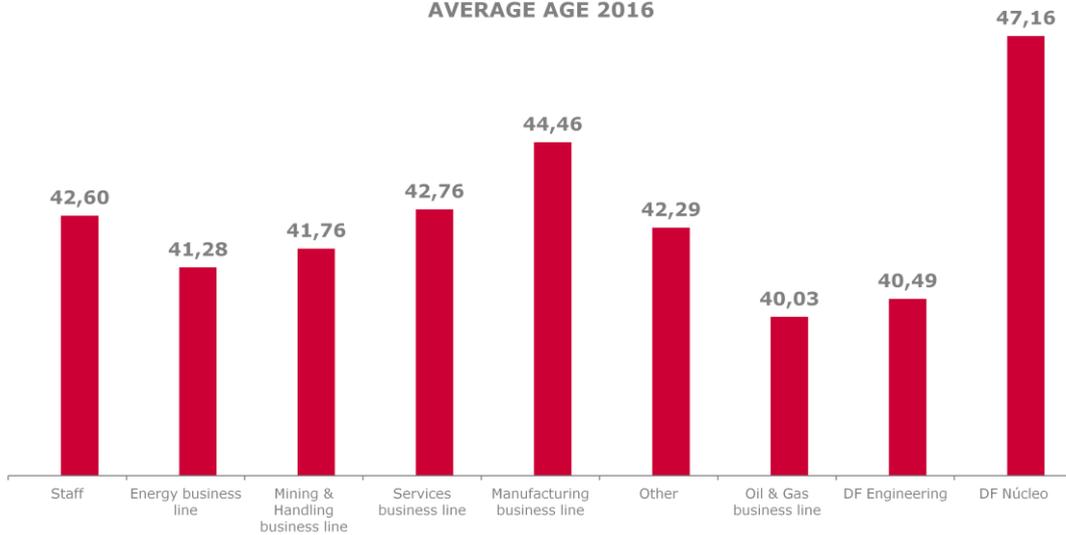
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WORKFORCE AT 31.12.2016



AVERAGE AGE 2016



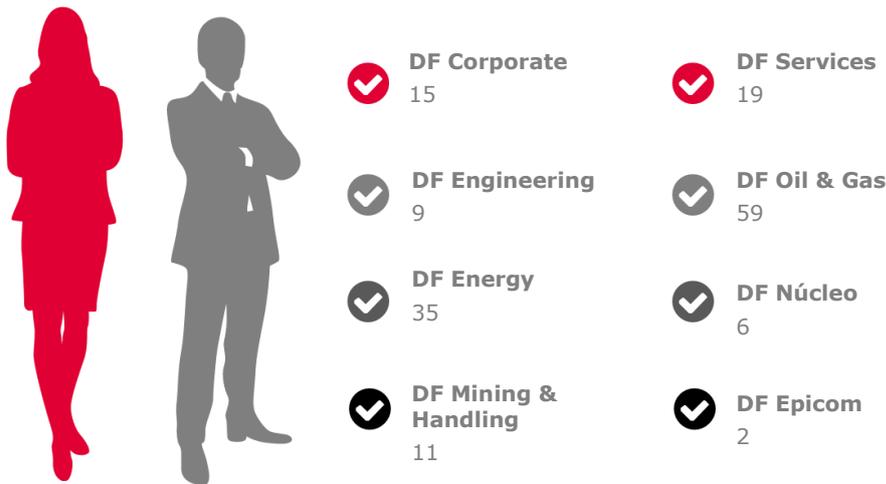


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Recruitment of personnel

156 recruitment processes for employees with experience were carried out in 2016, distributed as follows:



The profile most often required for all positions is for professionals available for international geographical mobility who are interested in making a career in an international environment and possess language skills at a level that enables them to work competently in a foreign language.

The required experience is to have a solid track record in projects similar to those carried out on DF in both size and sector.

The majority of required and selected professionals hold degrees in different specialities of engineering.

The Human Resources Department processed some 5,500 CVs, most of them received through employment portals, official bodies, professional associations and recruitment agencies. In 2016 more than 700 interviews were held for the 156 recruitment processes described above.



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DF's commitments

Duro Felguera defines in its Corporate Social Responsibility policy the nature of the relationship that the Company aims to develop with its employees, structured by means of the following **guidelines**:

- **All kinds of discrimination** in the occupational and professional spheres on the grounds of age, race, colour, gender, religion, political opinion, national extraction, social origin or disability shall be **prohibited**.
- **Respect for the freedom of association and collective bargaining.**
- **Promote increased equality of opportunity and foster a meritocratic corporate culture.**
 - **Recruitment** of employees taking the criteria of merit and capacity, and competences for performance of the functions required for the job into account.
 - **Promoting** the professional growth of employees by ensuring the objectivity of the assessment processes, appraisal of performance and internal promotion.
 - Professional and personal **development** of all its employees, ensuring equal opportunities and promoting diversity through its action policies and other internal procedures at all times.
- Duro Felguera shall promote the active participation of all employees in the **training programmes that the Company** puts in place, getting involved in their own development and undertaking to update the knowledge and skills required to drive their professional development and provide value to customers, shareholders and society in general.
- Duro Felguera shall promote and strengthen **preventive actions** and the continuous improvement of its occupational health and safety levels, for both internal and external personnel. Particular consideration shall furthermore be given to the demands of Spanish and international legislation as regards occupational risk prevention.



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- As a consequence of its commitment in this area, the Board of Directors shall work to establish criteria for the prevention of occupational hazards and to ensure the health and safety of employees. These measures shall include efficient management of occupational hazards in all its subsidiaries and in all countries where the Company operates.

Duro Felguera maintains a firm commitment to the people who work at the organisation, and prioritises the retention of the talent of its human resources. The Company manages talent retention through a range of initiatives, such as the various training programmes that allow for the constant refreshment of employees' skills and abilities.

DF undertakes various initiatives focused on promoting the work-life balance of its employees, including such examples as the adoption of flexible working hours and flexible holiday planning, depending on the specific characteristics of each job.

Prizes awarded to employees

Fair recognition of the commitment and dedication shown by those employees with more years of working experience at Duro Felguera is another of the initiatives focused on the satisfaction of and commitment to the people who work at the Company.

In this regard, in 2016 Duro Felguera handed out Gold and Silver Service Awards to those employees who had completed 35 or 25 years at the Company, respectively. This is how DF expresses its acknowledgement and thanks for so many years of effort and dedication.

Employee training plans

“Duro Felguera shall promote the active participation of its professionals in the training plans provided for them by the Company”

Continuous training and the refreshment of employee skills is the cornerstone of Duro Felguera's corporate culture, as a company that has throughout its long history stood out for its ability to adapt to the new business needs, processes and activities arising in each era. It is also a fundamental element in DF's commitment to its employees, who are offered the chance to develop their professional career entirely at the Company.



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Duro Felguera likewise believes that training and information are fundamental in the development of a risk prevention policy and culture, while furthermore fostering the awareness of staff at DF as regards fundamental issues for any business activity undertaken today, namely health and safety, respect for the environment, ethical principles and quality.

DF training programmes are the result of a periodic assessment process to detect training needs in accordance with DF's general objectives. The Company has in place its FORMA-T platform, allowing for the proactive planning of training programmes so as to support the professional development of employees, to contribute value to customers, Company shareholders and society at large.

Over the course of 2016, the Training Plan received Social Security rebates through the State Employment Training Foundation, as it had done in previous funding rounds.

