



ANNUAL REPORT  
2017



*Powered by experience*



DURO FELGUERA, S.A.



ANNUAL REPORT  
2017



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# 01

## LETTER FROM THE CHAIRMAN

Dear shareholder:

2017 was a very difficult year for Duro Felguera, possibly one of the most difficult in the 160 years that this senior member of the Madrid Stock Market has seen. Overcoming challenges and transformation are both constants in the history of the company, which went from being a referent among iron and steel and mining companies in its origins, to manufacturing capital goods and more recently to the turnkey delivery of energy and industrial projects all over the world. Duro Felguera is now facing up to its umpteenth metamorphosis to recover its viability.



The root of the company's problems lies firstly in the concentration of risk in large projects with clients whose capacity for payment was significantly affected by a low cycle in raw materials, with falls in prices of over 50%. Secondly, the fact that bonds were called on in construction litigation has also contributed to this situation; with very high costs this was prolonged over time and led to financial results that were lower than expected. Losses on various different projects led to a gradual worsening of the financial situation in such a way that

towards the end of 2016, the banks decided not to grant further bonds or loans until shareholders made further contributions and certain changes were implemented in corporate governance. This lack of bonds and liquidity, together with the financial weakness, made it extremely difficult to win new projects and led to a significant reduction in production, which in turn generated negative margins because of the greater relative proportion of fixed structural costs.



In November 2017, I became chairman of the Board of Directors as part of the change in corporate government, which also included the appointment of a new independent board member, focused on reaching an agreement for refinancing with the creditors, reviewing the status of projects and litigations, adjusting structural costs and obtaining capital to relaunch ongoing projects, thereby turning the company's operating situation around.

The major milestone in order intake in the year, which closed with sales of 624 million Euros, was the Jebel Ali K project, a 500 MW open cycle power plant in Dubai, whose financial bonds were put up by a local bank. The backlog was affected by the elimination of four projects, for a total amount of 918 million Euros. Net losses were 255 million Euros, which reduced the Company's net worth to -164 million Euros. Things that led to this negative result were the impairment of 46 million Euros for the

outstanding amounts in Venezuela, as a consequence of the classification of the country's sovereign debt; the provisional elimination of 53 million Euros in fiscal credit and the reduction of 57 million Euros in expectations for collection in ongoing litigation. The EBITDA, which was -173 million Euros, would be -70 million if the provisions for litigation and the impairment of the debt in Venezuela are not taken into account. Ernst & Young issued their audit report with no provisos. In relation to the anticorruption lawsuit received in September 2017, the Company carried out a forensic investigation in 2018, and concluded that there was no illicit conduct in its commercial practices in Venezuela; the practices were found to be within the regular legal and commercial limits.

In order to guarantee the Company's viability, which is the Board of Directors' main priority, we could highlight, thanks to its scope and complexity, the refinancing





process which culminated in May 2018 with the refinancing agreement with our creditors, currently being formalized. This agreement, with the accession of 100% of our creditors, consists of reducing the financial affected by 233 million Euros, from 318 to 85 million Euros; issuing convertible bonds to be subscribed in compensation for the credit from reducing the financial debt; opening a new bond line for up to 100 million Euros and the extension or replacement of the existing bonds which are not yet due. Among other conditions, the agreement is subject to the Company's successful completion of a capital increase of 125 million Euros with preferential subscription rights, which will be brought to the Annual General Meeting for approval in 2018, and on which we are working very intensively.

Still within the framework of the refinancing, in 2017 the Company set in motion a Disinvestment Plan for non-strategic

assets, which led to the sale, among other assets, of the corporate building in Madrid in January 2018. This Plan also includes the sale of the subsidiaries DF Núcleo, which has been losing money since it joined the Group in 2011, and DF Rail, which suffers from overcapacity and high costs. Both sales processes are advancing well and we expect them to take place shortly. We have requested and received numerous offers in all the sales processes, and after a detailed assessment we always choose the one that is most attractive for Duro Felguera.

The Company has drawn up a new Strategic Plan, which will be implemented after the capital increase, and which the above-mentioned refinancing viability plan is based on. The main points in the Strategic Plan are the rebalancing and diversification of the business divisions, rigorous risk control to offset lump-sum EPC conditions, project bonds and sizes, a significant reduction in structural costs,

bringing in technologists as partners, and accessing more solvent markets in sectors with higher returns and recurring income. As part of the effort to reduce structural costs, in 2018 Duro Felguera started an organizational readjustment, which will be followed by further changes to increase productivity and added value by 25%.

I should highlight with sincere gratitude the collaboration given and the sacrifices made, and which are still being made, by the many parties involved in this process: the shareholders, who after suffering significant falls in the share price, have been asked to make way for new capital under the terms of the capital increase proposed; the banks, which have accepted a major reduction in the financial debt; suppliers, who have shown comprehension and patience in the inevitable delays in being paid; employees, who have worked harder and made greater efforts so that the Company can operate normally under extraordinary circumstances; and our clients and technologist partners, such as Siemens and General Electric, who still trust in Duro Felguera to deliver their projects and whose support is absolutely essential.

We know that Duro Felguera is more than a limited company. It boasts a name and a

history, and the interest in its survival and success goes beyond its shareholders, creditors and employees. Recovering Duro is a challenge not only from a mercantile perspective, but also from a social and generational point of view, especially for Asturias.

For all these reasons I am convinced that the collective effort and the strength of that intangible value that has always represented Duro Felguera will enable us to relaunch the Company, attracting partners and reinforcing its plans and businesses to make it even stronger, more flexible and more profitable, in such a way as to fulfil its plans and give back satisfaction to our shareholders and pride to our employees.

Thank you for your attention, patience and trust in the new Duro Felguera.



**Acacio F. Rodríguez García**  
Executive Chairman of Duro Felguera





CORPORATE  
GOVERNMENT

02

# MANAGEMENT COMMITTEE



**Acacio F. Rodríguez  
García**

Executive Chairman



**Javier García Laza**

General Director of  
Business Divisions



**Juan José Herrero  
Rodríguez**

General Director of  
Organization and Resources



**José Carlos Cuevas  
de Miguel**

Chief Financial -  
Officer



**Luis M. Deza Gordo**

Business Development  
Director



**Secundino Felgueroso  
Fuentes**

Legal Counsel

# BOARD OF DIRECTORS

## EXECUTIVE CHAIRMAN

**Acacio F. Rodríguez García**

## SHAREHOLDER MEMBERS

Ángel Antonio del Valle Suárez

## INDEPENDENT BOARD MEMBERS

Elena Cabal Noriega

Fco. Javier González Canga

José Manuel García Hermoso

Ricardo de Guindos Latorre\*

Ignacio Soria Vidal\*

\* Appointed independent board members by cooptation by the Board of Directors in March 2018.

## NON-MEMBER SECRETARY

**Secundino Felgueroso Fuentes**

## AUDIT COMMISSION

CHAIRMAN. Fco. Javier González Canga

MEMBER. Elena Cabal Noriega

MEMBER. José Manuel García Hermoso

NON-MEMBER SECRETARY. Secundino Felgueroso Fuentes

## APPOINTMENTS AND COMPENSATION COMMISSION

CHAIRWOMAN. Elena Cabal Noriega

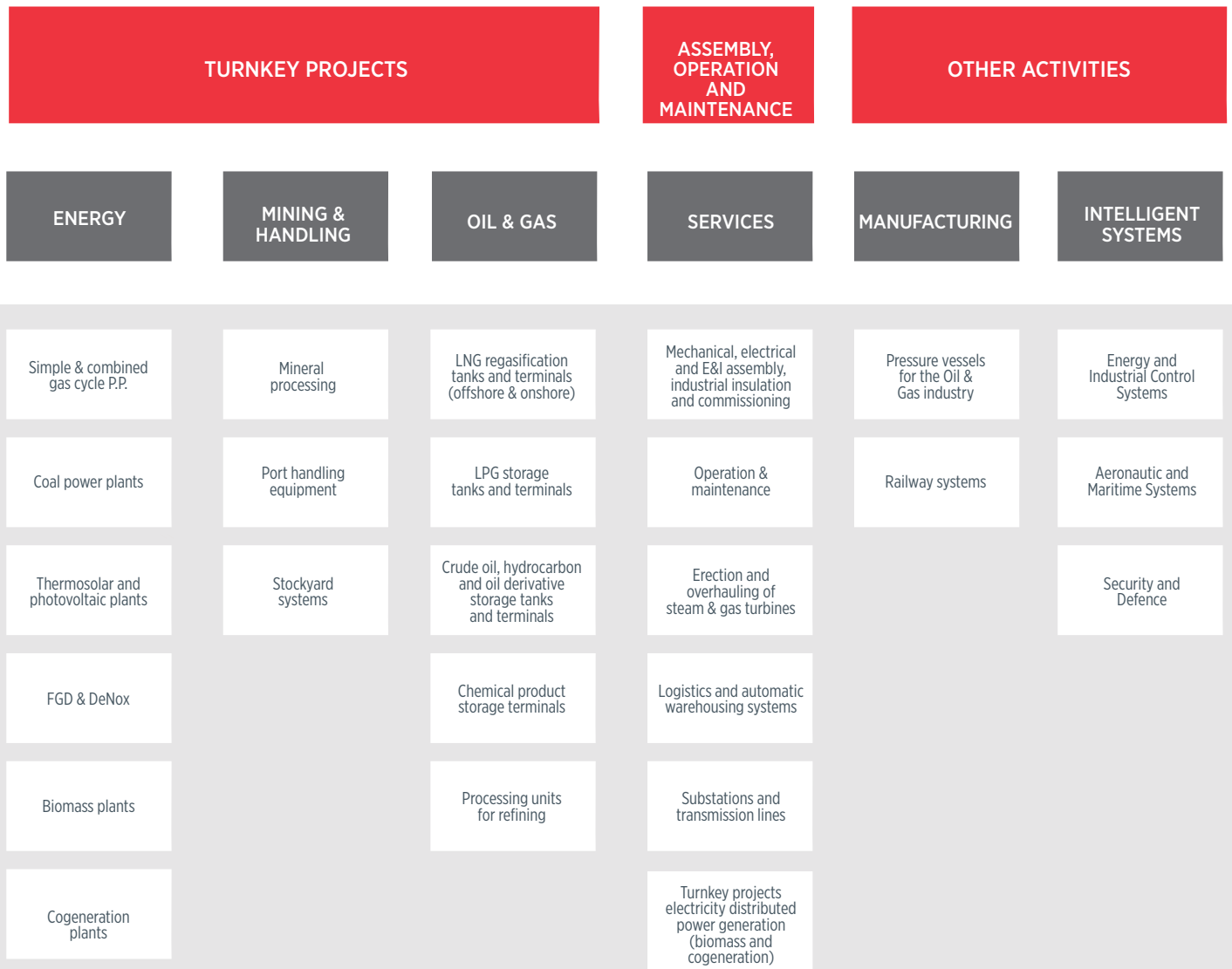
MEMBER. Fco. Javier González Canga

MEMBER. Ignacio Soria Vidal

NON-MEMBER SECRETARY. Secundino Felgueroso Fuentes

*(Data updated on 24 May 2018)*

# CORPORATE STRUCTURE





03

DF IN 2017



# DF IN 2017

In 2017 Duro Felguera had to face up to a situation of reduced financial capacity, which limited its activity in three main aspects: lower sales, negative margins and 7.8% less order intake than in the previous year. Despite the difficulties, in 2017 DF reached 576 million Euros in order intake and 624 million Euros in sales. The Company launched an intensive search for partners in the domestic and international markets, headed by Rothschild, which led to a detailed and rigorous analysis of ongoing projects.