The upward trend in investment in training compared with recent years reflects DF's commitment to the continuous enhancement of its employees' skills and abilities.

During 2016, 28,395 hours of training were delivered, 22,914 by means of e-learning or remote training. 542 employees attended at least one of the 106 training initiatives undertaken in 2016.

Items	2014	2015	2016
Training Activities	96	78	106
Participants	460	328	542
Training Hours	13,162	11,295	28,395

Expatriate staff: International mobility

Duro Felgera's Human Resources Department pays special attention to an issue that is specifically related to the Company's business evolution: the management of expatriate personnel.

Due to the growing international activity of DF and its subsidiaries, the Human Resources (HR) Department keeps improving a new International Mobility Service aimed at managing and supporting both personnel from Spain who are sent to work



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on projects in other countries and the foreign personnel recruited by the Company. The role of the new service is to facilitate the procedures and conditions of assignment of personnel to international mobility.

In this respect, DF attends to compliance with the formalities and regulations applicable in each case, providing support and following up the worker during the international experience before, during and after the assignment.

The following are the goals of Duro Felguera's International Mobility Service in this context and depending on the specific nature of the assignment:

- **Before the assignment**
 - Planning of the timeframes and formal aspects: basic questionnaire.
 - Clarification of expectations: letter of assignment, remuneration package, objectives, etc.
 - Aid with managing legal issues: visas, work and residence permits, etc.
 - Prior information on the destination: communication with expatriate staff on arrival, cultural aspects, etc.
 - Travel and insurance.

- **During the assignment**
 - Support to the assigned person: tax and social security-related advice, help with relocation, driving licenses, fluctuations in exchange rates, updates on roles, security, periodic visits and satisfaction surveys.

- **On repatriation**
 - Management of repatriation: notification of the end of assignment, assessment of the experience, satisfaction survey and professional future.

Expatriate staff by country

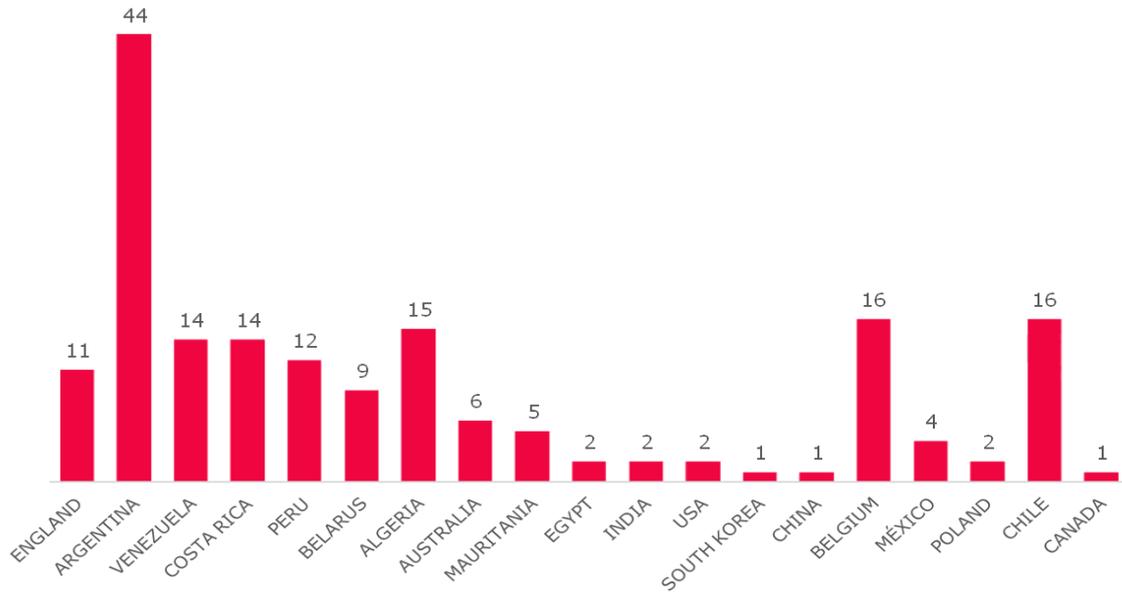
In 2016, DF has registered a total of 177 expatriate professionals on average in the various countries in which it operates.



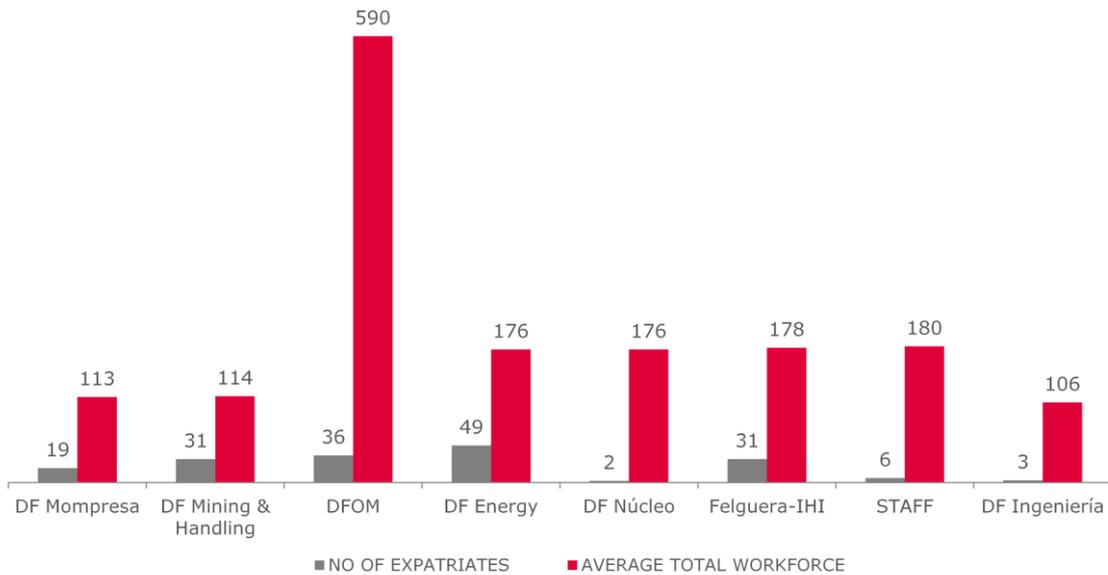
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DISTRIBUTION OF EXPATRIATES BY COUNTRY



DISTRIBUTION OF EXPATRIATES BY BUSINESS





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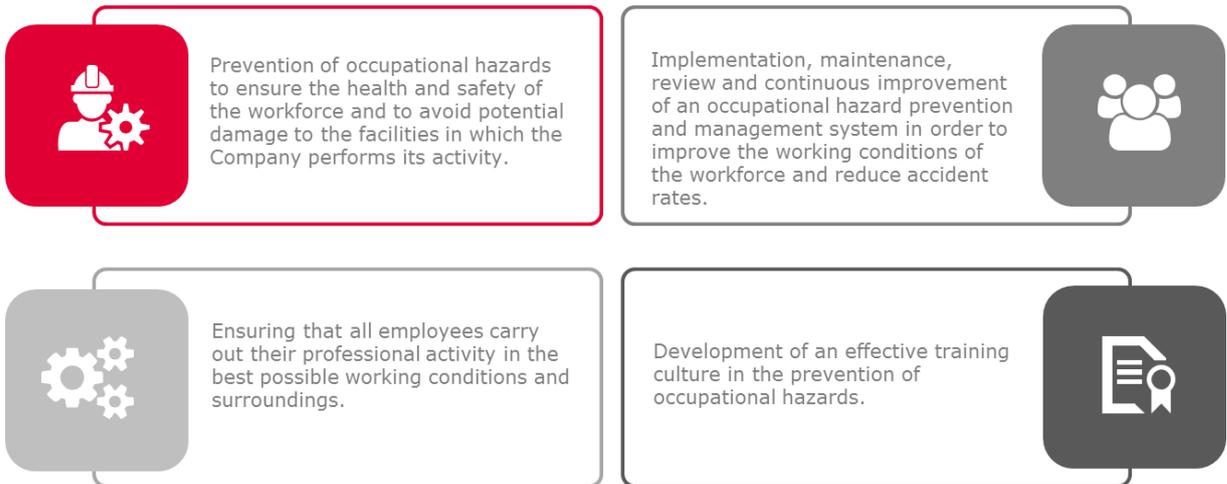
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5.3.2 HEALTH AND SAFETY

All aspects relating to Occupational Health and Safety are strategic and fully consolidated and integrated into the day-to-day running of the Company.

One of Duro Felguera's priorities is to ensure optimum working conditions in terms of occupational health and safety, with a special focus on the preventive actions that the Company carries out to achieve its ultimate goal in this area: reducing the number of accidents in all of its projects and worksites to 0.

As a reflection of its commitment to occupational health and safety, the Company's Board of Directors oversees the definition of a series of criteria for occupational risks prevention, that are based on the following principles, among others:



Effective training culture in the prevention of occupational hazards

DF continues to carry out actions that strengthen its concerted efforts to achieve excellence in the area of occupational health and safety:

- Promote greater integration of the chains of command in all prevention-related matters.
- Drive supervision and monitoring of preventive actions in the area of occupational health and safety.



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- Promote awareness and information initiatives (publication of brochures, newsletters, workshops, use of the intranet and video wall).

Compliance with the Risk Prevention Plan must affect not only DF's employees, but must also be extended to its suppliers and subcontractors, as well as to all visitors, who must follow the safety standards established at our worksites. Duro Felguera also provides specific training in certain aspects if deemed necessary, in order to ensure that the execution of work and visits are safe for them and for the DF team.

As an example of some of the preventive actions that the Company put into practice in 2016, the emergency evacuation plans for the offices in Gijón and Madrid were updated and published in brochures and in the welcome manuals.

Duro Felguera's different business lines and areas carried out various training actions covering occupational health awareness and prevention, using the following formats:



Workshops



Online courses



Classroom courses



Publications

DF has a coherent and appropriate policy in the areas of occupational risk prevention, as a reference framework to guarantee that the management of occupational risks is done effectively at the different levels of the organisation.

Duro Felguera Joint Prevention Service

The Duro Felguera Joint Prevention Service (SPMDF) has successfully passed the sequence of required processes of the Regulatory Audit of the Occupational Risk Prevention Management System. The DF group has invested a large amount of human, social, economic and organisational efforts to incorporate occupational health and safety (OHS) into the different units as another activity within the



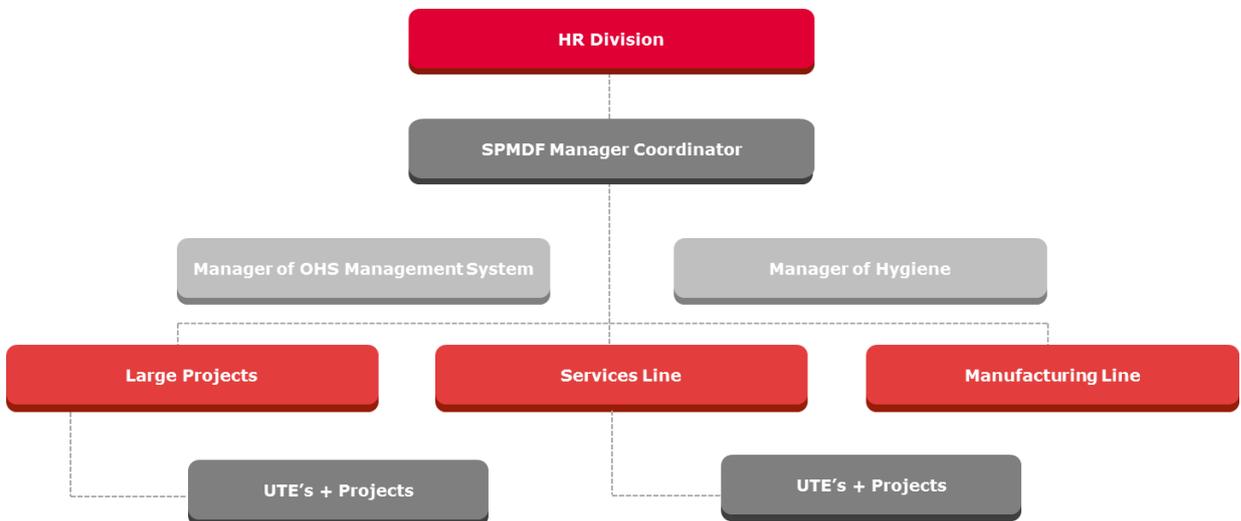
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business management framework, which has in practice resulted in the application of multiple measures and the development of the necessary activities.

The preventive organisation model adopted by the DF Group of companies is known as the Joint Prevention Service, a specific technical unit that forms part of the Human Resources Department.

- Structure of DF Joint Prevention Service



DF Joint Prevention Service (SPMDF) is provided with the necessary human resources through affiliated professionals qualified in the preventive disciplines and the material resources required to carry out preventive activities.

DF Joint Prevention Service is complemented by outsourcing the Occupational Medicine discipline by signing an agreement with an external prevention service to meet the legal obligation to ensure that the health of our workers is checked regularly by applying specific medical protocols based on the risks inherent in the job.



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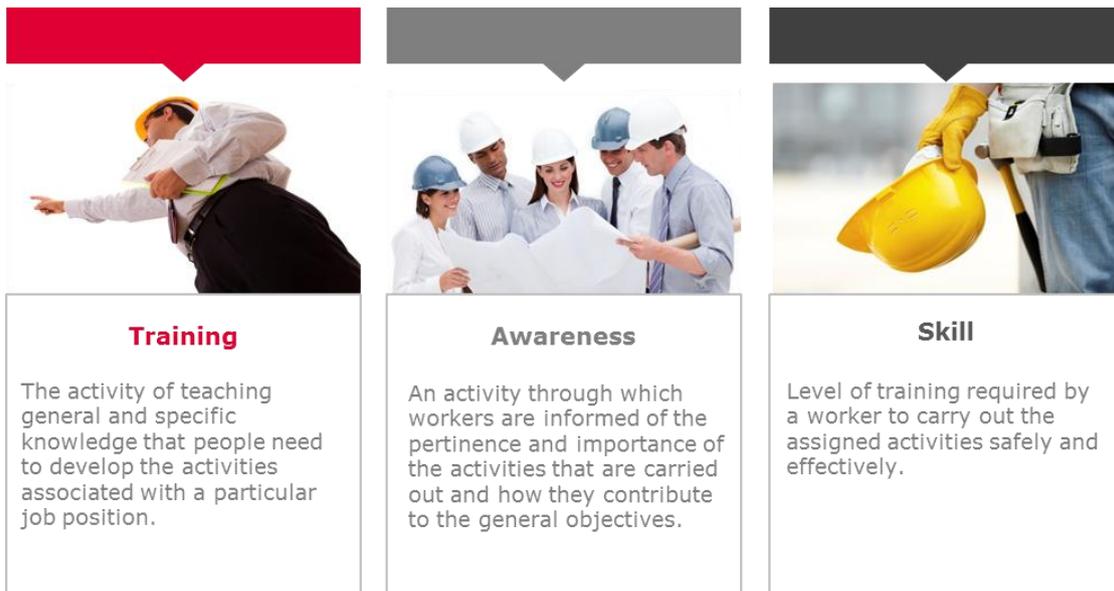
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OHS training and awareness

Safety training

Due to DF's commitment to the safety of its workers, training in best practices for the prevention of occupational risks is considered to be mandatory, going beyond the requirements of the applicable legislation in each country in which it carries out its actions, in addition to the requirements in OHSAS 18001 and customer requirements with which DF agrees to comply.