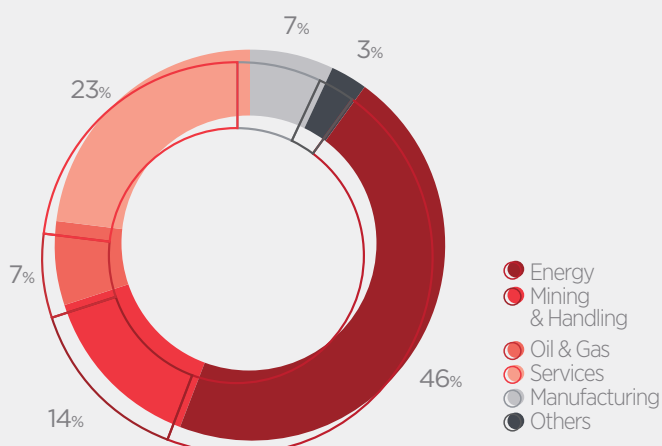
In 2017, Duro Felguera's sales were 624 million Euros, 12% less than in the previous year, as a consequence of the greater relative proportion of structural costs in all business divisions except for Services, where sales grew by over 60% thanks to progress in the Matheu and Luján EPC projects.

By business division, sales in Energy amounted to 284.8 million Euros, 17.6% less than in 2016, because there were fewer projects in the backlog and progress was made on others. Sales in Mining & Handling

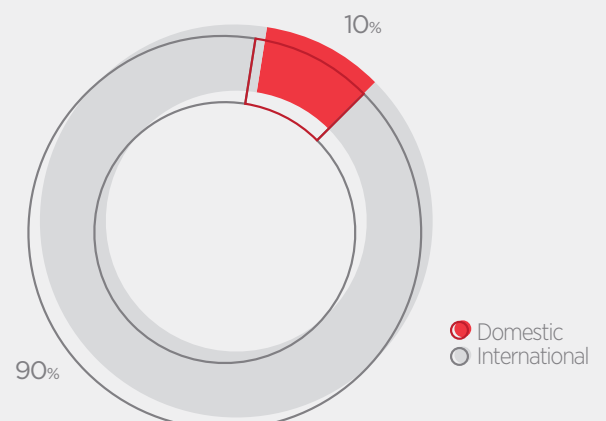
were 85.9 million Euros, 23.1% less than in the previous year, while sales in Oil & Gas were down 36.5% to 45.1 million Euros, as there was less activity in the division and progress on projects was adapted to the Company's cash flow situation.

Sales in the Services division were 144.4 million Euros, an increase of 64.9% in comparison to the previous year. This increase is mainly due to progress on the Matheu and Luján EPC projects in 2017.

SALES  
BY BUSINESS DIVISION 2017



SALES  
BY GEOGRAPHICAL AREA 2017



Sales in Manufacturing were 43.3 million Euros, a fall of 36.7% in comparison to the previous year, due to less business activity at DF Calderería Pesada. Sales in Others were down 17.7% to 20.5 million Euros.

Company sales in 2017 confirm the solid diversification of Duro Felguera's business in recent years, by both business division and geography. Sales in Energy accounted for 46% of the total, followed by Services (23%), Mining & Handling (14%), Oil & Gas (7%), Manufacturing (7%) and Others (3%).

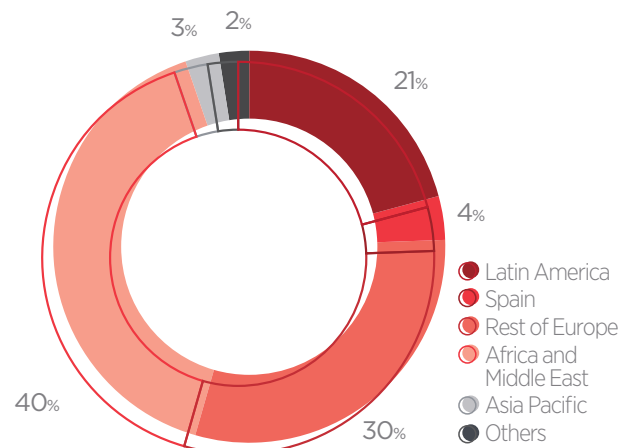
As for sales by geography, Latin America is still the area with the largest share, accounting for 44% of the group's total sales last year. Europe makes the second-largest contribution to DF's income, with 28% of the total, of which 9% corresponds to sales in Spain. Africa and the Middle East accounted for 24% of DF's sales, Asia-Pacific 3.5% and the rest 0.5%.

### DIVERSIFIED ORDER INTAKE AND BACKLOG

Order intake in the year amounted to 576 million Euros, 7.8% less than in the previous year. We could highlight the following projects for their size:

- Jebel Ali "K" 500 MW open cycle power plant in Dubai, for 204 million Euros, financed by the Dubai Islamic Bank.
- Venting gases recovery system for OJSC Naftan in Belarus, for 84 million Euros.
- Coal supply system for the Petacalco power plant in Mexico, for over 130 million US dollars.

### BACKLOG BY GEOGRAPHICAL AREA 2017

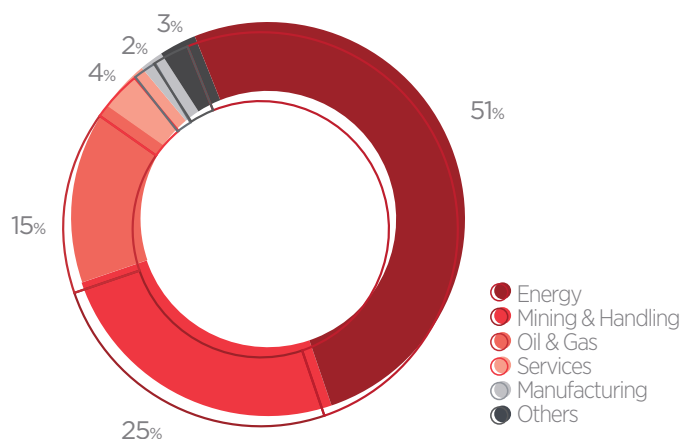


The backlog was negatively affected by two main factors: the elimination of four projects in October with a value of 918 million Euros, and because sales were higher than new order intake in the year. As of 31 December 2017, Duro Felguera's backlog amounted to 1,162 million Euros.

The Company's internationalization is solid and becoming more and more diversified; just over 96% of the backlog is in international markets. In 2017 Africa and the Middle East were the areas with the highest proportion in DF's backlog, with 40% of the total. Next comes Europe with 34% (4% of which corresponds to Spain), Latin America (21%) and Asia-Pacific (2.6%).

By business division, the backlog in Energy accounts for 51% of the total, followed by Mining & Handling with 25% and Oil & Gas with 15%. Services accounts for 4% of the Group's backlog, while Manufacturing and Others account for 2% and 3% respectively.

**BACKLOG**  
BY BUSINESS DIVISION 2017





### CAPITAL INCREASE AND REFINANCING AND TURNAROUND PLANS

As a result of the search for partners, at the end of the year a detailed review of ongoing projects was carried out, which led to adjustments in the EBITDA for 2017, which was -173 million Euros.

The net result for the year was -254.5 million Euros, due among others to the impairment of 17 million Euros in the goodwill and other intangible assets of DF Núcleo, 4 million Euros for the sales price of fixed assets and 53 million Euros from the partial cancellation of assets from deferred tax.

As part of the financial restructuring process started in 2016, the Company received and accepted the terms and conditions of the refinancing agreement with its financial entities.

As detailed in the significant deed dated 11 May 2018, the agreement consists of reducing the financial debt to 85 million Euros and the issue of convertible bonds for 233 million Euros, and is subject, among other suspensive conditions, to a successful capital increase, with an issue premium, of at least 125 million Euros. This refinancing agreement will guarantee equity balance, stability and the future viability of the Company while maintaining as many jobs as possible.

At the end of the year, the net consolidated debt amounted to 271.9 million Euros, an increase of 47 million Euros in comparison to the previous year.

This increase is due to a reduction of the gross debt in the first quarter, combined



with the necessary use of the cash flow to cover working capital needs for projects currently underway.

Within the framework of the disinvestment of assets, the office buildings in Madrid and Las Rozas were sold. This generated c.7 million Euros in liquidity. Duro Felguera is still analysing the sale of other non-strategic assets.

The main indicators in thousands of Euros and percentages are as follows:

	2017	2016
EBITDA	(173,032)	8,564
Working capital	(207,141)	154,919
Net debt	(271,881)	(224,745)
Backlog	1,161,749	2,200,936
Basic and diluted earnings per share	(1.77)	(0.13)
Debt index	254.01%	64.97%

# INTERNATIONAL PRESENCE



Headquarters



Projects



Offices abroad



OUR BUSINESS  
LINES

04





# DF ENERGY

DF Energy is the business division that specializes in the turnkey delivery of all kinds of power plants. It has great international experience and has delivered over 50 projects in Europe, Latin America, North Africa and the Middle East with a total installed capacity of more than 23 GW.



In a market as competitive as the Middle East, a worldwide benchmark, where a major part of gas fired plants are awarded, and so where business potential is especially relevant, in May 2017 DEWA (the Dubai Electricity and Water Authority) awarded DF Energy the contract for the construction of a 500 MW simple cycle power plant in Jebel Ali (United Arab Emirates), roughly 40 km from Dubai.

The project consists of the construction of a two turbine gas-fired open cycle power plant (with Siemens technology). The scope of work under the turnkey mode includes the basic and detailed engineering, the procurement of equipment, civil works and the assembly, supervision and commissioning of the facility. The contract price is 204 million Euros and the it is estimated that the plant will be operative in the first half of 2019.

In 2017 the basic and detailed engineering was completed, the main equipment was purchased, the site studies (geotechnical and topographical) were drawn up, the land was improved and work started on the foundations. The main construction activities, in terms of the civil works and electromechanical assembly, will be taken on in 2018.



This contract in Dubai involves significant connotations for the Company as it is the best presentation card for public clients and private developers in the area.

In Romania, DF Energy started work on the 430 MW combined cycle power plant in Iernut at the beginning of 2017, once the National Investment Plan funds were approved.

The main equipment was purchased in 2017 (GT, HRSG, TV) from General Electric and the basic and detailed engineering work started. The BOP (Balance of Plant) equipment was acquired and the civil works subcontracted.

The piles work was concluded, the civil works started and the first pieces of the main equipment were received on site.

In Mexico, DF Energy – in consortium with Elecnor – continued with construction work on the Empalme II Combined Cycle Power Plant (792 MW), in the municipality of Empalme in the state of Sonora, for the Federal Energy Commission (CFE). Electromechanical assembly was completed in the year and start-up activities were set in motion.

The project is a milestone for the Company, as it involves the installation of one of the most advanced technologies on the market; H-class gas turbine technology.

In Venezuela, despite the context of the country, DF Energy kept going with the India Urquíá Generation Complex EPC project (1,080 MW) in the province of Miranda. The TV10 group was delivered for commercial operation in February 2017.

In Chile, DF Energy kept on working on the Aconcagua cogeneration plant for ENAP, the National Oil Company. The facility consists of a gas turbine and heat recovery boiler and will generate 77 MW in electricity and supply 125 MT of steam per hour to the adjoining refinery.

In 2017, electromechanical assembly work was completed and start-up activities were initiated; the plant was energized and the gas turbine was synchronized.

Work on integration with the refinery for steam delivery will be carried out in the second quarter of 2018. The project was carried out under high health and safety standards, given that part of the work was done inside the refinery. So far over a million man hours have been worked and there have been no accidents involving sick leave, something that should be highlighted in DF's health and safety management, and especially in the personnel working on this project.



In Argentina, the Vuelta de Obligado combined cycle power plant is still working with two gas turbines, providing over 500 MW for the national grid. The steam turbine start-up work was completed, enabling the synchronization thereof, and so the closure of the cycle.

The plant was delivered to the client and it came into commercial operation in March 2018.

In Algeria, 200 km south of Algiers, DF Energy kept on working on the 1,260 MW Djelfa combined cycle power plant, consisting of four gas turbines and two steam turbines configured as a 2x2x1 multiaxis.

Significant progress was made on the project in the year; the main equipment for the power island was received on site and so was the BOP equipment. Sonelgaz continued with the civil works, so that DF Energy can start assembling the main equipment, the main steel structure and electrical assembly.





DF Energy is very much aware of the worldwide increase in photovoltaic solar projects and so continued intensifying its activity in this field, consolidating its position as a main player in the sector to present bids in tenders. In 2017, DF Energy presented bids for over 3 GW in countries such as Spain, Mexico, Saudi Arabia and Chile, among others.

In 2017, DF Energy reinforced its position as a strategic partner thanks to its experience and technical references. Good examples of this are the collaborations with international EPC players in Asia and with OEMs (original equipment manufacturers), and also with Spanish EPC players for the European and Latin American markets. These partnerships were still in force at the close of the year.

# DF MINING & HANDLING

The Mining & Handling business division specializes in the delivery of turnkey projects for mining and solid bulk handling facilities. With over 40 years' experience and a long list of international references, it boasts its own technology and carries out all the phases in EPC projects.



DF Mining & Handling delivers engineering and turnkey projects in bulk handling and mineral treatment. Its experience and own know-how make DF one of the main players internationally in the construction of facilities for mineral handling and treatment, and solid bulk loading and unloading port terminals.

The Company has its own technology and carries out all the phases in a project, from engineering to start-up and operating the facilities it builds in the EPC mode.





In July 2017, the business division won the turnkey contract from Greenfield SPV I, S.A.P.I. de CV for over 130 million US dollars to deliver a series of new facilities for the storage and supply of coal to the Petacalco power plant (Mexico), owned by the Federal Electricity Commission (CFE in Spanish).

The raw materials sector has managed to maintain the recovery which started in 2016, which has enabled investment in the early phases of some mining projects and bulk handling terminals. Furthermore, new market niches have arisen thanks to expectations of high consumption of commodities partially mined to date, such as lithium, graphite, graphene etc.

In 2017 DF Mining & Handling reached its targets in order intake, which reflects the market's trust in its technical capacity and compliance with the commitments undertaken.

The Petacalco power plant, formally known as Central Termoeléctrica Presidente Plutarco Elías Calles, is located in the state of Guerrero and has 7 conventional thermal groups capable of generating 2,778 MW, making it one of the largest generation groups in Latin America.

Among the supplies forming part of the project we could highlight an overland conveyor belt measuring over 6 kilometres in length, connecting the port terminal and the storage park right next to the power plant.





The first months of the project, up to the end of 2017, saw the terrain studies (together with progress in the engineering of the facilities) which enabled the start of earth movement in the first quarter of 2018, in such a way that the delivery of the majority of the structures and equipment is expected in the second half of the year.

In Egypt, DF Mining & Handling completed work on the Ezz Rolling Mills iron oxide pellet terminal in the Port of Sokhna. The acceptance tests were successfully conducted, and complete reception took place in the first quarter of 2017.

Likewise, DF Mining & Handling completed work on the extension, improvement and modernization of the Copper Concentrate Embarkation System at Bahía de Quintero, Chile, for Puerto Ventanas, at the end of 2017. This project, delivered under the turnkey mode for over 30 million dollars, includes the design, construction,

assembly and installation of a system of conveyor belts and an old loader, with a turning capacity and transfer movement of 157 metres. The solution provided by DF will increase the facility's current capacity of 800 MT/hour of copper concentrate to 1,500 MT/hour. When the project is delivered, the port will reach an annual loading capacity of 6 million tons. Puerto Ventanas is already the largest bulk port in the area.

As for other projects underway, we could highlight the value and worldwide transcendence of the Material Handling System for the New Steel Complex Bellara, promoted by Algerie Qatar Steel (AQS) in Algeria. Throughout 2017 and to date, almost all the civil work has been completed and the procurement material has been sent, which enabled the start of construction work on site in accordance with the established schedule.



At the end of June 2017, Duro Felguera, S.A. signed a contract for 84.4 million Euros with OJSC “Naftan”, the owner of the refinery located in Novopolotsk (in the Republic of Belarus), for the engineering, procurement of equipment and materials, the supervision of construction and the commissioning of various systems to improve the environmental performance of the facilities, among which we could highlight the Venting Gas Recovery System.

In 2017, Duro Felguera finalized the engineering phase and the supply of equipment and materials for the Delayed Coking Unit, which is currently under construction. Half way through the year, the two coking chambers were put in place, as was the main equipment for the “Coke

Island”, considered one of the most critical phases of the project. The equipment, which measures almost 9 metres in diameter, 40 metres long and weighs 500 MT each, was manufactured at the DF Calderería Pesada workshop, and then the different pieces were assembled, thermally treated and hydraulically tested in the field.

This project optimizes the use of residue from the refining process, enabling its enhancement by obtaining by-products for subsequent sale.

Both the Delayed Coking Unit and the Venting Gas Recovery System and other auxiliary systems will come into operation in the second half of 2019.



# DF OIL & GAS

DF Oil & Gas is the business division specializing in the delivery of turnkey projects for the different kinds of oil and gas facilities. They carry out projects all over the world, working for the major international operators in the oil, gas and petrochemical industry, specializing in the construction of spheres, cylinders, cooling tanks, semi-refrigerated tanks and high-temperature tanks.

DF Oil & Gas delivers all kinds of engineering and construction projects for the oil and gas industry in Europe, Latin America and the Middle East, especially for the petrochemical and natural gas sector. The business division has plenty of experience in liquefied natural gas (LNG) projects, both onshore and offshore, and in the management of oil products.

Felguera-IHI, a subsidiary of the DF Oil & Gas division, specializes in the storage of fuel, both liquid and gas, by constructing LNG storage tanks and individual storage equipment (spherical and vertical tanks, semi-refrigerated and high-temperature tanks).





In 2017, the Duro Felguera group companies progressed in the project to extend the regasification terminal at Zeebrugge (Belgium) for the Belgian gas operator Fluxys.

The main gas compression boil-off equipment, made at the facilities of the partner IHI Corporation in Yokohama, were delivered and installed. Other important equipment was finalized for gas compression, such as the superheater recipient and the heat exchangers.

Additionally, Duro Felguera made significant progress in the fabrication of the main mechanical and electrical equipment, and the mechanical assembly of the LNG storage tank; the steam barrier

and insulation of the bottom of the tank, raising the roof and concrete, so that work can continue on the tank's main platform structures.

Lifting the roof of an LNG tank is considered the most complex and delicate operation in the construction process, given the millimetric precision required by the ongoing and balanced lifting of the roof.

A pneumatic pressure system was used to raise the roof in a controlled and safe way. The usual difficulty of this kind of work was magnified by the large size of the tank roof in this case, 93.5 metres in diameter and 1,300 MT in weight, making it one of the largest of its kind in the world.



In 2017, Felguera-IHI increased its stake in the Al-Zour LNG Import project by means of PMC (Project Management Consultancy); the project involves the construction of eight 225,000 m<sup>3</sup> total contention tanks for the new plant in Kuwait. It is estimated that the construction phase will finish early in 2021. At the same time the Home Office PMC work is continuing for the engineering phase in 2018.

This is a key contract for the Company, as it is the first time that PMC work has been done on one of the largest Liquefied Natural Gas projects in the world, and which could give rise to further opportunities in this field.

In Bahrain, Felguera-IHI is still working on the turnkey project for the Japanese client JGC Corporation, owned by Bahrain National Gas.

The project includes the engineering, purchasing and construction for a butane tank with a capacity of 15,900 m<sup>3</sup>, which will operate at a temperature of -29°C, and a propane tank of 31,800 m<sup>3</sup> and an operating temperature of -46°C.

The scope also includes insulation, the tank control systems, and integration into the existing systems at the plant. The construction phase is greatly advanced and commissioning is expected in the summer of 2018.





In Peru, work is progressing well on the construction of the new hydrocarbon storage terminal of Ilo for Petróleos del Perú. In 2017, Felguera-IHI started work on earth movement and the perimeter ditch, so that work can then start on excavation and levelling for the foundations and other civil works. The main equipment is being purchased and the tank manufacturing process is also progressing well. The project includes a multibuoy maritime terminal with underwater piping, truck loading and the associated works.

Concerning the project for the assembly and connection of the 380 MB tank for crude oil storage at the Talara refinery, also owned by Petróleos del Perú, Felguera-IHI obtained the Service Reception Certificate in May 2017 after the satisfactory delivery of the last package contracted, for the modification of the firefighting system.

In Costa Rica, Felguera-IHI is still working on the extension of the storage capacity of the RECOPE refinery in Limón, with four new spheres for Liquefied Petroleum Gas (LPG), each with a capacity of 4,000 m<sup>3</sup>, and three 550,000 barrel tanks for

gasoline, bunker and diesel. In 2017 two spheres came into service and work is finishing on the other two.

Furthermore, the mechanical, electrical and instrumentation part of the tanks was finalized, and work is progressing on start-up, and on improving the firefighting system. The remaining main equipment (compressor, steam recovery unit, sphere measuring pads, colouring unit and tank drainage recovery units) was received on site.

In 2017, the Company penetrated the Canadian market with the contract with Gaz Métro Energy Solutions, for the construction of a 20,000 m<sup>3</sup> LNG tank in Bécancour, in the province of Quebec. The scope is divided into two phases, a first one for the engineering necessary to obtain permits and the second phase for the turnkey project for the cryogenic tank (-163 °C).

In 2017, Felguera-IHI successfully finalized the engineering on the first phase of the project, by means of which the client will process the Certificate of Authorization required for delivery.



## DF SERVICES

Consisting of the subsidiaries DF Operaciones y Montajes and DF Mompresa, DF Services specializes in the assembly, review, start-up and operation and maintenance in energy and industrial facilities. The division also delivers turnkey projects for the transmission of electricity and logistical systems.

The Duro Felguera Services Division consists of the subsidiaries DF Operaciones y Montajes and DF Mompresa, and specializes in the assembly, review, start-up and operation and maintenance in energy and industrial facilities, and in the delivery of EPC projects for transmission plants (mainly cogeneration and biomass), substations and transmission lines, and the installation of logistical systems and automatic storage.

In 2017, thanks to the significant order intake from previous years, DF Services substantially increased its sales in energy transmission projects. The other activities

maintained their sales figures thanks to the recurrent nature of contracts of this kind, such as assembly, insulation, operation and maintenance and logistical systems projects.

### EPC TRANSMISSION PROJECTS

In FY 2017, production was mainly focused on the delivery of two projects in Argentina: two 127 MW open cycle power plants in Luján and four 254 MW open cycle plants in Matheu, built in consortium with Siemens for the client consisting of Stoneway Capital Corp. and Araucaria Energy, S.A.

These projects were a major challenge for DF because of the Fast Track delivery. The company achieved progress figures of over 95% in both projects, which meant that they were both satisfactorily finalized in the first half of 2018.

Furthermore, in July of last year start-up work was finished at the cogeneration plant at San Juan del Río (Querétaro, Mexico), for Grupo Papelero Scribe SA de CV. In this project, the contractual values of electrical power and production were surpassed, which led to substantial benefits for the client. The project is currently supplying 23 MW in electricity and 50 MT of steam to the client's paper plant next to the cogeneration plant.

In Peru, we could highlight the finalization of work on the construction of the closure for the Central de Generación de Santo Domingo de los Olleros combined cycle power plant for Siemens. All that remains to do is the commissioning of the facility.