Three necessary processes have been established to guarantee that workers perform their activities safely:



At the end of each year, the people in charge of each area and the OHS Manager (in the aspects related to occupational health and safety) will detect the needs in regard to training, information and awareness of the employees under their supervision.

The OHS Manager is also responsible for proposing the necessary awareness campaigns to ensure that employees are aware of the importance of compliance with the policy and procedures, their functions and responsibilities in the area of



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prevention, as well as the potential responsibilities as a result of their activities in the area of occupational health and safety.

The corporate intranet provides DF's employees with access to information on occupational risk prevention, such as: awareness campaigns on handling of loads; overexertion; road safety advice; protocols in case of accidents; evacuation plans; basic concepts of first-aid; instruction in the handling of extinguishers; documents on risks in the office sector; etc.



There is also a system of ongoing training that is available to DF employees on the Group's intranet, where they can request the necessary OHS training.

For the projects and activities that the Company may carry out in external installations, the training and informational activities that are planned for workers may be included in the specific plans that are prepared for the activities in question and the worksite Prevention Supervisor (or, if there is no Prevention Supervisor, the OHS Manager) shall be responsible for managing them.



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In order to integrate **new hires** into the Company's culture of prevention, they receive information on the general and specific risks of their tasks, and the pertinent preventive, protective and emergency measures.

In the specific case of workers hired directly at the worksite, the Prevention Manager assigned to the worksite is responsible for providing the necessary basic information.

Once the initial basic training has been completed, and depending on the job to be carried out, the necessary training activities shall be determined to properly qualify the new worker in regard to occupational health and safety.

The number of hours of training given increased to 35,000 in 2016, showing the Company's commitment to transfer knowledge and provide adequate training to allow safe task development. Occupational risk prevention is an element that is integrated into all of the business lines and organisational levels. All aspects relating to Occupational Health and Safety are strategic and fully consolidated and integrated into the day-to-day running of the Company.

More than 5,000 training sessions given to staff and external personnel have helped to automate practices, procedures and protocols, with DF spreading best practices in the execution of work to its partners and involving them in the organisation's culture of prevention. And all taking into account global work environments, in which there are often clear differences in regard to the culture of prevention.

Important actions

Over the course of 2016, **hygiene actions** were carried out with a representative population of more than 300 workers. In addition to these direct measurements of real working conditions, 927 non-personal environmental samples were taken to complement the direct measurements and provide the necessary arguments to evaluate the work environments in which the work is performed as a whole. The target results, supported by 329 analyses, were communicated in 84 hygiene reports, which were in turn communicated to workers to inform them of their scope.

The conclusions obtained are reviewed and communicated to the Health Monitoring Service, which then transfers them to the defined medical protocols. A total of



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2,200 health examinations were done under these protocols in 2016. In cases that require it, these examinations are complemented by specific analyses and tests that provide an accurate profile of the status of the worker's occupational health. Through the website provided by the SPA, workers can consult the results of their health examinations, as well as their past records.

The health actions are not limited solely to monitoring a series of parameters. Throughout 2016, DF has moved towards a Healthy Business model, putting into practice initiatives to spread information on healthy habits, health recommendations for international travel, etc. The international nature of Duro Felguera's activities increases the diversity of the different health aspects. For this reason, in 2016, a health protocol was prepared and provided to all employees who were working or living abroad. This protocol is activated upon their return to Spain, and it is intended to detect latent pathologies that do not present symptoms, allowing them to be treated before a disease develops.

Performance indicators

In terms of **accident rate**, the number of accidents involving sick leave dropped again. In comparison with the three previous years (2013-2015), the number of accidents involving sick leave dropped 12%*, resulting in an incidence rate for the Company of 2.73%. In 2016, this figure confirmed the steady downward trend in the workplace accident rate at DF, once again achieving the best figures since the Joint Prevention Service was set up in 2003.

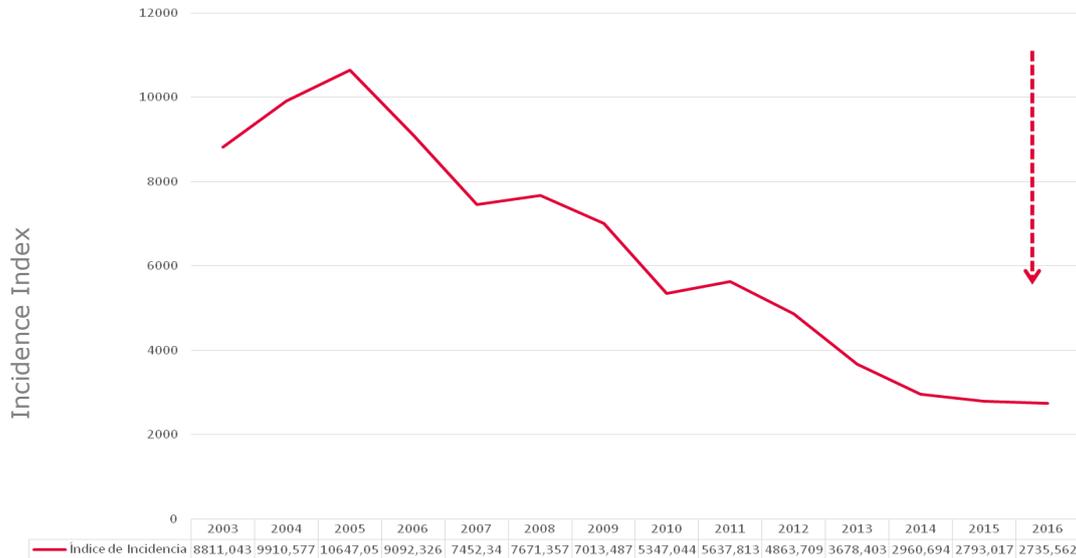
(*) Criteria of Directive 89/391/EEC (ESAW: EUROPEAN STATISTICS ON ACCIDENTS AT WORK).



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Evolution of DF Accident Rate



Duro Felguera's international aspirations, along with stringent customer requirements in this area, mean that it is necessary to maintain not only a series of standards of efficacy of OHS, but also to hold global certificates that demonstrate this. Along these lines, and awaiting the upcoming publication of the ISO 45001 standard, the standard OHSAS 18001:2007, implemented by Duro Felguera in 2005, provides the necessary international guarantee required to maintain our level of competitiveness.

DF's performance in the area of Health & Safety does not go unnoticed by its customers, who demonstrated its importance through a variety of awards and specific acknowledgements in 2016.

These include the recognition of Felguera-IHI by PETROPERÚ for its work on the Talara refinery (Peru), the award to DF Energy by ENAP for its work on the Aconcagua Cogeneration Plant (Chile) and the recognition of DF Mining & Handling by EZZ ROLLINGS MILLS for its "exemplary work" on the Iron-Oxide Pellet Terminal in the Port of Sokhna (Egypt).



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One of the more important distinctions and awards received by DF in the area of occupational health and safety was the recognition of DF Energy by the United Kingdom Engineering Construction Industry Association (ECIA) through the NJC Award for Safety in Engineering Construction. The award recognizes DF Energy's performance in H&S in the work on the Carrington combined cycle plant, with the award taking on increased importance when the high standards for Health and Safety in the United Kingdom are taken into account.





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5.4 HUMAN RIGHTS

Principle 1 of the Global Compact **"Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence"**

Principle 2 of the Global Compact **"Businesses should make sure that they are not complicit in human rights abuses"**

Duro Felguera is firmly committed to the **United Nations Global Compact**, and as a result espouses the 10 principles that it sets out. This commitment is a guarantee that societies and companies will respect human rights. The Company likewise aims to extend these principles, and the best practices derived from them, to its entire value chain and all its stakeholders.

DF is aware of the need for its employees and stakeholders to understand the content of such fundamental publications at the **International Charter of Human Rights and the International Labour Organization Declaration on Fundamental Principles and Rights at Work**.

It likewise gives equal importance to informing its employees of its Code of Conduct, in order to prevent the Company, its representatives or workers from potentially being involved in any violation of the aforementioned rights in any high-risk regions where DF might be present.

Freedom of association

Principle 3 of the Global Compact **"Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining"**

All DF employees are covered by the employment regulations applicable in each of the countries where it operates. DF respects and promotes freedom of association and the right to individual and collective bargaining.

In those countries where this type of practice is not the norm, or could even be considered illegal, Duro Felguera shall take particular caution and apply supervisory measures to ensure compliance with the conditions agreed with its workers, extending and imposing these best practices on its suppliers and subcontractors.



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Forced and child labour

Principle 4 of the Global Compact **“Businesses should uphold the elimination of all forms of forced and compulsory labour”**

Principle 5 of the Global Compact **“Businesses should uphold the effective abolition of child labour”**

Forced or compulsory labour, understood as any labour or service obtained from a person through threat or punishment, and without the voluntary decision of the worker, constitutes an undesirable practice to the eradication of which Duro Felguera makes a highly significant contribution.

In harmony with the ILO, which determines the minimum age for the commencement of employment as being no lower than the age when mandatory schooling ends in each country (and in all cases no lower than 15 years, rising to 18 years for hazardous jobs), Duro Felguera shows particular sensitivity and commitment regarding the eradication of child labour in any professional activity.

The Company rejects the use of this type of labour in its professional activities, likewise extending this principle to its supply chain, so as to collaborate in the eradication of such practices. Duro Felguera does not allow any of the products that it acquires in order to perform its operations to be derived from child or forced labour, nor does it allow any of its subcontractors to make use of such practices.

Through assessment of the level of risk in the supply chain, the Company takes into account variables such as the country where the supplier operates, the nature of the supply and the type of activity performed. DF focuses in particular on those circumstances or geographical regions where the risk is higher, enhancing preventive measures in order to avoid the occurrence of any such practices.

In order to ensure strict compliance by its suppliers or subcontractors, DF reserves the right to conduct audits of their working premises.

To provide greater oversight of compliance with Principles 4 and 5 of the Global Compact, DF has in place an **incident hotline**, allowing the Company to be informed of any such practice that might have been noted, so as to investigate.



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In 2016, DF did not register any grievance or report of any violation of human rights, nor was it served notice of any incidents or concerns in this regard.

Discrimination and equal opportunities in employment

Principle 6 of the Global Compact "Businesses should uphold the elimination of discrimination in respect of employment and occupation"

Duro Felguera shall aim to improve the Group's competitiveness and shall foster job opportunities for its employees through the application of management practices based on diversity and equal opportunities. DF forbids any type of discrimination in the employment or professional sphere on the grounds of age, race, colour, gender, religion, political opinions, national or social origin, disability, or any other attribute or condition of an employee other than strictly professional criteria.

DF effectively implements its support for and commitment to the application of the public policies established in order to promote more equal opportunities and a meritocratic corporate culture in all processes connected with employees and their professional operations. The Company therefore conducts the processes of recruitment, promotion, performance measurement and remuneration of its professionals by taking into account criteria of merit and ability, and the skills and functional performance required for each job.

The Company is likewise committed to avoiding any discriminatory practice as regards employment conditions among employees of the same rank, position and functions, avoiding any type of discrimination or favouritism. Remuneration is paid in accordance with the established collective bargaining agreements, complying at all times with the applicable employment regulations, without any form of discrimination.

As for the relationships established among employees, DF maintains control over the working climate, and does not allow any of its employees to encroach on the dignity of others, nor to inflict or suffer any humiliating or offensive treatment, and strictly forbids any type of discrimination.



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5.5 CUSTOMERS

“Duro Felguera puts quality at the centre of its customer relations, which guarantees work that is well done and fulfilment of expectations”

Duro Felguera places great importance on its customers, which it considers to be essential for planning its activity and the continuous improvement processes aimed at professional excellence.

The Company has the capacity to offer a wide variety of products and services anywhere in the world, respecting the 10 principles of the Global Compact in all of its operations, and accepting the following commitments:

01	Ensure the maximum professional and quality standards in services provided to customers.	04	Strengthen the environmental image of the Company and its group in relation to their customers.
02	Foster objectivity, honesty and transparency as the guiding principles in all relations between the Company and its customers.	05	Continuous monitoring of the quality of the service provided to customers.
03	Encourage courtesy, politeness and cordiality in relationships with customers, always respecting their rights, concerns and diversity.	06	Compliance with and enforcement of the provisions of the General Code of Conduct of the Company.

5.5.1 QUALITY MANAGEMENT

In regard to quality management, Duro Felguera has employees who are specialised by disciplines (civil, mechanical, electrical, instrumentation, control, quality management, etc.) with proven professional experience, which enriches DF's vision and coverage and enables it to solidly manage the levels of quality in all of its projects.

The engines that drive the spirit to improve the Organisation are the diversity of scenarios, technology, locations and challenges that DF has faced over the course of its history and that are also present in the Company's current context and the many projects that it carries out.



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Duro Felguera is working to consolidate the quality systems that ensure, guarantee and improve all of its processes continuously, with the ultimate goal of guaranteeing a culture of quality in all of the Group's business lines.

Continuous improvement is one of the main objectives, which undoubtedly involves a flexible attitude in response to the requests and changes requested by the customer throughout all phases of a project, as well as in response to the constantly changing circumstances and opportunities offered by the market.

As part of this commitment for the continuous development of Quality Management Systems and their certification, according to international standards, all ISO 9001 certificates in all business areas have been maintained and/or renewed.

In addition to the aforementioned quality certifications, several companies in the group have even more demanding certifications:

DF Núcleo

Pecal 2110 ed3. PECAL standards are a combination of the requirements of Spain's Ministry of Defence, plus specific NATO requirements for quality management that suppliers must comply with.