## ASSEMBLY AND INSULATION

As for assembly and insulation, DF Services finalized work on the assembly of the turbo-group at the cogeneration plant of Aconcagua, in Chile.

Mechanical work was done on the piping of the Central Nuclear de Cofrentes, owned by Iberdrola, work that was already done on the previous four occasions.

In the petrochemical sector the division was awarded the contract for the mechanical work at Block 2 for the downtime at the Repsol Chemical facility in Tarragona.

Activity was continued at the facilities of ArcelorMittal in Asturias, and also in the Canary Islands.



## OPERATION AND MAINTENANCE

In the field of Operation and Maintenance (O&M), the initial mobilization was carried out for O&M work at the cogeneration plant in Aconcagua, Chile, an EPC project delivered by DF Energy. O&M will start in the first half of 2018.

Also in the field of cogeneration, O&M services were provided at the facility of San Juan del Río, in Querétaro, Mexico, once Duro Felguera finalized the construction and commissioning phases at the plant.

During the year, O&M work was also carried out at the combined cycle power plants of Manuel Belgrano and Vuelta de Obligado, both in Argentina.

In Spain, DF Services also carried out O&M activity at the Repsol Petronor refinery in Muskiz (Vizcaya), and at the Liquefied Natural Gas plant at El Musel, for Enagás. The business division won a new global maintenance contract for the Sulquisa mine and processing plant, belonging to the Minersa Group. Work will be done at the Natural Anhydrous Sodium Sulphate production facility in Madrid.

As for the biomass generation sector, DF Services continued providing operation and maintenance services at the Ence 50 MW power plant in Huelva, and at the Enemansa 16 MW plant in San Juan, Ciudad Real.







### TURBINE REVAMPING

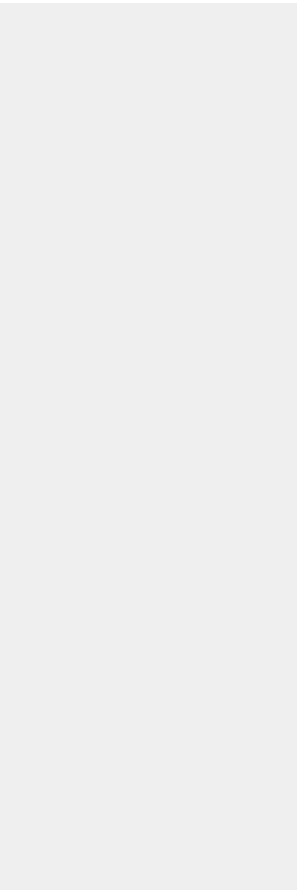
In 2017, DF Mompresa worked in Spain in the conventional thermal generation sector (CT Litoral, CT Los Barrios, CT Compostilla, CT As Pontes, CT Teruel); combined cycles (CT Boroa Amorebieta, CT Soto, CT Castellnou); nuclear generation (CN Ascó, CN Vandellos, CN Almaraz, CN Cofrentes); and transmission (Fábrica Gajano Santander, Saica Zaragoza), working with both the facility owners (ENDESA, EDP, ENGIE) and the technologists (GE-ALSTOM, SIEMENS, MITSUBISHI, ANSALDO), thereby confirming its leading position in the market.

Internationally, special attention should be given to the work on the two GT26 gas turbines for ANSALDO at the power plant of Langage, located in Plymouth in the United Kingdom, thereby consolidating the internationalization process in revamping started in previous years by DF Mompresa.

### LINES AND SUBSTATIONS

In 2017, the High Voltage (400 KW) electrical connection to the substation of the Comisión Federal de Electricidad (CFE) at the Empalme II combined cycle in Mexico was successfully concluded for DUNOR.





## LOGISTICAL SYSTEMS

In March 2017, Duro Felguera reinforced its international expansion by signing a contract for the delivery of an automated cardboard warehouse in Poland. The facility was started up in the first quarter of 2018.

In May 2017 the automated storage facility was delivered to Danosa in Guadalajara.

In September 2017, Duro Felguera signed a contract with one of the world's major tobacco manufacturers for the extension of the automated facility the company built in Lithuania in 2015.

Additionally, DF signed its first automated storage project in Italy, near Naples, for the cardboard producer Grimaldi. The project includes new functionalities which enable individual work with smaller loads, thereby improving use of the warehouse.

Towards the end of 2017, one of the major American consumer goods multinationals ordered a Nalón N8 automated truck loader to automate pallet loading at one of its production plants, in Belgium.

DF Services also won further contracts in the logistics sector, such as the extension to a cardboard automation facility for the world's main producer, at its plant in Madrid, and the construction of an automated warehouse near Lyon in France for one of the main cardboard producers. This latter project also includes significant development in handling small loads, enabling the storage of four different loads in the same cell.

Order intake for these new projects consolidates the international presence of DF Sistemas Logísticos, with the opening of new markets in France, Belgium, Lithuania, Poland and Italy. All these projects are expected to come into commercial operation in 2018.

In this segment of activity, Duro Felguera opts for the development of R&D&i, and for getting the edge with the product itself. The Company trusts that there will be significant growth in this business, given the context of powerful dynamics in the international logistics sector and the industry's growing interest in high added value solutions.

# OTHER ACTIVITIES

## DF SMART SYSTEMS

The DF Smart Systems business division, consisting of the subsidiaries DF Núcleo and DF Epicom, provides innovative solutions with their own technology and products for the fields of energy and industrial control, aeronautics and maritime systems, and safety and defence, including the protection of critical communications. Both companies boast as their clients public and private entities, and leading infrastructures and organizations in their sector in the international field



## DF NÚCLEO

DF Núcleo boasts over 50 years' experience and specializes in the engineering and implementation of communications and control systems, based on the integration and development of specific products for the aeronautics, maritime, electrical, environmental, mining and safety and defence industries.

### ENERGY AND INDUSTRIAL CONTROL

In the field of Energy and Industrial Control, DF Núcleo continued supplying new control systems for 400 and 220 KW substations on the transmission grid of Red Eléctrica de España (REE).

The company has now automated over 110 substations. Likewise, the technological

subsidiary of Duro Felguera is collaborating in the pilot project to develop the prototype for the renovation of all the integrated control systems at electricity substations in Spain. This version of the system is based on the IEC 61850 standard Ed. 2, which regulates and promotes the interoperability of equipment installed in electricity substations.

Additionally, the company still holds the leading position in Spain in the supply of interruption demand management, with a market share of over 80%. The system is designed mainly for large industrial clients who consume great amounts of energy and manages orders to interrupt consumption, enabling the electricity market to maintain a balance between generation and demand in the country.



As for Industrial Control, in 2017 DF Núcleo satisfactorily delivered the detailed engineering, instrumentation and control for the extension, improvement and modernization of the copper concentrate embarking system that Duro Felguera built for Puerto Ventanas at Bahía de Quintero, Chile.

The company also received the acceptance certificate for the turnkey project delivered by a Spanish joint venture of which DF Núcleo forms part, for the complete remodelling of the lighting and control system at the international airport of Libreville, Gabon, managed by ASECNA (Security Agency for Air Traffic in Africa and Madagascar), the land/land communications network, and the airport's power plant with the SCADA generation and transmission system.

## AERONAUTICAL AND MARITIME SYSTEMS

In the aeronautical and maritime sector, in 2017 DF Núcleo consolidated its position as a major supplier for Africa after winning the contract to equip five air traffic control towers in Algeria.

The scope of the turnkey project includes the supply of state-of-the-art communication equipment to for air traffic control in the towers and the technical blocks at five airports run by ENNA, the air traffic service provider in the country. We could highlight the work to be done at the Houari Boumédiène international airport in Algiers, the sixth largest in the continent in passenger traffic.



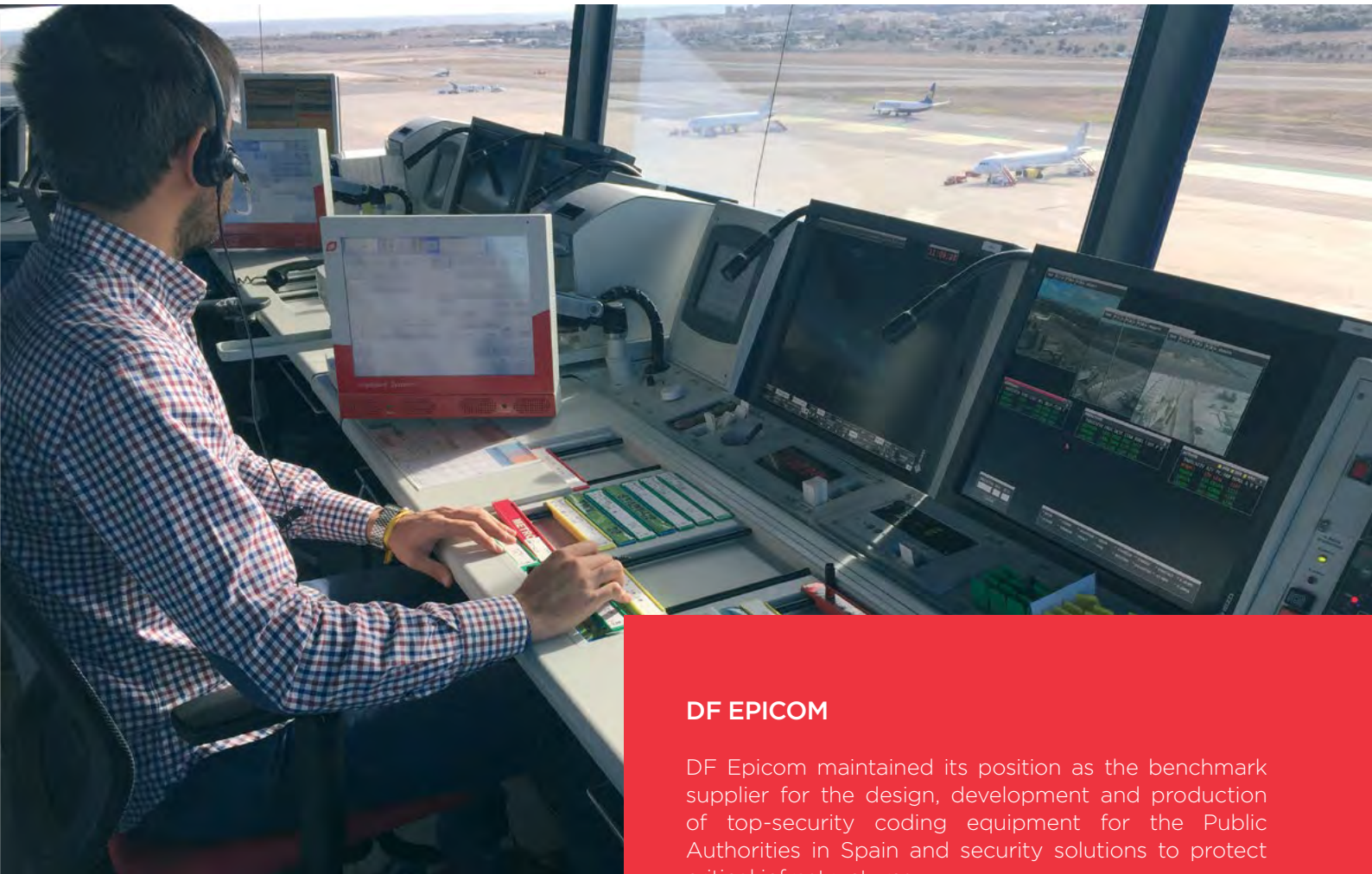
The company also won its first contract in Tunisia, for the renovation of the control tower technical fixtures at six international airports in the country. The project consists of replacing the air traffic control consoles, with the company's own specific design, at the main OACA (Office of Civil Aviation and Airports) airports.

In Spain, in 2017 DF Núcleo maintained its position as the leader in migration to VoIP in communications, not only by setting up the first voice communications systems (VCS) based completely on

VoIP technology for control towers at the airports of Almería, Bilbao and Alicante (for which the company uses its own technology, ULISES V5000i), but also by winning new contracts for the supply of VCS to various other airports, digital communication recording systems, and VHF radio equipment transceivers for land/air communications.

DF Núcleo's current market share in VCS for the AENA airport network is over 85% and VCS evolution is being delivered for seven control towers in Spain. Additionally, DF Núcleo is implementing the VoIP communications channels for the Air Traffic Data Network (REDAN in Spanish) in the whole country - this is considered one of the most ambitious aeronautic communication migration projects to VoIP on an international level.

The company will keep on developing the SIGNUM T50, multiprotocol test equipment designed together with ENAIRE, and then development of the project to deliver the Last Recourse Radio System to the Air Control Centre of Barcelona.



## SECURITY AND DEFENCE

In the field of Security and Defence, DF Núcleo maintained its position as the benchmark supplier of the Eurofighter-Typhoon consortium with new contracts to supply the Control Unit (own manufacturing and design) and the Continuous Current Generation Unit for the aircraft's essential elements. The company also continued with the production of the new design of the Generator Control Unit (GCU).

In 2017, DF Núcleo won the contract for a new batch of four tactical redundant electricity generation groups with a power of 20 KW, for the NSPA (NATO Support and Procurement Agency). The equipment will cover the different missions deployed by the Alliance in international fields.

## DF EPICOM

DF Epicom maintained its position as the benchmark supplier for the design, development and production of top-security coding equipment for the Public Authorities in Spain and security solutions to protect critical infrastructures.

In FY 2017, DF Epicom enjoyed an order intake almost 20% higher than in the previous year; especially relevant was the improvement in the area of new product development to take on emerging demands in security in the next few years. The military tactical coder, recently developed, sold very well in the Spanish armed forces.

Finally, the company set in motion the process to certify numerous new products, both domestically and for NATO. Among them we could highlight the very high speed coder (10 Gbps) for both the public authorities, with high levels of classification, and the private sector, and the EP960+, a military version of the personal and small-sized IP coder, which on this occasion will enjoy a high level of data classification.





## DF MANUFACTURING

Duro Felguera has its own workshops in Asturias (Spain) and boasts great experience in the manufacturing of capital goods. The DF Manufacturing business division specializes in the design and fabrication of large pressure vessels for the petrochemical industry, and apparatus and crossings for the railway sector.

## DF CALDERERÍA PESADA

DF Calderería Pesada (DFCP) designs and manufactures top-quality pressure vessels for the petrochemical sector. With over 45 years' experience in this field and ongoing work in research and development, this subsidiary has made numerous improvements in the production of large pressure vessels for refineries, consolidating its position in international markets as one of the main manufacturers of thick alloy steel reactors, coke drums and FCC units.

High levels of business in 2017 covered the majority of the manufacturing work; we could make special mention of the high workload in the second half of the year.

In 2017, among other equipment, two third- and fourth-phase separators with Kellogg, Brown & Root (KBR) North American engineering technology were delivered to the petrochemical complex belonging to Lotte Chemical Titan in Johor, Malaysia. This equipment removes residual particles in the gas evacuation process in the catalytic regenerator.

A Fluid Catalytic Cracking (FCC) reactor was finalized and delivered to its final destination, for the production of gasoline at the Mesaieed Refinery (Qatar), owned by Qatar Petroleum. This project included the mechanical design, whole manufacturing, the installation of cyclones and inside refractory coating of the reactor.



Two coking chambers were delivered, whose diameter is over eight meters, each one 35 metres long and weighing 430 MT, to the MiRO refinery in Karlsruhe, the second largest in Germany, producing 285,000 bpd. DFCP also delivered two columns (a fractionation tower with a diameter of 7.5 metres, 57 metres long and weighing c.450 MT, a product stripper 5.7 metres in diameter, 45 metres long and weighing c.180 MT) for the Afipskiy Refinery, owned by the Russian petrol group New Stream, in the region of Krasnodar. This project also included the transport of the two columns from the DFCP workshop to the city of Novorosiysk, by the Black Sea.

Among the most relevant projects delivered in 2017, we could highlight the five sludge separators each weighing 1,700 MT and 200 mm thick, for Saudi Aramco in Saudi Arabia. Manufacturing started in 2016 and took up a major part of the backlog in 2017. This equipment, welded on the inside with a nickel-based anticorrosive alloy, are probably the largest in the world of their kind.

DF Calderería Pesada thereby continues collaborating with the world's main technologists in the manufacturing of extra-thick equipment, alloys, plaques and large equipment.





At the end of 2014 the market was stagnant and there was hardly any investment in refineries anywhere in the world, because of the low price of oil, which led to a significant fall in the order intake figures. Nevertheless, towards the end of 2017 a new trend became evident in the market, coinciding with the rising price of oil, which in turn led to an increase in the demand for equipment.

DF Calderería Pesada's main market is in the petrochemical and Oil & Gas sector, although after obtaining the ASME Nuclear N Stamp in 2012, the division is taking part in international nuclear tenders, and various agreements have been signed with the main technologists in the nuclear industry.

In 2017 research and development activity was carried out to obtain new production processes for the manufacturing of pressure vessels of large sizes and weights. In this field of action, key sequences and processes and have been re-approached in relation to the manufacturing of very long and/or heavy equipment. These activities, which will continue in the coming year, will give rise to developments which could be applied to a wide variety of special large and heavy products, consolidating the Company as a benchmark in the manufacturing of large and thick equipment.



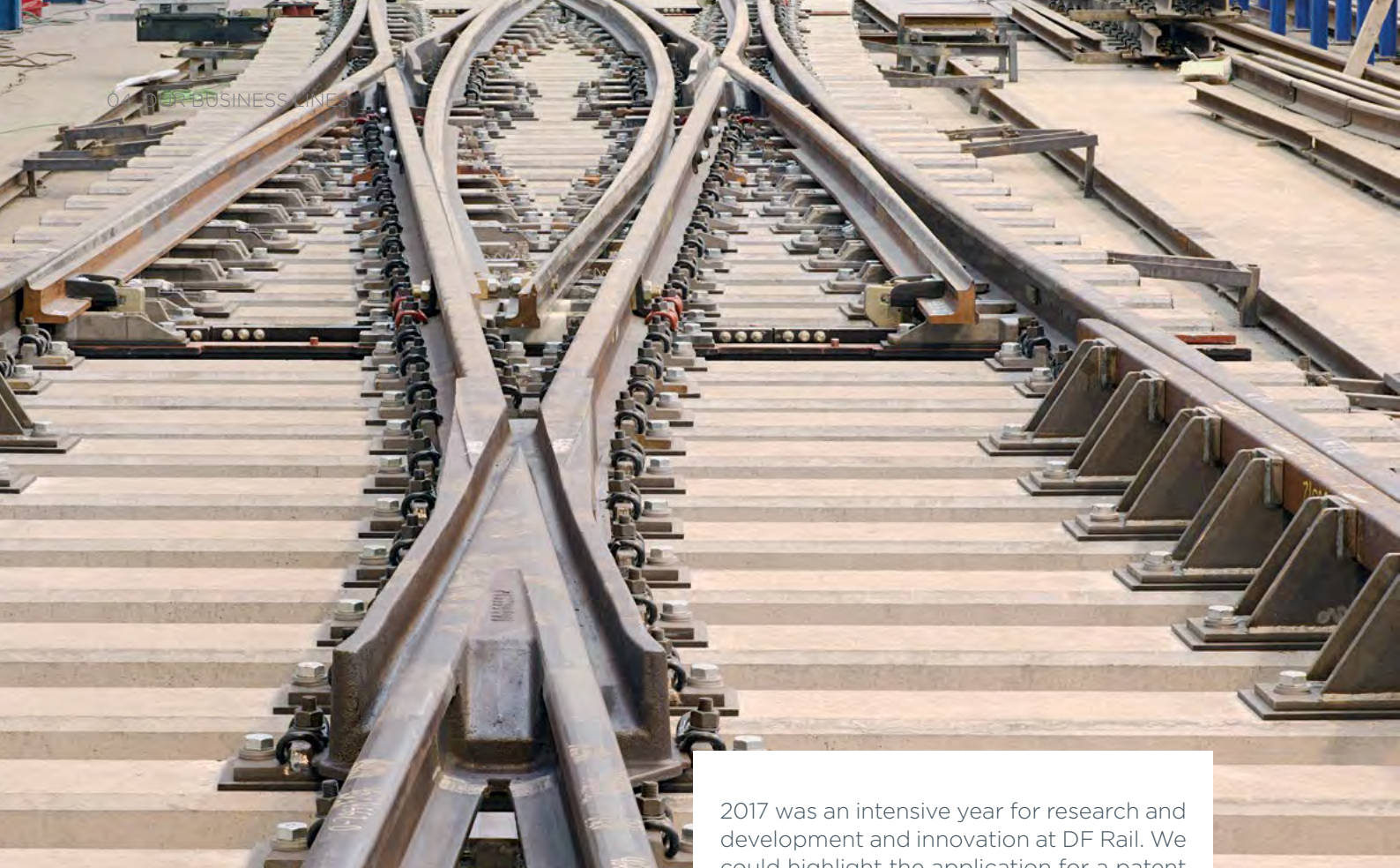


## DF RAIL

2017 consolidated DF Rail as a benchmark in the design and manufacturing of manganese steel crossings; it forged 435 pieces in the year, which meant an increase of 17% in production at the new forge in comparison to the figures for 2016.

In addition to manganese steel crossings, DF Rail designed and manufactured various bypasses for the domestic market, among which we could highlight the double-width 1435/1668 bypass with mobile switches, for the junction of Granada station with the high-speed Antequera-Granada railway, and the B1 concrete flagstone crossings for Puerto de Escombreras in Murcia. Metro de Madrid awarded DF Rail, both directly and via various different companies entrusted with maintenance, the design and manufacturing of the double diagonal for line 9B, and spare parts for various components (turnouts, switches, insulated joints and crossings). DF Rail also designed and manufactured mobile switch railway apparatus for reduced noise and vibration at the San Cugat Hub (Barcelona) for Ferrocarriles de la Generalitat Catalana. A new development was the design of mobile switch bypasses on a curve.





As for international markets, we could highlight the Al Haramain project (Saudi Arabia), which includes the manufacturing and delivery of AV4 R10.000 bypasses of up to 350 km/h on a direct railway and 160 km/h on the bypass, and the 60E1 apparatus for concrete boards at speeds of up to 200 km/h on the high-speed line from Athens to Thessaloniki in Greece (on the stretch from Tithorea to Domokos).

DF Rail also supplied 54E1 semi-escapes on wooden boards for speeds of up to 160 km/h on the line from Buenos Aires to Rosario in Argentina, where the DF subsidiary also designed, manufactured and supplied bypasses, diagonals and special geometry apparatus at the stations of Plaza de Mayo and Perú for the suburban railway of Buenos Aires. In the Dominican Republic, the Company designed, manufactured and delivered different apparatus on concrete flagstones for the Santo Domingo Metro line 2B.

2017 was an intensive year for research and development and innovation at DF Rail. We could highlight the application for a patent for the adhesive plaque modular system, with excellent results in the tests carried out on the first prototypes. The project was classified as excellent by the Industrial Technology Development Centre (CDTI in Spanish).

DF Rail started a study on wear in railway apparatus in collaboration with Arcelor for Metro de Madrid, and implemented various improvements in the design of mixed bypasses with mobile switches for the Mediterranean Corridor (ADIF). These improvements have increased the commercial value of the product.

Finally, thanks to the future business projection for DF Rail we could highlight the standardizations obtained with the railways of the Islamic Republic of Iran and the successful results reached in the tests for static and dynamic flexion requested by Infrabel (Belgium), as part of the process for the standardization to manufacture and supply manganese steel crossings to said European Authority.



05

CORPORATE  
SOCIAL  
RESPONSIBILITY

# CORPORATE SOCIAL RESPONSIBILITY

Duro Felguera is firmly committed to the United Nations Global Pact, which it formally acceded to in September 2002. The company defends the 10 principles in the Global Pact as its own, deriving from declarations by the United Nations in the fields of human rights, labour, the environment and anti-corruption, which enjoy universal consensus.

## CORPORATE SOCIAL RESPONSIBILITY POLICY

Duro Felguera accepts Corporate Social Responsibility (CSR) as the company's commitment to sustainability, ethics and good practices in its relationships with its groups of interest.

The company has a Corporate Social Responsibility policy which establishes the basic principles and a framework for conduct in the strategy and practices employed by the company.

The general principles and corporate social responsibility plans of the company are:

- A firm commitment to respect for the environment in the execution of all projects.
- Strict health and safety policies affecting its professionals, facilities and projects.
- Quality assurance policies aimed at continuously improving processes.
- Ongoing training sessions for the Company's professionals, related to the execution of major projects and on technical issues that affect its businesses.

- Transparency in relations with its shareholders and investors and implementation of channels for communication and dialogue (online communications, active participation in domestic and international forums, etc.).
- A strategy of constant dialogue with social agents.
- Cooperation in developing the communities where the Company carries out its projects, contributing to implementing necessary infrastructure in surrounding areas.
- Collaboration with various social, cultural and sporting organisations in areas where the Company operates.
- Compliance, supervision and monitoring of existing legislation, internal Company standards and practices of good governance assumed by DF while fostering cooperation with authorities and regulators.

The Company's Policy sets forth the commitments undertaken with its main groups of interest: employees, clients, suppliers, shareholders and investors, together with the environment, human rights, individual respect, diversity, society and the local communities where it operates, and in fiscal and anticorruption.

Duro Felguera's corporate strategy in sustainability, the environment and social matters is aimed in particular at achieving a sustainable and socially responsible business model, strategies and targets.





Likewise, the Company pursues improved competitiveness by means of management practices based on innovation, efficiency, profitability and sustainability. It promotes the application of principles of equality, informed participation, transparency and trust in its relations with its groups of interest.

One of Duro Felguera's goals is the reduction of the negative impact of its business activity, promoting the responsible and sustainable management of the risks inherent to the delivery of projects.

In this regard, we could highlight one of the priorities in Duro Felguera's corporate strategy in the social field: contributing to the development of the local communities and lands where the Group operates, attempting to maximize the economic, social and environmental benefits for all of them.

#### GENERAL CODE OF CONDUCT

DF has had a General Code of Conduct since 2009 which reflects the principles of integrity, honesty and transparency to be followed by all the group's employees.

The Company declares that it is firmly committed to the following principles; compliance with legality, respect for human rights, the development of professionalism and equality of opportunities among its employees, ethical conduct by employees, the prevention of possible conflicts of interest, the prohibition of bribery and corruption in all its forms, care for the environment, and transparency, objectivity and honesty in relationships with customers and suppliers.

### COMPLIANCE, THE PREVENTION OF ILLEGAL CONDUCT AND ANTI-CORRUPTION

DF is firmly committed to ethical business practices, and more specifically to principle number 10 of the United Nations Global Pact “Businesses should work against corruption in all its forms, including extortion and bribery”.

As part of its commitment to ethical business practices and the prevention of illegal conduct, Duro Felguera’s CSR policy sets forth that the company should faithfully comply with current legislation in all the countries where it operates, respecting the internal rules of conduct and adapting to the best practices of good corporate governance at all times, and in particular, establishing mechanisms to prevent illegal conduct. In this regard, Duro Felguera is committed to the fundamental values of integrity, transparency and responsibility.

Duro Felguera has an “Internal Code of Conduct for the Securities Market, privileged and inside information”, in order to determine the behaviour which the people or entities which handle confidential or inside information for the Securities market should employ. This document establishes the principles and framework of action for the market, in order to achieve greater transparency in the information published and in treasury stock operations, avoiding conflicts of interest. All this is to safeguard the interests of investors in company securities.

Likewise, the document expressly prohibits “asking for, accepting and receiving anything of value in compensation for doing or not doing something for the benefit or advantage of any third party”. The General Code of Conduct also states that “all employees shall comply with current legislation in the countries where they work, respecting the spirit and purpose thereof and observing ethical behaviour in everything they do”.





The crime of bribery also includes other conducts such as “concealed” payments and facilitation payments. Even though such payments might be common in some countries, they are strictly forbidden by DF, regardless of how small the amount involved may be.

Duro Felguera has a Crime Prevention Model to implement the necessary measures for monitoring to avoid committing crimes, and to significantly reduce the risk of their being committed. The Company has a Compliance Manager who, among other functions, is responsible for the prevention, detection and management of risks deriving from the non-fulfilment of current regulations. His work also includes drawing up the corresponding policies and procedures and developing a corporate culture of complying with regulations.

## RESPECT FOR HUMAN RIGHTS

Duro Felguera is firmly committed to the principles related to human rights in the United Nations Global Pact, specifically principles 1 and 2: “Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence”; “Businesses should make sure that they are not complicit in human rights abuses”.

Duro Felguera’s Corporate Social Responsibility policy specifically details the Company’s commitments to human rights and respect for persons and diversity.

In this document, Duro Felguera declares that it rejects any manifestation of physical, psychological and moral harassment and abuse of authority, and any other conduct that could generate a climate of intimidation or offence for personal rights. It also guarantees professional respect and mutual collaboration among Company employees and external collaborators, respect for diversity, equal opportunities, and no discrimination for gender, age, disability or any other reason.

Duro Felguera’s CSR policy sets forth that one of the Company’s priorities is person integrity and that it will provide a balance between professional and personal life. Finally, the document expresses the Company’s commitment to acknowledge the rights of ethnic minorities in the countries where Duro Felguera operates, rejecting child labour and in general any other form of exploitation.

In its General Code of Conduct, the Company underlines the fact that “Duro Felguera’s employees shall treat each other with respect, providing cordial relationships and a work atmosphere that is pleasant, healthy and safe. All employees are obliged to treat their workmates, hierarchical superiors and subordinates fairly and respectfully. Relations between Duro Felguera’s employees and those of external collaborators shall be based on professional respect and mutual collaboration”.



## CORPORATE GOVERNANCE

DF operates in complex and regulated sectors in which observing current regulations is a determining factor for the success of its projects. In this context, its activities are carried out under strict and faithful compliance with the legislation by adapting its internal procedures to meet the standards.

The Company's corporate government is aligned with national standards and adapted to the Listed Company Good Governance Code. All the information related to corporate governance and the documents related to holding the Annual General Meeting are made available for shareholders and investors on the corporate website. There is also an electronic forum for shareholders, promoting transparency in management and information and dialogue with shareholders and investors.

Duro Felguera has a Board of Directors, the senior body for taking the Company's decisions and for its work, with supervision functions.

At the end of 2017, the Board of Directors was made up of eight members (one executive director, four shareholder members and three independent members). There is also a non-board member secretary to assist with management aspects.

The number of independent board members account for 37.5% of the total. To choose and appoint these members a search process is followed that as far as possible guarantees the suitability of the person for the position to be held, taking into account his/her technical knowledge and professional experience in the Company's sector.

In 2017 the Board of Directors met 21 times, with 95.23% attendance and participation. Duro Felguera has an Audit Commission, which met 11 times in 2017, and an Appointments and Compensation Commission, which met 5 times in the year.

## FISCAL POLICY

The resolutions adopted by the Board of Directors as part of its fiscal strategy are in turn guided by principles embodied in the Company's corporate values: transparent and accurate information, good faith and cooperation with the competent tax authorities, the principle of caution, compliance with the applicable standards and adaptation to the best fiscal practices.

DF has developed its fiscal strategy based on the priority objective of reducing significant fiscal risks and preventing any 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. DF avoids the use of opaque fiscal structures.

Furthermore, it refrains from the use of structures of an artificial nature unrelated to the Group's own activities, the only purpose of which would be to evade its tax burden, and neither does it transfer Company profits to tax havens for exclusively fiscal purposes. To the extent applicable, DF has taken on board recommendations from the Code of Best Taxation Practices and has established the required control mechanisms and internal regulations to ensure compliance with the currently applicable tax rules in all countries and jurisdictions in which it operates. The Audit Committee is responsible for supervising the effectiveness of the Company's internal control, the internal audit and tax risk management systems.

## GROUPS OF INTEREST IDENTIFYING SIGNIFICANT MATTERS

Duro Felguera carries out its own material study to identify and analyse matters of importance for its groups of interest and relevant subjects for the Company itself and its corporate strategy.

In the first phase, Duro Felguera determines the general material matters by means of different documentary sources from bodies with a recognized prestige in CSR: the United Nations Global Pact, the International Labour Organization (ILO), the Organization for Economic Co-operation and Development (OECD), the Global Sustainability Standards Board (GSSB) and diverse specialized publications. These general material matters are completed with a benchmarking of the main companies in the sector and sector publications.

The Company then crosses these potential material matters with those identified by its business divisions and different departments, which detect both the relevant matters for the normal course of business and relevant matters for the groups of interest it maintains contact with.

## DIALOGUE WITH STAKEHOLDERS

The Company conducts a permanent dialogue with its stakeholders, in order to determine which strategic CSR objectives require greater reinforcement to comply with the expectations of all groups, reduce negative impacts on them and meet the needs of the Group. The main channels of communication established, both unidirectional and bidirectional, go from taking part in forums, congresses, fairs and sector lectures to quality surveys, inspections and joining associations and public and private bodies, among others. Duro Felguera has identified the relevant matters for each group of interest by means of these channels, and other more generic ones such as the corporate website, the Company's annual report, DF's profiles on the social networks and media, to mention but a few.

### DF STAFF

- Employment conditions in general
- Health and safety conditions
- Training
- Professional career development
- Progress of the business
- Tenders and awards of contracts
- Acknowledgement of work
- Communication channel

### SUBCONTRACTORS AND SUPPLIERS

- Relationship with the Company
- Compliance with contractual undertakings
- Ethics and transparency
- Collaboration to generate mutual benefits
- Communication channel

### CUSTOMERS

- Excellence in project execution
- Driving CSR issues
- Group reputation
- Respect for Human Rights and labour conditions
- Protection of the environment
- Compliance with the applicable legislation
- Employees' health and safety
- Project progress
- Technical and financial support to deliver the project
- Delivering projects on time and at the price agreed in the contract
- Duration and reliability of the facility

### SHAREHOLDERS AND INVESTORS

- Progress of the business
- Financial situation of the Company
- Annual General Meeting of Shareholders
- Company image
- Tenders and awards of contracts
- Making investment profitable

### CIVIL SOCIETY

- Respect for human rights
- Protection of the environment
- Compliance with legislation
- Responsible conduct of DF
- Progress of the business

### LOCAL COMMUNITIES WHERE THE COMPANY OPERATES

- Respect for human rights
- Protection of the environment
- Compliance with legislation
- Compliance with tax payment
- Responsible conduct of DF
- Respect for the rights of the population
- Contributions to the community
- Information about activities
- Reduction of the negative impact on the population and surroundings
- Creating jobs and development in the area
- Sponsorship

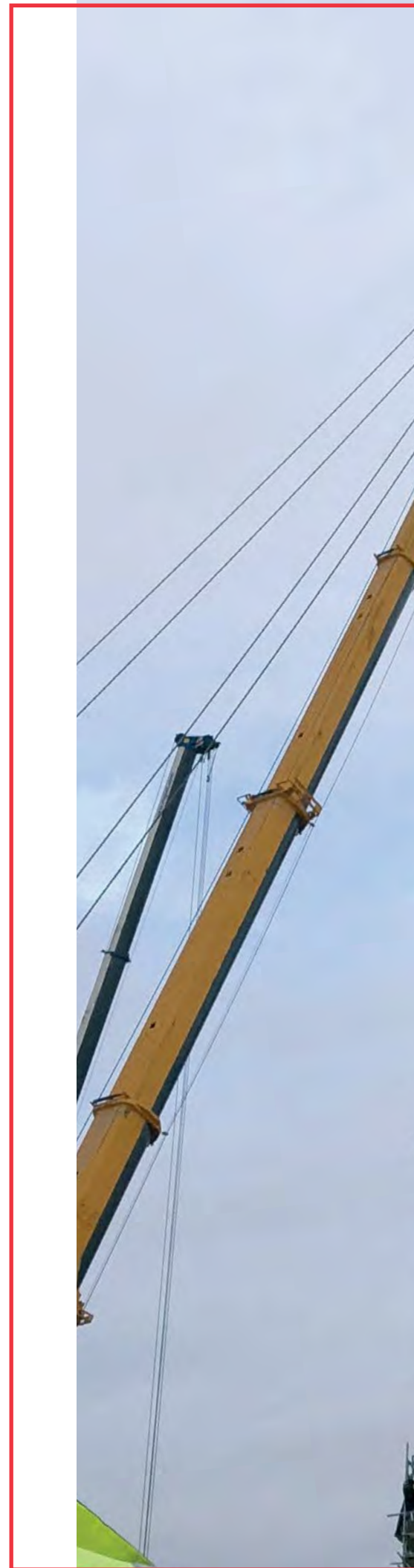
### THE MEDIA

- Business-related matters (tenders and contract awards, progress of construction works, delivery of projects and progress of the business)
- Regulatory issues
- Financing
- Innovation
- Company strategy and positioning
- The environment
- CSR-related matters

### LOCAL AND OTHER COMPETENT AUTHORITIES

- Compliance with legal and regulatory rulings
- Information about activities
- Reduction of the negative impact on the population and surroundings

As a result of this analysis, matters are ordered and prioritized depending on two variables: the importance granted by Duro Felguera's groups of interest and the importance granted by the Company itself as a whole.





## HUMAN RESOURCES

The CSR policy establishes Duro Felguera's directives with its employees, among which we could highlight:

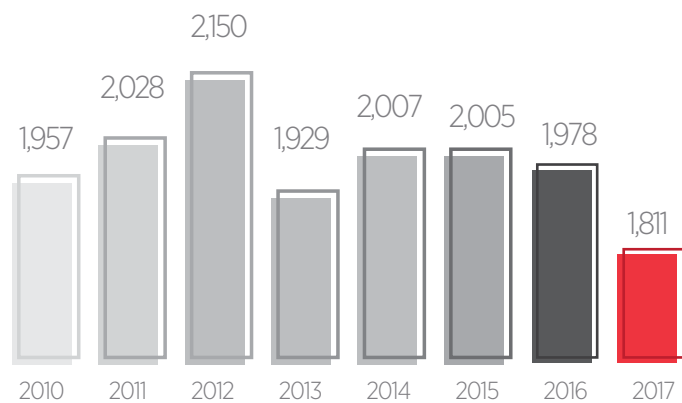
- The prohibition of any kind of discrimination in the work place.
- The promotion of equal opportunities to foster a corporate culture based on merit.
- The recruitment and promotion of employees based on criteria of merit and capacity.
- Respect for the freedom of association and collective negotiation.
- Promotion of the professional growth of Duro Felguera employees, guaranteeing fairness in evaluation processes, the appreciation of effort and internal promotion.

In FY 2017, the Human Resources Department maintained the focus on two essential matters, especially related to the business progress of Duro Felguera:

1. Providing support for international projects run by the business lines in all aspects related to expatriate professionals who travel to different parts of the world by augmenting collaboration and planning measures to reach the goals set.
2. The demand for qualified talent, mainly to feed the teams related to projects underway.

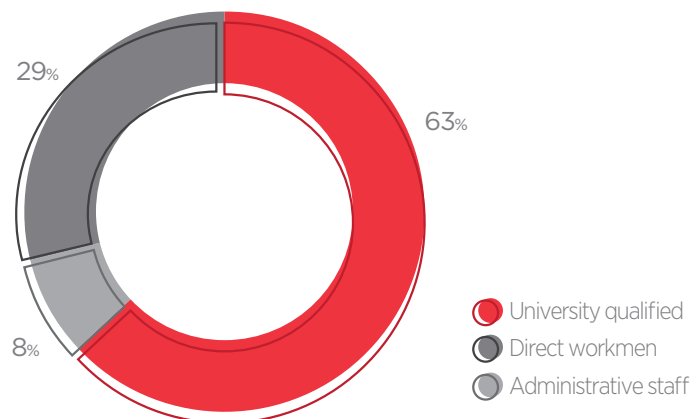
At the end of 2017, the average workforce of DF was slightly lower than in previous years (1,811 employees)\*, of whom over 60% are university qualified.

## EVOLUTION OF AVERAGE WORKFORCE 2010 - 2017



\* Local personnel is not included in the average workforce data

## DISTRIBUTION OF WORKFORCE BY PROFESSIONAL GROUPS 2017



In 2017, Duro Felguera had 215 expatriate employees in 20 different countries. There were 303 local people hired at destination in 19 different countries.

## PERSONNEL RECRUITMENT

In 2017, Duro Felguera carried out 158 recruitment processes for qualified personnel, mainly to work on ongoing projects.

COMPANY	No. OF PROCESSES	No. OF CANDIDATES
DF Staff	4	18
DF Energy	27	290
DF Mining & Handling	11	110
DF Services	17	518
Felguera-IHI	80	333
DF Oil & Gas	1	14
DF Núcleo	13	31
DF Epicom	5	30
<b>TOTAL</b>	<b>158</b>	<b>1,344</b>

• Over 400 interviews were held.

## TRAINING

DF and its companies held 75 training activities in which over 400 people took part. As in previous years, the Training Plan for the year enjoyed the benefits of social insurance thanks to the actions performed with the State Foundation for training in the workplace.

Following is the training data for FY 2017 and the comparison to 2015 and 2016:

CONCEPT	2015	2016	2017
Training	78	106	75
Participants	328	542	420
Training hours	11,295	28,395	10,938

Of the training carried out in 2017, 4,930 hours were by e-learning and 6,008 hours face to face.

## LABOUR RESTRUCTURING

In 2017, the subsidiary DF Tedesa (located in Llanera, Asturias), ceased its activity, which involved taking decisions with a social impact, putting an end to 40 jobs.

The process showed scrupulous respect for current legal procedures, frank and effective negotiation with the workers' representatives and a final agreement with financial and labour conditions that were significantly better than the legal minimums.

## HEALTH & SAFETY

The reduction of accidents and incidents related to labour at DF was kept at optimum levels, placing the Group, just as in previous years, at a level of accident statistics notably lower than others in the sectors it operates in.

This ongoing improvement, in addition to being an essential commitment to the preservation of employees' integrity, also has other benefits. In this regard, we could highlight the money that is recovered in social security quotas for labour accidents, under the process established in the regulations. The Authorities thereby acknowledge the ongoing improvement in accident levels, investment in work safety, the structure of internal qualified employees and a management model that complies with international standards.

The extension of good practices in the prevention of occupational hazards in international projects also includes countries with a greater risk of non-fulfilment of health and safety standards, where we also advance in the improvement of protection and attention for our own employees and those of subcontractors.

### ACCIDENT RATE

The training and awareness programmes for occupational hazards implemented at Duro Felguera return a significant improvement in the health and safety atmosphere and in reducing the accident rate.



Out of an average workforce of 1,811 employees in 2017 (personnel registered in Spain) and 3,319,756 man hours worked, the number of accidents involving sick leave fell in comparison to previous years, which led to an improvement in the incident, frequency and seriousness indices. \*

	AVERAGE 2014-2016	2017	VARIATION
Incident rate	2,829.75	2,043.07	-28%
Frequency rate	15.11	11.14	-26%
Seriousness rate	0.63	0.53	-15%

#### Incident rate



Incident rate = Acc. with sick leave X 100,000 / Average workforce

Legend: Average 2014 - 2016 (grey square), 2017 (red square)





Frequency rate



Seriousness rate



Average 2014 - 2016
  2017

Frequency rate = Acc. with sick leave LTA X 1,000,000 / Total hours

Seriousness rate = Days lost X 1,000 / Total hours

*\*Criteria: Directive 89/391/EEC, concerning the application of measures to promote safety in the work place and health of employees. (ESAW: EUROPEAN STATISTICS ON ACCIDENTS AT WORK).*

Industrial hygiene and health monitoring

In 2017 hygienic action was implemented on a representative number of 140 employees.

In addition to these direct measurements on actual working conditions, 159 non-personal environmental samples were taken, complementing the direct measurements and providing the necessary arguments to assess the working environment. The objective results, backed up by 194 analyses, are transferred to 60 hygiene reports.

In 2017, 1,752 health examinations were carried out under specific protocols.

When so required, these examinations are complemented with specific analyses (8) and complementary tests (2).

Management System Audits for Health and Safety in the Workplace

In 2017, the international OHSAS 18001:2007 certificate was renewed for 2017-2019.

Efforts made in the field of health and safety at Duro Felguera have been acknowledged by external institutions and clients. Among the acknowledgements received in 2017 we could highlight the mentions made for DF Operaciones y Montajes by ArcelorMittal and Iberdrola for work done by the subsidiary in the facilities of Lada and Velilla. DF Mompresa was acknowledged for various interventions in the year for Ansaldo Energía (Langage Project, United Kingdom), Siemens (Central Nuclear Ascó, Tarragona) and Endesa (Revision of Group III As Pontes, La Coruña). Finally, Petroperú acknowledged once more the efforts made in health and safety by Felguera-IHI at the refinery in Talara (Peru).

## ENVIRONMENTAL COMPLIANCE

Duro Felguera is firmly committed to principles 7, 8 and 9 Of the United Nations Global Pact, where it is stated that “Businesses should support a precautionary approach to environmental challenges”, “undertake initiatives to promote greater environmental responsibility” and “encourage the development and diffusion of environmentally friendly technologies”.

## CERTIFIED ENVIRONMENTAL MANAGEMENT

DF decided to incorporate the environment into its strategic business management by approving the Corporate Environmental Policy in 2012. In the same year the Company obtained the international UNE-ISO 14001 certificate. This enabled the coordination of the different environmental management systems in each division, guided by the principle of ongoing improvement. At the same time, the workshops, with specific management systems for each activity, have had their own certificate for over 10 years.

Duro Felguera’s environmental policy establishes the following prevention and control measures:

- 1.** Integrating the environment and respect for natural surroundings into the Group’s strategy.
- 2.** Ensuring at all times the compatibility of economic performance with the protection of the environment, by means of innovation and eco-efficiency.
- 3.** Identifying opportunities for ongoing improvement in the corporate environmental management system, by regular reviews to guarantee at all times that it meets the demands of market that is more and more competitive and a field in constant evolution.

**4.** Strict compliance with legislation: guaranteeing that daily activity is carried out in accordance with the law and current regulations, and other applicable environmental requirements.

**5.** Prevention of contamination: guaranteeing ongoing improvement and the prevention of contamination by updating and reviewing management, reaching goals and the assessment of environmental aspects and risks.

**6.** Sustainable development: protecting the environment by a sustainable use of resources.

**7.** Promoting the research and development of new technologies and processes, in order to contribute to the struggle against climate change, with a preventive focus, minimizing environmental impact whenever possible.

**8.** Information and training for employees about the effects of the development of the Group’s processes and products, to minimize the negative effects of its activity on the environment.

**9.** Communication: communication channels with other parties and in general respect for activities carried out and their relationship with the environment.



In 2017, DF continued integrating the environment in its strategic management, as a key factor in the consolidation of its positioning in the market. The Company kept on reviewing activities and processes, ensuring they comply with the commitments undertaken by Senior Management in the environmental policy in 2012.

This ongoing review ensures that the Company not only complies with environmental requirements, but also identifies opportunities in which it can make even greater efforts, relating them to its focus as a sustainable company.

Throughout 2017, action was taken mainly to monitor and minimize significant environmental aspects.

#### CONTROL AND MINIMIZATION OF SIGNIFICANT ENVIRONMENTAL ASPECTS

As an international company, the environmental impact of its activity is diverse and closely related to the regions where projects are implemented.

Reviewing the environmental impact of its projects reflects Duro Felguera's commitment to environmental management, an integral part of its corporate strategy.

The Company designs, builds and operates in accordance with environmental licences, which contemplate environmental protection and the adoption of the legally applicable operating parameters.

Before a project starts, in order to ensure compliance with the environmental requirements of each country, DF carries out a profound analysis of the legal requirements, both regional and national, anticipating any possible requirements which may arise for obtaining permits and licences, and which imply critical points in the successful delivery of a project.

In 2017, we could highlight the delivery of the “Aconcagua” project, consisting of a cogeneration plant in Valparaíso (Chile), for the state company ENAP. The project involves a high level of environmental demand, due both to the country’s legal framework and the client’s own high standards.

**1) Operational control on the site:**

Duro Felguera regularly identifies and assesses the environmental impact at any phase in the project (design, construction,

operation and maintenance), in order to prevent and minimize it.

The global management of water, atmospheric emissions (noise and particles) and efficient waste management are some of the regular practices carried out by Duro Felguera in its projects.

**a. Monitoring programmes**

In order to ensure that both the atmospheric emissions and the waste generated by the Company in its business remain within the legal limits, monitoring programmes are implemented, whose purpose is to check that the mitigation measures implemented at each project (terrain moistening, speed control, acoustic panels, water treatment plants, etc.) are efficient enough to avoid the alteration of air and water quality.

In 2017, environmental monitoring was carried out (air quality, noise levels and waste



water), complying with the programmes established for each project.

#### b. Efficiency in waste management

Waste management has always been a significant environmental aspect in all Duro Felguera's projects, which sets among its goals the minimization, reuse and recycling of the waste generated by its activity.

All Duro Felguera's projects segregate and manage their waste appropriately, paying special attention to hazardous waste, given its highly contaminating nature.

8,300 MT of waste was generated in 2017:

NON-HAZARDOUS WASTE	UNITS
Reuse	409.8 MT
Recycling	648.52 MT
Landfill	6,805.5 MT

HAZARDOUS WASTE	UNITS
Solid	458.75 MT
Used oil	9,922 litres

#### c. Environmental awareness on site

Duro Felguera finds it especially important that people are aware of the environmental risks involved in its activity. In 2017, the Company continued its awareness programmes for workers on site.

Each environmental expert on site gives an awareness talk (Induction) to everyone at the facility, informing about:

- Significant environmental aspects on the site.
- Operational control: control and mitigation for all significant environmental aspects.
- What to do in case of environmental emergencies.

In addition to the general inductions on entering the site, there are also awareness talks about more specific environmental matters, such as the prevention of contamination, waste management, the protection of local flora and fauna and reducing the consumption of resources, to name but a few.

In 2017, over 7,500 man hours of awareness were provided in the international projects the Company delivers.

#### d. Environmental emergencies

Duro Felguera draws up specific environmental emergency plans whose purpose is to identify and respond to possible environmental accidents and emergency situations, and to prevent and reduce environmental impact that could be related thereto.

The Company regularly reviews the efficiency of these emergency plans by means of drills.

When it is not possible to hold drills, training activities are carried out. This consists of training talks/courses and providing information about environmental emergency action plans.

#### 2) Environmental training

As part of the Environmental Training Plan 2016-2017, last year the following training courses were held, with a total of 900 training hours for site and related personnel (technicians, site managers, inspectors, etc.):

- Atmospheric, acoustic, light and smell contamination
- Waste water
- Waste management and contaminated soil
- Environmental management on site

## QUALITY

Duro Felguera is aware that clients are fundamental when it comes to planning the Company's professional activity and the cornerstone of the ongoing improvement processes aimed at professional excellence.

The Company believes that the best way of creating value is excellent management in all its processes and resources. The Group therefore makes every effort in system consolidation to ensure, guarantee and improve these processes on a continuous basis, enabling dynamic and speedy adaptation to changes in global markets.

Another element that guarantees the conformity of DF's products and services is controlling the quality of suppliers and the products and services they supply, which enables the Company to ensure progress in delivery in accordance with the applicable rules and regulations in each of its projects and sites, thereby avoiding differences which could compromise compliance with clients' expectations.

As a result of this internal requirement, Duro Felguera carries out an exhaustive control of the whole manufacturing process, with over 1,500 inspections in the facilities of its collaborators, carried out on site by both DF's own inspectors and in collaboration with the main European inspection agencies.

Duro Felguera applies a system based on planned processes in its interactions and interdependencies, evaluating their efficiency and guiding their management towards specific goals.

Some of the most relevant certificates the Group has are ISO 9001 and ASME (N, U, U2, R, S). In 2017, the Company made progress in the adaptation to the new version of ISO 9001 from 2015 – it is now completely implemented at Felguera-IHI. The new version of the certificate implied, among other major changes, more direct involvement of senior management in the Quality Management System, and the risk analysis of the Company's processes.





Ongoing improvement is of DF's main goals, which doubtless means a flexible attitude to the requests and changes made by the client throughout the project phases, and the constantly changing circumstances and opportunities in the market.

By developing and finalizing R&D&i projects in previous years, in 2017 a solid position was reached in particular aspects of DF's technical quality, thanks to projects like the Study and Analysis of Thermodeformable Materials with a high elastic limit as an alternative to cooled and dried materials.

Likewise, inspection systems were developed based on the application of the latest technologies, which reduces delivery times.

Techniques such as TOFD (Time of Flight Diffraction), PAUT (Phased Array) and Creeping Waves have been implemented, with in-house development of inspection scanners which enable the substitution of X-rays in welding at great thickness, and so save considerable time in work, leading to shorter delivery times for equipment.

## THE SUPPLY CHAIN

DF considers good management and control of the supply a key factor in the success of its business.

In Duro Felguera's relations with its suppliers, the Company follows these directives as established in its Social Corporate Responsibility Policy:

- Adopting responsible practices in supply chain management, by disseminating sustainable initiatives.
- Promoting the social responsibility of suppliers, ensuring that all the Company's suppliers comply with Duro Felguera's principles and values in business ethics, labour practices, health and safety, the environment and the quality and safety of the products and services sold.
- Contracting suppliers who respect human rights and comply with labour rights acknowledged in domestic and international legislation.
- Promoting objectivity, truthfulness and transparency as the main guidelines in relations between the Company and its suppliers.
- Reinforcing the environmental image of the Company with its suppliers.

The Company also has a Suppliers Code of Conduct which follows these directives by means of the following principles:

- Commitment to perform their operations in accordance with all applicable laws, regulations and standards and with all undertakings given to DF.
- Espousing internationally acknowledged ethical principles, in particular human rights, workers' rights and public freedoms and the prevention of any form of corruption and bribery in its activities.
- Guaranteeing all employees a safe and healthy workplace, complying with current legislation in safety, health and hygiene in the workplace.
- Strict compliance with environmental legislation and the applicable environmental obligations.
- Carrying out their commercial relationships in an ethical and transparent way, basing its efforts on the quality of the products and services they provide to Duro Felguera.

The Company standardizes procedures with its suppliers, and regular monitoring thereof. If Duro Felguera, during the life of a contract, detects serious non-fulfilment of a supplier's obligations, they will notify the purchasing department and legal counsel as soon as possible, requesting, if necessary, their collaboration in the rescission of the contract.

Duro Felguera may request audits to certify compliance of commitments, both in the quality of products and services, and in the compliance with environmental and workers' health and safety requirements, and in respect for human rights. Supplier audits can be carried out by both Duro Felguera's own personnel and third parties.





At the end of each contract, Duro Felguera assesses the supplier and evaluates at least the following items:

- Compliance with commitments to DF.
- Compliance with requirements in the quality of the product or service.
- Compliance with deadlines and prices.
- Compliance with health and safety practices.
- Compliance with environmental practices.
- Technical and organizational capacity.

Said assessment is sent to the purchasing department for consideration in future awards.

Duro Felguera gives priority to local suppliers to promote the development and improvement of its own region, following the line of support for communities in which the Company operates.

Following are the most relevant locations for the amount of purchases for each EPC project, and the percentage of purchases that Duro Felguera makes in each country where it delivers a specific project (ON) and the percentage of purchases imported into the project country (OFF):

COUNTRY	%OFF	%ON
ALGERIA	22.57%	77.43%
ARGENTINA	31.91%	68.09%
AUSTRALIA	0.00%	100.00%
BAHRAIN	100.00%	0.00%
BELGIUM	44.36%	55.64%
BELARUS	98.82%	1.18%
CANADA	0.96%	99.04%
QATAR	100.00%	0.00%
CHILE	11.84%	88.16%
COSTA RICA	43.13%	56.87%
UNITED ARAB EMIRATES	2.62%	97.38%
FRANCE	100.00%	0.00%
LITHUANIA	100.00%	0.00%
MAURITANIA	97.97%	2.03%
MEXICO	2.57%	97.43%
PERU	8.56%	91.44%
POLAND	100.00%	0.00%
UNITED KINGDOM	30.90%	69.10%
ROMANIA	0.00%	100.00%
VENEZUELA	96.84%	3.16%





### 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 reinforce its presence in the international markets it operates in.

In 2017, DF Calderería Pesada worked intensely in R&D&i to continue improving its manufacturing processes. It advanced in the development of new and more efficient processes for manufacturing and product inspection, in particular research into new reloading systems, which enables faster and more efficient fabrication.

DF Calderería Pesada is also working on a major research project for the production of large equipment. This project is acknowledged and supported by the Industrial Technology Development Centre (CDTI in Spanish).

DF Rail, which specializes in railway apparatus, continued the development of the new system of railway fixing – the first milestone of the three in the project was successfully completed and the second one started. The system is expected to be standardized in 2018 and tests will be carried out on railway lines.

DF Mompresa, via the Logistics Systems area, continued with the strategy to specialize in the automation of goods handling processes.

The Company started a new project which will enable the extension of its products for automated truck loading and unloading, providing new solutions.

DF Operaciones y Montajes focused its efforts on improving maintenance work. The Company implemented improvements both to make maintenance times shorter and for employee safety.

Felguera Tecnologías de la Información successfully finished the “Augmented Factory 4.0 (AF4)” project. The purpose of the project is to develop an augmented reality system to support processing industries in the taking of decisions in real time, aimed at industry 4.0.

DF Núcleo continued improving its highly technological products, among which we could highlight the progress made in the SHERPA 5000 R supervision and control device. The company which specializes in cryptography, DF Epicom, finalized its multipurpose encoder and has started designing a new higher capacity encoder, which will provide even greater security.

Finally, Felguera-IHI finalized the design project for large domes, which will enable the company to design domes larger than the current ones, following the trend in the gas storage sector.



DIRECTORY

06

# DIRECTORY

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