En 9100:2010. Provides a specific focus for companies in the aerospace sector, adding additional requirements to UNE-EN ISO 9001. Its objective is to increase quality, reliability and safety of aerospace products.

DF Calderería Pesada

- N Certificate (N-3646) ASME III (Nuclear)
- NPT Certificate (N-3758) ASME III (Nuclear)
- NS Certificate (N-3881) ASME III (Nuclear)
- U Certificate (U-20976) ASME VIII Div.1
- U2 Certificate (U2-25364) ASME VIII Div.2
- S Certificate (S-25363) ASME I
- NB (ID 5125) National Board
- R Certificate (R-2325) National Board
- PED 97/23/CE Mod H



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DF Operaciones y Montajes

- A Certificate (A -39665), ASME I
- S Certificate (S-39667), ASME I
- PP Certificate (PP-39666), ASME I

The principle of transparency, permeability and guaranteed professionalism

Duro Felguera pays special attention to ensure that contract terms are understood clearly and transparently by the customer. The final objective is for the customer to have the best technical offering within the contract budget, respecting the pertinent best practices at all times.

In order to guarantee worker skills in the Group, DF has processes to train its employees, as described in the training section of this report.

5.5.2 R&D+I

Duro Felguera carries out intensive research, development and innovation, implementing projects aimed at obtaining new products, designs and processes that allow the Company to solidify its presence in international markets.

During its more than 150 years of history, DF has experienced different transformations that have allowed it to maintain and consolidate itself as one of the Spanish business groups with the greatest international presence. The research and development work that the Company has undertaken over its long history has made it evolve into a specialist in EPC projects with these transformations.

The Company has the position of the R&D+i Coordinator with the aim of promoting research, development and innovation work and improving coordination in this area between the subsidiaries and business lines.

The goal of this position is to establish a common reference point for all subsidiaries of the group for coordination and advice on seeking funding for new R&D+i projects or to recover the investment already made.



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There is also an Innovation Suggestion Box that is available to all employees on the corporate intranet where they can contribute suggestions.

DF's commitments to innovation has been maintained to the levels seen in recent years. Over the course of 2016, new projects have been undertaken from a variety of business lines, allowing DF to maintain its position as a technological leader.

Duro Felguera is one of the founding members of the "Polo de Acero" non-profit business association in Asturias. Its objective is to promote innovation, technological development and research applied in the area of steel production and transformation. In 2016, DF strengthened contacts with other members of this association to search for synergies and developments, and hopes to start with the first collaboration projects during 2017.

In recent years, DF has participated in numerous R&D+I projects at the regional, national and international levels, which have strengthened the Company's technological capabilities, enabling it to anticipate the needs of the market.

R&D+i in 2016

Over the course of 2016, different projects that had been started in previous years were completed, and other more technological undertakings were begun. The investment in innovation has remained at levels similar to those of earlier years, demonstrating DF's commitment to R&D+I to maintain its position as a technological leader.

DF Calderería Pesada has successfully completed a project aimed at optimising the thicknesses of the manufactured equipment by using high-yield strength materials. An ambitious project has also been started to develop new more efficient methods to manufacture and inspect its products.

DF Mompresa completed the development of a new Mobile Biomass Drying system in the first quarter of the year. The system's technical quality has been recognised by the Centre for Technological Industrial Development (CDTI) which has supported the initiative by providing funding through ERDF.

Also, the **Logistical Systems** department of DF Mompresa has been working intensely on the modification and upgrade of its automated storage systems,



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focusing on two of its main products, Nalón N8 and Narcea P5 (automatic truck loader and compact motorised shelf, respectively), both with European patents.

DF Operaciones y Montajes has completed a study with high-yield strength thermo-ductile materials to assess whether they can be used without post-welding treatment. The project has opened new lines of research on the metallurgy used in offshore installations to offer advanced technological solutions.

Over the course of 2016, **DF Rail** developed a new anchoring system using slabs with an adhesive treatment. This project was done in collaboration with a partner specialised in plastic injection and has a European patent application. The initiative has been recognised by the Centre for Industrial Technological Development (CDTI), which collaborates on the financing of the project through European ERDF funds.

DF Núcleo also continued its efforts on R&D+I projects associated with the development and evolution of its products, which are highly technological. The DF subsidiary has improved and incorporated new functions into ten products, such as the ULISES V 5000 voice communication system (VCS), the SHERPA C 5000 SCADA for electrical substations and the management system SHERPA D 5000, to name a few.

Felguera Tecnologías de la Información continues to work on the “Augmented Factory 4.0 (AF4)” project, which is expected to be completed during 2017. The aim of this project is to create a new tool to serve as decision making support in the real-time process industry through a cyber-physical system.

These projects are entirely developed by the Company’s in-house staff, often in partnership with different technology centres and universities to achieve the best possible solution.

5.6 SUPPLIERS

Duro Felguera has in place an Internal Management Standard for procurement, detailing the processes and checks to be applied in the contractual relationship with suppliers.



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Said Standard specifies that suppliers will be subject to rigorous control by DF by means of:



Evaluation of the inherent quality of the product or service



Compliance with delivery deadlines



Compliance in presentation of the required documentation



General assessment

Duro Felguera believes that sound management and oversight of the supply chain are vital to the success of its professional operations. DF takes into consideration the risks to which it is exposed due to the fact of establishing commercial relationships in countries where, for various reasons, there is a higher probability of violation of certain of the rights and principles upheld by the Global Compact.

DF performs such oversight in order to eradicate any malpractice and to improve the management of potential negative impacts by suppliers, in economic, social and environmental terms.

Main supplier risks:

Operational Risks	Risks regarding sustainability, environment and society	General risks
		
<ul style="list-style-type: none"> • Breach of deadlines • Interruption of supply and service • Quality of the supply or service • Economic risks • Product quality • Technical capacity • Deviations from the budget 	<ul style="list-style-type: none"> • Environmental impact • Respect for human rights • Respect for internationally proclaimed labour rights • Health and safety both of its employees and the value chain • Ethics and transparency in procurement processes • Anti-corruption 	<ul style="list-style-type: none"> • Product type • Type of activity • Country of origin • Type of supplier



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Following the compilation and gathering of all data, DF draws up its supplier risk map.

Approval and alignment with the principles of DF

Duro Felguera aims to work with suppliers that are aligned with the Company's concept of sustainability.

All suppliers are subject to an approval process and periodic controls. In order to be in a position to conduct the process, the supplier must sign a commitment to our Supplier Code of Conduct, a document aligned with the General Code of Conduct and reflecting the behaviours expected of our suppliers, and their familiarity with and application of the 10 principles of the Global Compact.

The principles set out in this code include:

- Commitment to perform their operations in accordance with all applicable laws, regulations and standards, in addition to all undertakings given to Duro Felguera.
- Establish supervisory mechanisms to combat any form of corruption and bribery in performing their operations.
- Espouse internationally acknowledged ethical principles, in particular human rights, worker rights and public freedoms.
- Strictly comply with the legislation in force as regards occupational health and safety, so as to ensure that all employees enjoy a safe and healthy workplace.
- Conduct their commercial relationship in an ethical and transparent manner, basing their performance on the quality of the products and services that they provide to Duro Felguera.
- Strictly comply with environmental legislation and the applicable environmental obligations.
- Foster open and participatory dialogue with stakeholders, in particular those affected by the activities performed for Duro Felguera, or in its name.
- Respect the rights of ethnic minorities, and foster the development of the communities where they operate.
- Compliance with data protection, guaranteeing, among other aspects, the privacy and confidentiality of any data accessed, and likewise adopting any security measure that might be required for this purpose.



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If DF, during the term of validity of a contract, detects any serious breach of the supplier's obligations, it will notify the Purchasing Unit and Legal Consultancy with all possible haste, requesting their collaboration in resolving the matter, if necessary.

DF provides training on its premises for those service suppliers deemed necessary for the optimal performance of its operations.

Purchases
Flowchart



Supervisory mechanisms for compliance and development

In the event that a product or service supplier is deemed critical in order to win potential contracts with customers, and any evidence is noted of possible breaches of the established clauses, DF may request that audits be performed to certify compliance with the commitments in terms of both product and service quality, and fulfilment of environmental and occupational health and safety standards, and also respect for human rights. Audits of suppliers may be performed either by DF personnel or by third parties.

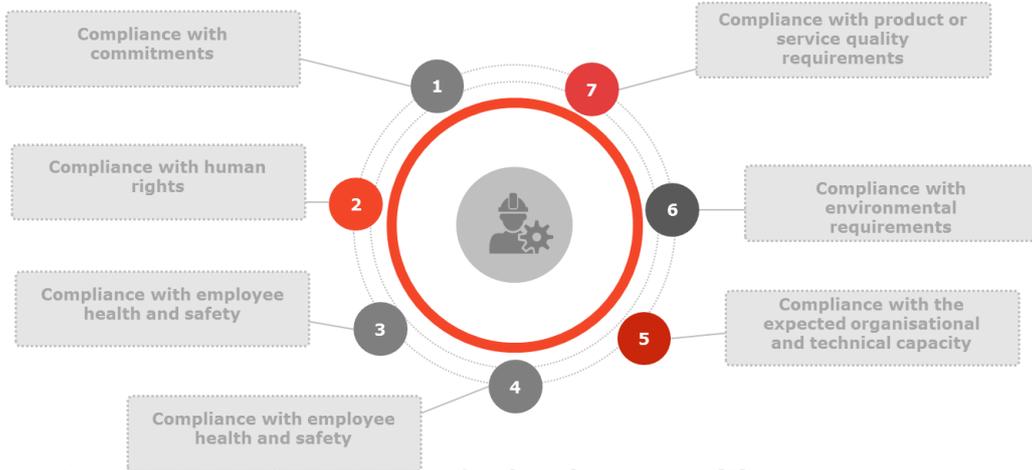
In 2016, more than 1000 inspections were performed at factories and construction sites throughout the world, placing a particular emphasis on those locations where there is a higher risk of a breach of the principles of the Global Compact. In addition to justification of compliance with the aforementioned requirements, this also serves to improve suppliers' production processes. Upon conclusion of each contract, DF conducts an evaluation of the supplier, which will be sent to the



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Purchasing Unit for consideration in future procurement processes. This evaluation shall include at least the following subsections:



Support for local communities

Wherever possible, in accordance with the principle of supporting the communities where it operates, Duro Felguera shall give priority to local suppliers, so as to foster the development and improvement of the community in question.

The table below indicates the volume of purchases that DF makes in each country where it performs a particular project (ON), and purchases intended for the project that are made outside the country (OFF).

project country	%off	%on
Algeria	67.94	32.06
Argentina	8.92	91.08
Australia	0.00	100.00
Belgium	99.25	0.75
Belarus	24.55	75.45
Canada	82.99	17.01
Chile	47.56	52.44
Colombia	28.81	71.19
Costa Rica	81.81	18.19
Egypt	94.63	5.37
Mexico	93.01	6.99
Peru	9.18	90.82
United Kingdom	0.90	99.10
Venezuela	55.54	44.46



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5.7 SOCIETY

“DF acknowledges the rights of ethnic minorities in the countries in which it operates”

Duro Felguera is aware of the social and cultural differences of the ethnic groups and peoples of the areas in which it operates, so it pays special attention to the respect of the rights of indigenous peoples and local communities.

To ensure this respect, Duro Felguera maintains constant dialogue with stakeholders in order to produce positive impacts on the community as a result of its activities, confirm that the rights of local communities are respected and align the company's interests with those of the community. In recent years, there has been no record of any violations of the rights of indigenous peoples by Duro Felguera or its collaborators.

Development of the communities in which it operates

The tax-related activity of Duro Felguera is governed by adoption of and compliance with Spanish tax practices, without prejudice to full payment of all taxes, levies and other fiscal obligations to which the Company is subject in the territories in which it operates.

Duro Felguera's Management avoids the use of opaque tax structures, as well as contrived structures not associated with the Group's activities and whose only purpose is to elude its tax burden. Nor does DF transfer its profits to territories with lower tax rates exclusively for tax reasons.

DF hires most of its workers in the zones in which it operates and rigorously complies with local environmental and social regulations.

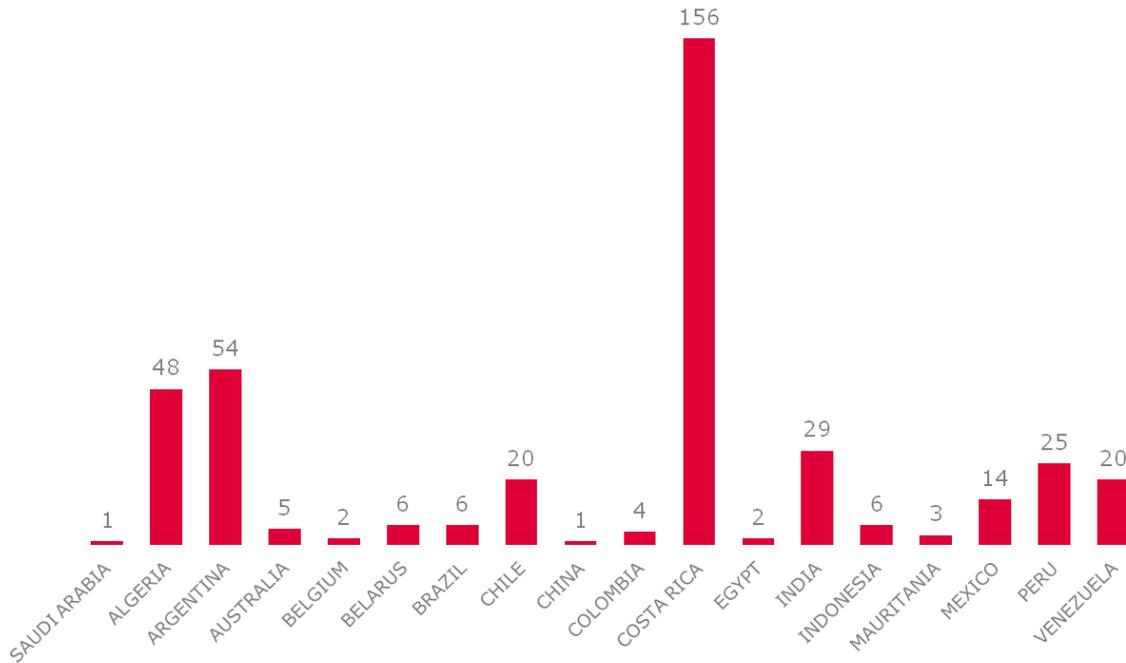


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Local personnel at worksites

402 local workers were employed at worksites on 31 December 2016. An average of 371 local workers were employed throughout the year.



Responsibility and Respect for the Local Community

Duro Felguera complies with all applicable national and international legislation. The Management of DF therefore promotes the responsibility of each employee in the fulfilment of all environmental and social requirements, both nationally and internationally. Likewise, the principles, requirements and operational standards demanded by the customer are transferred to the entire value chain, along with strict compliance with the DF CSR Policy and Code of Conduct, respect for the principles of the Global Compact and respect for the local community.

In those countries where environmental and social aspects reveal circumstances that constitute a higher risk of a breach of the principles and values during the professional operations of DF, precautions and an increased oversight are mandatory, to address any possible violation of international regulations.



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As regards respect for the rights of indigenous populations, the DF team must be trained in understanding how their culture and social variables function, maintaining continuous dialogue at all times, in order not only to achieve transparency, but to understand their expectations. As a result, the information gathered will allow the Company to fulfil and surpass these local expectations, by cooperating on behalf of the society where it operates, and fostering its economic and social development.

As for the development of employment and job creation, DF prioritises local staff from the area where the project is undertaken, at all times in accordance with the required skills criteria. DF likewise prioritises the use of materials from the local context, thereby generating value for the region.

Cooperation on development

Duro Felguera seeks to combine business opportunities and the profits that they can generate, with the positive impacts that the activity in question can produce in the local community. Some of the more evident advantages generated by DF's business activity are the improvement of energy infrastructure that DF Energy's projects produce in a country, the improvement of air communications provided by DF Núcleo's solutions or the contribution to the improvement of local production processes as a result of the control inspections that DF carries out on its suppliers around the world.

DF Energy is currently contributing to the improvement of the power grid in Mexico, where it is constructing the Empalme II Combined Cycle Power Plant, aimed at satisfying the growing demand for electrical power in the north-western part of the country. The plant will be connected to a nearby 400 kV substation. Some of the more important projects completed in 2016 include the Chilca Plus combined cycle power plant in Peru, for its contribution to the improvement of energy infrastructure. The installation is currently in the commercial operation phase, which allows Peru to benefit from the 110 MW produced by the plant and that are fed out to its power grid.

Last year, **DF Services** was awarded two contracts in Argentina in consortium with Siemens Energy Inc. and Siemens, S.A. (Argentina) to build two 127 MW open



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cycle plants in Luján and four 254 MW open cycle plants in Matheu, in the province of Buenos Aires.

Also in Argentina, the Company, along with GE, completed the construction work for the Loma de la Lata open cycle gas power plant for Pampa Energy, and construction work on the San Juan de Río cogeneration plant (Querétaro, Mexico), for the Grupo Papelero Scribe SA de CV, continued to progress at a good pace and is slated for completion in the first half of 2017.

In Peru, in addition to the completion of the construction of the Chilca Plus combined cycle power plant, DF was awarded the contract for the construction work for the completion of the Santo Domingo de los Olleros combined cycle power plant for Siemens.



In 2016, **DF Oil and Gas** was awarded several contracts in Peru to build new equipment and upgrade existing infrastructure for hydrocarbon storage facilities.

The first contract consists of the construction and development of a new gas storage terminal in the Ilo region for *Petróleos del Perú, S.A (Petroperú)*. The



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project will generate significant benefits for the local community, such as direct employment and other associated services.

The second contract for Petroperú in the Andean country is a project for the provision of auxiliary services prior to the connection and commissioning of a 380 MBbls tank in the Talara region, which includes modifications in the scope of the fire-protection system.

Lastly, the Terminales de Perú (TP) project includes the expansion of three hydrocarbon storage terminals in northern Peru (Eten, Supe and Salaverri). The plan was developed after the weather alterations caused by the El Niño phenomenon, such as the pronounced drought that has considerably reduced electricity generation by hydroelectric plants. The goal will be to guarantee fuel supply in the future to the most severely affected regions.

The installations constructed by **DF Mining & Handling** also contribute to the development of the regions in which they are built. The expansion, improvement and modernisation of the Puerto Ventanas Copper Concentrate Shipping System that DF Mining & Handling is constructing in Quintero Bay, Chile, will double the loading capacity of the bulk facility, the most important one in the area, while at the same time reducing its environmental impact.





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In Algeria, DF Mining & Handling is building a Bulk Handling System for the Bellara steel complex, with an estimated yearly production output of 2 million tonnes of steel. The project includes two different actions: on one hand, the installations that make up the port terminal in Djen Djen Port to receive 3.5 million tonnes of iron ore pellets per year, and on the other, the equipment for the storage of the pellets before they are sent to the direct reduction plant (DRI) of the new steel complex.

DF Núcleo stands out in the Duro Felguera group in terms of the development of local communities, since one of the business areas of the DF technology subsidiary is to improve telecommunications systems in the aeronautical sector. Taking into account that some of its main business areas include Control Systems for Infrastructure and Energy, as well as the implementation of advanced aeronautical communication systems, DF Núcleo contributes its professional activities to improve sustainability and energy efficiency, as well as to develop the societies in which it operates by promoting sectors such as the tourism industry (which benefits directly from the increase in air traffic in developing countries).

Some of the most important projects in this regard in which DF Núcleo was involved in 2016 include:

Energy. The systems, designed for smart management (Smart Grids), provide information to guarantee better management of electrical energy.

In this sense, in 2016 DF Núcleo executed two projects at the national level (the Integrated Substation Control System for Red Eléctrica and the Interruptibility Management System) that facilitate efficient management of electrical power throughout the country.

Civilian communications. In 2016 DF Núcleo handed over the project "Upgrade of the Air Navigation System in the Beira FIR", in Mozambique, which makes it the first country in Africa with a complete ADS-B system covering all of its territory. The new equipment will allow an estimated increase in air traffic of around 20%, which, combined with the deregulation of the sector planned by the Mozambique authorities in the next few years, will result in a drop in the price of airline tickets, which is expected to translate into rapid expansion of the tourism sector in the African country.



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Also in 2016, DF Núcleo handed over the international airport in Nouakchott, the capital of Mauritania.



DF Núcleo has also completed the design and integration process for the Mobile Air Traffic Control Tower for Central Africa, which will be delivered in early 2017.

DF Rail signed an important contract in 2016 with the Algerian public enterprise INFATER, to develop a joint company for the construction and operation of a factory to produce railway track devices in Algeria.

DF Rail will contribute its technology and experience in the field of engineering and track device manufacturing to the program to expand Algeria's railway network, with the goal of developing the network by constructing 12,000 kilometres of track by 2025.



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A good example of Duro Felguera's commitment to society and its different groups is its involvement in different organisations, associations and foundations, through different types of collaboration.

Some of these organisations are:

Regional:

Princesa de Asturias Foundation:



FADE – Asturian Federation of Business Owners:





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FICYT – Foundation for the promotion of applied Scientific Research and technology in Asturias:



ITMA Foundation:



National

SERCOBE – National Association of Capital Goods Manufacturers:



Exporters and Investors Club:



Association of Spanish Broadcasters:





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AENOR – Spanish Standardisation and Certification Association:

AENOR

COGEN – Spanish Association for the Promotion of Cogeneration:



Polo del Acero:



CEOE:



Hispano-Brazilian Cultural Foundation:





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International

United Nations Global Compact:



Pacto Mundial
Red Española

IMSA ASPINDO – Association of Mining Companies of Indonesia:

