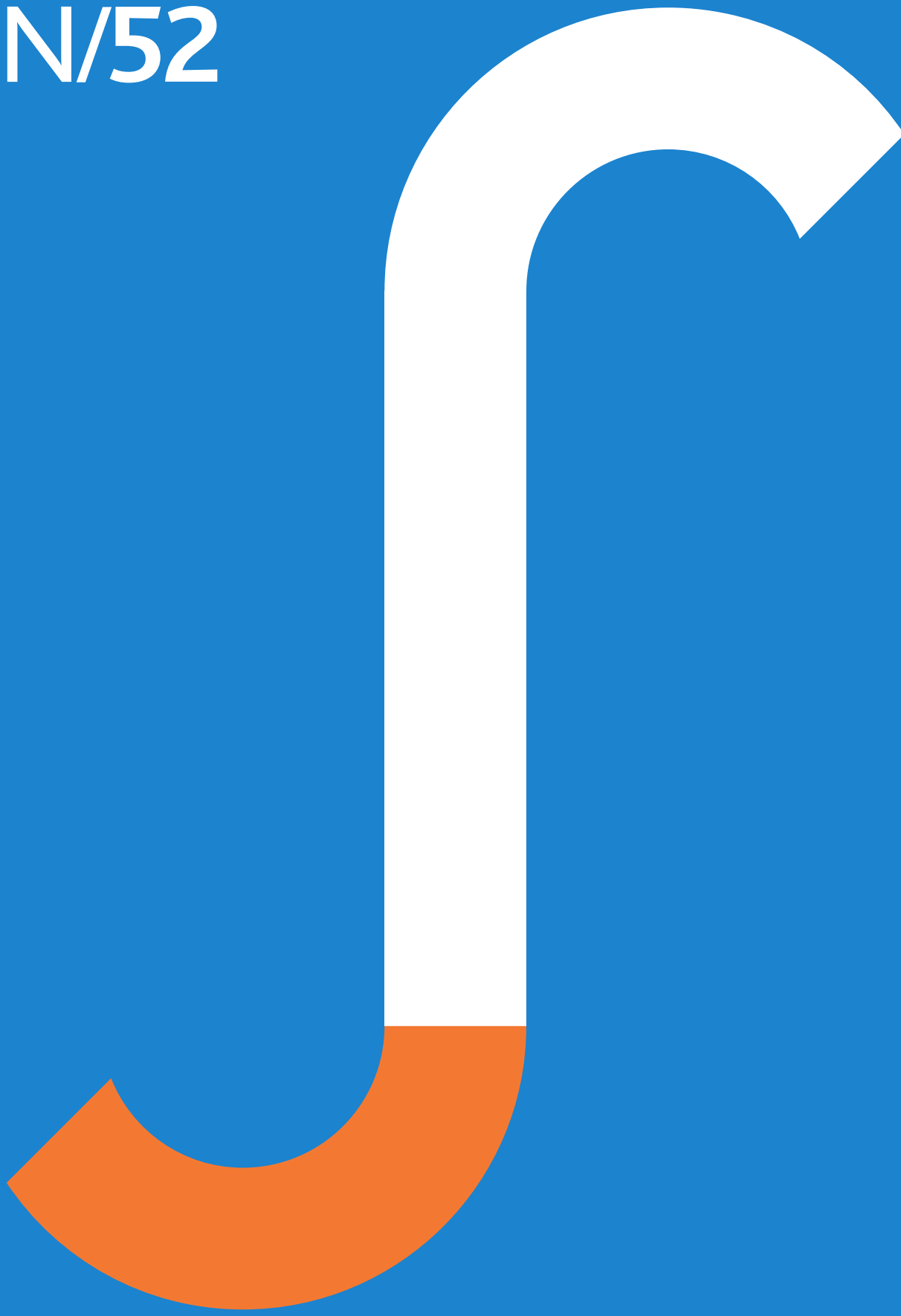


SYMBOL OF OUR FULL-HEARTED COMMITMENT

SUSTAINABILITY REPORT 2019
NON-FINANCIAL INFORMATION STATEMENT

N/52





LETTER FROM THE PRESIDENT

1. VELATIA EQUALS EXPERTS IN SOLUTIONS TO HELP TRANSFORM OUR WORLD

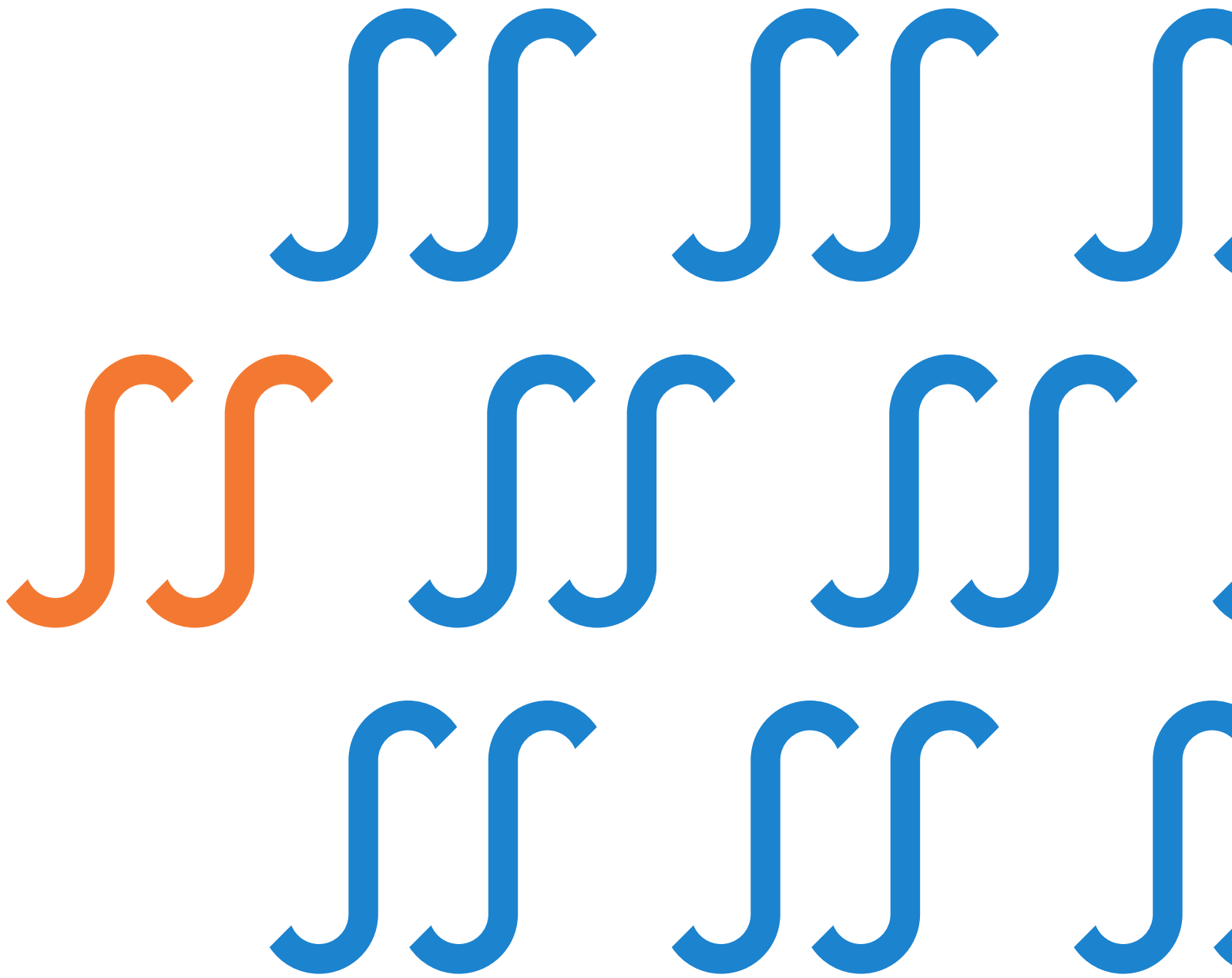
- 1.1. Mission, vision and values.
- 1.2. Companies and businesses.
- 1.3. Main figures.
- 1.4. Governance.
- 1.5. Ethics and integrity.
- 1.6. Risk management.
- 1.7. Sustainability.
- 1.8. Sustainable Development Goals.
- 1.9. Awards and recognitions.

2. THE SUM OF A YEAR OF JOINT EFFORT

- 2.1. Review of the year, business by business.
- 2.2. People.
- 2.3. Innovation.
- 2.4. The environment.
- 2.5. Suppliers.
- 2.6. Society.

3. EVERYTHING THAT BELONGS TO THIS REPORT

- 3.1. Scope and range of this report.
- 3.2. GRI indicators.
- 3.3. Correlation of the principles of the Global Compact with the SDGs.
- 3.4. Independent external assurance report on the Non-Financial Information Statement.



Trust and transparency are undoubtedly two sides of the same coin.

In this context, and with both parameters as road maps, today we present our **Sustainability Report 2019 – Non-Financial Information Statement**. This report, beyond being a formal requirement, is something I am particularly proud of, as it is, without a doubt, the most appropriate document for gaining a knowledge and understanding of **Velatia**. It provides all stakeholders with clear and standardised information about our activities as an organisation in different settings: economic, social and environmental. This document also serves to realise our commitment to the principles of the United Nations Global Compact and to the challenge of meeting the Sustainable Development Goals.

In the following pages you will see that during 2019, **Velatia** fulfilled expectations in the main businesses with a turnover of EUR 659 million. Behind this result is a great deal of effort and a strategy that favours and encourages the flexibility needed to adapt to different circumstances, and which has enabled us to cope with the uncertainty that has prevailed in the markets over the last decade.

Throughout 2019, we continued to take steps in line with the United Nations Sustainable Development Goals. It was a year of reflection and collaborative work that served to identify the objectives that we prioritize because of our impact on them:

- Ensuring equal opportunities (SDG 5)
- Ensuring access to clean and modern energy sources (SDG 7)
- Promoting inclusive and sustainable economic growth and decent work (SDG 8)
- Promoting inclusive and sustainable industry (SDG 9)
- Promoting innovation, sustainable cities and communities... (SDG 11)

Certainly, these are ambitious goals that we make our own with enthusiasm and commitment. All these goals make us a group that feels proud of its values and ethical principles, and we strive to ensure that everyone who forms part of **Velatia** feels committed to achieving them.

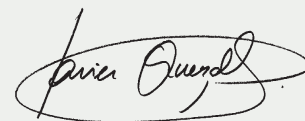
I do not want this letter to be a summary of what you are going to find in the following pages, but I do want to point out something that, although it may seem obvious, is part of our creed: the future is green and digital. This represents an exciting challenge that we are deeply involved in and that we want to tackle with technology and innovative solutions that pursue the well-being of society and the planet.

This desire is shared by the more than 3,000 people who make up **Velatia**, and for this reason I want to highlight some important milestones: the creation, with our partners at Circontrol, of Nexvia, a new company that will allow us to meet the future demands of the electrical mobility sector; the acquisition of Aryse to strengthen and consolidate our offer in telecommunications networks and IT infrastructures; and alliances with different technology partners to develop innovative solutions that will allow us to build a more sustainable and inclusive world.

None of this would be possible without talent. In 2019 we implemented different measures that form part of our global Employer Branding strategy to attract and keep the best professionals at our side; those who are keen to immerse themselves in our culture and values, and to tackle the great challenges we face. During the preparation of this report, we have faced the pandemic declared by the WHO in March 2020. We have lived through the process in all its phases, which have affected all the countries in which we carry out our activities. **Velatia** has acted promptly to fulfil its two chief priorities: ensuring people's health and delivering critical supplies to our customers. Thanks to the commitment and effort of each and every one of us, we have been able to continue to meet the needs of the critical sectors we serve. At the same time, we have implemented the safety measures and protocols necessary to minimise the risk of infection in our production plants, and we have made it possible for more than 1,500 people to carry on doing their jobs by working from home.

And what awaits us? We will all have to adapt to the new world we see before us, the so-called "new normality". Among other things, this terrible crisis has highlighted, once again, the importance of flexibility and, in this regard, **Velatia**, as I mentioned earlier, has shown both aptitude and attitude. However, we know that past results do not guarantee future results.

It is time to concentrate on what lies ahead of us, to row together, to face up to the situation with determination, taking advantage of all the experience we have gained, both from our successes and from our mistakes, and with the confidence and humility that will allow us to detect and make the most of the opportunities that, as in any crisis, present themselves to us. It is in our hands to make it possible.



JAVIER ORMAZABAL ECHEVARRÍA
President of **Velatia**



1. VELATIA EQUALS EXPERTS IN SOLUTIONS TO HELP TRANSFORM OUR WORLD

Velatia equals family, a word that explains our roots and best defines our entrepreneurial character.

Equals industry and technology, the common thread that runs through our history.

Equals talent, a team of diverse and committed professionals sharing a common culture.

Equals sustainability, because we want to contribute positively to the well-being of our society and the planet.

Equals is also the sign that reflects our commitment to equal opportunities at all levels.

1.1 Mission, vision and values

We are a family, industrial and technological group composed of approximately 3,000 people from 20 countries. **Velatia** is established in 19 countries across all five continents, with 18 manufacturing centres and a world-class research and technology centre. These are just some of the facts that indicate the global and multicultural nature of our organisation.

Mission

Velatia is a group that specialises in network optimisation. We provide reliable and innovative solutions thanks to our integration capabilities and our personal commitment to our customers, partners and suppliers, as well as to our people, our environment, and society at large. Our mission is based on excellence, technology and sustainability.

Vision

We aspire to be an innovative and trustworthy group that contributes positively in all the areas of activity in which we are present, ensuring performance and the creation of value for all our stakeholders.

Values

At **Velatia** we are distinguished by having values strongly rooted in our culture:

- **Flexibility:** willingness to understand different options and adapt to different situations.
- **Leadership:** showing a will to succeed in day-to-day activity that can serve as an example and motivation for others.
- **Innovation:** dynamic attitude to create and anticipate new and successful processes, products and/or services.
- **Pragmatism:** efficient results orientation.
- **Support:** willingness to offer and request help in order to develop people and achieve goals.

Velatia cornerstones

We are a family-based group with a strong industrial base and technological trajectory, with capacity for operating in all five continents and comprising renowned companies in their respective sectors.

Family/Industrial/Technological/Global/Renowned

1.2 Our companies and businesses

Ormazabal

Electrical grids

Manufactures equipment and offers solutions to make energy transition a reality, through innovation in electric power distribution networks. **Ormazabal** solutions allow networks to accommodate the new decarbonised energy mix, the entry of new types of consumers (such as the electric vehicle), and prosumers. All of which guarantees the best quality of supply to society.

Ikusi

Telecommunications and IT networks

Designs, implements and manages telecommunications technology and infrastructures, providing knowledge and experience in areas with specific requirements.

Integration and engineering projects

Accompanies businesses and institutions in their digital transformation process. It offers high-value-added digital solutions and services based on advanced technologies that increase operational efficiency, revenue and user experience, accompanying its customers – businesses or institutions – in the process of digital transformation that is taking place in all sectors. Its activity is carried out in four main areas: specialised business solutions for improving the management and operations of airports and cities; integration and engineering projects for multiple infrastructures; projects for telecommunications and IT networks (collaboration, security and cloud); as well as design and development of hi-tech electronic solutions.

Wec

Aeronautics

Designs and manufactures advanced parts and components used mostly in the engines and turbines of the world's leading aircraft manufacturers.

Stratenergy

Specialists in energy services

Velatia's energy services company has the capacity to implement efficient energy demand management projects, as well as energy-saving measures at its customers' premises, helping them to undertake investments to which they cannot devote their own resources, and monitoring their consumption to offer them continual improvements.

Smarmec

Electromechanical technology and integration

Designs and industrialises mechanical, electronic and IT engineering solutions in the field of smart machines, with its own prototype manufacturing and small production run capabilities. It provides added value in technologically advanced differential processes, in additive manufacturing and in connecting technologies.

Ikusi

Specialised business solutions

Its activity focuses on creating specialised business applications to improve operating efficiency, revenue and user experience through the use of advanced technologies that drive the digital transformation taking place in all sectors.

Multimedia

Experts in innovative and high-quality solutions for the reception, processing and distribution of TV and video signals.

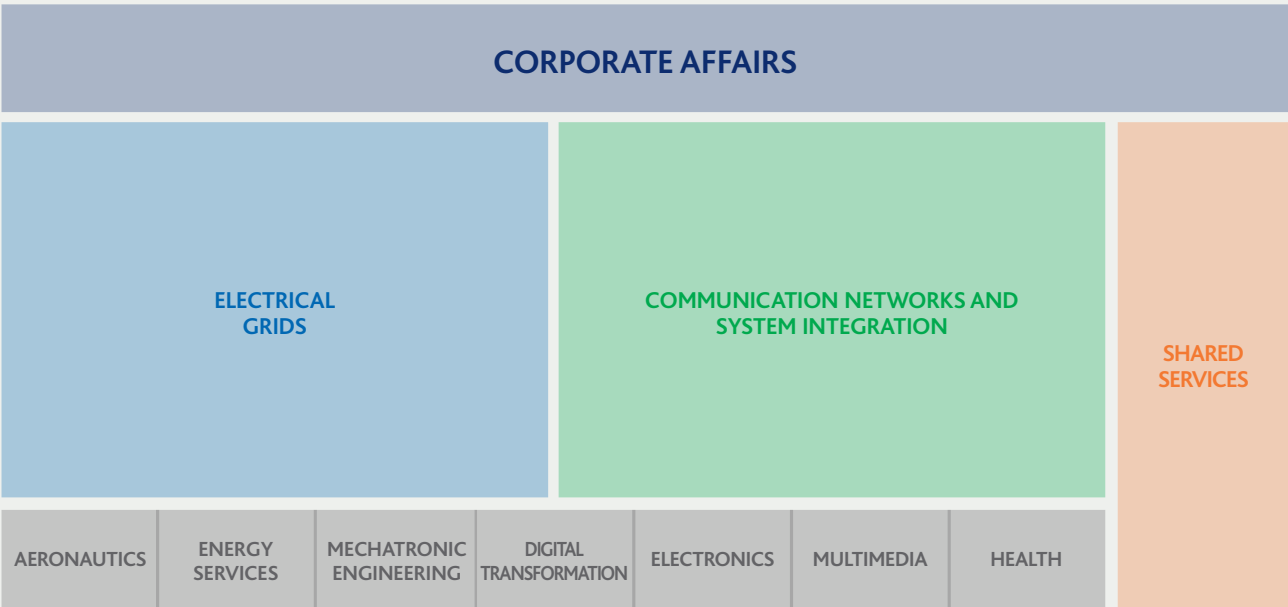
Ikusi Electronics

Provides electronic products and services to original equipment manufacturers in various sectors.

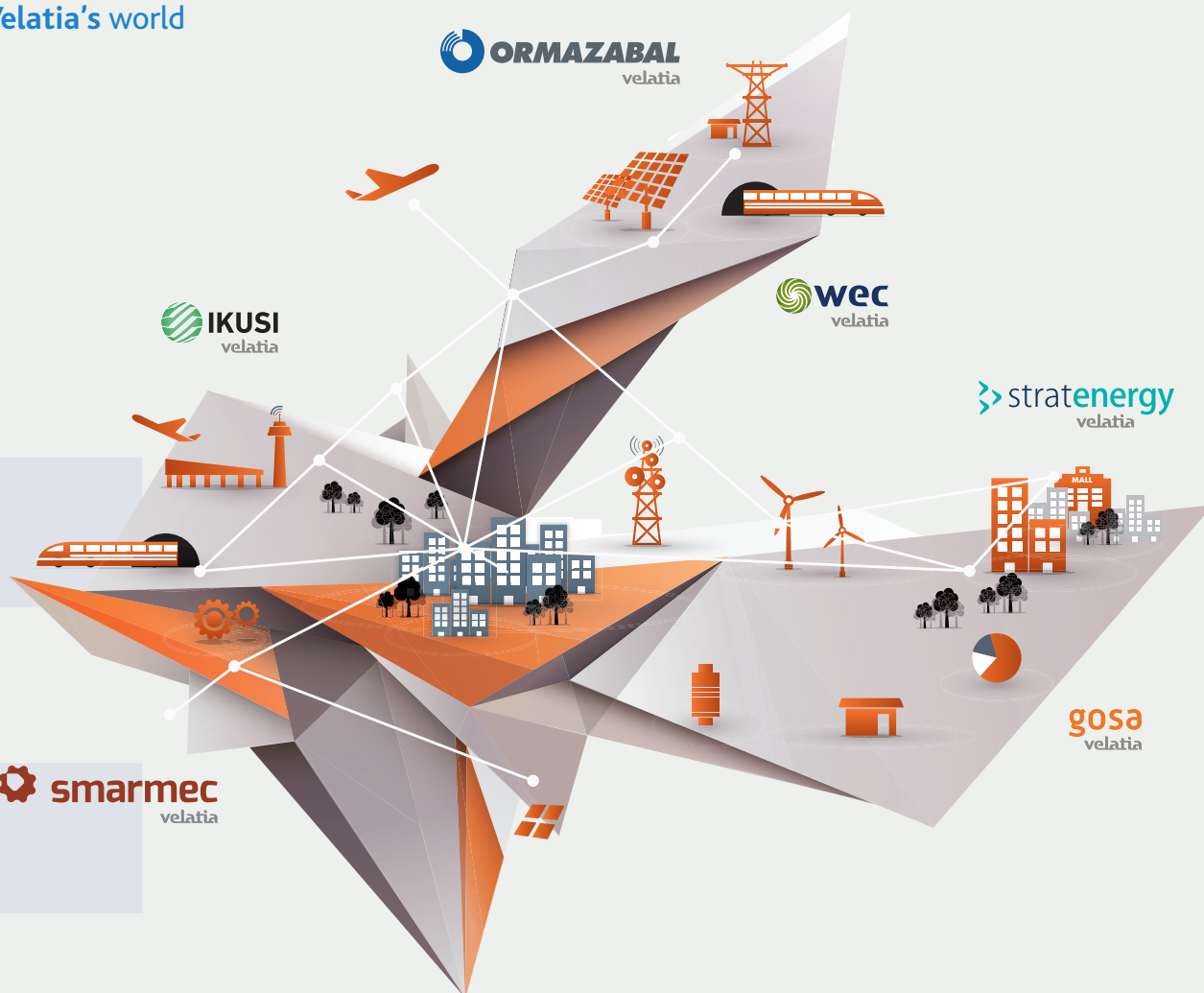
Brand architecture



Structure and companies



Velatia's world



Velatia's world grows

In 2019 our universe expanded thanks to two new additions that will support two of **Velatia's** important lines of business.

Nexvia is born

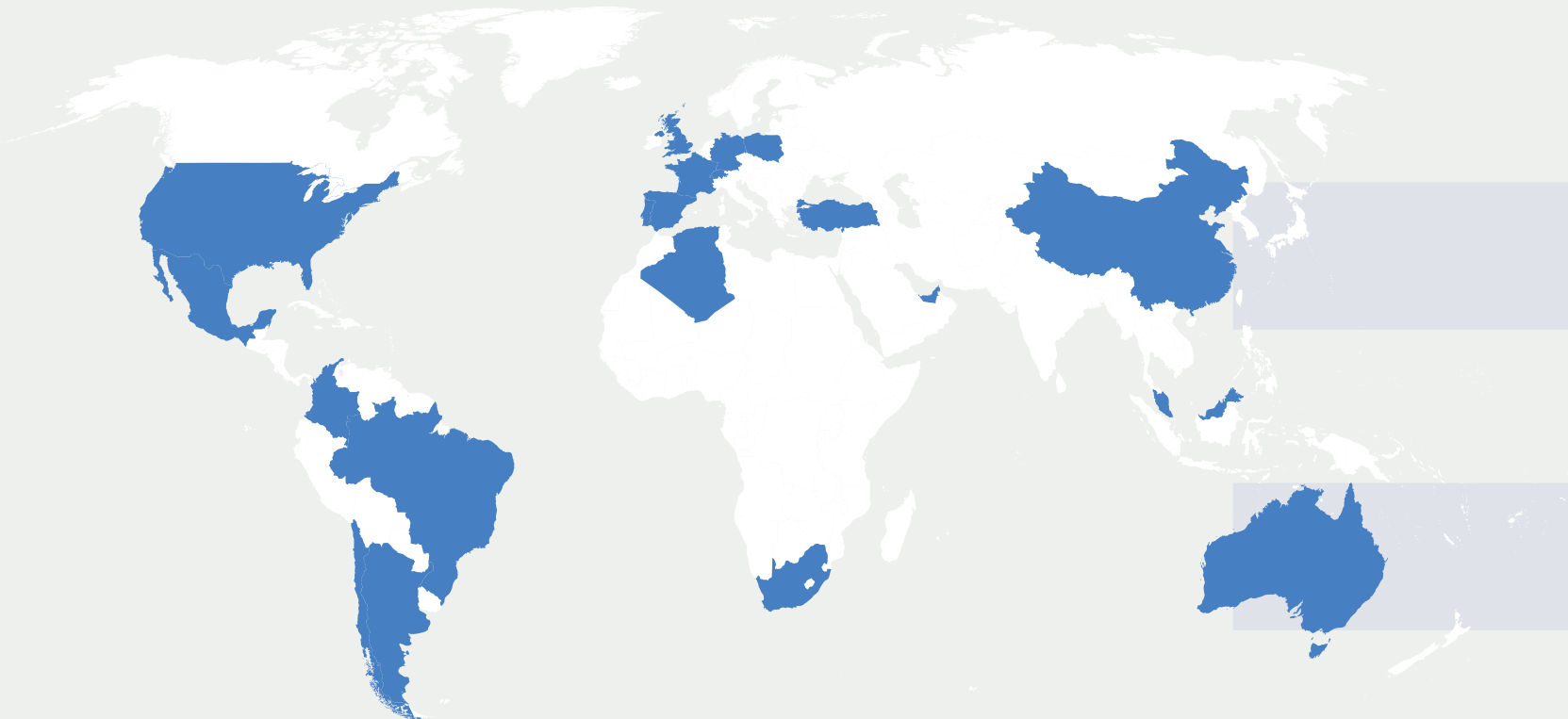
Nexvia is the result of an alliance between **Ormazabal** and Circontrol, a company focused on offering comprehensive fast and ultra-fast charging solutions for electric cars and buses. Its customised solutions adapted to foreseeable new scenarios and future demands in the electrical mobility sector will allow us to position ourselves as a relevant player in the market.

Ikusi acquires Aryse

With the integration of this company specialised in telecommunications networks and IT infrastructures, **Ikusi** strengthens and consolidates our offer in this business segment. For the company it means strengthening its position in this area in Spain and Europe, as this activity was already highly developed in the Latin American market, especially in Mexico and Colombia. **Ikusi** and Aryse have collaborated on various projects in recent years, so the incorporation of Aryse has been a natural process.

1.3. Main figures

Velatia 2019



EXPERIENCE

MANUFACTURING

CENTRES

OFFICES

>50
years

18
factories

1
Research and Technology
Centre

19
countries

EVOLUTION OF TURNOVER

(millions of euros)

EBITDA

(% of turnover)

EBT

(% of turnover)

2018

628

MILLION

4 %

1 %

2019

659

MILLION

4 %

1 %

STAFF EVOLUTION

2018

2,844

PERSONS

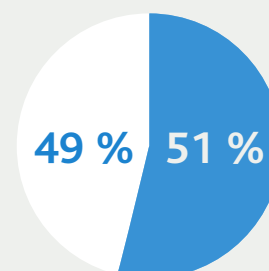
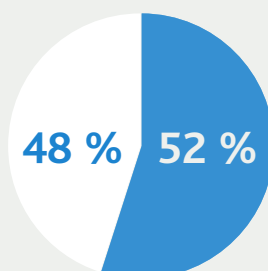
2019

2,915

PERSONS

MOD

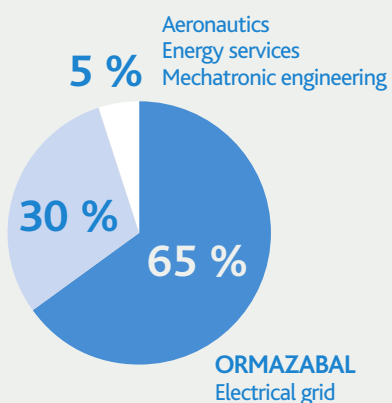
MOI



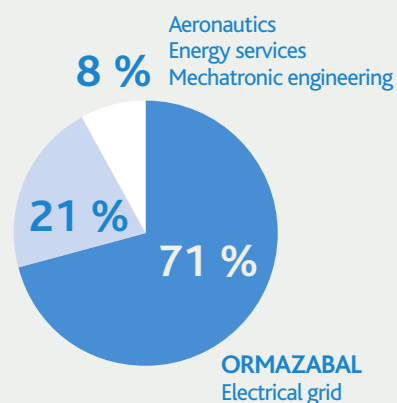
TURNOVER VOLUMES IN 2018

TURNOVER VOLUMES IN 2019

IKUSI

Communication networks
and system integration

IKUSI

Communication networks
and system integration



1.4 Governance

The highest governing body of Velatia is the Board of Directors, whose regulatory framework is laid down in the Articles of Association, the Rules of Procedure of the Shareholders' Meeting, the Rules of Procedure of the Board of Directors, the various Rules of Procedure of the Board Committees, and the Code of Ethics.

The role of the Board of Directors is to steer, supervise and generally control the company, delegating ordinary management to the management team. The Board's activity is related to strategic orientation, organisation, financial and risk control, information policy, legal bases and auditing.

The current structure of the Board allows us to comply with the recommendations of the Code of Good Governance and with the Spanish Company Law in terms of its size and type.

The president assumes the functions of chief executive. Steps have been taken to limit the risks that such a concentration of power could entail, such as setting up committees (with a majority of independent members) whose agreements have to be ratified by the Board of Directors, and delimiting the functions of the president in the rules of procedure, among other measures.

The secretary ensures that the Board's actions are in accordance with the law, the Articles of Association, and the Rules of Procedure.

In accordance with the procedure established to avoid conflicts of interest in the highest governing body, the executive directors have to inform the Board of any such situation they may be in with regard to the company. Any director in such a situation must refrain from intervening in matters where there may be a conflict between the interests of the entity and those of the executive directors or related parties.

Independent directors are responsible for supervising any transactions that may generate a conflict of interest.

Finally, the annual accounts reflect transactions with associated enterprises, such enterprises therefore being known to all directors and shareholders.

Governing bodies

Board of Directors

PRESIDENT

Mr. Javier Ormazabal Echevarría (3)(4)

VICE-PRESIDENT

Mr. Alejandro Ormazabal Echevarría (1)(2)(3)(4)

ORDINARY MEMBERS

Mr. Luis Tejada Dunes (1)(2)(4) ***

Mr. Pau Molinas Sans (2) **

Ms. Ana Ormazabal Echevarría (1)(2)

Mr. Ramón Sotomayor Jauregui (2)(3)

Ms. Carmen Ormazabal Echevarría

Ms. Begoña Ormazabal Echevarría

Mr. Hipólito Suárez Gutiérrez (1) *

Mr. Luis Atienza Serna *

* Appointment: 1/4/2019

** Removal: 1/4/2019

*** Removal: 31/12/2019

SECRETARY (non-board member)

Mr. Javier Bicarregui Garay

Corporate Social Responsibility Committee

CHAIRWOMAN

Ms. María del Carmen Echevarría Vizcargüenaga

VICE-CHAIRWOMAN

Ms. Ana Ormazabal Echevarría

MEMBERS

Mr. Alejandro Ormazabal Echevarría

Ms. Begoña Ormazabal Echevarría

Ms. Carmen Ormazabal Echevarría

Mr. Javier Ormazabal Echevarría

Audit and Compliance Committee (1)

It consists of four members (two independent and two proprietary) and is regulated in accordance with rules of procedure approved by the Board of Directors.

Its main objectives are to:

- Ensure the transparency, accuracy and timeliness of financial information.
- Evaluate and continually monitor the internal control system.
- Validate the effectiveness of policies, systems and procedures that ensure the identification and proper management of the risks faced by the organisation.
- Ensure strict compliance with the laws, regulations and standards affecting the activities of the group.

Appointments and Remuneration Committee (2)

Composed of two independent and two proprietary members and regulated in accordance with rules of procedure approved by the Board of Directors. Its functions include providing information, advice and proposals in relation to the appointment, removal and remuneration of the company's directors and senior executives.

Strategy Committee (3)

It is composed of the president, the vice-president and two independent members. Its main functions are to review, evaluate and advise on the medium- and long-term strategy of the group, as well as to supervise the implementation of the guidelines approved by the Board of Directors. All agreements adopted by this Committee must be ratified by the Board.

Mexico Committee (4)

Composed of five members, it is a consultative and advisory body in the strictly professional sphere. Its main function is to support Velatia's business in Mexico by providing collaboration and advice. Its activity primarily involves evaluating the enquiries made by the Board of Directors and the general managers and providing them with proposals based on analysis and its extensive experience.

The following also form part of this committee as permanent members: Mr. Francisco Garza Zambrano and Mr. Francisco Garza Egloff.

Corporate Social Responsibility Committee

It is composed mainly of members of the Board of Directors, to whom may be added, as guests, anyone considered appropriate due to their knowledge of the specific subject matter in question. Its main function is to ensure compliance with Velatia's objectives, commitments and lines of action in matters of corporate social responsibility as well as social action.



1.5. Ethics and integrity

Velatia has been a member of the United Nations Global Compact since 2002 and, as such, we have made a commitment to align our strategies with its ten universal principles.

Our **Code of Ethics** establishes the general guidelines of ethical conduct to be followed by all **Velatia** employees, both in the performance of their duties and in their professional relations with colleagues, managers, subordinates, customers and suppliers; always acting in accordance with the legislation of each country and respecting the ethical principles of their respective cultures.

This code is governed by the principles of the United Nations Global Compact based on the following frameworks for action:

- The Universal Declaration of Human Rights.
- The ILO Declaration on Fundamental Principles and Rights at Work.
- The Rio Declaration on Environment and Development.
- The United Nations Convention against Corruption.

The **Committee on Ethics and Corporate Crime Prevention** seeks to ensure **Velatia's** strict compliance with the commitments it has undertaken. This committee is composed of the following departments: Corporate Affairs, Finance, Legal Advisory and Internal Audit, and has the following responsibilities:

- Disseminate the Code of Ethics among everyone in the group.
- Resolve any issues that may arise as regards its interpretation, as well as offer guidance on how to act in case of doubt.
- Evaluate and report compliance with the code, as well as provide a channel of direct communication to everyone involved in order to report possible breaches.
- Manage and resolve any complaints, suggestions or enquiries (unresolved by informal procedure) that may arise in connection with workplace harassment.

We have an **Ethics Channel**, a tool made available to employees to allow them to communicate, confidentially, anything that may be considered irregular or inappropriate as events or situations that are or may be contrary to the Code of Ethics, corporate policies and procedures, good business practices, or the law.

This channel is managed by an independent company to ensure the strictly confidential treatment of the information collected. This company is in charge of ensuring the availability of the service and its accessibility for all employees, receiving all communications, ensuring the integrity, objectivity and confidentiality of the information provided by the complainant, monitoring the stages of a complaint, as well as serving as intermediary between the company and the complainant to safeguard the identity of the latter.

Anyone, whether or not they form part of **Velatia**, can access the channel through the Code of Ethics section of the corporate website. In addition to this, the Ethics Committee provides the e-mail ethics@velatia.com to anyone who requests it for direct communication purposes.

Employees may also report a breach or violation of the Code of Ethics by informing the relevant person in charge.

In 2019, three communications were received through the Ethics Channel (the same number as in 2018) and then duly analysed and resolved on the basis of the established procedure. The main risks identified are linked to occupational and sexual harassment, for which the corresponding controls have been applied to maintain minimum risk levels.

Finally, the internal e-training platform offers all Velatia employees the following two training courses:

- **Training on the Code of Ethics**, which aims to explain its content by giving guidelines of conduct for the performance of professional activity
- **Training on the Ethics Channel**, which explains its communication and operating procedures.

Combating corruption and bribery

At Velatia, we embrace the tenth principle of the United Nations Global Compact on the fight against corruption in all its forms.

In order to remain firm in the transparency, rigour, honesty and reliability of all our actions, we have undertaken various commitments as set out in our **Anti-Corruption Policy**:

- Ensure **strict compliance** with anti-corruption and bribery laws in the countries where we operate.
- To ensure that all employees, board directors and committee members comply with the anti-corruption measures set out in our **Code of Ethics**.
- To fulfil the commitments set out in our **Social Action Policy**, ensuring that our sponsorships and donations are made with entities of great prestige, rigour, honesty and transparency. **Velatia** does not make donations to political parties, representatives or candidates in any country, nor does it sponsor any kind of event whose purpose is political propaganda.
- To present information and produce accounting records that reflect the organisation's payments, expenses, transactions and disposal of assets with **rigour, transparency and accuracy**.
- To extend knowledge of this policy to all our stakeholders by placing it at their disposal and making it public.



1.6. Risk management

In its daily activity, **Velatia** responds to various risks inherent in the different countries and businesses in which we operate that could be an impediment to successfully implementing our business strategy and achieving our objectives.

Our group has an organisation, procedures and systems that allow us to manage in a reasonable way the risks to which it is exposed, positioning this management as an integral element of decision-making processes, both within the scope of corporate governance bodies and in each business.

After a process of identification and assessment, we develop a **risk map** prioritising the risks based on the probability of their occurrence and their impact. This map includes the risk factors to which the group is subjected, which, in general, are divided into the following categories:

Strategic risks: those that affect strategic objectives and are identified within the process of strategic reflection carried out by each business.

Operational risks: those that can cause losses due to human errors, inadequate or flawed internal processes, and system failures.

Compliance risks: within this category we have identified controls to mitigate the risks arising from the following regulations:

- Privacy and confidential information.
- Scams and misleading advertising.
- Safeguarding competition.
- Corruption.
- Fiscal and Social Security.
- Labour.
- Environment
- Sectoral regulation.

Information risks: Velatia has a Financial Reporting Internal Control System (Sistema de Control Interno sobre la Información Financiera, SCIIF) whose proper functioning reasonably ensures the reliability of the group's financial report. The SCIIF model is defined on the basis of the methodology established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), a joint initiative to combat corporate fraud.

This methodology provides an integrated framework for internal control of financial information, the aim of which is to contribute to the faithful recording of transactions in accordance with the relevant accounting system, providing reasonable assurance regarding the prevention or detection of errors that could have a significant impact on the information contained in the consolidated annual accounts.

Management of talent-related risks

Aware of the importance of people in meeting strategic challenges, **Velatia** has identified the following risks related to talent management: on the one hand, to mitigate risks to occupational safety, progress is being made in prevention through new ISO 45.001 certifications. In addition, to reduce the difficulty in attracting talent outside Spain, the employer branding project has been deployed.

In order to mitigate these risks, we have defined the key indicators that are constantly monitored by the group's management.

Human rights risk management

Velatia has a methodology for identifying, assessing and managing the human rights risks to which we are exposed as a result of carrying out our activity in the different countries where we operate.

The Code of Ethics and the Protocol on Prevention and Action against Workplace Harassment contain measures to prevent possible abuses.

As mentioned in the section on Ethics and Integrity, all **Velatia** employees have confidential access to an Ethics Channel, managed by an independent company, through which they can communicate any incident or situation that may be contrary to our Code of Ethics.

Management of environmental risks

Our awareness of the importance of respecting the environment has led us to develop policies and implement measures aimed at minimising the risk of any environmental impact we might generate as a result of our activity.

We undertake our commitment to the environment by incorporating eco-efficient criteria into the development of our products (extending good practices to all companies within the group, implementing environmental management systems, etc.), and by promoting an eco-friendly/sustainable/green image (establishing common indicators throughout the organisation, participating in pro-environment initiatives, etc.).

In 2019, **Velatia** extended its liability policy to cover the risk of polluting the atmosphere, soil or water, provided that any such event occurs as a result of an accidental, sudden, unpredictable, unexpected and unintentional cause. Ormazabal Germany has also taken out an environmental policy covering the potential risks assessed.

Management of risks related to the community and our suppliers

The main risks identified refer to possible breaches of the regulations applicable to the communities and countries where our companies operate, as well as those attributed to the main suppliers we work with.

1.7. Sustainability

At Velatia we strive for sustainability and recognise the importance of developing our business without compromising the ability of future generations to meet their needs, combining the pursuit of profit with social engagement and maximum respect for the environment.

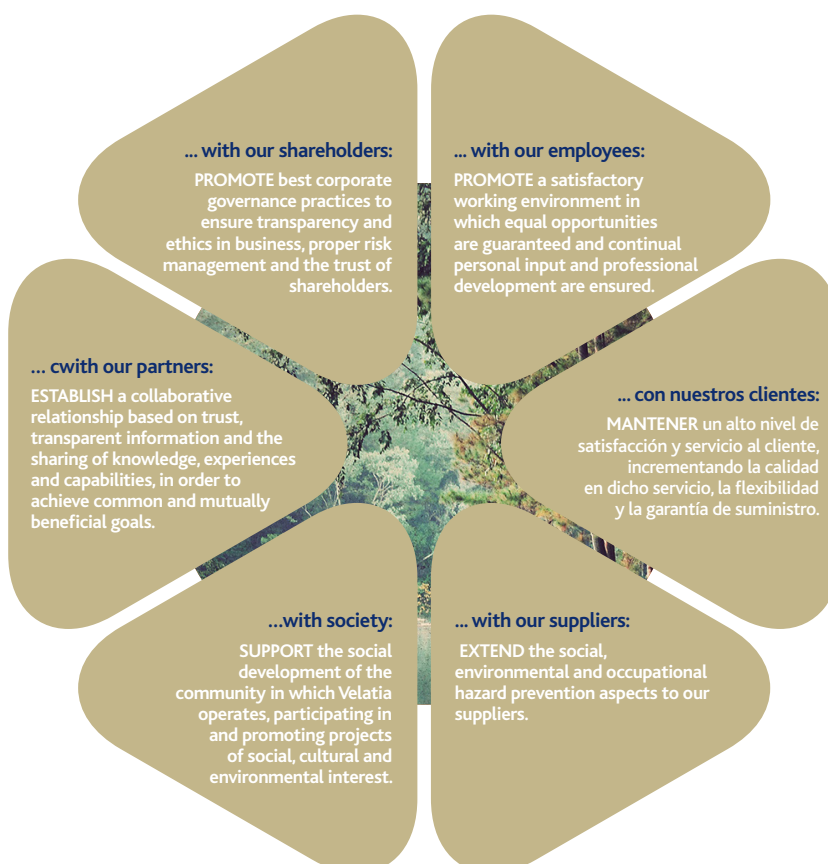
We incorporate the interests and needs of our stakeholders – shareholders, individuals, partners, customers, suppliers, society in general – into our organisational strategy and our day-to-day management.

Our Corporate Social Responsibility Policy reflects the commitments undertaken by the group. For its part, the 2018-2020 Corporate Social Responsibility Master Plan integrates the social and environmental aspects identified as strategically and operationally significant at Velatia, establishing the following lines of action:

- Increase our employees' **sense of belonging**, their commitment to and satisfaction with the company, and, in parallel, their productivity.

- Improve **customer satisfaction** by increasing our added value and aligning it with their sustainability needs.
- Improve **relationships with suppliers** and enable eco-efficient and sustainable management of the supply chain.
- Boost our potential in terms of **commitment to the environment**, projecting a sustainable image of the organisation and its products.

Before drawing up this plan, and in order to determine the most relevant issues relating to sustainability, we analysed the expectations of our stakeholders, the benchmarking of competitors, regulatory trends, as well as the issues that remained pending from the previous plan. Based on this analysis, the following materiality matrix was developed.



Lines of action

We establish these three lines of action with their corresponding developments:

Company committed to its people:

- Carry out effective internal communication
- Improve the working climate.
- Manage gender and cultural diversity.

Responsible business:

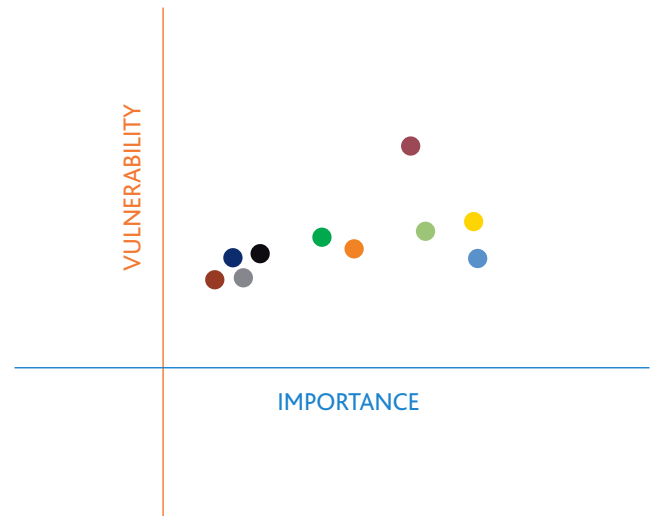
- Integrate corporate social responsibility into the business.
- Increase customer satisfaction.
- Maintain ongoing dialogue and consultation with stakeholders.
- Establish stable and lasting alliances.

Stable and durable company:

- Incorporate eco-efficient criteria in products.
- Demand sustainability requirements from suppliers.
- Promote an eco-friendly/sustainable/green image.

In financial year 2019, we worked on defining a commitment-based sustainability model to promote sustainable development while maintaining a balance across these three pillars: economic development, environmental protection and social aspects.

Materiality matrix



- Developing effective internal communication
- Improving the working climate
- Increasing customer satisfaction
- Profitable and lasting partnerships
- Managing gender and cultural diversity
- Dialogue and consultation with stakeholders
- Sustainability requirements for suppliers
- Integrating corporate social responsibility into the business
- Promoting an eco-friendly/sustainable/green image
- Incorporating eco-efficient criteria in products

1.8. Sustainable Development Goals

Our strategy focuses on addressing the complexity of the challenges defined by the Sustainable Development Goals with innovative responses and positive impacts in areas such as energy transition, digitalisation, cities and transport, among others.

In 2019, we continued to deepen our commitment to the United Nations Sustainable Development Goals (SDGs) and launched a stimulus plan for the SDGs that seeks to integrate commitment, dissemination and action in pursuit of the global agenda into the group's culture.

The SDGs selected by Velatia as preferential and the identified goals we contribute to are as follows:



Goal: Promote full participation and equal opportunities in all our processes and businesses.

Target 5.5: Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life.

Target 5.C: Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels.



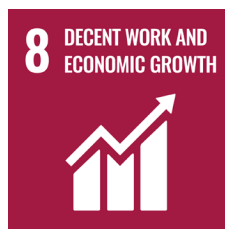
Goal: Ensure access to affordable, reliable, sustainable and modern energy for all.

Expanding infrastructure and improving technology for clean energy in all developing countries is a crucial goal that can stimulate growth and at the same time help the environment.

Target 7.1: By 2030, ensure universal access to affordable, reliable and modern energy services.

Target 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix.

Target 7.3: By 2030, double the global rate of improvement in energy efficiency.



Goal: Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all. The Sustainable Development Goals aim to stimulate sustainable economic growth by increasing productivity levels and technological innovation. Promoting policies that stimulate entrepreneurship and job creation is crucial to this end, as are effective measures to eradicate forced labour, slavery and human trafficking. With these challenges in mind, the goal is to achieve full and productive employment and decent work for all men and women by 2030.

Target 8.1: Sustain economic growth.

Target 8.2: Achieve higher levels of productivity through technological upgrading and innovation.

Target 8.3: Promote local development and SME growth.

Target 8.5: Achieve full employment and decent work.

Target 8.6: Contribute to the promotion of youth training and employment.

Target 8.8: Protect safe labour law.



Goal: Develop resilient infrastructures, promote inclusive and sustainable industrialisation, and foster innovation. Investment in infrastructure and innovation are key drivers of economic growth and development. With more than half of the world's population living in cities, mass transport and renewable energy are increasingly important, as is the growth of new industries and information and communications technologies.

Target 9.1: Develop quality, reliable, sustainable and resilient infrastructure.

Target 9.2: Promote inclusive and sustainable industrialization.

Target 9.4: Adoption of clean industrial processes and technologies.

Target 9.5: Enhance the technological capabilities of industrial sectors promoting research and development.

Target 9.C: Increase access to information and communications technology.



Goal: Ensure that cities and human settlements are inclusive, safe, resilient and sustainable. More than half of the world's population today lives in urban areas. By 2050, that figure will have risen to 6.5 billion people, two thirds of humanity.

It is not possible to achieve sustainable development without radically transforming the way we build and manage urban spaces.

Target 11.2: Provide access to safe, affordable, accessible and sustainable transport systems and improve road safety.

Target 11.3: Enhance inclusive and sustainable urbanisation and capacity for participatory, integrated and sustainable planning and management.



As a starting point, the 2019 Annual Conference included a working session on Velatia's prioritised SDGs, at which the attending executives analysed and debated in groups the degree of penetration of these goals in our day-to-day activities and lines of work in order to continue working towards them. The groups' conclusions were pooled at the end of the session.

1.9. Awards and recognitions

Bizkaired recognises Velatia's management in the 10th Edition of the Bizkaia Sarean Business Awards

In 2019, Bizkaired, the Vizcaya employers network association, gave this award to **Velatia** in the "Management" category. This award gives us special satisfaction, coming as it does from an association that connects more than 2,400 companies in the province of Vizcaya.

Alongside **Velatia**, other award winners included EiTB, Chief Councillor of Vizcaya Unai Rementeria, SPRI, companies such as Kid's Kitcar, Atlas Molecular Pharma, Gescrap and Ausarta Prima.



Ormazabal receives the Basque Prize for Advanced Management

Awarded by Euskalit, Basque Foundation for Advanced Management, this prize is the highest recognition of business management in the Basque Country. In order to be eligible, it is necessary to have won the "Golden A" award in previous years and to pass a specific external assessment in one of the following aspects of management: strategy, customers, people, society or innovation. **Ormazabal** is the eighth Basque company to earn this prestigious award and the first in the industrial sector to receive it in the innovation section.



Ikusi Mexico obtains WORLDCOB-CSR certification

The World Confederation of Businesses awarded **Ikusi Mexico** the WORLDCOB-CRS certification, which guarantees that **Ikusi** has a Corporate Social Responsibility management system that meets its Industrial Relations, Social and Environmental Responsibility requirements.

And all because **Ikusi** has codes of ethics and social responsibility policies, as well as environmental commitment policies, and provides constant training to its employees; not forgetting the promotion of health, as required by the CRS standard.

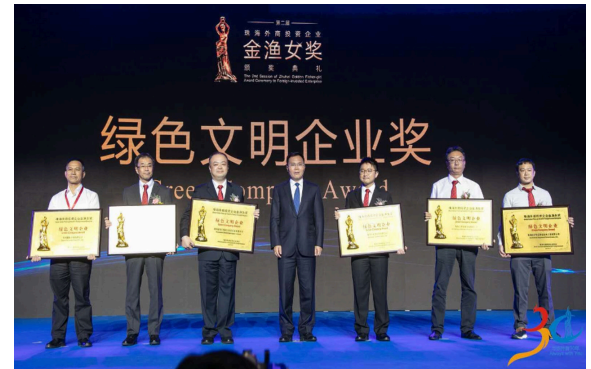
The certification is valid for three years, during which period **Ikusi** agrees to undergo a continual assessment by the certifying body, in order to ensure the sustainability of the programmes.



Recognition of commitment to sustainability for Ormazabal in China

In 2019, Ormazabal's production centre in the Chinese city of Zhuhai received the "Green Company Award" from the Zhuhai Association of Enterprises with Foreign Investment (ZHAEFI), a non-profit organisation made up of foreign investment companies located in Zhuhai.

This award recognises companies committed to sustainable and responsible development in relation to the environment and society. The prize-giving ceremony was held on the occasion of the association's 30th anniversary, with the participation of local authorities and businesspeople.



Cisco rewards Ikusi again

Once again, Ikusi was recognised by Cisco Systems at the Partner Summit held in November 2019 in Las Vegas, specifically in three categories: "Architectural Excellence Partner of the Year: SP Architectures", "Customer Experience Partner of the Year", and "Cisco Capital Partner of the Year".



Hanwha names Ikusi "Top Ten Integrator Gold"

Hanwha, the market leader in video surveillance in Latin America, has recognised Ikusi as "Top Ten Integrator Gold". This prize recognises the company's excellent performance in security integration projects as well as its close relationship with Hanwha, Ikusi being one of its main partners in Mexico.





2. THE SUM OF A YEAR OF JOINT EFFORT

The world is facing a growing number of complex and interconnected challenges.

A reality in which **Velatia** is part of the solution.

Our solutions are a product of the commitment and enthusiasm of many people who are capable of transforming ideas into assets, and challenges into opportunities that give impetus to our customers and help improve the well-being of all.

This joint effort, combined with **Velatia**'s technology and innovation capacity, produced significant results in 2019.



EVOLUTION OF ORMAZABAL

TURNOVER
(millions of euros)

2018

433

2019

470

2.1. Review of the year, business by business

Electrical grids and smart grids

Ormazabal continued to grow in 2019, surpassing all the objectives defined in the Strategic Plan 2018-2020 in spite of uncertain conditions in the business environment. It closed the year with a turnover of EUR 470 million and a growth of 7 % above the record figure reached in 2018. Profitability also improved, up by around 15 % on the previous year.

The results are a reflection of the huge effort made by everyone at **Ormazabal** and the company's adaptability in a volatile and uncertain context that is already part of the reality of the markets.

The year's balance sheet confirms the sound judgment underpinning the organizational decisions taken during the previous year and that **Ormazabal** is an effective and operational organisation.

It is worth highlighting the notable rise in the segments identified as priorities in the strategic plan. For example, a significant turnover was achieved in renewable energies, where sales increased by more than 10 %, and in electric vehicles, where sales doubled in comparison with the figure obtained in 2018.

In strategic terms, we highlight the launch of Nexvia, **Velatia's** new business resulting from the alliance with Cir-control, a company specialising in eMobility. Nexvia's activity focuses on offering comprehensive fast and ultra-fast recharging solutions for electric cars and buses. This will allow **Ormazabal** to become a leader in this field, with a unique offer in the current market based on the strengths of its partners.

Following on from previous years, great global successes were achieved throughout 2019. The fact of being chosen as a key partner by new actors of multinational influence, together with new smart grid projects around the world, make **Ormazabal** a dominant global player in the adaptation of electricity grids to a decarbonised energy mix.

Among the major milestones achieved this year are the continuing sales of solutions for smart grid rollout both in Spain and worldwide (for example, in Vietnam), the solar energy storage solution for **Iberdrola** in Spain, and the supply of the first compact secondary transformation centre for **Tenaga Nasional Berhad** (Malaysia), the first solution designed and manufactured in China to be sold to an electrical company outside this country; among many other projects.

At a technological level, almost one third of **Ormazabal's** sales correspond to products developed in recent years. An example of this is the supply of the first smart transformers to a Spanish utility company (**Iberdrola**).

The European project EriGRID held its plenary meetings in 2019 at the Centre for Technological Innovation (CIT) in Boroa, a fact that vouches for **Ormazabal's** important role in promoting the smart grid and the current success of our innovations.

Finally, the development of digital native products, conceived and designed for the new digitalised network that represents an indispensable vector for energy transition. In this regard, several prototypes of intelligent low-voltage transformers and switchgear have been installed.

EVOLUTION OF IKUSI REDES
Y PROYECTOS

TURNOVER
(millions of euros)

2018

132

2019

142

Information and communication technologies

Ikusi fulfilled the forecasts of the Strategic Plan 2018-2020 in the main businesses, reaching a turnover of EUR 142 million in **Telecommunication and IT Networks and Integration and Engineering Projects**. This figure was lower than expected due to the fact that the public authorities in Mexico, a key market, and whose vertical represents one third of this country's sales, did not announce any calls for tenders in the first 10 months of the year.

Favourable balance of Networks and Projects businesses.

The favourable balance of **Redes y Proyectos** (Networks and Projects) businesses shows that the strategic decisions taken during the previous year have been crucial. This was the context for last year's acquisition of **Aryse**, a telecommunications networks and IT infrastructures company with which **Ikusi** seeks to replicate in Spain the success of the **Networks** business in Mexico and Colombia, as well as its complementarity with that of **Projects**.

If we look at the businesses one by one, **Networks** is making good progress, although contracting has been particularly affected by the economic recession in Mexico and the Mexican government's drastic investment cuts. Tensions arising from the economic environment (projects halted, trade war with the United States, exchange rate fluctuations, etc.) affect payments and lead to the withdrawal of such investments. As for the Colombian market, it made slow progress and maintained the level reached in 2018.

For its part, **Projects** is consolidated in both Spain and Mexico. In Spain it is making progress in its value proposition aimed at the digital transformation of customers as a lever for growing their business, having been awarded new and important contracts while also maintaining its activity aimed at critical infrastructures. In Mexico, it has achieved significant growth in the field of security and airports thanks to the contract for the **Mexico City International Airport**, the country's most important airport project in recent years.

In 2019, **Ikusi** concluded key agreements such as those for accompanying the **Grupo Bolsa Mexicana de Valores** (Mexican Stock Exchange Group) and **Talgo** in their digital transformation process; the new collaboration with the Mexican internet and telephony services provider **IZZI**, to extend fibre optic technology to Mexico's main cities; the first contract with the Federal State of Mexico, to modernise security at the **Honorable Congreso de la Unión** (General Congress of the United Mexican States) building; a new smart city project in Spain; and the aforementioned contract for improving management and security at **Mexico City International Airport**, one of the most important in the world, among many other projects.

Ikusi buys Aryse, telecommunications network and IT infrastructure company.



Aeronautics

Wec continues to recover profitability, a trend which began in 2017. This progress is based on increased robustness of processes and reduced non-quality costs.

In 2019, it continued to strengthen its productive capacity by launching two projects: on the one hand, the implementation of an SAP system to improve the analysis of plant data and, on the other, the extension of its facilities to adapt them to the level of demand of its customers. This significant investment effort helps strengthen the company's competitiveness and improves its position in the aeronautical sector.

As usual, **Wec** was present at two of the sector's major international events: the International Aeronautics and Space Show (SIAE) in Paris-Le Bourget, on 17-23 June, and Airtec, which took place in Munich from 14 to 16 October.

Wec strengthens its productive capacity.

EVOLUTION OF

TURNOVER
(millions of euros)

2018

10.4

2019

11.2



Design engineering and electromechanical solutions

Smarmec's results were similar to those recorded in 2018 in spite of the fall in sales, due mainly to the significant reduction in turnover of Hewlett Packard (HP), a key customer regressing in all markets, and the slowdown of entry into new areas and customers.

The improvement in profitability compensates for the decline in sales, although it remains below the target set for this period.

Smarmec is making steady progress in its production development plan in Malaysia.

Among the activity generated by the business, it is worth mentioning the new contract with **Ekasa (Retabet)** in Spain for the design, industrialisation and integral manufacture of its new online betting terminals, and the **HP** contract for large format latex ink printers.

Finally, in terms of innovation, we should highlight Smarmec's participation in the international consortium REMEDI for the development of an innovative project based on additive manufacturing technologies.

EVOLUTION OF SMARMEC

TURNOVER
(millions of euros)

2018

15.1

2019

14.2



Specialists in energy services

Stratenergy consolidated its business in 2019 and achieved its first commercial successes with the signing of new agreements with, for example, Bridgestone and Plastic Omnium, and the formalisation of further contracts in the last quarter.

Velatia's startup is making progress with its two-pronged strategy: seeking profitability and expanding the customer portfolio.

During the year, Stratenergy defined its business scalability model, integrated into the value network strategy and the human resources management goals.

Meeting the implementation deadlines as well as the budgets envisaged for business cases underlines the importance of the value network generated in previous years, as well as the supplier management model itself.

In terms of innovation, Stratenergy continued to implement its MiDE energy monitoring platform, incorporating an increasingly significant number of customers, locations, monitored devices and manufacturers.

Finally, Velatia's energy services participated in different sectoral events such as the "Committed to Energy Efficiency and Energy Saving" seminar (Barcelona, 21 November), and the briefing session organised by the National Association of Energy Services Companies (ANESE) to present the F-PI project (Financing Energy Efficiency with Private Funds), held in Barcelona on 23 October.



EVOLUTION OF IKUSI SOLUCIONES

TURNOVER
(millions of euros)

2018

6

2019

4.7

EVOLUTION OF IKUSI ELECTRONICS

TURNOVER
(millions of euros)

2018

9.9

2019

4.5

EVOLUTION OF MULTIMEDIA

TURNOVER
(millions of euros)

2018

12

2019

13

EVOLUTION OF IKUSI SALUD

TURNOVER
(millions of euros)

2018

1.2

2019

1.2

Ikusi Electronics and Multimedia high-tech electronics

The **Specialised Business Solutions** division continues to evolve. Although Ikusi's start-up is not growing as quickly as expected, it has doubled its number of contract awards in two years of operation, with a completion rate of 60 %.

Ikusi Electronics, in accordance with its strategic plan, achieved most of the objectives set for the period 2019-2020.

The percentage of sales to companies outside **Velatia** accounts for an increasing proportion of turnover, representing 50 % of the total for the first time in 2019.

Ikusi Electronics continues to increase its turnover with companies outside Velatia: 50 % in 2019.

In terms of markets, the year 2019 was characterised by the signing of contracts with its customer portfolio, mainly at national level, thereby ensuring the continuity of the business. For example: with Danfoss (a leading Danish multinational in the manufacture of remote controls for the mobile sector) and **Erreka** (specialising in the manufacture of automatic doors) in the industrial sector; with **Ormazabal** in the energy sector; with **Multimedia** in the audiovisual sector; with Sedecal (world leader in the design and manufacture of original high-frequency generators and X-ray systems) in healthcare; and finally, with **Bombardier** in transportation.

In 2019, **Multimedia** led a new business plan geared towards comprehensive B2B solutions.

+ Solutions provided by Velatia companies in 2019

In a world facing great challenges, **Velatia** provides solutions that help transform it and, thereby, our society and our lives.

Protecting the environment

Solar Power Battery Solution for Iberdrola

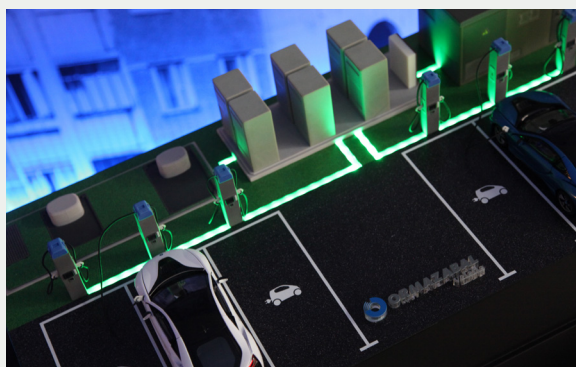
Ormazabal is accompanying Iberdrola in a new hybrid project of combined renewable energies to ensure a continuous power supply in the event of grid failures, or for when the energy accumulated in the photovoltaic plant is insufficient due to the low level of sunlight. The new facility, located in the town of Caravaca (Murcia, Spain), allows the electrical company to supervise and monitor the network in real time.



Electrification of an entire bus line by Jema, a company belonging to the Irizar Group

Bus line number 7 in the city of Aix-en-Provence (Provence, France) is operating smoothly thanks to **Ormazabal**.

The overall objective of the project was the electrification of this high-level service line, which covers a distance of 7.2 kilometres and consists of 19 stops. Ormazabal has provided the grid connection for the entire Electric Vehicle Charging Infrastructure (Infraestructura de Recarga de Vehículos Eléctricos, IRVE) deployed both in the terminal and in the bus depots. Vehicles can be recharged at designated points along the route and also at the depot overnight.



Supplying clean and sustainable energy with Acciona Energía

The project for the wind farm of Spanish company Acciona Energía in the Mexican town of Santa Cruz (Sonora) was carried out jointly by **Ormazabal's** Mexico and Southern Europe teams. The Santa Cruz wind farm comprises 45 wind turbines that will provide clean and sustainable energy to more than 275,000 households.

The customer especially valued the global solution designed according to its specifications, which made it possible to raise the level of voltage generated alongside the wind turbine to avoid power losses and achieve a more effective and sustainable result.

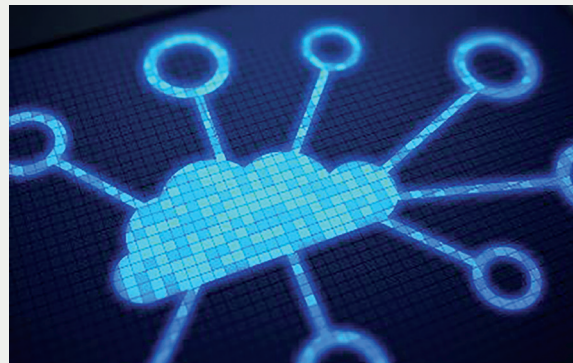


Connecting our world

New collaboration with IZZI to extend fibre optic technology in Mexico

For several years **Ikusi** has been a technological partner of IZZI (Televisa Group), one of Mexico's leading internet and residential cable telephony service providers.

In 2019, this company began to provide its services to the city of Monterrey through a new fibre optic infrastructure based on GPON (Gigabit Capacity Passive Network), designed and developed by **Ikusi**. This infrastructure will be extended to other major towns and cities in Mexico.



Transforming businesses

Ikusi accompanies the Mexican Stock Exchange Group in its digital transformation

The aim of the project for Mexico's foremost financial authority was to bring its network to a scenario where the infrastructure is ready to make the leap to new technologies and to meet the requirements of the new digital era, while at the same time ensuring high availability and information security. The customer has valued both the support of **Ikusi** and the state-of-the-art technology provided, essential for an institution that relies on robust and highly reliable systems.

Digital Transformation for Talgo

For Talgo, a leading company in the Spanish rail sector, **Ikusi** will carry out an IoT project for massive data intake (30,000 variables per second in trains moving at 300 km/h), and a descriptive and predictive analysis of this data. This will enable Talgo to know the status and operation of its trains and anticipate possible failures, thus increasing their availability and minimising maintenance costs.

For this technological challenge, **Ikusi** has relied on its ecosystem of partners, as is customary in its integration and engineering projects. In this case, it has collaborated with a company specialising in Google Cloud Platform (Talgo's corporate IoT platform), the aim being to improve rolling stock maintenance efficiency and thus guarantee train services.



Making our lives safer

Security for the General Congress of the United Mexican States

The aim of the project for the Honorable Congreso de la Unión (General Congress of the United Mexican States or Chamber of Deputies) was to replace and modernise its internal and external security systems. The implemented solution has improved the control, administration and management of the different systems, and led to a significant reduction in purchasing and operating costs.

Helping machines to evolve

HP trusts Smarmec for its new large format printer

Hewlett Packard has again relied on **Smarmec** and its extensive experience to evolve this type of printer, in order to optimise its costs and functions.

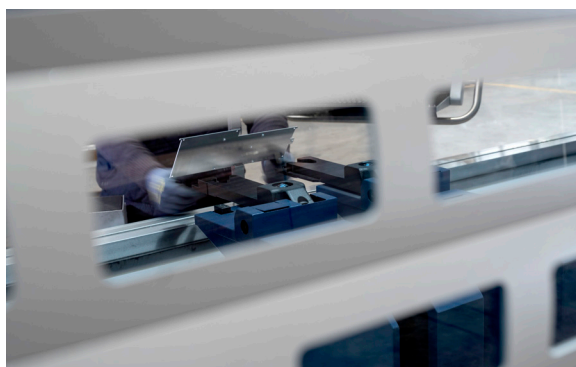
The new contract includes the manufacture of latex ink metalmechanical structures, manufactured jointly at the production centres in China and Malaysia.

RETAbet puts its faith in Smarmec

Smarmec has designed and manufactured online betting terminals for one of the main companies in the sector, Ekasa (Retabet).

Ekasa (Retabet), one of the leading online gambling companies, requested the design, industrialisation and manufacture of its new betting terminals. **Smarmec** provided an integral solution for its product, minimising the supply chain and achieving, in addition, an optimal design that combines functionality and aesthetics at a reduced cost.

Manufacturing was spread between centres in China and Malaysia.



Saving energy

Stratenergy supplies responsible energy to Plastic Omnium

Plastic Omnium Clean Energy Systems has relied on **Stratenergy** for the outsourcing of process cooling systems at its facilities located in the town of Arévalo (Segovia, Spain). This is a seven-year contract for supplying energy from water cooled at the company's plant in Spain.

The proposed solution will improve plant efficiency, reduce costs and emissions, and allow access to cutting-edge technological solutions, among other advantages.

Ensuring efficiency

Sedecal chooses the electronic technology of Ikusi Electronics

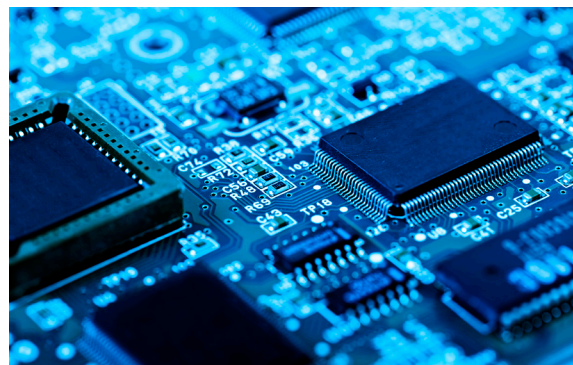
The project for the Spanish company Sedecal, a world leader in the design and manufacture of original equipment for high frequency generators and X-ray systems, consisted of the industrialisation, design and serial supply of a multi-processor control board for a high frequency X-ray generator.

This solution provides higher image quality and greater efficiency, and it extends the service life of the devices and systems. **Ikusi Electronics'** ISO 13485 certification facilitated compliance with the demanding quality requirements.

Supply of electronic cards for Bombardier

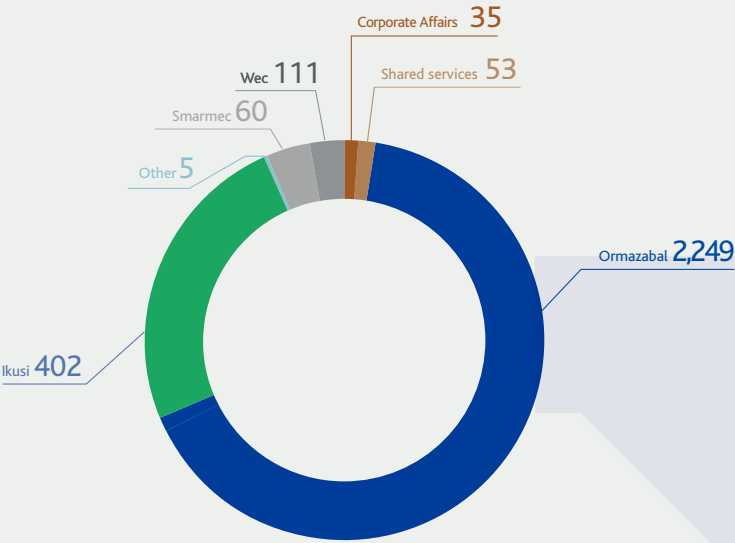
The Canadian company Bombardier, which specialises in the construction of railway equipment and systems, among other business lines, commissioned **Ikusi Electronics** to develop, manufacture and test electronic cards for its components.

The proposed solution is compliant with the new European standards EN 50155 and EN 50463 regulating energy measurement on board trains. Bombardier valued the adaptation of the cards to these new European regulations applicable to onboard measuring equipment.

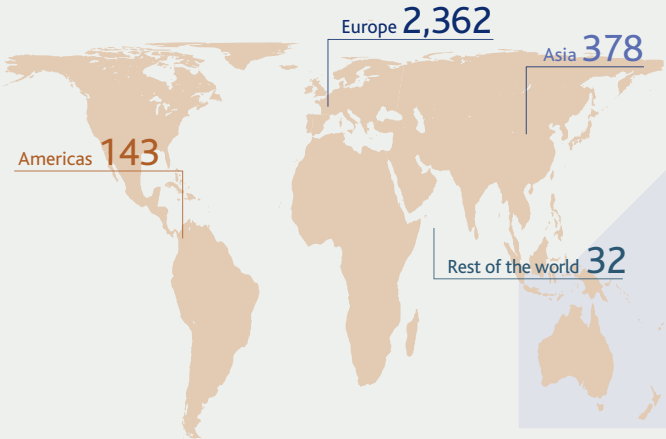


2.2. People

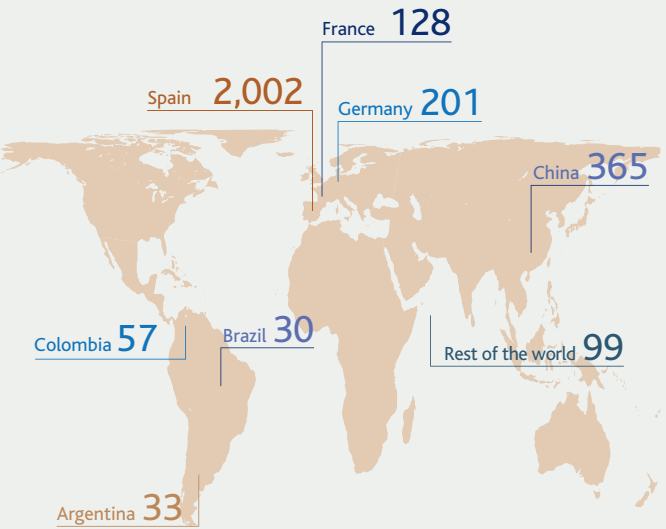
Number of people working
in the businesses: 2,915



Distribution of staff
by region

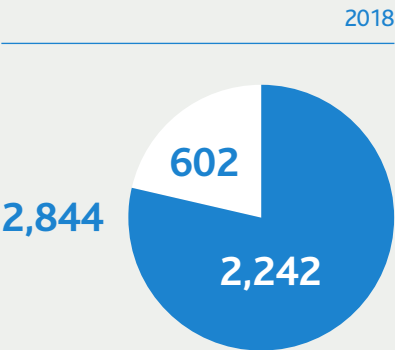
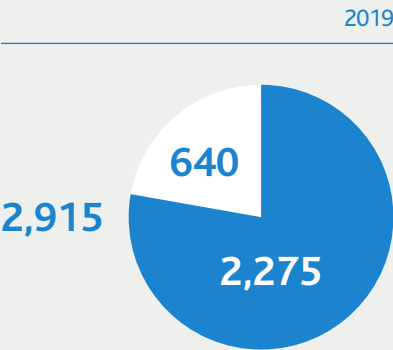


Distribution of staff
by country

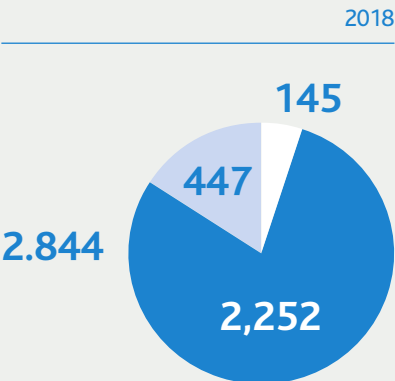
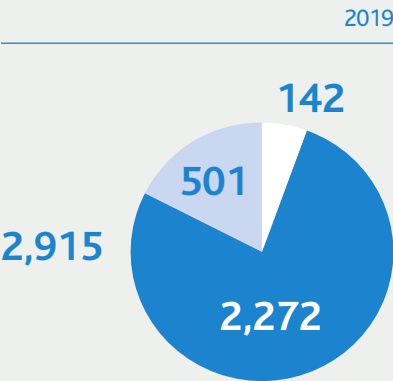


At the end of 2019, **Velatia**'s workforce was made up of 2,915 people, the majority spread across European countries (81 %) -mainly Spain (69 %)- and the rest across the other continents. 78 % are men and 22 % women, and 78 % of the total staff are in the 26-51 age range.

Distribution of staff by gender



Distribution of staff by age



Velatia = our people. Behind each solution and project, behind every challenge or goal, is the enthusiasm and determination of a large team of people working together in a coordinated way to make it a successful reality.

Distribution of staff by country

| | Financial year 2019 | Financial year 2018 |
|--------------|---------------------|---------------------|
| Spain | 2,002 | 1,931 |
| China | 365 | 350 |
| Germany | 201 | 192 |
| France | 128 | 113 |
| Colombia | 57 | 56 |
| Poland | 4 | 36 |
| Argentina | 33 | 32 |
| Brazil | 30 | 21 |
| Other | 95 | 113 |
| Total | 2,915 | 2,844 |

Commitment to our people

We are a group **committed to our people**, the essential raw material for securing our future. This commitment is reflected in our **Corporate Social Responsibility, People Development, Training, Employment and Internal Communication policies**, and can be specified in the following points:

- Promote a **satisfactory working environment** for all employees in which equal opportunities are guaranteed and continuous personal input and professional development are ensured.
- Promote and develop the **principle of equal opportunities** among our professionals in terms of promotion and professional and personal growth.
- Increase our employees' **knowledge and skills** progressively.
- Ensure the objectivity of processes with a **commitment to non-discrimination** on grounds of age, gender, race, ideology, religion, sexual orientation, nationality, disability or any other personal, physical or social condition, promoting cultural differences as a source of mutual enrichment.
- Ensure the **deployment of communication** to the entire organisation

Attracting talent, personal and professional development, training, communication and employee satisfaction occupy a strategic place at **Velatia**:

- We maintain **relationships and agreements with prestigious universities and business schools**.
- We support training at the highest level with **company classrooms** in several universities.
- We take care of communication through conferences, documentation and internal plans.
- We extend **Velatia's** culture to the whole organisation through initiatives such as "Breakfasts with the President".
- We enhance the employment opportunities of people with disabilities through collaboration with the Lantegi Batuak Foundation.





Outstanding activity

The year 2019 was characterised by the deployment and consolidation of the projects defined and developed during the previous year within the framework of the Strategic Plan for 2018-2020, focusing on four lines of work: **Executive Management Model**, **Employer Branding**, **Total Reward System**, and **Promotion of Diversity and Inclusion**.

Updating the Executive Management Model

This project aims to take training to the highest level for executives entrusted with leading the future of Velatia's companies. In this context, the **Executive Development Programme: aimed at innovative leadership** was held on 24-28 June and 1-5 July 2019, with the participation of 37 executives.

In addition, as part of the organisation's commitment to strengthening communication with executives, several briefings were held during the year for Velatia's executives and members of the Steering Committee, dealing with topics such as the international economic context, the market situation, the balance sheets of the businesses and the objectives and challenges for 2020.

Talent management

Opportunities are endless when the right talent is available. For this reason, attracting and retaining the best professional profiles is a commitment shared by every single **Velatia** company and is at the core of our business strategy.

Launching our employer brand

"Be Smart. Be Velatia" is the core of our Employer Branding strategy. It channels and gives consistency to everything we do in relation to attracting and retaining talent.

In 2019, **Velatia's** employer brand was revealed through a revamped Employment section on the corporate website ("Work with us"), as well as on the intranet and social networks.

We will continue to implement **Velatia's** Employer Branding strategy, adapting it gradually to the needs of the different businesses with the aim of strengthening our companies' capacity to attract talent through a common framework that situates us as a top employer wherever we are, enhancing the value of what we share and what makes us different.

Be smart. Be Velatia
Let's make the future smart

Employer Branding Strategy



Who should we try to find for Velatia?

...people who can...



...with and for our customers.

Employee Value Proposition (EVP): intersection between how we are perceived and what those people demand from us

| ATTRIBUTES | IDEAS INCLUDED |
|-------------------------------------|--|
| Create and innovate | <ul style="list-style-type: none">• We are dynamic and flexible, predisposed to incorporate the innovative strategy of our businesses.• With our work we generate response to the needs and demands of society.• Situating the knowledge and experience of our teams as a driving force on our journey. |
| Goals and challenges | <ul style="list-style-type: none">• We anticipate changes by paying constant attention to market trends.• A diversified trajectory that vouches for our companies as benchmarks for reliable growth.• A forward-looking project in which to challenge our own limits and set our goals accordingly. |
| Vocational development and learning | <ul style="list-style-type: none">• With opportunities starting at trainee level, transforming today's vocations into ever-increasing value.• Planning and developing careers in which to ground the knowledge acquired and then build on it.• Through development based on autonomy with confidence and with the support of an approachable human team. |



ARCO Programme

In 2019 we launched the Arco programme to enable Velatia's junior profiles to gain first-hand knowledge of the group's companies and our people, to equip them with skills to grow both professionally and personally, as well as to accompany them in their development during the early years of their career.

This two-year programme includes face-to-face training in English and brings together groups from different businesses and countries

Four ARCO programme gatherings took place in 2019, featuring the participation 77 young people from Colombia, Mexico, Germany, France, China, Argentina and Spain.

Integration programme

Through this initiative also aimed at developing and integrating Velatia's junior profiles, participants get to know the different businesses and companies within the group, and acquire cross-cutting skills that allow them to develop personally and professionally during their early years at the company. It is carried out through online training and lasts one year.

131 young people from different companies participated in the Velatia Integration Programme, which took place for the first time in 2019.



Proper talent management therefore becomes a key aspect in driving people's development and leadership, as well as their motivation and commitment. The aspects identified as material in this field are:

- **Good working climate:** we take care of the well-being of our employees, pointing out areas of improvement in how to look after their health and promoting initiatives that help them make these improvements. A new model of industrial relations has also been developed as a framework for promoting a good organizational climate.

During 2019, climate surveys were conducted in 14 group companies, the results of which will allow us to act on variables that generate a positive impact on satisfaction and anticipate possible problems (demotivation, low perfor-

mance levels, attraction and retention issues, etc.).

- **Work-life balance:** we seek to provide work environments that facilitate work-life balance. In this regard, a study of general measures has been carried out, including an assessment of their adaptation by business, company and region.
- **Gender and culture diversity:** we have included in the Code of Ethics general guidelines of conduct relating to diversity management, urging everyone in the group to respect and value the richness provided by a mix of different viewpoints, talents and experiences. Work is also being done to provide managers with tools that help resolve or alleviate problems arising from distance, culture, etc.
- **Employee satisfaction:** Velatia needs satisfied and committed people in order to achieve its strategic objectives. With the aim of measuring the satisfaction of our employees, we have designed a process that systematises the identification of their concerns, taking advantage of the most appropriate tools and communication channels, such as satisfaction surveys, culture surveys and psychosocial risk assessments.
- **Effective internal communication:** by analysing the perception of Velatia's employees, we have developed actions and communication plans in all our companies. Efforts are also being made to implement new internal communication channels and actions involving the entire workforce, and to increase the use of existing communication tools.

Diversity and social inclusion

In order to benefit from all the opportunities that diversity of gender, age, race, culture, nationality, etc. offer us, in 2019 we established the basic premises of a **Diversity and Social Inclusion Policy**. The aim is to have an international methodology that results in a greater and broader commitment to the organisation on the part of everyone who forms part of **Velatia**.



Employment

During 2019 and 2018, we continued to work on attracting and managing talent so that we have sufficient capacity to successfully address the challenges facing Velatia. As a result of this effort, the workforce increased by more than 2 % with respect to the previous year, totalling 2,915 people at the end of 2019.

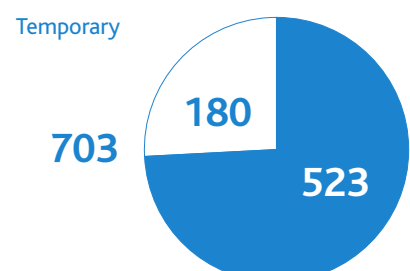
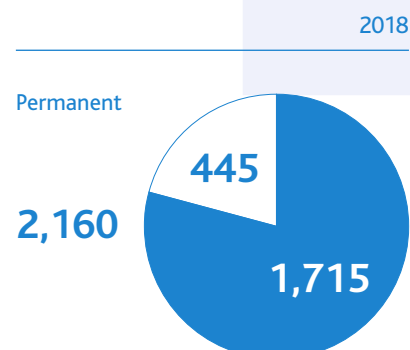
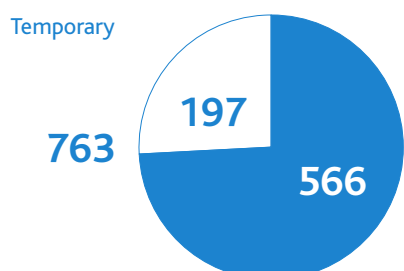
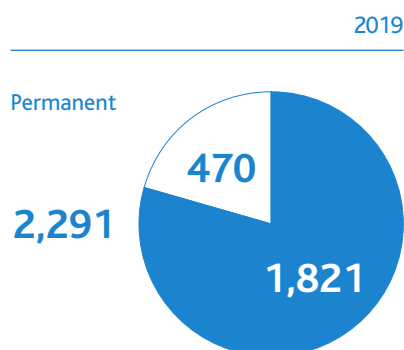
Distribution of staff by professional category

| | Financial year 2019 | Financial year 2018 |
|--|---------------------|---------------------|
| Management (senior executives and rest of management team) | 292 | 304 |
| Scientific, intellectual and support specialists and professionals | 934 | 870 |
| Employees of an administrative nature | 152 | 148 |
| Sales personnel and similar | 144 | 143 |
| Other qualified personnel | 1,393 | 1,379 |
| Total | 2,915 | 2,844 |

The following figures relating to employment, compensation, health and safety, and training include information from all the companies that make up Velatia, except Aryse, as this company was acquired in financial year 2019.

The experience and knowledge of our people facilitates our competitive position. This approach is consistent with the most common contract type, as can be seen from the annual average of permanent and temporary contracts ⁽¹⁾.

Average annual contracts by gender



¹ The annual average figure has been calculated by taking into account the average number of payroll employees calculated in each month of the corresponding financial year.

Average annual contracts by age

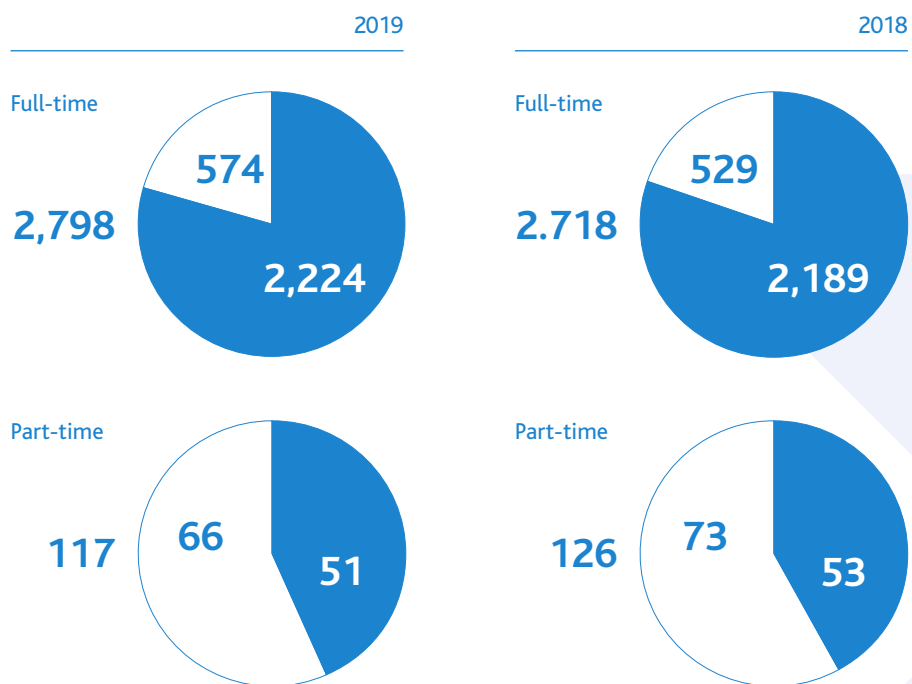
| | Financial year 2019 | | Financial year 2018 | |
|-----------------|---------------------|------------|---------------------|------------|
| | Permanent | Temporary | Permanent | Temporary |
| < 26 years | 50 | 116 | 23 | 121 |
| 26-51 years old | 1,761 | 594 | 1,700 | 546 |
| > 51 years | 480 | 53 | 437 | 36 |
| Total | 2,291 | 763 | 2,160 | 703 |

Average annual contracts by professional category

| | Financial year 2019 | | Financial year 2018 | |
|--|---------------------|------------|---------------------|------------|
| | Permanent | Temporary | Permanent | Temporary |
| Management (senior executives and rest of management team) | 279 | 34 | 283 | 29 |
| Scientific, intellectual and support specialists and professionals | 781 | 139 | 752 | 123 |
| Employees of an administrative nature | 112 | 44 | 121 | 39 |
| Sales personnel and similar | 125 | 21 | 123 | 26 |
| Other qualified personnel | 994 | 525 | 881 | 486 |
| Total | 2,291 | 763 | 2,160 | 703 |

The distribution of the group in terms of number of employees by type of work schedule at the end of financial years 2019 and 2018 is as follows:

Distribution of type of work schedule by gender at year end



Distribution of type of work schedule by age at year end

| | Financial year 2019 | | Financial year 2018 | |
|-----------------|---------------------|------------|---------------------|------------|
| | Full-time | Part-time | Full-time | Part-time |
| < 26 years | 138 | 4 | 142 | 3 |
| 26-51 years old | 2,180 | 92 | 2,153 | 99 |
| > 51 years | 480 | 21 | 423 | 24 |
| Total | 2,798 | 117 | 2,718 | 126 |

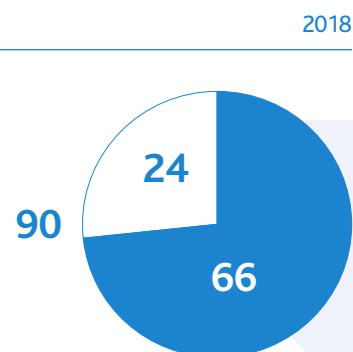
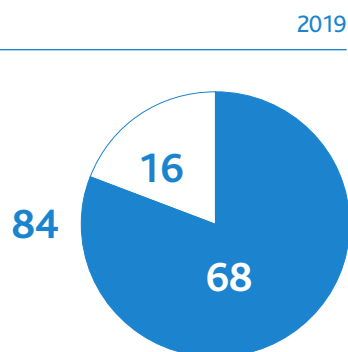
Most of the employment contracts entered into in 2019 are full-time. This is because **Velatia** has measures to promote work-life balance which make it unnecessary to resort to part-time work schedules.

Distribution of type of work schedule by professional category at year end

| | Financial year 2019 | | Financial year 2018 | |
|--|---------------------|------------|---------------------|------------|
| | Full-time | Part-time | Full-time | Part-time |
| Management (senior executives and rest of management team) | 282 | 10 | 292 | 12 |
| Scientific, intellectual and support specialists and professionals | 898 | 36 | 833 | 37 |
| Employees of an administrative nature | 130 | 22 | 121 | 27 |
| Sales personnel and similar | 142 | 2 | 141 | 2 |
| Other qualified personnel | 1,246 | 47 | 1,331 | 48 |
| Total | 2,798 | 117 | 2,718 | 126 |

In 2019, the **rate of employee turnover** was 17 %, with a total of 507 departed employees, of which 84 were dismissals and the remaining 423 attributable to various circumstances such as retirements, contract terminations or voluntary departures.

Distribution of dismissals by gender



Distribution of dismissals by age

| | Financial year 2019 | Financial year 2018 |
|-----------------|---------------------|---------------------|
| < 26 years | 4 | 3 |
| 26-51 years old | 12 | 32 |
| > 51 years | 68 | 55 |
| Total | 84 | 90 |

Distribution of dismissals by professional category

| | Financial year 2019 | Financial year 2018 |
|--|---------------------|---------------------|
| Management (senior executives and rest of management team) | 8 | 10 |
| Scientific, intellectual and support specialists and professionals | 22 | 20 |
| Employees of an administrative nature | 4 | 6 |
| Sales personnel and similar | 5 | 4 |
| Other qualified personnel | 45 | 50 |
| Total | 84 | 90 |

In 2019, we continued to develop the **Diversity and Social Inclusion Policy**, whose basic premises were defined in 2018, in order to benefit from all the opportunities that diversity of gender, age, race, culture, nationality, etc. offer us. The aim is to have an international methodology that results in a greater and broader commitment to the organisation on the part of everyone who forms part of it.

We support the integration of people with disabilities

Various Velatia companies collaborate with the Lantegi Batuak Foundation and other entities to carry out different productive activities. In 2019 we hired nearly 200 people from the foundation (as compared with around 100 in 2018).

Since 1986, Velatia has been working with the Lantegi Batuak Foundation, a non-profit organisation that aims to promote and achieve the social and employment integration of people with disabilities.

Along similar lines, we worked with the companies Gureak and Urbegi, which also generate employment for people with disabilities. The turnover figures in recent years reflect our level of commitment and great satisfaction with the work done.

In addition to the abovementioned collaborations, 2019 saw eight people with disabilities join the Velatia workforce in Spain (11 in 2018) and six in Germany.

Since 2014, Ormazabal Anlagentechnik GmbH has been cooperating with AfB, which employs people with disabilities and specialises in upgrading and repairing disused computers and selling them to private individuals. This cooperation has a twofold objective: to help people with disabilities find employment, and to help protect the environment.

Accessibility

Velatia complies with the most demanding accessibility regulations in all the countries in which we are present. We ensure that both the work environment and our manufactured products are respectful of human diversity, safe, healthy, functional, comprehensible and aesthetic

Velatia complies with the most demanding accessibility regulations in all the countries in which we are present. We ensure that both the work environment and our manufactured products are respectful of human diversity, safe, healthy, functional, comprehensible and aesthetic.

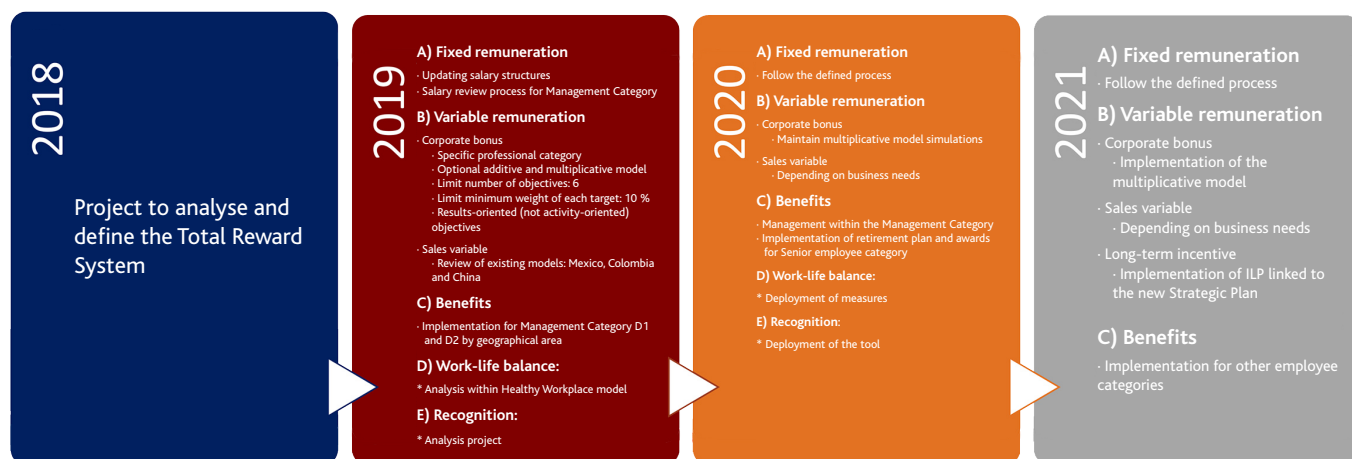
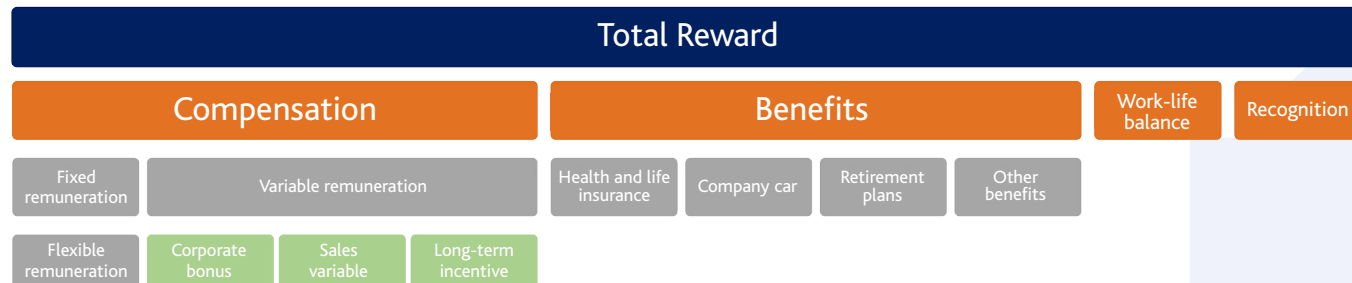
| Turnover (in thousands of euros) | |
|----------------------------------|--------|
| Lantegi Batuak and Collaborators | |
| 2014 | 11,413 |
| 2015 | 13,810 |
| 2016 | 13,152 |
| 2017 | 14,767 |
| 2018 | 18,711 |
| 2019 | 20,788 |

Compensation

New Total Reward System

The Total Reward System integrates key monetary and non-monetary elements that attract, motivate and retain the talent that Velatia companies need to achieve their business objectives: compensation, benefits, work-life balance and recognition.

During 2019 we continued to develop the system by analysing the necessary tools and deploying those already developed, such as fixed remuneration, the annual corporate bonus, profit plans, etc. The plan is to extend the system throughout the organisation in 2021.



Compensation Policy

All **Velatia** employees have access, via the intranet, to the **Compensation Policy**, which states the objective of offering our employees a competitive, homogeneous and equitable remuneration that allows performance to be aligned with their assigned functions and responsibilities. It also sets out the following commitments:

- Establish an **attractive and flexible compensation system** to attract the best professionals and retain our employees with great added value, by offering a motivating remuneration adjusted to each reality.
- Adapt to the **remunerative needs** of each country in order to be competitive at wage level, always respecting the strategy established by Velatia.
- Provide **equal opportunities** for wage development for employees who perform similar functions and perform excellently.

On this basis, we have developed a compensation process that sets out the guidelines on which **Velatia's** wage structure is based and which makes it possible to guarantee wages in line with those of the market. Each job has a wage range according to objective aspects (training, professional experience, responsibilities assigned to the job, etc.), thus ensuring equal opportunities, regardless of gender or other aspects.

In countries where there is an applicable collective agreement, the average remunerations are, at least, as set therein, while in some cases there are company agreements that improve the working conditions established in the collective agreement.

The percentage of employees covered by collective agreements (or company agreements) in 2019 was 82 % (75 % in 2018). In those cases where such agreements do not exist, **Velatia** takes market prices and research by independent experts as points of reference for setting wage levels within its remuneration system.

In **Velatia** we strive to make equal opportunities, regardless of gender, a reality throughout the organisation. Collective agreements regulate the average remuneration of employees throughout the group in accordance with objective criteria of fairness and non-discrimination on grounds of gender.

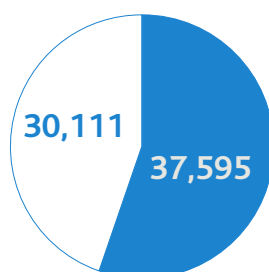
Average remuneration of employees

The average remuneration of employees for financial years 2019 and 2018 (except senior management), taking into account all existing remuneration items in the organisation (fixed, variable, bonus, benefits, incentives, etc.) and distributed by gender, age and professional category, is as follows:

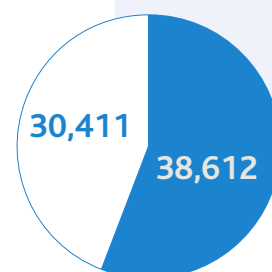
Average remuneration by gender (euros)



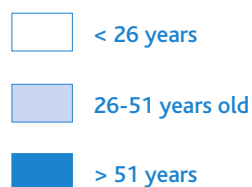
2019



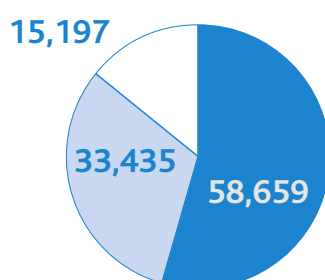
2018



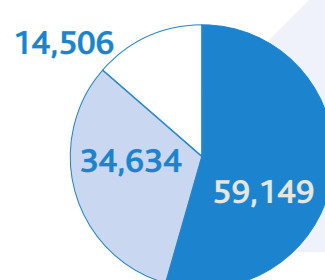
Average remuneration by age (euros)



2019



2018



Average remuneration by professional category

| | Financial year 2019 | Financial year 2018 |
|--|---------------------|---------------------|
| Rest of management team | 85,363 | 86,149 |
| Scientific, intellectual and support specialists and professionals | 39,986 | 39,473 |
| Employees of an administrative nature | 26,428 | 27,594 |
| Sales personnel and similar | 50,821 | 49,727 |
| Other qualified personnel | 24,562 | 25,213 |

In relation to the wage gap, the tables show how it evolved between 2019 and 2018. To calculate it, we took into account the actual average fixed remuneration of women with respect to the actual average fixed remuneration of men by geographical area (except for senior management), the above-zero percentage being the proportion to which women receive less than men.

Men/women wage gap

| | Financial year 2019 | Financial year 2018 |
|--------------------|---------------------|---------------------|
| Americas | 6 % | 12 % |
| Europe | 7 % | 10 % |
| East Asia | 16 % | 13 % |
| Rest of the world* | 14 % | 27 % |

* Rest of the world includes: Oceania, Middle East, United Kingdom and Southeast Asia.

There are different factors that explain this wage gap, mainly historical (e.g. low female presence in certain areas of activity), as well as specialisation (more men than women in positions of responsibility) and seniority, among others.

An analysis of the individual wage gap (by company, professional category/wage strata) and a demographic analysis of the group's employees in each professional category were carried out in 2019, one the main conclusions being the low number of women at management levels. In the medium term, it is expected that these positions will continue to be filled mainly by men, although it is felt that in the long term the distribution between men and women will be more balanced.

Average remuneration of directors and senior management

In financial year 2019, the average remuneration of the Board members in their capacity as directors was EUR 73,000 for men and EUR 28,000 for women (EUR 72,000 and EUR 25,000, respectively, in 2018). As far as executive functions are concerned, the average remuneration of men amounted to EUR 279,000 (EUR 278,000 in 2018), there being no women in this case. The differences in remuneration between men and women are due to the type of function performed.

Average remuneration for senior management was EUR 301,000 for men and EUR 135,000 for women, including variable remuneration, expenses and any other benefits accrued in the financial year. The amounts have been fixed according to the responsibility of each position within the organisation and taking into account market benchmarks.

Organisation of work

Being renowned for creating quality jobs is one of Velatia's highest aspirations.

Each company in the group determines the aspects relating to work schedule, rest periods and all other applicable working conditions. Our Code of Ethics, in the section on Labour Rights, states that the work schedule will conform to the local legislation of each country, ensuring compliance with the conventions and recommendations of the International Labour Organisation (ILO).

With regard to work-life balance, a forum for reflection was held in 2018 to assess the group's situation in this area, taking into account the employee satisfaction survey, external indicators (both of industrial and electrical sectors), and internal indicators. As a result, a number of measures were identified that are being analysed and implemented progressively throughout the organisation.

As far as **industrial relations** are concerned, freedom of association and trade union representation are enshrined in the regulations, collective agreements and other agreements entered into with the workers' representatives.

The company's main channels of communication with its employees, in addition to the trade unions, are the corporate website, the intranet, notice boards, in-house magazines, suggestion boxes, the annual conference, personal and direct communication by managers and directors, workers' committees, and health and safety committees.

Health and safety

Velatia's commitment to health and safety is reflected in the **Corporate Social Responsibility and Quality, Environment and Risk Prevention policies**; and it can be specified in the following three points:

- Establish a **safe working environment** by developing a preventive culture in relation to occupational health and safety.
- Promote **respect for the health and safety** of people by preventing damage to and deterioration of health.
- Achieve and maintain internationally recognised certifications of **risk prevention systems**.

In line with this preventive culture, **Velatia** undertakes the following commitments:

- Promote **training and actions** to eliminate hazards and reduce risks to employees' health and safety.
- Provide **safe and healthy working conditions** to prevent injuries and deterioration of health.
- **Protect and improve the physical spaces** and contents of workplaces with respect to a wide range of risks, from breaking and entering to fire.
- To guarantee insofar as possible the labour integrity of workers **in compliance with the respective sectoral regulations**, which may be applied with other measures.
- Safeguard **business RDI** with specific protection measures that ensure physical information assets, programmes and data.
- Guarantee the **confidentiality** of communications by ensuring compliance with applicable legislation and regulations.
- Achieve and maintain **international certifications** of quality, the environment, and occupational health and safety management systems.

The **Health and Safety Committees** are responsible for monitoring compliance with applicable local regulations in different companies within the group. In addition, to complement their work, **Velatia** has **specialised personnel** performing functions focused on continually improving our practices and procedures, and continuing to meet the strictest international standards applicable to risk prevention systems.

As a result of our commitment to prevention, several **Velatia** companies have OHSAS 18001 certification. Up until the entry into force of the new ISO 45001 standard in March 2018, this was the most important technical specification for the implementation and management of occupational risk prevention systems.

By voluntarily obtaining this certificate, Velatia has demonstrated its proactive desire to surpass the legal requirements and achieve standards of excellence in this matter. Having the certificate entails improvements in all aspects that have to do with the health and safety of everyone in the organisation.

| Business | Country | Company | Expiry |
|-----------|----------|------------------------------|--------|
| Ormazabal | Spain | Ormazabal Media Tensión | 2021 |
| | | Ormazabal Beijing Switchgear | 2021 |
| | China | Ormazabal Zhuhai Switchgear | 2021 |
| | | Ormazabal Kunhsan Switchgear | 2021 |
| | Mexico | Ormazabal Mexico | 2020 |
| | England | EPDL Ormazabal Limited | 2020 |
| | France | Ormapost | 2020 |
| Ikusi | | Ikusi, S.L.U. | 2020 |
| | Spain | Ikusi SIS | 2020 |
| | | Ikusi Electrónica | 2020 |
| | Colombia | Ikusi Redes Colombia | 2021 |

In addition, in order to enhance our commitment to safety, some companies in the group completed the transition from OHSAS 18001 certification to ISO 45001 certification in 2019.

| Business | Country | Company | Expiry |
|-----------|---------|---|--------|
| Ormazabal | Spain | Ormazabal Cotradis | 2022 |
| | | Ormazabal y Cía. (Ormazabal Distribución Secundaria) | 2020 |
| | | Prefabricados Uniblok | 2021 |

In order to reduce the number of work accidents to a minimum, we exhaustively monitor the evolution of the most representative indicators ⁽²⁾.

| | Financial year 2019 | Financial year 2018 |
|----------------------------------|---------------------|---------------------|
| Frequency Index ⁽³⁾ | 17.93 | 16.71 |
| Seriousness Index ⁽⁴⁾ | 0.30 | 0.29 |

² The number of hours worked by employees is theoretical, considering an estimated work schedule of 145 hours per month for each line of business.

³ Number of accidents per million hours.

⁴ Number of days lost due to accident with leave between hours worked.

Absenteeism at work

We monitor absenteeism, this being understood as non-compliance with the work schedule due to sick leave, work accident, maternity, union hours, leave allowed under collective agreement, leave of absence and unpaid leave.

In 2019, absenteeism amounted to 173,349 hours (134,375 hours in 2018). **Ikusi Electronics**, **Ikusi SIS Bidea Avant**, **Ikusi Redes de telecomunicaciones** and **Ikusi, S.L.** were also included in the calculation, since they did not have a clocking system the previous year. The increase with respect to 2018 is mainly associated with the rise in staff numbers. If we excluded these companies, absenteeism hours in 2019 would amount to 159,831.

In this financial year there were 100 work accidents requiring leave (82 men and 18 women) and 115 accidents without leave (107 men and 8 women).



Training

We are aware of the strategic value of training all our professionals for Velatia's growth and success. For this reason, we devise initiatives and projects that allow for real and effective development of all our employees.

Our goal is to disseminate and share knowledge existing within the group, as well as to gradually increase the skills and knowledge of our professionals, aligned with the organisation's strategy, in order to achieve greater efficiency and effectiveness in the performance of their jobs and a better adaptation to cultural and technological changes to be more competitive.

Our training commitments are:

- **Increase** our employees' knowledge and skills progressively.
- **Align** the training given with the competencies, values and requirements set out in Velatia's strategy.
- **Promote** maximum pooling of the knowledge existing within the group, providing the necessary resources and enabling their efficient use.

In 2019 we carried out training activities tailored to the needs of our people around the world, with 74,653 hours invested (54,369 in 2018) and the participation of 2,149 employees (1,804 in 2018).

Investment in training in 2019 focused mainly on technical knowledge, skills development and language learning in order to improve the professional competencies of the workforce. Post-training satisfaction surveys show that 95 % of people are satisfied with the knowledge acquired, with an average rating of 7.8 out of 10.

Distribution of training hours by professional category

| | Financial year 2019 | Financial year 2018 |
|---|---------------------|---------------------|
| Management | 9,113 | 7,708 |
| Technical staff | 34,902 | 25,871 |
| Administrative staff | 5,291 | 2,756 |
| Sales staff | 2,063 | 3,047 |
| Other | 23,284 | 14,987 |
| Total training hours | 74,653 | 54,369 |
| Average number of training hours per employee * | 24.4 | 18.9 |

*Total number of training hours in 2019 among the average total staff in said year.

Ormazabal's first international trade forum focused on the market

Almost 200 professionals from all the company's subsidiaries met in 2019 at the first international commercial forum, focused on the market, organised by Ormazabal. The aim of this forum is to share the corporate strategy and the opportunities offered by the new products and solutions presented in 2020. Through workshops and training sessions, attendees from different areas were able to interact and receive first-hand information.





Equality

At **Velatia** we integrate diversity and equal opportunities into our management. In this regard, we reaffirm our commitment to principle 6 of the United Nations Global Compact, which supports the abolition of discriminatory practices in employment and occupation, and the Sustainable Development Goal no. 5, relating to gender equality.

Velatia's Code of Ethics also promotes respect for the principles of equality of opportunity, diversity, respect for individuals and non-discrimination on grounds of race, colour, gender, sexual orientation, language, religion, political or other opinion, national or social origin, economic status, disability or status.

To ensure the protection of fundamental rights, we have developed a **Protocol on Prevention and Action against Workplace Harassment**, which aims to establish the necessary measures in the face of any kind of situation that may occur of a sexual, discriminatory and psychological nature.

As a result of our firm commitment to gender equality, Ormazabal y Cía. S.L. has an Equality Plan that will be extended to the rest of the group's companies in the coming years and that pursues the following objectives:

- **Further consolidate** the **Equality Policy** throughout the organisation.
- **Ensure** equal opportunities for everyone in the company.
- Convey a message of **zero tolerance** towards workplace violence, especially sexual harassment and gender-based harassment.

This plan is revised and updated with the collaboration of independent experts at least every three years. This review has given rise to an equality action plan that is regularly monitored.

The **Velatia Equality Plan** devised for 2020-2022 includes, among other things, general and specific objectives, an internal analysis and diagnosis of the organisation, as well as action proposals for all companies in the group whether or not they are legally obliged to have an equality plan.

Human rights

Velatia has been a member of the United Nations Global Compact since 2002.

As members of the **United Nations Global Compact**, we are committed to aligning our strategies and operations with its 10 universally accepted principles, based on declarations and conventions applied in four areas: human rights, labour standards, environment and anti-corruption.

In accordance with this commitment, since 2005 we have published annual **Progress Reports** on each one of these principles. These reports are available to all **Velatia** employees on the intranet, and to all our stakeholders on the websites of the **Spanish Global Compact Network** and the **United Nations Global Compact**.

Likewise, at **Velatia** we strive to incorporate the **Sustainable Development Goals (SDGs)** into the performance of our activity. For this purpose, in 2019 we selected and prioritised certain SDGs (section 1.8 of this report) in order to define courses of action with specific targets associated with each SDG and control systems to measure the contribution made by the group to Agenda 2030.

Both **Velatia** employees and anyone outside the group can access the Ethics Channel, which is confidential and managed by an external company, through which they can communicate any incident or situation that is or may be contrary to our Code of Ethics, corporate policies and procedures, good business practices, or current legislation.

In 2019, **Ormazabal Germany** participated in an anti-racism initiative organised under the motto 'Respekt'.



2.3. Innovation

RDI

For more than 50 years, innovation has been one of our main hallmarks and the key driver of our growth.

Our commitment to innovation is reflected in **Corporate Social Responsibility and Quality, Environment and Occupational Health** policies that define the following areas of action:

- Establish **lines of continual improvement** in the quality, reliability, durability, flexibility, adaptability and environmental performance of our products.
- Promote innovation and continual improvement through **excellence**.

Velatia is one of the global actors that are developing the technology that will profoundly transform our lives and our world. It is present in some of the sectors that demand the most innovation. In this regard, we promote lines of research to strengthen our competitiveness and that of our customers in fields such as electrical networks and smart grids, smart cities, ICTs, aeronautics, design engineering and electromechanical solutions, energy services and high-tech electronics.

So, for example:

- We develop technologies that contribute to the total evolution of electrical networks by providing them with capacity for transitioning to a new energy mix with a greater penetration of renewables, in the strategy geared towards a decarbonised economy.
- We create vital infrastructures to meet the needs of sectors such as transportation, currently immersed in the e-vehicle revolution.
- Our technology allows us to capture, analyse, merge and convert into useful information one of the most valuable ingredients for the "smart world": data; and it is present in sectors such as airports, cities, smart grid or health.
- We participate in digital transformation with specialised business applications to improve operational efficiency, security and user experience.
- In 2019 we started to develop electrical products whose origin is totally digital... and we continue to move forward.

The technological strategy of Velatia's different businesses is reflected in their respective technological plans. The **Strategic Technological Plan** for Ormazabal, synchronised with the **Strategic Plan 2018-2020**, identifies the following areas of action as priorities: digitalisation of the network, sustainability and decarbonisation, integration of renewables, electromobility and asset management. In each of these areas, projects have been proposed to enable the company to achieve its strategic vision.

We work together with our customers because we know that together we go further, we can tackle more ambitious projects, overcome barriers, open new markets, make the planet a more sustainable and competitive place by boosting renewable energies, deploying more networks, smarter networks...

We want to be renowned for the high level of innovation applied to each project. This results in the progressive search for competitive and differentiating solutions that meet the needs of our customers.

As in previous years, in 2019 we held technological workshops together with customers to anticipate solutions that respond to the future needs of the main players in the electricity distribution and renewables sector.

In addition, new global players have chosen us as technological partners for our **flexibility, proximity and adaptability**.

We believe in open innovation to strengthen our RDI capabilities. This is why Velatia collaborates with some of the leading national and European research centres and universities on some of the major market trends that will have a significant impact on the group in the near future. We build bridges between the industrial and academic worlds to promote research activities and facilitate talent recruitment.

In short, we strive, day by day, to find new ways to bring value to our customers and respond to current and future challenges to make a more sustainable, innovative and efficient society possible.

Innovation milestones

Our own technology holds pride of place at Velatia

A barometer of a company's level of innovation is the percentage of sales of its own products. Our innovations are more than ideas; they become products and solutions that drive the group's businesses and contribute to the progress of our customers and the industrial sectors in which we operate.

Half of **Ormazabal's** sales in 2019 are products developed in recent years, confirming the great strength and capacity of our RDI.

EriGRID holds its plenary meetings at the CIT

Plenary meetings of the European EriGRID consortium, made up of 18 research institutions, were held in 2019 at the Centre for Research and Technology (CIT) in Boroa, a fact which highlights the participation of **Ormazabal Corporate Technology** (OCT) and the UDEX Experimentation Unit in this project and their role in developing new smart grid technologies in Europe.

The EriGRID consortium is composed of complementary organisations that include distribution network operators, equipment manufacturers, research centres and universities, all of which have extensive experience in the field of smart grids and their own electric power system laboratory infrastructures. Together they represent the wide range of experience needed to tackle the extension of essential infrastructures for smart grids, being pioneers in this field at European level.

Velatia's participation in the EriGRID consortium puts our group at the technological forefront in the field.

Iberdrola funds Ormazabal's RDI

In 2019, three contracts were concluded with Iberdrola for a combined total of EUR 4.16 million through a fiscal instrument for funding purposes known in Spanish as "Artículo 64 bis". The agreement covers the period 2019-2021 and is aimed at funding the RDI that **Ormazabal** carries out within the framework of the **Bidelek Sareak 4.0** project, led by Iberdrola.

European Investment Bank financing

En 2019 hemos dispuesto del 50% del acuerdo de financiación firmado con el Banco Europeo de Inversiones (BEI) en 2018 y que se prolonga hasta 2020. La suma total de acuerdo asciende a 32,5 millones de euros.

These funds are used for investing in new digital technologies that will serve to promote projects in the field of automation and digitalisation of electrical networks, as well as the development of patents and products that will give us access to new markets and customers. EIB's support in this first agreement extends to 2020.

This EIB financing represents backing for **Velatia's** innovation policy.

Major projects and technological developments in 2019



Project name: ERIGRID

Goal: European project funded within the Horizon 2020 consortium (EU Framework Programme for Research and Innovation) to support the development of smart grids.

Description: Cooperation at the highest level to extend the infrastructures needed to integrate the growing number of distributed energy and generation sources into the electrical system.

Collaborating partners: Eighteen of the main European research centres.

Project name: GADEM II

Goal: Obtain new dielectric gases for medium-voltage equipment.

Description: Project funded by the Basque Government through the Elkartek programme for research into alternative dielectric gases to SF6 and materials compatible with these gases.

Collaborating partners: EHU-UPV

Project name: ALGORITMO

Goal: Develop an agnostic algorithm capable of dynamically identifying which low-voltage line low-voltage customers are connected to.

Description: Project funded by the Basque Government through the Elkartek programme for the development of a localisation algorithm for the optimised management of smart networks through operational monitoring technologies.

Collaborating partners: University of Mondragón and the Basque Center for Applied Mathematics.

Project name: FLEXIGRID

Goal: Implementation of flexibility in the network.

Description: European project funded within the Horizon 2020 consortium (EU Framework Programme for Research and Innovation) for the development of interoperable solutions for the implementation of holistic network flexibility services.

Collaborating partners: More than 10 Horizon 2020 partners, including CIRCE and Viesgo.

Project name: WIND 4.0

Goal: Cell and associated electronics development for wind applications.

Description: Project funded under the Strategic Hazitek programme for the collaborative development of 4.0 manufacturing technologies in the Basque wind industry.

Collaborating partners: Nine participating partners, led by Siemens Gamesa Renewable Energy Innovation and Technology, with four participating centres from the Basque Network of Science, Technology and Innovation, including Ormazabal Corporate Technology.

Project name: NEOSUB

Goal: The eco-designed electric substation: efficiency and sustainability.

Description: Project funded under the Strategic Hazitek programme for the development of new primary distribution cells and transformers for rural substations, employing more environmentally sustainable insulating systems.

Collaborating partners: Consortium made up of 11 entities led by BOSLAN. Participants include Ormazabal Distribución Primaria and Ormazabal Ólvega Transformadores, as well as six centres belonging to the Basque Network of Science, Technology and Innovation, including Ormazabal Corporate Technology.

Project name: IOENERGY

Goal: The eco-designed electric substation: efficiency and sustainability.

Description: Project funded under the Strategic Hazitek programme to capitalise on the digitisation of critical components in renewable energies with support and optimisation of digital platforms and test benches.

Collaborating partners: Consortium made up of 11 entities led by NEM Solutions. Among the participants are Ormazabal Protection & Automation and Ikusi, as well as six centres belonging to the Basque Network of Science, Technology and Innovation, including Ormazabal Corporate Technology.

Project name: SCBT

Goal: Development of a smart CBT for low-voltage network management.

Description: Project funded under the Competitive Hazitek programme for the development of new low-voltage switchgear with low-voltage network monitoring, protection and switching.

Collaborating partners: Ormazabal y Cía., Ormazabal Protection & Automation and two participating centres from the Basque Network of Science, Technology and Innovation, including Ormazabal Corporate Technology.

Project name: CONSIGUE

Goal: Development of optimised cells with new smart sensors and eco-efficient universal gases.

Description: Project funded under the Competitive Hazitek programme for the development of new secondary distribution cells, employing more environmentally sustainable insulating systems with integrated sensors, and developing software to determine the cell's Health Index.

Collaborating partners: Ormazabal y Cía., Ormazabal Protection & Automation, Aislantes Sólidos, Advanced Model Solutions, with Ormazabal Corporate Technology participating as an agent of the Basque Science Technology and Innovation Network.



Project name: NMS-OPEN

Goal: Development of an environment in which to experience cases of use that will occur in the context of energy transition.

Description: Blockchain technology-based platform that allows closure of secure operations between two agents without the need for an intermediary. That is, it allows energy to be bought and sold directly without an organised market.

Collaborating partners: ZIV, Giroa, Bikote Solar and Tecnalia.

Project name: CIEN AIRPORTS

Goal: Development of enabling technologies and critical capabilities for the realisation of advanced operational concepts known as TBO (Trajectory-Based Operations) and PBO (Performance-Based Operations) at airports.

Description: Predictability and automation in the management of aircraft and land vehicle operations in the apron, runway and taxiway areas of an airport's airfield. It contributes to the improvement of this infrastructure's operational processes and services.

Collaborating partners: Boeing Research & Europe Technology, ATM, CRIDA, Militärtechnologie Dienst und Überwachung, Microelectronics Maser, Ixion Industry & Aerospace, Skylife Engineering and Ikusi; the universities of Valladolid, León and Granada, Universidad Politécnica de Madrid, Universidad Politécnica de Cataluña, and Universidad Autónoma de Barcelona.

Project name: CROWD

Goal: Development of an artificial vision algorithm that allows passenger tracking at airports.

Description: Using standard cameras, the algorithm allows the tracking and monitoring of passengers in the terminal, timing their length of stay in each of the areas.

Collaborating partners: Vicomtech

Project name: CAPO

Goal: Develop an automatic product sorter.

Description: Artificial intelligence-based algorithm that sorts products based on their description so that airports can standardise sales information received by different stores.

Collaborating partners: Vicomtech

Project name: RETAIL+

Goal: Develop an algorithm based on artificial vision to speed up pay times at counters.

Description: The system uses this technology to combine the images from several cameras and identify open and closed counters, count the number of people in each queue and measure the waiting time in each one.

Collaborating partners: Vicomtech

Project name: BIGVIAL

Goal: Weather analysis platform for improving road safety.

Description: Fully integrated solution capable of harnessing the benefits of real-time analysis of data collected from various climate-related sources and providing the necessary information to the end user on time.

Collaborating partners: Innovalia

Project name: SUCESO

Goal: Generation of a collaborative and shared database aimed at mitigating the effects of the major threats in the network.

Description: Application of artificial intelligence technologies to identify hitherto unknown anomalous behaviours and allow non-expert personnel to interpret them using visual analytics techniques.

Collaborating partners: Vicomtech

Project name: REPLICATE

Goal: Deployment of the mobility verticals of the SpiderUMP platform together with the Mobility Department of San Sebastián City Council.

Description: Development and validation of a sustainable urban business model to enhance the transition to a smart city in three "lighthouse" European cities (San Sebastián, Florence and Bristol) in the fields of energy efficiency, sustainable mobility and ICT infrastructures.

Collaborating partners: San Sebastian City Council

Project name: USAFES

Goal: Digital transformation of city security based on data fusion and big data.

Description: Based on the current deployment of TV camera systems in the urban environment, it applies "deep learning" techniques to be able to design a solution that

allows semantic search in video files.

Collaborating partners: Vicomtech

Project name: ACCUSTOM

Goal: Smart city solution for the public safety vertical.

Description: Provide the Spider platform with a solution for said vertical, not only to reflect the current and historical state of safety in the city, but also to go deeper and provide it with the intelligence to understand, anticipate and respond to unwanted situations, including artificial intelligence modules.

Collaborating partners: Technalia

Project name: ESKALA 4.0

Goal: Optimisation of layover time in the airport environment based on the Industry 4.0 paradigm.

Description: Automation of the aircraft's rotation/layover process thanks to the development of a comprehensive TAM (Total Airport Management) platform that monitors aircraft, passenger and baggage handling processes, allowing the operator to have a holistic view of the airport and to operate quickly and efficiently in unplanned or crisis situations thanks to the solution's high degree of automation.

Collaborating partners: Enterprises: Ikusi (leader), Maser Microelectronics, Azkar, Grupo Acha, ITS Security, Ingenet, Retevisión, Irontec. Research centres: Tecnalia, Egile.



Project name: ELECTROEROSIÓN SEGMENTOS

Goal: Increase efficiency in segment machining.

Description: Improvement of honeycomb electro-erosion machining parameters.

Collaborating partners: Advanced Aeronautical Manufacturing Centre (Centro de Fabricación Avanzada Aeronáutico, CFAA).



Project name: REMEDI

Goal: Establish an optimal, efficient and lightweight design methodology in the manufacture of medium/large components.

Description: Project forming part the Smart Eureka call for applications, and subsidised through the Innoglobal 2018 programme, based on the capabilities of Direct Deposition Additive Manufacturing technologies using laser technology and metal powder input.

Collaborating partners: Ramen, CT Ingenieros and Smarmec with the support of AIMEN Technological Centre.



Project name: MiDE

Goal: Evolution of the technological platform.

Description: Development of an energy monitoring platform belonging to Stratenergy that will allow it to provide energy services to its customers.

Collaborating partners: The New Rules, Tecnalia.

Innovation management

As a result of our ongoing commitment to innovation, and through the **Integrated Technology Innovation Management System (Sistema Integrado de Gestión de la Innovación Tecnológica, SIGIT)**, since 2015 Velatia has been monitoring the main indicators that allow us to verify the deployment of our technological strategy throughout the organisation.

Thanks to this information crosschecked with data on workforce, spending, investment and funding for RDI, new products launched onto the market, patents and industrial property, we can, on the one hand, analyse trends based on the results obtained and, on the other, establish actions to effectively and efficiently meet Velatia's technological challenges in the future.

Velatia Data

| | Financial year 2019 |
|--|---------------------|
| RDI expenditure (thousands of euros) | 23,358 |
| RDI personnel (persons) | 152 |
| Invoicing in new products (thousands of euros) | 147,100 |
| No. of patent applications | 8 |
| Average age of industrial property | 9.5 |
| No. of patents and industrial property registrations | 294 |



Driving innovation together

Velatia is part of the following research and technology centres and bodies:

Tecnalia

First private centre for applied research and technological development in Spain and one of the most outstanding in Europe. It consists of more than 1,400 experts from more than 30 countries and seeks to transform technology into GDP to improve people's quality of life, creating business opportunities in companies. Its research activity is based on the premises of excellence and investigation and contributes to economic development, social cohesion and sustainability.

Innobasque (Basque Innovation Agency)

The objective of the Basque Innovation Agency, whose Governing Board we form part of, is to situate the Basque Country among the leading regions for innovation in Europe. In collaboration with all its partners and all the actors in the Basque innovation system, Innobasque fosters new initiatives and promotes the implementation of new policies in this area.

Basque Science, Technology and Innovation Network

Since 2005, Ormazabal Corporate Technology (OCT) has formed part of this research body, in the Business RDI Units category.

Thanks to this accreditation, it continues to hold an important position among the group of businesses and institutions driving technological innovation in the Basque Country, as well as strengthen ties with similar organisations in the field of technological innovation.

Promoting RDI with technological partners

In **Velatia** we give a fundamental role to collective creativity, both in-house and that which results from collaborating with different actors in the sectors in which our companies operate.

As a result of this approach, the collaboration between **Ormazabal**, the Artech companies and the Tecnalia Technological Centre gave rise to the creation, in 2017, of the Basque Electrical Laboratories Alliance (BELA), with the intention of pooling their testing capabilities and being able to offer customers a more comprehensive and competitive offer.

In addition, **Ormazabal** Corporate Technology's participation in the EriGRID project has made our UDEX network a European reference point for testing the development of new smart grid technologies for electricity networks through international agreements ("transnational access"), funded under the European framework programme H2020.

Among the activities carried out at our Research and Technology Centre within the European projects (EriGRID and Means4SG), it is worth highlighting two related "transnational access" projects aimed at developing sensor systems for network diagnosis, and a "Summer Course" featuring the participation of more than a dozen PhD students from the universities and technological centres participating in the project.

In addition, **Ormazabal** has led another two external "transnational access" projects, one at the Fraunhofer institute in Germany and the other at the Technical University of Denmark (DTU), both focused on developing and testing technological solutions for the integration of renewable energies using our smart transformer technology as a key element for the efficient coordination of distributed resources.

Within the digital strategy and the IoG (Internet of Grid) project, it is worth mentioning participation in two unique projects: Pastora, led by Enel-Endesa, and **Bidelek Sareak 4.0**, led by Iberdrola. Over the next few years, cooperation in both projects will allow us to develop hardware and software solutions to meet the network management needs of our major customers.

The responsibility of our products

Velatia complies with the standards and legislation applicable to our products in aspects related to safety and the environment in the region where they are installed, as well as with the specific specifications of our customers. They also comply with relevant national regulations where they exist. In the case of Europe, we continually monitor the different legislative aspects that may affect our products so that they conform to the required specifications and meet all regulatory requirements.

Ormazabal also promotes a biannual internal forum in which technical, marketing and engineering directors analyse the latest changes in laws, regulations and standards that affect our products.

The available information on products and services as required by the procedures in force and the relevant regulations, as well as the percentage of products and services subject to these requirements, is as follows:

- All the information on the results of tests that ensure that the products comply with the standards that apply to them.
- All the technical documentation associated with the products in relation to technical performance and installation and assembly needs.

100 % of our installed/delivered products have the required documentation. Information is just one more important phase within the product development process.

2.4. The environment

We promote and integrate a responsible culture with regard to the environment, working to protect the environment from the perspective of pollution prevention and ecodesign.

Velatia's commitments to the environment are reflected in the **Corporate Social Responsibility and Quality, Environment and Occupational Health policies**, and can be specified in the following actions:

- Promote initiatives that **reduce the environmental impacts of Velatia's activity**.
- Promote and integrate a **responsible culture** with regard to the environment.
- Promote **environmental protection** from the perspective of pollution prevention.
- Achieve and maintain recognised international **certifications** of environmental systems.

These commitments are made explicit because we believe in sustainability as a different way of doing things, aligning Velatia's strategic development with the concerns and needs of our stakeholders, thus combining the pursuit of profit with social engagement and respect for the environment.

In this regard, the search for excellence has led us to develop an **Environmental Management System** whose main assignments are the following:

- Promote and integrate a responsible culture with regard to the environment.
- Maximise employee participation and consultation in the comprehensive management of policies, promoting new ideas and recognising achievements.
- Ensure compliance with laws, regulations and standards, as well as with the voluntary commitments undertaken.
- Enhance training, flexibility, innovation and continuous improvement through excellence, environmental protection based on pollution prevention and sustainable use of resources, as well as actions to eliminate hazards and reduce risks for the health and safety of employees.
- Provide safe and healthy working conditions to prevent injuries and deterioration of health.
- Provide a common framework for establishing and reviewing the balanced scorecards of our companies, always geared towards the satisfaction of our stakeholders.
- Achieve and maintain recognised international certifica-

tions of quality management, environment and occupational health and safety systems.

- Maintain fluid communication with the different stakeholders.

In order to fulfil these commitments, everyone in the organisation must understand and assume such policies and strive to minimise the environmental impact resulting from their activities and their use of the equipment, facilities and resources available to them.

During financial year 2019 we updated **Velatia's Integrated Quality, Environment and Occupational Health Policy**. This updated version was approved by the president and communicated to the employees through the intranet.

Likewise, **policy for both the Integrated Management System** of Ikusi Soluciones and that of Ikusi Proyectos (both developed in 2019) include as a premise ensuring compliance in terms of quality, environment, occupational health and safety, both in relation to solutions, products and services and to their management systems and processes.

Moreover, both policies aim to ensure the responsible management and improvement of processes related to the environment, as well as the promotion of a culture of reducing the environmental impact generated by products, processes and solutions, with particular emphasis on the conservation of natural resources, minimisation of waste generation through reuse and recycling, and the optimisation of resources, among others.

This concern is further reinforced by the principle of environmental responsibility enshrined in **Velatia's Code of Ethics**. In this regard, and in order to extend this code not only to employees but also to critical suppliers, in 2019 we started sending them the Quality Manual and the Code of Ethics, requesting their signature as a pledge of their commitment.

Our certifications

As a sign of **Velatia's** commitment to the environment, **Ormazabal y Cía. (Ormazabal Distribución Secundaria)** and **Ormazabal Distribución Primaria** have implemented an integrated management system. The aim is for all companies in the group to offer our customers a quality service in a responsible and efficient way, promoting initiatives that benefit the environment.

Along these lines, we continue to deploy our **Environmental Management System** in accordance with the most widely recognised international standards and certifications

and with the highest standards of compliance, such as the **ISO 14001** certification awarded to the main companies within the group. Specifically, in 2019 we renewed the certifications corresponding to Cotradis (transformers) and Uniblok (precast concrete), subsidiaries of **Ormazabal**, **Ikusi S.L.** and **Ikusi Electrónica S.L.**

ISO 14001 is the most widely used technical standard worldwide for the implementation and assessment of environmental management systems. Obtaining certification according to this standard is voluntary, and thus **Velatia** demonstrates its commitment to fulfilling the highest standards of excellence in environmental matters.

| Business | Country | Company | Expiry |
|-----------|------------------------|--|--------|
| Ormazabal | Spain | Ormazabal Cotradis | 2022 |
| | | Ormazabal Distribución Primaria | 2021 |
| | | Ormazabal y Cía. (Ormazabal Distribución Secundaria) | 2020 |
| | | Ormazabal Media Tensión | 2021 |
| | | Prefabricados Uniblok | 2022 |
| | | Aislantes Sólidos | 2020 |
| | Germany | Ormazabal Anlagentechnik | 2020 |
| | | Ormazabal GmbH | 2020 |
| | China | Ormazabal Beijing Switchgear | 2021 |
| | | Ormazabal Zhuhai Switchgear | 2021 |
| | | Ormazabal Kunhsan Switchgear | 2021 |
| Poland | Ormazabal Polska | 2021 | |
| England | EPDL Ormazabal Limited | 2020 | |
| Ikusi | Spain | Ikusi, SL | 2022 |
| | | Ikusi SIS | 2020 |
| | | Ikusi Electrónica | 2020 |
| | Colombia | Ikusi Redes Colombia | 2021 |
| WEC | Spain | Wallair Engine Components | 2022 |

The Mexican subsidiaries of **Ormazabal** and **Ikusi** (Micro-net) are in the process of being reviewed to renew their certifications under the UNE-EN ISO 14001: 2015 standards. Audits were conducted in November 2019 and the procedure for obtaining the certificate continues.

In 2019, **Ikusi** Mexico obtained certification according to WORLDCOB-CRS: 2011.3, thereby becoming a "Gold Member" of the "World Confederation of Businesses". This certifies that the company's corporate social responsibility meets the social, labour and environmental responsibility requirements.

In addition, the Basque public environmental management company, Ihobe, has certified the implementation of the Ekoskan environmental improvement management system at Tecnichapa, **Ormazabal's** sheet metal manufacturing and handling company. This system has been audited by an accredited body in accordance with the requirements of the Ekoskan 2004 standard, with a term of validity until 2021.

To ensure the maintenance and implementation of the abovementioned certificates, we have a team distributed among **Velatia's** main plants that performs the following functions, among others: identifying the legal requirements in the field of environmental management, evaluating the degree of compliance with these requirements, helping to define, deploy and assess environmental objectives, conducting internal audits of the Quality and Environment Management System, and participating in the process of welcoming new personnel with introductory briefing sessions on quality and environmental management at **Velatia**.

The main costs incurred by the group in relation to minimising the impact on the environment, as well as protecting and improving it, are associated with the management and removal of waste and the purchase of specific recycling containers.

At **Velatia** we use our own ecodesign model in the development of new products to ensure a more efficient and sustainable future.

Another example of our commitment to the environment is the fact that **Velatia** is one of the driving forces behind the Basque Ecodesign Center. Our involvement is part of our effort to support organisations and associations that contribute to improvements and developments in the economic, social and environmental sphere of the Basque economy, and which help us to position ourselves as a pioneering company in environmental matters.

This initiative is set within a framework of collaboration between private sector companies and the Basque Government, whose objective is the conceptualisation and implementation of innovative ecodesign projects, particularly the application of such tools in the product conceptualisation phase to minimise the carbon footprint, both in the electricity distribution network and in the integration of renewable energy.

In this regard, throughout 2018 and 2019 we carried out an analysis of the impact of some product references that have been verified externally. The **Environmental Product Declarations** have been made according to the **PEP eco-passport®** programme and have been audited and subsequently published. These types of environmental declarations compile the information and results of the product life cycle analysis, carried out according to specific rules, and serve as an instrument for transparency and environmental information and comparison between products.

In 2019, the Environmental Product Declaration of the primary distribution cell family cpg.0 - 31.5kA was certified, which joins those already obtained for the cgmcosm and cgm.3 cell families in their RMU models.

It is also worth highlighting that in 2019, as a result of our participation in the Basque Ecodesign Center, we developed our own tool for calculating the carbon footprint of any distribution transformer.

Sustainability is also one of the areas of action identified as strategic in the Strategic Technological Plan. Accordingly, several of our companies participate in research and development projects with the aim of minimising the environmental impact of our products and services. In this regard, we highlight two projects:

- **NEOSUB**, whose main goal is to design and develop electrical substations according to ecodesign criteria that will give operators, engineers and manufacturers of equipment goods competitive advantages by minimising the environmental impact of infrastructures throughout their useful life, reducing emissions and/or waste disposal, both in the equipment manufacturing phase and in the installation, use and maintenance phases. It also explores circular economy concepts such as reuse and recycling of equipment and constituent materials at the end of a product's life cycle.
- **GADEM II**, which seeks to find a mixture of gases as an alternative to using SF₆, and thereby fulfil its commitment to reducing emissions of gases with Global Warming Potential (GWP).

Finally, in 2019 **Ormazabal Zhuhai** received the "Green Company Award" which accredits the company as a leading

environmental management company in this Chinese city. For several years, Velatia's electrical and smart grids company has incorporated social responsibility into its strategic management, increasing investment in new energies, such as wind and solar. It thus fulfils its commitment to protecting the environment and promoting technologies with a strong sense of social responsibility.

Pollution and climate change

In line with our strategy and goal of tackling climate change, and as a necessary step towards reducing CO₂ emissions, we calculate the carbon footprint of our activities. Thus, we produce reports of greenhouse gas emissions (GHGs) where both direct and indirect emissions are quantified.

In 2019, **Ormazabal y Cía.** underwent a review of GHG emissions, specifically scope 1 emissions, direct emissions and scope 2 emissions, and indirect emissions from the purchase of electricity acquired for own use; obtaining favourable results in all cases.

Total direct emissions include the fuel consumed in production processes and boilers (fuel, gas), SF₆ emissions in product manufacturing processes (at **Ormazabal**), as well as the fuel of company vehicles used for sales and assembly work purposes. Total indirect emissions also include electricity consumption.

In the table we show the results of **Velatia's environmental performance** in relation to GHG emissions (t CO₂ eq.).

With regard to the activity carried out in 2019 to improve our environmental performance, it is worth mentioning the following:

Velatia has continued to promote the total evolution of electricity networks by providing them with capacities to assume a new energy mix with a greater presence of renewable energies, as well as infrastructures to meet the needs of sectors such as transportation, currently immersed in a revolution with the emergence of the electric vehicle. Electrification of transport is one of the most important paths towards decarbonisation, and the one that is developing most rapidly.

GHG emissions (t CO₂eq.)⁵

| | Financial year 2019 |
|--------------------|---------------------|
| Direct (Scope 1) | 2,927 t. |
| Indirect (Scope 2) | 4,452 t. |

⁵ The scope of the information reported for GHG emissions is the same as that used for energy consumption information. The emission factors used to calculate greenhouse gas emissions have been based on the methodology defined for calculating the carbon footprint for emissions trading, verified by an independent expert.



Iberdrola has accredited **Ikusi** as a 100 % renewable company in terms of consumption of electricity coming only from these sources, which respects the environment and prevents emissions of CO₂ and other pollutant gases.

Certification of the entire guarantee process, from generation to commercialisation by the National Commission on Markets and Competition, which entered into force on 1 January 2019, falls within the framework of **Velatia's 2018-2020 Master Plan**, whose actions are those of an organisation committed to the environment and which promotes an eco-friendly, sustainable and green image.

During 2019, Uniblok, **Ormazabal's** precast concrete subsidiary, carried out training courses in relation to the product life cycle, carbon footprint and water footprint as a phase prior to realisation in a transformation centre.

In addition, the research and technology centre of **Ormazabal** Corporate Technology has worked on the GADDEM II project, which seeks to find a mixture of gases as an alternative to using SF₆, and thereby fulfil its commitment to reducing CO₂ emissions that seriously affect the environment.

For its part, the Ormazabal factory in southern China, **Ormazabal** Zhuhai Switchgear, has continued to work actively to conserve energy and reduce emissions in the production process. The company has established very rigorous consumption rates that allow it to maintain an annual consumption of 0.1 % or less. In this regard, it has begun by optimising its lighting system with energy-saving lights, reducing the use of commercial vehicles and encouraging the use of public transport.

Finally, it should be noted that, as a result of a decision made by the Basque Government, **Ikusi** does not periodically monitor atmospheric emissions because its activity is not considered to be potentially polluting, except in the case of the natural gas consumption that has been included in the direct emissions shown in the above breakdown.

Circular economy

At **Velatia** we are committed to implementing an environmental strategy based on the circular economy, with the aim of minimising possible negative impacts arising from our activity and with the firm purpose of achieving an effective management of the waste that we generate.

In 2019 we implemented various equipment recycling and reuse procedures that promote waste disposal and reduction, providing the necessary tools for generating the least possible impact on the environment.

Some of the measures we are implementing are outlined below:

- Replacing non-recyclable infill material used in spare parts and accessories (EPS) with recyclable material (cardboard) at Ormazabal Distribución Secundaria, achieving a 54 % reduction in spending on EPS and pil-pak.
- **Ormazabal Protección y Automatización** has continued to work on reducing packaging waste. For example, recyclable plastic pallets and plastic boxes are being used with suppliers instead of wooden pallets and cardboard boxes. In addition, for transportation of equipment with suppliers, EPS sheets with cavities have been used to reduce the volume of cardboard boxes and packaging plastics. Finally, OP&A has acquired a die cutter and photolithography machinery to manufacture cardboard boxes for shipping co-manufactured equipment, thus eliminating plastic packaging and bubble wrap.
- **Wec** has used reusable packaging to replace single-use packaging.
- **Uniblok** has worked on reducing and reusing the waste generated (among group companies there is a procedure for reusing packaging whereby the protectors used in each delivery are returned so that they can be used for future shipments). In addition, each member of staff has been given a reusable mug and bottle, thereby reducing the use of plastic.

For waste management purposes, most Velatia companies have contracts with management companies specialising in the transportation and handling of waste. These contracts cover the entire process, from collection to handling and, in some cases, return for reuse and the liability of both parties.

Hazardous waste is that whose intrinsic properties pose risks to health or to the environment. With regard to the management of this kind of waste, 4 % of the waste generated has been recovered, 79 % has been disposed of, and 17 % has undergone a recovery process.

Non-hazardous waste produced in 2019 includes the following materials: metal scrap, paper and cardboard, plastics and wood. Of this type of waste, 82 % has been recovered, 1 % has been eliminated, 2 % has been sent to supervised landfills, and the remaining 15 % has undergone a recovery process.

Waste generation in 2019

| Type of waste | Financial year 2019 |
|---------------------|---------------------|
| Hazardous waste | 203,281 Kg. |
| Non-hazardous waste | 2,406.107 Kg. |



Sustainable use of resources

Evolution of water consumption

With sustainability as a goal, in 2019 we continued to work towards responsible production and consumption across our supply chain. Thus, we implemented measures to raise awareness of responsible use of water among all Velatia employees.

If we exclude the data of companies for which we do not have information relating to 2018, water consumption in 2019 amounted to 35,164 m³. The increase is due mainly to higher levels of production.

This consumption is concentrated mainly in Uniblok, given that it uses water as a raw material for making concrete. This company maintains similar levels to those recorded in financial year 2018. For its part, Cotradis, at its C3 paint plant, also has high water consumption, fundamental for its production process.

At **Velatia** we seek optimisation in the use of material resources in all phases of the activity. We encourage the efficient use of raw materials and energy and, in addition, through the environmental and energy management systems we have equipped ourselves with, we make progress in measurement and assessment to continue implementing measures that allow us to increase energy efficiency and optimise the consumption of resources in our production processes.

| | Financial year 2019 | Financial year 2018 |
|--------------------------------------|---------------------|---------------------|
| Water consumption (m ³)* | 42,573 | 29,228 |

*Water consumption in 2019 included Ikusi Mexico, Ormapost (Ormazabal factory located in Torcey, France), Ormazabal Turkey and Ormazabal Argentina, which were not included within the scope of financial year 2018.

Evolution of raw material consumption

| | Financial year 2019 | Financial year 2018 |
|---|---------------------|---------------------|
| Main raw materials (magnetic sheet, enamelled wire (aluminium), chemical consumables (oil) and aluminium strip) | 23,129.249 Kg. | 17,084.222 Kg. |

This table shows the consumption of the main raw materials used by Vela-tia. The increase is due to new materials and companies not included within the scope of the previous year being included in the measurements.

Evolution of energy consumption

| Energy consumption | Financial year 2019 | Financial year 2018 |
|---|---------------------|---------------------|
| Electricity consumption (kWh) ^{7*} | 15,346.333 | 12,594.452 |
| Natural gas consumption (Nm ³) ^{8**} | 992,970 | 623,556 |
| Diesel A and C consumption (l) ^{9***} | 256,194 | 221,102 |

*Electricity consumption in financial year 2019 included Ikusi Mexico, Ormazabal Anlagentechnik (Germany), Ormazabal-Ormapost (France), Ormazabal Turkey, Ormazabal Argentina and Ormazabal Brazil, which were not included within the scope of financial year 2018.

**Natural gas consumption in financial year 2019 included the companies Ormazabal Anlagentechnik (Germany), Ormazabal-Ormapost (France), Ormazabal Turkey, Ormazabal Argentina and Wec, which were not included within the scope of financial year 2018.

***Diesel consumption in 2019 included the Ormazabal companies: Uniblok, Ormazabal Turkey, Ormazabal Argentina, Ormazabal Portugal and Ormazabal Brazil, which were not included within the scope of financial year 2018.



This table does not include companies that do not have electricity consumption data for 2018. If we exclude these, electricity consumption in 2019 amounted to 13,039,158 kWh, 3 % higher than in 2018. This increase is due mainly to higher levels of production, although all the companies in the group have made an effort to reduce this percentage.

Similarly, natural gas consumption increased by 4 % with respect to the previous year, reaching 651,798 Nm³ in 2019. The reason is the increase in consumption in Cotradis and Tecnichapa, both belonging to **Ormazabal**. Cotradis, in addition to increasing its output in 2019, replaced diesel oil for heating with natural gas for both heating and the paint booth process.

Finally, with regard to diesel, despite the inclusion of data from other group companies not considered in 2018, consumption of this type of energy fell significantly in relation to the previous year. If we take into account only the companies that reported their data in 2018, the volume consumed in 2019 was 219,361 litres, a lower figure therefore. This reduction stems from the lower consumption of C diesel fuel in heating boilers and heat-producing equipment.

Energy efficiency

In line with our commitment to reducing energy consumption, at **Velatia** in 2019 we carried out different initiatives to promote energy efficiency:

- Reduced power consumption in machines at Ikusi as a result of operating changes in some of them, such as total shutdown over the weekend instead of leaving them in standby mode.
- **Ormazabal** replaced 693 luminaires with LED lights of higher energy efficiency at its Uniblok factory.
- Natural gas consumption at **Ormazabal**'s precast concrete factory (Uniblok) fell by 3 %, as did the thermal stress of the components of the steam generation plant. To this end, a heat recovery system was installed in the compressor oil circuit.
- **Ormazabal**, at its factory in Loeches (Madrid), replaced heating diesel with natural gas for heating and the paint booth process.

- Aislantes Sólidos has also had all its luminaires replaced with LED lights. In addition, the photovoltaic installation located on the factory roof was optimised by replacing the old panels with more efficient new ones.

In 2019, **Ormazabal** Corporate Technology worked on the MBRESGRID project, part of the Basque Government's "Hazitek" programme. The main objective of this project is to research and develop an advanced micro-network using battery energy storage with intelligent photovoltaic power generation and automated control and management technologies. The idea is to generate an economically competitive and interoperable micro-network capable of achieving an improvement in energy density, cyclability and cost. In addition, it will allow for an improvement in the efficient management of distributed resources, as well as foresee the elimination of peaks in demand, thereby facilitating energy management.

For its part, **Stratenergy**, **Velatia's** energy services start-up, is working on efficient energy management, using more than 50 years of proven experience in this sector and in all types of networks to offer a differential value in specialised integral services in this field. Its area of activity encompasses the entire efficient energy management cycle and guarantees our customers a saving based on outsourcing the service, investment in improving their facilities, and continuous optimisation of energy consumption, thereby providing them with an important competitive advantage.





2.5. Suppliers

In 2019, we continued to work towards responsible production and consumption across the supply chain.

Velatia's firm commitment to the supply chain, reflected in our **Corporate Social Responsibility and Procurement policies**, manifests itself in the following areas of action:

- Extend **social, environmental and occupational hazard prevention** aspects to our suppliers.
- Establish **mutually beneficial relationships** and prolonged stability with our suppliers by rigorously applying the Code of Ethics.
- Respect the **principles of sustainable development** by encouraging our suppliers to comply with human rights requirements and the laws, regulations and standards of the countries in which Velatia operates.

To act on the commitments undertaken, we have a **Regulatory Framework for the Procurement Function at Velatia**, which provides the entire organisation with common and compulsory guidelines that regulate the complete procurement cycle, from identifying the need to satisfying it. Thus, all businesses must have a supplier approval process in which suppliers must give a written undertaking to comply with our **Procurement Policy** and our **Code of Ethics**. To this end, in 2019 we started sending **Velatia's Quality Manual** and **Code of Ethics** to our critical suppliers, requesting their signature as a pledge of their commitment.

In order to control supplier-related risks, **Velatia** has a system of **Risk Management** in the supply chain that monitors the panel of critical suppliers classified according to different levels of criticality.

We put our faith in local suppliers

At **Velatia** we understand that our influence on the local economy goes beyond the direct jobs we create and the payment of wages and taxes, given that we also generate positive economic impacts indirectly by supporting local companies through our supply chain.

We maintain our firm commitment to companies located in the main geographical areas in which we operate, a commitment that acquires greater relevance in those businesses with production plants in different geographical areas.

We regularly monitor the volume of purchases associated with each geographical area, which allows us to keep the proportion of local suppliers within a significant percentage range.

Our procurement strategy provides for a **panel of global suppliers** of basic raw materials (copper, aluminium, steel, etc.) and standard and/or high-rotation product for customisation with local suppliers located near the points of consumption. This gives us **greater flexibility** and proximity to the end customer.

Expenditure to local suppliers

| % expenditure to local suppliers | Financial year 2019 | Financial year 2018 |
|----------------------------------|---------------------|---------------------|
| Spain | 78 % | 77 % |
| France | 92 % | 92 % |
| Germany | 61 % | 60 % |
| China | 100 % | 99 % |

Sustainability in the supply chain

Velatia's companies seek to contribute real value in their procurement management processes, both for their businesses and for their suppliers, guaranteeing results and favouring adaptation to the local environment, which enhances the creation of wealth and employment in the environments in which they operate. In this vein, we have started informing companies that wish to form part of our supply chain of the need to undertake the commitments promoted by the UN Global Compact.

Aligning the corporate function of procurement with each of Velatia's operational departments has allowed us to determine and apply the best assessment criteria in each procurement or purchasing process, and to always be at the forefront in terms of sustainability, environmental assessment and human rights criteria.



Velatia collaborates with Industry Day in Vizcaya.

The aim of this initiative, organised by the Vizcaya Federation of Metal Companies (Federación Vizcaína de Empresas del Metal, FVEM), is to give young people with a vocation for driving and shaping the future an insight into the metal industry, the most important in the province.

Ormazabal participated in this event, which was held in November 2019, welcoming more than 700 students at its plant in Igorre.

It is an excellent opportunity to raise awareness of future opportunities in this sector, to encourage the incorporation of women, and to show the strength and value of Vizcaya's industry. FVEM brings together more than 900 companies and groups, including Velatia.

Velatia participates in a project to promote "green purchasing" in the private sector

The Basque Country has launched a pioneering pilot programme at national level with private companies, including Velatia, which have taken on the challenge of introducing the procurement of sustainable products and services in the private sector.

The first seven companies to join the initiative form part of the Basque Ecodesign Centre (Iberdrola, CIE Automotive, EDP, Vicinay, Euskaltel and Ormazabal), in addition to the Aclima cluster. It highlights the crucial role of companies that design and manufacture their products according to eco-design criteria and of the circular economy in the transition to a more resource-efficient economy.

The objective by 2020 is to ensure that procurement of half of the products, services and works in sectors prioritised by the relevant public authorities – vehicles, civil works, cleaning, stationery, etc. – favours those with reduced environmental impact.

2.6. Society

We promote the principles of corporate social responsibility in our activities, reconciling the pursuit of our mission with the interests of the community around us and of our stakeholders, with long-term sustainability in mind.

We are a group committed to the society we form part of. Our **Corporate Social Responsibility and Social Action policies** set out the following lines of action in this area:

- Support the social development of the community in which **Velatia** operates, participating in and promoting **projects of social, cultural and environmental interest**.
- Ensure that all our collaborations in the field of social action are carried out with **entities characterised by rigour, honesty, great prestige, and transparency** in their actions.
- To guarantee **long-term relationships** in the activities and projects to be carried out and their inherent vocation of continuity.
- Gear our social action towards **mutual benefit**, ensuring that the local community grows at the same time as our activity in that area.

We strive to guarantee clear and direct communication with our stakeholders so that it serves as feedback to find out their needs and expectations, as well as ensure that everyone at Velatia follows the guidelines contained in our **Code of Ethics** when performing their professional activity.

Close to local communities

We are actively involved in developing the public policies of regulatory bodies related to electricity distribution networks, taking a proactive role and, in many cases, leading business associations linked to the sector in all areas of activity, at both national and European level.

At all times we maintain a position in defence of regulation leading to the fundamental principle of the sustainability of the electrical system, through the development, commissioning and maintenance of a reliable, durable, efficient and eco-friendly power grid model.

This position regarding the regulatory aspect leads us to adopt solid and consistent precepts in relation to the cri-



teria and concepts applied to the design, manufacture and commissioning of the products, equipment and services that we offer to the market.

With regard to institutional relations activities and those related to associationism between companies, everyone in the group takes care to strictly comply with the precepts laid down by the rules of competition law.

Determined to play a prominent role in the sectors in which we are present, **Velatia** belongs to numerous **organisations** whose activities are related to ours. Some of the most important are listed below.

| Organisations | | |
|---------------|----------------|---|
| Velatia | AMETIC | Asociación de Empresas de Electrónica, Tecnologías de la Información, Telecomunicaciones y Contenidos Digitales |
| | FMRE | Foro de Marcas Renombradas Españolas |
| | ADEGI | Asociación de Empresarios de Gipuzkoa |
| | APRI | Asociación de Profesionales de las Relaciones Institucionales |
| | AEFAME | Asociación Empresa Familiar de Euskadi |
| | AERCE | Asociación Española de Profesionales de Compras y Contratación |
| | APD | Asociación para el Progreso de la Dirección |
| | DIRCOM | Asociación Profesional de Directivos de Comunicación |
| | | Cámara de Comercio de Brasil |
| | | Círculo de Empresarios Vascos |
| | | Clúster Marítimo Español |
| | CEBEK | Confederación Empresarial de Vizcaya |
| | ORKESTRA | Fundazioa Instituto Vasco de Competitividad. Fundación Deusto-Deustu |
| | EUSKALIT | Fundación Vasca para el Fomento de la Calidad |
| | INNOBASQUE | Agencia Vasca de la Innovación |
| | | Instituto de Auditores Internos |
| | IEF | Instituto de la Empresa Familiar |
| | IZAITE | Asociación de Empresas Vascas para la Sostenibilidad |
| | GLOBAL COMPACT | Red Española del Pacto Mundial |
| Ormazabal | AFBEL | AFBEL Asociación Española de Fabricantes de Bienes de Equipos Eléctricos de Alta y Media Tensión |
| | ADIMDE | Agrupación de Industrias Marítimas de Euskadi |
| | ASEMPEA | Asociación Empresarial España-Asean |
| | ASEME | Asociación Española Interna Empresas Eléctricas |
| | ASEHIMA | Asociación empresarial Hispano-Malasia |
| | AECIM | Asociación de Empresarios del Comercio e Industria del Metal de Madrid |
| | APPA | Asociación de Empresas de Energías Renovables |
| | AEDIVE | Asociación de Empresas para el Desarrollo e Impulso del Vehículo Eléctrico |
| | AMETIC | Asociación de Industrias Tecnologías Eléctricas y de la Información |
| | AUSAPE | Asociación de Usuarios de SAP España-Ausape |
| | AEE | Asociación Empresarial Eólica |
| | AVEQ-KIMIKA | Asociación Vizcaína de Empresas Químicas |
| | | Basque Ecodesign Center |
| | | Cámara de Comercio Hispano-Turca |
| | CEP | Centro Español de Plásticos |
| | CIC | CIC Energígune |
| | CIGRE | Conseil International des Grands Réseaux Électriques |
| | CIRED | International Conference on Electricity Distribution |
| | ENERCLUB | Club Español de la Energía |
| | | Cluster de la Energía de la CAPV |
| | ENAC | Entidad Nacional de Acreditación |

| | | |
|-------------|----------------|--|
| | FVEM | Federación Vizcaína de Empresas del Metal |
| | FEC | Fundación Privada Empresa & Clima |
| | EUSKALIT | Fundación Vasca para el Fomento de la Calidad |
| | F2I2 | Fundación Vasca para el Fomento de la Innovación Industrial |
| | GIMELEC | Groupement des Entreprises de la Filière électronique française |
| | Gge | Grup de Gestors Energetics |
| | IBERCLEAR | Depositorio Central de Valores español |
| | ITE | Instituto Tecnológico de la Energía |
| | | Malaysian Spanish Chamber of Commerce & Industry |
| | NAFEMS | National Agency For Finite Element Methods And Standards |
| | PEMA | Port Equipment Manufacturers Association |
| | Prime Alliance | Powerline Intelligent Metering Evolution Alliance |
| | T&D Europe | European association of the electricity transmission and distribution |
| | UCAlug | UCA International Users Group |
| | EURELECTRIC | Union of the Electricity |
| | EWEA | Windeurope Ewea |
| | ZVEI | Zentralverband Elektrotechnik- und Elektronikindustrie |
| Ikusi | mlc-its.Eus | Clúster de la Movilidad Logística de Euskadi |
| | GAIA | Asociación de Industrias de Tecnologías Eléctricas |
| | AMIITEL | Asociación Madrileña de Industrias de Instaladores de Telecomunicación |
| | AENOR | Asociación Española de Normalización |
| | SECARTYS | Asociación Española para la Internacionalización de las Empresas de Electrónica Informática y Telecomunicaciones |
| | ABITEL | Asociación Vizcaína de Integradores de Telecomunicaciones |
| | | Cámara Oficial de Comercio, Industria y Navegación de Gipuzkoa |
| | ECOEMBES | Ecoembalajes España |
| | ERP | European Recycling Platform DE.GMBH |
| | FECEMINTE | Federación Catalana de Empresarios Instaladores de Telecomunicaciones |
| | FENITEL | Federación Nacional de Asociaciones de Instaladores de Telecomunicación |
| | | Foro de Nuevas Tecnologías en el Transporte, ITS España |
| | FFE | Fundación de Ferrocarriles Españoles |
| | EUSKALIT | Fundación Vasca para el Fomento de la Calidad |
| | MAFEX | Asociación Española de Fabricantes Exportadores |
| Smarmec | FVEM | Federación Vizcaína de Empresas del Metal |
| Stratenergy | A3E | Asociación de Empresas de Eficiencia Energética |
| | ANESE | Asociación Nacional de Empresas de Servicios Energéticos |
| Wec | | Agrupación Empresarial para el desarrollo de Técnicas de Fabricación Aeronáutica Avanzada |
| | HEGAN | Clúster de Aeronáutica y Espacio de Euskadi |
| | FVEM | Federación Vizcaína de Empresas del Metal |



The president of Velatia, adviser to the President of Orgalim

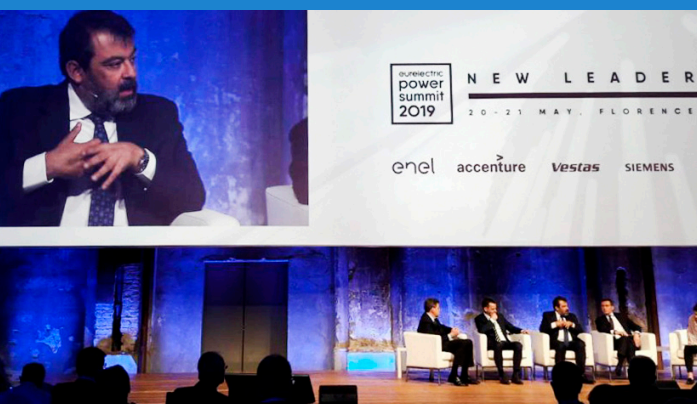
With the appointment of Javier Ormazabal as a member of the Advisory Board of Orgalim president Tomas Hedenborg, 2019 saw Velatia join the federation that represents Europe's leading technological industries (32 national associations and 12 sectoral associations) before the European Union.



Alejandro Ormazabal analyses the advantages of family businesses with ADYPE

In early 2019, the Vice-President of Velatia participated in a meeting organised by the Association of Basque Country Executives and Professionals (Asociación de Directivos y Profesionales de Euskadi, ADYPE), in which the advantages, opportunities and challenges faced by family businesses were analysed.

Before a select group of Basque executives, Alejandro Ormazabal offered his vision of Velatia's past, present and future and of the necessary integration of family human capital to perpetuate values such as entrepreneurship in the culture of organisations.



Javier Ormazabal participates in the Power Summit 2019

The Power Summit is one of the most important conferences in the electricity sector at European level, bringing together the continent's leading companies and manufacturers. In his speech during a session devoted to leadership, Javier Ormazabal highlighted the essential digitalisation of the network as an essential driver of energy transition, a field in which Ormazabal has been working for many years with the world's leading energy suppliers.

Forging links between education and business

Velatia collaborates closely with various training institutions to contribute to the development and growth of the local economic fabric, bringing the company into contact with the educational world. In this sphere, we maintain various agreements, scholarships and internship options.



BILBOKO
INGENIARITZA
ESKOLA
ESCUELA
DE INGENIERÍA
DE BILBAO



Since 2001 we have been collaborating with the Bilbao School of Engineering with our own company classroom that pursues the following objectives:

- Recruitment of students with potential. During 2019, six "company classroom" students joined our companies (as compared with three in the 2018).
- Carry out projects in areas of interest to **Velatia**.
- Increase the prestige of our brand among students as a reference point in the technological field. Over the years we have carried out various communication actions such as participation in the company classroom presentations and in the School newsletter, offering news about the progress made and the projects developed in the **Velatia** classroom.



The "**Ormazabal Classroom**" of the University of Mondragón, launched in 2007, specialises in power electronics, protection and automation, as well as medium-voltage network communications. It aims to develop projects with undergraduates in the penultimate or final year of their degree in disciplines of interest to the company. Instructors are responsible for directing the work done by the students and the tutors appointed by **Ormazabal** for each project supervise the work done in the classroom.



Since 2006, **Ormazabal** has also had a company classroom at the Higher Technical School of Industrial Engineering and Design of the Polytechnic University of Madrid. Its dual purpose is to teach and investigate, and it helps future engineering professionals learn about transformation centres, practical simulation of the different defects that can occur in this type of facility, as well as the protective devices and systems associated with transformation centres.



Our partnership agreement with Deusto Business School covers different areas such as training, access to talent and other services. It offers professionals from **Velatia** preferential access to the school's programs, executive master's degrees and in-company training. It also provides the opportunity to participate in the design and implementation of training or research programs of joint interest and in certain courses, seminars or conferences where we can pass on our experience to students. Furthermore, we promote the formalisation of national and international internship agreements with the school's students.



The cooperation between Velatia and the Tecnun School of the University of Navarra offers its final-year undergraduates and master's degree students the opportunity to expand their knowledge by doing an internship at any one of several companies in the group, accompanied by **Velatia** professionals.



Ormazabal Corporate Technology is on the Board of Trustees of the Euskampus Foundation of the University of the Basque Country, an interinstitutional instrument that aims to become a driver of Basque RDI with a clear vocation of social responsibility and integration within the region. To achieve this aim, its mission is to design, coordinate and execute actions that strengthen and accelerate the modernisation and internationalisation of the University of the Basque Country.

Sharing our knowledge

In 2019, **Velatia** devoted more than 1,500 senior management hours to representation activities in associations, foundations and institutions, and to participation in major international forums.

A significant part of the **Velatia** president's role involves performing representative functions in associations, foundations and governmental institutions. Likewise, both the president and the members of the Management Committees of **Velatia**, **Ormazabal**, **Ikusi** and other businesses participate as speakers in various events, forums, etc., essential as drivers of economic and social development, and they provide the organising bodies value in terms of knowledge, experience and support.



Customer satisfaction as a goal

The equipment and products we supply take into account all the safety parameters provided for in the regulations applicable in each case. Moreover, in order to provide an acceptable level of protection for people and goods that use or come into contact with them, we have developed general instructions for use for each product type, with the following objectives:

- Eliminate dangers whenever possible.
- When this is neither technically nor economically feasible, incorporate appropriate protections into the product itself.
- Communicate the remaining risks in order to facilitate the design of operating procedures that prevent such risks, the training of operating personnel to carry out these procedures, and the use of relevant personal protection measures.
- Use recyclable materials and establish procedures for the treatment of products and their components, so that they are appropriately handled at the end of their useful life, respecting, insofar as possible, the environmental regulations established by the competent bodies.

Customer satisfaction is in our DNA and appears as an important aspect in the materiality analysis.

At **Velatia** we develop management mechanisms aligned with business strategies, such as Customer Scorecards (performance indicators and results), surveys, focus groups, interviews, etc., that help us identify opportunities to improve both our own performance and the satisfaction of our customers.

We also have a **claims and complaints system** adapted to the reality of each of company and business in the group.

Incidents are received through the formal and informal channels made available to the consumer, and managed and processed by our specialised staff who analyse the cause of each incident in an individualised manner and take the appropriate measures to provide the customer with a solution in accordance with our quality standards.

In businesses with a high volume of complex operations, we have a tool for **recording incidents** that allows us to improve the quality of the service and apply corrective actions. In all our companies we regularly monitor complaints, identifying the type, status and resolution date of each complaint.

Throughout 2019 we continued to find out more about the needs and expectations of our customers through satisfaction surveys whose ultimate goal is to generate and maintain strong long-term relationships. These surveys serve to measure specific aspects that help us obtain information about the quality of our response and the areas of improvement we need to keep working on. Some of the aspects most highly valued by customers are the treatment they receive from our staff, fulfilment of deadlines, efficiency, the quality of our products and services, resolution of incidents, and technical assistance.

In recent years, **Ormazabal** has conducted satisfaction surveys in Spain, France, Germany, China and Poland, where it has not only commercial presence but also production centres.

We are making progress in the management of social action

All our sponsorships, donations and collaborations in the field of social action are part of our business strategy and are based on responsibility towards our environment and Velatia's identity, transmitting our culture in a relationship that considers the economic and the human dimension simultaneously.

Our goal in this regard, as set out in the **Social Action Policy**, is to contribute to the development of the society in which we operate or maintain business relations, promoting innovation in search of a better quality of life for that society and the creation of value for the group.

In line with this goal, we have a **Social Action Management Procedure** that allows us to effectively manage Velatia's contributions to the community, minimising risks and maximising the reputational opportunities that could arise from these contributions, in accordance with our policy detailing the three areas in which our group focuses its activities:

• **Social area:**

Training and research: activities and projects aimed at educating and training people and achieving social progress through training and research.

Social integration and community development: activities and projects that seek to contribute to the progress of the community in which they are carried out, or to the integration and progress of the most disadvantaged social groups.

• **Cultural area:**

Programmes or collaborations aimed at promoting and developing the visual, performing and musical arts that facilitate the public's access to them.

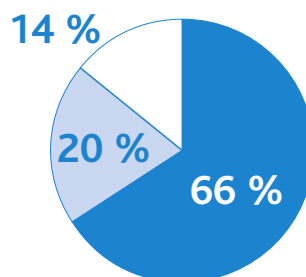
• **Environmental area:**

Projects or activities aimed at preserving our environment.

Contributions in social action



2019



In the social area



Aware of the need to support and protect children, in 2007 we signed a partnership agreement with the Unicef Foundation to support it in its mission of promoting the well-being, defence, protection and development of children's rights contained in the Convention on the Rights of the Child.

To align this collaboration with our **Social Action Policy**, and training being one of our main focal points, since 2013 our collaboration has centred on a specific project: "Schools for Africa", specifically in South Africa, where Ormazabal has its African subsidiary.

This Unicef and Nelson Mandela Foundation project provides children with the opportunity to access education and dream of a better future.

During the period covered by this report, the objectives set within the project have been to ensure that children have access to quality education and complete their studies, to improve pre-school education services, particularly for the most vulnerable children, and to increase the number of "child-friendly" schools.

Here are some of the achievements:

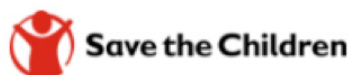
- Through the **model of care and support for teaching and learning**, the project has helped children at risk by strengthening their skills and capabilities.
- **Training and awareness-raising on water, hygiene and sanitation issues** has been carried out in 292 primary schools, reaching more than 1,800 teachers and 200,000 students.
- A **reading reinforcement programme** has been supported in 230 schools, demonstrating that support in the classroom and appropriate syllabuses can improve learning.
- An **employment skills programme (TechnoGirl)** has been implemented, especially designed for adolescent girls from disadvantaged communities. This programme offers opportunities in science, technology, engineering and mathematics degrees. The evaluations carried out show that this initiative contributes to the development of skills and confidence among girls, encouraging them to choose to study these subjects.

It is also worth noting **Velatia's** collaboration with UNICEF and children in the emergency calls made by the organisation in response to natural disasters, launching fundraising campaigns supported by our employees under the motto "Together we can".



We identify with the mission of the Novia Salcedo Foundation that aims to accompany young people through the process of professional and social integration, and over the last seven years we have collaborated not only by recruiting young people for our companies but also by sponsoring the "Award for excellence in the professional integration of young people", which seeks to highlight the commitment and performance of people, companies and institutions that are distinguished by their work and achievements in this field.

Since 2015 we have been providing our collaboration in support of the **Pegasus** project. During 2019, the focus of the project was on promoting youth employment worldwide. In this regard, an ambitious and intense programme packed with actions and initiatives was carried out during this period to progress towards its objectives as well as **Sustainable Development Goal 8** (decent work and sustainable economic growth for all): institutional relations, communication, awareness-raising and presence in society, and, finally, creation and dissemination of knowledge.



Since 2017, **Velatia** has been collaborating with the Save the Children Foundation and its project "Reading Me!", **Strengthening Socio-Emotional Skills through Reading with Boys and Girls**, aimed at boys and girls from 3rd to 6th grade in public primary schools. Specifically, we support this project in three schools in Mexico City, helping 450 boys and girls each year to acquire a greater capacity for decision making both in the educational sphere and in the wider community. 41 % of Mexico's students do not reach the basic level of reading skills and, according to the Programme for International Student Assessment (PISA), they lack a command of basic skills in mathematics.

In the cultural area

GUGGENHEIM BILBAO

Our group collaborates with the Guggenheim Museum Bilbao as an "associated enterprise". This cooperation stems from our identifying with the innovative nature of this internationally renowned international art institution and celebrated example of avant-garde architecture. From the outset, **Velatia** has participated in the Museum's mission to gather, preserve and study modern and contemporary art and to exhibit it in the context of art history from multiple perspectives, and aimed at a wide and diverse audience; supporting its objective of contributing to the knowledge and enjoyment of art and the values that the museum represents within the setting of an emblematic work of architecture, a symbol of the vitality of the Basque Country.



Velatia supports the Bilbao Museum of Fine Arts as a "Friend Enterprise", thereby contributing to its mission to gather, preserve, study and disseminate its important collection of ancient, modern and contemporary art, actively participating in the education of society and the projection of our cultural values.



Bilboko Koral Elkartea
Sociedad Coral de Bilbao

The Bilbao Coral Society, an important part of the cultural heritage of Bilbao and Vizcaya, was founded in the late nineteenth century in order to spread knowledge of music in general and choral singing in particular. We share this spirit by joining forces to keep its flame alive.

Our contribution to society

At **Velatia**, we are committed to fully complying with the relevant laws and requirements for preparing internal and external reports, including those concerning disclosure of information to tax authorities and reporting on tax payments. In this regard, we detail below the direct economic value generated and distributed by our group (in thousands of euros):

Economic value generated (a)

| Income | Financial year 2019 | Financial year 2018 |
|------------------------|---------------------|---------------------|
| Sales figure | 659,032 | 627,092 |
| Other operating income | 5,797 | 4,308 |
| Financial revenue | 1,177 | 1,277 |
| Equity method profit | (1,969) | 259 |
| TOTAL | 664,037 | 632,936 |

Distributed economic value (b)

| | Financial year 2019 | Financial year 2018 |
|----------------------------------|---------------------|---------------------|
| Consumption and work carried out | (387,939) | (369,822) |
| Other operating income | (110,405) | (116,386) |
| Staff costs | (146,807) | (136,055) |
| Financial expenses | (4,770) | (4,585) |
| Corporate taxes | (3,615) | 2,117 |
| TOTAL | (653,536) | (624,728) |

Retained economic value

| | Financial year 2019 | Financial year 2018 |
|-------------------------------|---------------------|---------------------|
| Retained economic value (a-b) | 10,501 | 8,208 |

Profits obtained

Our ultimate goal is to generate confidence and distribute value in the national and international market through responsible action, particularly in the tax field. The following table shows the significant information relating to the profits obtained, country by country, before taxes, in the main locations where we operate (in thousands of euros):

| Geographical area/country | Pre-tax earnings | |
|-----------------------------------|---------------------|---------------------|
| | Financial year 2019 | Financial year 2018 |
| Spain | 8,241 | 10,395 |
| Germany | (8,560) | (9,208) |
| Western Europe | (1,274) | (2,277) |
| North America and Central America | 2,524 | 5,485 |
| South America | 2,608 | 2,182 |
| Asia and Oceania | (15) | 1,104 |
| Africa | (206) | (227) |
| TOTAL* | 3,318 | 7,454 |

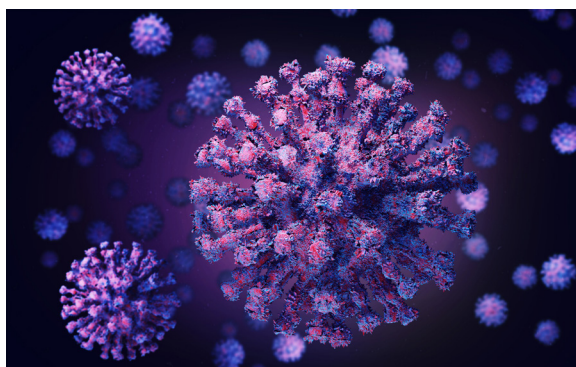
*The consolidated pre-tax earnings figure takes into account the fact that the sale of the Telecontrol business broken down in Note 2.3 to the attached Consolidated Report in 2018 and that of Poland in 2019 was reclassified under "Discontinued operations".

Profit taxes paid

As indicated in the Cash Flow Statement of **Velatia's** Consolidated Annual Accounts, EUR 131,000 in profit taxes were paid in financial year 2019 (EUR 5,404,000 in 2018).

Public grants received

Velatia has the support of public bodies through grants for innovation and development projects. Information relating to grants received has been included in the Consolidated Annual Accounts of **Velatia**, S.L. and Dependent Companies (Note 14.2) for the year ended 31 December 2019.



Note about subsequent events

The detection of the coronavirus COVID-19 in China in January 2020 and its subsequent global expansion to a large number of countries prompted the World Health Organisation to classify the viral outbreak as a pandemic on 11 March 2020.

Bearing in mind the complexity of the markets due to their globalisation as well as the absence, for the time being, of effective medical treatment against the virus, the consequences for our operations are uncertain and will depend to a large extent on the evolution and spread of the pandemic in the coming months, as well as on the capacity of all the impacted economic agents to react and adapt.

Therefore, as of the date of formulation of this Non-Financial Information Statement, it is too early to make a detailed assessment or quantification of the possible social or environmental impacts that COVID-19 will have on the group, due to the uncertainty about its consequences in the short, medium and long term.

However, **Velatia's** directors and management team have made a preliminary assessment of the current situation based on the best information available, although, for the reasons mentioned above, such information may be incomplete. Based on this assessment, it is worth highlighting the following issues relating to the non-financial information:

Business model: the various countries where we carry out our activity are going through different stages (as is the case of China, Europe and the Americas, for example), which, together with the sectoral diversification of the companies in the group, means that the effect on businesses has also been unequal. While a large part of our activity continues to be regarded as a critical industry, in that we provide services and products to essential sectors (including those that guarantee the supply of electricity and telecommunications), there are other businesses that have been forced to temporarily suspend their activities. However, at group level we do not foresee any impacts that could jeopardise business continuity.

Work and follow-up teams have been designated to work on all critical aspects, such as individual awareness, training, and the implementation of safety protocols for face-to-face work and teleworking, among others. Scenarios are continually assessed, and a follow-up is carried out in six main blocks:

1. Protect employees and customers by implementing safety protocols established for the crisis, with daily monitoring of employees' health situation and enhancing transparent communication.
2. Level of exposure and careful supervision of the P&L account and liquidity, evaluating market scenarios in the event of reductions in certain variables (income, liquidity, etc.) and taking measures such as continuous monitoring of stocks and collections from customers, and ensuring the supply chain and lines of financing, among others.
3. Minimise the fall in revenue by developing revenue protection, customer loyalty and market strategies.
4. Stabilise operations to adapt to the "new normality", ensuring the product supply chain and contingency plans.
5. Adjust expenditure to protect cashflow by identifying costs that could be cut according to each scenario.
6. Proactive position in the market, adopting not only a defensive strategy but also adapting to the new realities of customers (digitalisation) and staying one step ahead of the competition.

Environmental matters: we expect environmental indicators to improve as a result of the slowdown or suspension of part of the activity and the increase in teleworking.

Personnel matters: the group has taken steps to facilitate teleworking, and therefore about half of our workforce worldwide is currently working remotely. Moreover, in order to regulate the work of those who are not subject to teleworking, various options have been taken, such as using holidays, accumulated hours, elimination of certain shifts with paid leave, among others.

Health and safety matters: people's health is always our priority, so we work hard to preserve it. To this end, we have developed protocols at all our premises and facilities, especially in production centres, with the help of the Health and Safety Committee and Prevention Services. Important actions have included the temporary closure of the dining room and the changing rooms, as well as organizational and distancing measures to prevent contact among employees on entering and leaving the workplace.

Supply chain matters: there has been a slight slowdown in our production due to some failures and/or delays affecting deliveries from our suppliers.

Business continuity: as mentioned in the business model, we do not foresee any significant impacts that would call into question the application of the "going concern" principle, since much of the group's activity is continuing due to it being considered critical.

Finally, it should be emphasised that Velatia's directors and management team are constantly monitoring the evolution of the situation, in order to deal successfully with any possible impacts, both financial and non-financial, that may occur from now on.



3. EVERYTHING THAT BELONGS TO THIS REPORT

Belonging to **Velatia** is synonymous with a job well done, integrity, rigour and transparency.

We strive to stand out in the industry for the quality and added value that we bring to our customers, for our professionals, for flying the flag of sustainability and respect for the environment, for the importance we attach to our suppliers...

Everything that makes us feel proud.

3.1. Scope and range of this report

Since the publication of our first Sustainability Report in 2012, at Velatia we have worked hard to provide reliable, comprehensive and quality information on our progress in this field, and this report aims to do just that.

To develop its contents, we have followed the principles and guidelines set out in the GRI Sustainability Reporting Standards (2016), and in accordance with the "core option". In doing so, we demonstrate our willingness to improve this report both in content and in degree of compliance, prior to its verification by external entities.

In determining these contents, the following points have been analysed in relation to sustainability:

- Important matters identified in the materiality analysis and that served to define the ten lines of action of the **Corporate Social Responsibility Master Plan 2018-2020**. This plan is, in turn, the guiding thread of this report for two reasons:
 - It covers the most important aspects identified.
 - It allows us, through its balanced scorecard, to assess the status and degree of progress of the action plans associated with the lines of action and to include these advances in this report.
- All the information required by Law 11/2018 on Non-financial Information and Diversity.
- GRI indicators and the information available for 2019.

With all this, we have delimited the optimal set of specific basic contents to report.

For any additional information about the contents of this report, anyone who wishes to do so may contact the Sustainability Department: sustainability@velatia.com.

3.2. GRI table and contents of Law 11/2018

| GRI Standard | | | | |
|-------------------------------------|--|---|--------------------------|--------------|
| Indic. | Contents | Section - Comments | Page | Observations |
| GRI 102: General Disclosures | | | | |
| 1. Organizational profile | | | | |
| 102-1 | Name of the organisation. | Velatia, S.L. y sociedades dependientes. | | |
| 102-2 | Activities, brands, products and services. | 1.2 Companies and businesses. 2.1 Review of the year, business by business. | 9-10 28-35 | |
| 102-3 | Location of headquarters. | Parque Científico y Tecnológico de Bizkaia, Edificio 104, 48170 Zamudio (Bizkaia). España. | | |
| 102-4 | Location of operations. | 1.3 Main figures. 2.1 Review of the year, business by business. | 12 28-35 | |
| 102-5 | Ownership and legal form. | 1.4 Governance. | 14-15 | |
| 102-6 | Markets served. | 1.3 Main figures. 2.1 Review of the year, business by business. | 12 28-35 | |
| 102-7 | Scale of the organisation. | 1.3 Main figures. 2.1 Review of the year, business by business. | 12-23 28-35 | |
| 102-8 | Information on employees and other workers. | 2. 2 Employees. | 40-42 50-54 | |
| 102-9 | Supply chain. | 2.5 Suppliers. | 88-90 | |
| 102-10 | Significant changes to the organisation and its supply chain. | Velatia's world. | 11 | |
| 102-11 | Precautionary Principle or approach. | 2.4 The environment. | 78-81 | |
| 102-12 | External initiatives. | 2.6 Society. | 92-101 | |
| 102-13 | Membership of associations. | 2.6 Society. | 92-93 | |
| 2. Strategy | | | | |
| 102-14 | Statement from senior decision-maker. | Letter from the president. | 5 | |
| 102-15 | Key impacts, risks and opportunities. | 1.6 Risk management. | 18-19 | |
| 3. Ethics and integrity | | | | |
| 102-16 | Values, principles, standards and norms of behaviour. | 1.1 Mission, vision and values. 1.5 Ethics and integrity. | 8 16-17 | |
| 102-17 | Mechanisms for advice and concerns about ethics. | 1.5 Ethics and integrity. | 16-17 | |
| 4. Governance | | | | |
| 102-18 | Governance structure. | 1.4 Governance. | 14-15 | |
| 102-22 | Composition of the highest governance body and its committees. | 1.4 Governance. | 14-15 | |
| 102-29 | Identifying and managing economic, environmental and social impacts. | 1.6 Risk management. 2.4 The environment. 2.6 Society | 18-19 78-87 91-103 | |
| 102-35 | Remuneration policies. | Compensation. | 57-58 | |

5. Stakeholder engagement

| | | | |
|--------|---|----------------------|-------|
| 102-40 | List of stakeholders. | 1.7 Sustainability. | 20-21 |
| 102-41 | Collective bargaining agreements. | Compensation policy. | 57 |
| 102-42 | Identifying and selecting stakeholders. | 1.7 Sustainability. | 20-21 |
| 102-43 | Approach to stakeholder engagement. | 1.7 Sustainability. | 20-21 |
| 102-44 | Key topics and concerns raised. | 1.7 Sustainability. | 20-21 |

6. Reporting practice

| | | | |
|--------|---|---|-------|
| 102-45 | Entities included in the consolidated financial statements. | Note 2 to Velatia's consolidated annual accounts, except for those indicators where another one is specifically stated. | |
| 102-46 | Defining report content and topic Boundaries | 1.7 Sustainability. | 20-21 |
| 102-47 | List of material topics. | 1.7 Sustainability. | 20-21 |
| 102-48 | Restatements of information. | No relevant restatements in the period. | |
| 102-49 | Changes in reporting. | There are no significant changes. | |
| 102-50 | Reporting period. | It reflects the economic, social and environmental activity carried out by Velatia during financial year 2019. | |
| 102-51 | Date of most recent report. | Sustainability Report 2017 and 2018. Non-Financial Information Statement for financial year 2018. | |
| 102-52 | Date of most recent report. | Annual. | |
| 102-53 | Contact point for questions regarding the report. | 3.1 Scope and range of this report. | 108 |
| 102-54 | Claims of reporting in accordance with the GRI Standards | 3.1 Scope and range of this report. | 108 |
| 102-55 | GRI content index | 3.2 GRI table and contents of Law 11/2018. | 109 |
| 102-56 | External assurance. | 3.4 Independent external assurance report on the Non-Financial Information Statement. | |

GRI 103: Management Approach

| | | | |
|-------|---|--|---|
| 103-1 | Explanation of the material topic and its Boundary. | 1.7 Sustainability. | 20-21 |
| 103-2 | The management approach and its components. | 1.5 Ethics and integrity. Talent management. Diversity, Organisation of Work, Health and Safety, Equality, Human Rights. 2.4 The environment. 2.5 Suppliers. | 16-17 45-47 49, 60, 66, 67 78-87 88-90 |
| 103-3 | Evolución del enfoque de gestión. | Customer satisfaction as a goal. | 94 |

GRI 201: Economic Performance

| | | | |
|-------|--|--|----------------------------------|
| 201-1 | Direct economic value generated and distributed. | 1.3 Main figures. 2.1 Review of the year, business by business. Social action. Our contribution to society. | 12 28-35 99-101 102-103 |
|-------|--|--|----------------------------------|

| | | | | |
|--|---|--|----------------|---|
| 201-4 | Financial assistance received from government. | Public subsidies received. | 103 | |
| GRI 202: Market Presence | | | | |
| 202-2 | Proportion of senior management hired from the local community. | 100 % of senior executives. | | |
| GRI 204: Procurement Practices | | | | |
| 204-1 | Proportion of spending on local suppliers. | 2.5 Suppliers. | 88-89 | |
| GRI 205: Anti-corruption | | | | |
| 205-2 | Communication and training about anti-corruption policies and procedures. | 1.5 Ethics and integrity. | 16-17 | |
| 205-3 | Confirmed cases of corruption and action taken. | | | |
| GRI 300: Environmental Disclosures | | | | |
| GRI 302: Energy | | | | |
| 302-4 | Reduction of energy consumption. | Velatia company solutions in 2019. Energy efficiency. | 36-39 86-87 | |
| GRI 305: Emissions | | | | |
| 305-1 | Direct (Scope 1) GHG emissions. | Pollution and climate change. | 81 | Smarmec's emissions data is excluded. It is not material for the group, and therefore these emissions are not measured regularly or exhaustively. |
| 305-2 | Energy indirect (Scope 2) GHG emissions. | | | |
| GRI 306: : Effluents and Waste | | | | |
| 306-2 | Waste by type and disposal method. | Circular economy. | 82-83 | |
| GRI 307: Environmental Compliance | | | | |
| 307-1 | Non-compliance with environmental laws and regulations. | In financial year 2019, the liabilities side of the balance sheet contains no provisions for possible contingencies related to environmental improvement and protection, and neither does it include any known liabilities and/or outstanding compensations. | | |
| GRI 308: Supplier Environmental Assessment | | | | |
| 308-1 | New suppliers that were screened using environmental criteria. | 2.5 Suppliers. | 88-89 | |
| GRI 400: Social Disclosures | | | | |
| GRI 401: Employment | | | | |
| 401-1b | Rate of employee turnover. | Rate of employee turnover and dismissals. | 54 | It does not include information relating to the company Aryse, which was incorporated into the group in 2019. |
| GRI 403: GRI 403: Occupational Health and Safety | | | | |
| 403-1 | Workers representation in formal joint management-worker health and safety committees | Health and safety. | 60-62 | |

| | | | | |
|-------|---|--|-------|--|
| 403-2 | Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities | Health and safety. There have been no deaths caused by work accidents in financial year 2019. | 62-63 | There is no detailed information on occupational diseases. It does not include information relating to the company Aryse, which was incorporated into the group in 2019. |
|-------|---|--|-------|--|

GRI 404: Training and Education

| | | | | |
|-------|--|-----------|-------|---|
| 404-1 | Average hours of training per year per employee. | Training. | 64 | No incluye información relativa a la sociedad Aryse incorporada al grupo en 2019. |
| 404-2 | Programs for upgrading employee skills and transition assistance programs. | Training. | 64-68 | |

GRI 405: Diversity and Equal Opportunity

| | | | | |
|--------|--|----------------|----|--|
| 405-1b | Percentage of employees per employee category in each of the following diversity categories: gender and age group. | 2.2 Employees. | 40 | |
|--------|--|----------------|----|--|

GRI 406: Non-discrimination

| | | | | |
|-------|---|--|----------|--|
| 406-1 | Incidents of discrimination and corrective actions taken. | Equality. 1.5 Ethics and integrity. | 66 17 | |
|-------|---|--|----------|--|

GRI 413: Local Communities

| | | | | |
|-------|---|--------------|--------|--|
| 413-1 | Operations with local community engagement, impact assessments, and development programs. | 2.6 Society. | 91-103 | |
|-------|---|--------------|--------|--|

GRI 414: Supplier Social Assessment

| | | | | |
|-------|---|----------------|-------|--|
| 414-1 | New suppliers that were screened using social criteria. | 2.5 Suppliers. | 88-89 | |
|-------|---|----------------|-------|--|

Contents of Law 11/2018 on Non-Financial Information Statement (NFIS)

| Contents | Standard used (GRI) | Page | Observations |
|--|---|--|--------------|
| 0. General information | | | |
| Description of the group's business model. | 102-2: Activities, brands, products and services. 102-4: Location of operations. 102-7: Scale of the organisation. 102-6: Markets served. 102-15: Key impacts, risks and opportunities. | 9-10 28-35 12-23 18-19 | |
| Policies implemented by the group. | 102-16: Values, principles, standards and norms of behaviour. 103-2: The management approach and its components. 103-3: Evaluation of the management approach. 102-35: : Remuneration policies. 205-2: Communication and training on anti-corruption policies and procedures. | 8 16-17 45-47 49, 60, 66, 67 78-87 57 91, 17 | |
| Main risks | 102-15: Key impacts, risks and opportunities. 102-11: Precautionary Principle or approach. | 18-19 78-81 | |
| 1. Information on environmental matters | | | |
| Current and foreseeable effects of the company's activities on the environment and, where appropriate, on health and safety. | 102-29: Identifying and managing economic, environmental and social impacts. 102-15: Key impacts, risks and opportunities. | 78-87 18-19 | |
| • Environmental assessment or certification procedures | 102-11: Precautionary Principle or approach. 102-29: Identifying and managing economic, environmental and social impacts. 102-15: Key impacts, risks and opportunities. | 78-87 | |
| • Resources dedicated to the prevention of environmental risks. | 102-29: Identifying and managing economic, environmental and social impacts. 102-15: Key impacts, risks and opportunities. | 78-87 | |
| • Application of the precautionary principle. | 102-11: Precautionary Principle or approach. | 78-81 | |
| • Provisions and guarantees for environmental risks. | 307-1: Non-compliance with environmental laws and regulations. | | |
| Measures to prevent, reduce or repair carbon emissions that seriously affect the environment. | 103-2: Management approach (regarding GRI 302 and GRI 305). 302-4: Reduction of energy consumption. | 78-87 36-39 | |

| | | | |
|--|--|-------|--|
| Measures for prevention, recycling, reuse, other forms of waste recovery and disposal. | 103-2: Management approach (regarding GRI 306). 306-2: Waste by type and treatment method. | 78-87 | |
| Actions to combat food waste. | | (1) | This content is not material for Velatia due to the fact that its production process does not involve the incorporation or treatment of any food. |
| Water consumption and water supply according to local restrictions. | 103-2: Management approach (regarding GRI 303). | 78-87 | Water consumption data from the Smarmec and Stratenergy businesses are excluded. They are not material for Velatia and therefore these emissions are not measured regularly or exhaustively. |
| Consumption of raw materials and measures taken to use them more efficiently. | 103-2: Management approach (regarding GRI 301). | 78-87 | Consumption of raw materials is associated with Tecnichapa, Cotradis and Aislantes Sólidos, as they are the main initial producers in Ormazabal's production process. |
| Energy: Consumption, measures taken to improve energy efficiency, use of renewable energies. | 102-2: Management approach (regarding GRI 302 Energy). | 78-87 | The energy consumption data of Smarmec is excluded. It is not material for the group and therefore it is not measured regularly or exhaustively. |
| Greenhouse Gas (GHG) emissions and measures taken to adapt to the consequences of climate change. Reduction targets set voluntarily in the medium and long term to reduce GHG emissions and means implemented to that end. | 103-2: Management approach (regarding GRI 305). 305-1: Direct (Scope 1) GHG emissions. 305-2: Energy indirect (Scope 2) GHG emissions. | 78-87 | The emissions data of Smarmec is excluded. It is not material for the group and therefore it is not measured regularly or exhaustively. |
| Medidas tomadas para preservar o restaurar la biodiversidad. Impactos causados por las actividades u operaciones en áreas protegidas. | | (1) | This content is not material for Velatia because there are no activities or operations in protected areas. |

2. Information on social issues

| | | | |
|---|---|----------------------|--|
| Total number and distribution of employees by gender, age, country and professional category. | 102-7: Scale of the organisation. 102-8: Information on employees and other workers. 405-1b: Percentage of employees per employee category in each of the following diversity categories: gender and age group. | 12-23 40-42 50 | |
|---|---|----------------------|--|

| | | | |
|---|--|--------|---|
| Total number and distribution of employment contract types. | 102-8: Information on employees and other workers. | 52-53 | |
| Annual average of indefinite, temporary and part-time contracts by gender, age and professional category. | 102-8: Information on employees and other workers. | 50-51 | It does not include information relating to the company Aryse, which was incorporated into the group in 2019. As at 31 December 2019, its staff accounts for approximately 2 % of the total. |
| Number of dismissals by gender, age and professional category. | 401-1b: Rate of employee turnover. | 54 | |
| Average remunerations and their evolution disaggregated by gender, age and professional category or equal value. | | 58 | |
| Pay gap. | | 59 | |
| Remuneration of equal work or average remuneration in the company. | | 56-57 | |
| The average remuneration of executives and directors, including variable remuneration, allowances, compensations, payment to long-term saving schemes and any other remuneration disaggregated by gender. | | 59 | |
| Implementation of "right to disconnect" measures. | | 60 | |
| Employees with disabilities. | | 55 | |
| Organisation of working time. | | 60 | |
| Number of hours of absenteeism. | 403- 2: Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities. | 63 | Information on the number of hours of absenteeism has been included only for those companies that use a clocking system, with the exception of Chinese subsidiaries, which have their own differentiated system. However, the percentage of coverage achieved with the information included as regards the main parameters of the consolidated figures is close to 100 %. |
| Measures aimed at facilitating enjoyment of work-life balance and encouraging both parents to assume joint responsibility in this matter. | 103-2: Management approach. | 49, 60 | |
| Occupational health and safety conditions. | 403-1: Workers representation in formal joint management-worker health and safety committees. | 60-62 | |
| Work accidents and occupational diseases (frequency and seriousness) disaggregated by gender. | 403- 2: Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities. | 62-63 | No information on occupational diseases is provided. In relation to work accidents, it does not include information relating to the company Aryse, which joined the group in 2019. |

| | | | |
|--|--|-----------|--|
| Organisation of social dialogue, including procedures for informing and consulting staff and negotiating with them. | | 61 | |
| Percentage of employees covered by collective agreement, by country. | 102-41: Collective bargaining agreements. | 57 | |
| Review of collective agreements, particularly in the field of occupational health and safety. | 403-1: Workers representation in formal joint management-worker health and safety committees. | 57, 60-62 | |
| Policies implemented in the field of training. | 103-2: Management Approach (regarding GRI 404-Training and Education). | 64-65 | |
| Total number of hours of training by professional category. | 404-1: Average hours of training per year per employee. 404-2: Programs for upgrading employee skills and transition assistance programs. | 64-65 | It does not include information relating to the company Aryse, which was incorporated into the group in 2019. As at 31 December 2019, its staff accounts for approximately 2 % of the total. |
| Universal accessibility for people with disabilities. | | 55 | |
| Measures taken to promote equal treatment and opportunities for men and women | 103-2: Management approach (regarding GRI 405 Diversity and Equal Opportunity). | 66 | |
| Equality plans. | 103-2: Management approach (regarding GRI 405 Diversity and Equal Opportunity and GRI 406 Non-discrimination). | 66 | |
| Measures taken to promote employment. | | 91-97 | |
| Protocols against sexual harassment and gender-based harassment. | | 66 | |
| Integration and universal accessibility for people with disabilities. | | 55 | |
| Policy against all forms of discrimination and, where appropriate, policy for diversity management. | 406-1: Incidents of discrimination and corrective actions taken. | 66 17 | |
| 3. Information on respect for human rights | | | |
| Implementation of due diligence procedures in matters concerning human rights | 103-2: Management approach (regarding GRI 412 Human Rights Assessment). | 16-17, 67 | |
| Prevention of the risks of human rights violations and, where appropriate, measures to mitigate, manage and redress possible abuses committed. | 103-2: Management approach (regarding GRI 412 Human Rights Assessment). | 16-19, 67 | |
| Official complaints concerning human rights violations. | 102-17: Mechanisms for advice and concerns about ethics. | 16-17 | |
| Promotion of and compliance with the provisions of core ILO conventions. | 103-2: Management approach (regarding GRI 407 Freedom of Association and Collective Bargaining). | 16-17, 67 | |

4. Information relating to the fight against corruption and money-laundering

| | | |
|---|--|--------|
| Measures taken to prevent corruption, bribery and the fight against money-laundering. | 103-2: Management approach (regarding GRI 205 Anti-corruption) | 17 |
| Aportaciones a fundaciones y entidades sin ánimo de lucro. | 103-2: Management approach (regarding GRI 205 Anti-corruption) | 99-101 |

5. 5. Información sobre la sociedad

| | | |
|---|---|-----------|
| Impact of the company's activity on local employment and development and on local populations and the region. | 204-1: Proportion of spending on local suppliers. | 88-89 |
| Relations with local community actors and modes of dialogue with them. | 413-1: Operations with local community engagement, impact assessments, and development programs. | 91-103 |
| Partnership or sponsorship actions. | 102-13: Membership of associations. | 92-93 |
| Inclusion of social, gender equality and environmental matters in the procurement policy and, in relations with suppliers and subcontractors, consideration of their social and environmental responsibility. | | 88-90 |
| Supplier and subcontractor supervision and audit systems, and results thereof. | 308-1: New suppliers that were screened using environmental criteria. 414-1: New suppliers that were screened using social criteria. | 88-89 |
| Measures for consumer health and safety. | 103-2 Management approach (regarding GRI 416 Customer Health and Safety). | 98 |
| Complaint systems, complaints received and resolution thereof. | 102-17: Mechanisms for advice and concerns about ethics. | 16-17, 98 |
| Profits earned by country. | 201-1: Direct economic value generated and distributed. | 102-103 |
| Profit taxes paid. | 201-1: Direct economic value generated and distributed. | 102-103 |
| Public subsidies received. | 201-4: Financial assistance received from government. | 103 |

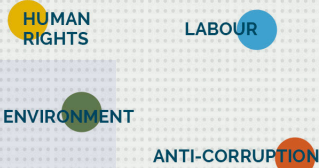
(1) This content is not material for the group.

3.3. Correlation of Global Compact principles with SDGs

The following table shows the GRI indicators of this report that provide more relevant information on compliance with the Ten Principles of the Global Compact, thus making it possible to assess Velatia's degree of progress with respect to these principles.

| Topic | Principles of the Global Compact | Related GRI indicator |
|-----------------|--|---|
| Human Rights | Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights. | 103-2 |
| | Principle 2: Businesses should make sure that they are not complicit in human rights abuses. | 412-3, 414-1, 103-2 |
| Labour | Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. | 102-41, 407-1, 402-1 |
| | Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour. | 409-1 |
| | Principle 5: Businesses should uphold the effective abolition of child labour. | 408-1, 406-1 |
| | Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation. | 102-8, 401-1, 401-3, 404-1, 404-3, 405-1, 406-1 |
| Environment | Principle 7: Businesses should support a precautionary approach to environmental challenges. | 302-4, 305-1, 305-2, 306-2, 307-1, 308-1, 303-1 |
| | Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility. | 302-4, 305-1, 305-2, 306-2, 307-1, 308-1, 303-1 |
| | Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies | 302-4, 305-1, 305-2, 306-2, 307-1, 308-1, 303-1 |
| Anti-corruption | Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery. | 205-2, 205-36 |

THE TEN PRINCIPLES of the United Nations Global Compact



- 1 Support and respect the protection of internationally proclaimed human rights.
- 2 Not be complicit in human rights abuses.
- 3 Uphold the freedom of association and the effective recognition of the right to collective bargaining.
- 4 Support the elimination of all forms of forced and compulsory labour.
- 5 Support the effective abolition of child labour.
- 6 Support the elimination of discrimination in respect of employment and occupation.
- 7 Support a precautionary approach to environmental challenges.
- 8 Undertake initiatives to promote greater environmental responsibility.
- 9 Encourage the development and diffusion of environmentally friendly technologies.
- 10 Work against corruption in all its forms, including extortion and bribery.

Source: UNGC



The value
of sharing
principles

3.4. Independent external assurance report on the Non-Financial Information Statement



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INFORME DE VERIFICACIÓN INDEPENDIENTE

A los Socios de Velatia, S.L.:

De acuerdo al artículo 49 del Código de Comercio hemos realizado la verificación, con el alcance de seguridad limitada, de la información no financiera identificada en la tabla GRI y en el Estado de Información No Financiera Consolidado adjunto (en adelante EINF) correspondiente al ejercicio anual finalizado el 31 de diciembre de 2019, de Velatia, S.L. y sociedades dependientes (en adelante el Grupo).

El contenido del Informe de Gestión incluye información adicional a la requerida por la normativa mercantil vigente en materia de información no financiera y por los Estándares Global Reporting Initiative para la elaboración de informe de sostenibilidad en su versión esencial (en adelante estándares GRI), que no ha sido objeto de nuestro trabajo de verificación. En este sentido, nuestro trabajo se ha limitado exclusivamente a la verificación de la información identificada en la "Tabla GRI y Contenidos de la Ley 11/2018" incluida en el apartado 3.2 del Estado de Información no Financiera adjunto.

Responsabilidad de los Administradores

La formulación del EINF del Grupo, así como el contenido del mismo, es responsabilidad de los Administradores de Velatia. El EINF se ha preparado de acuerdo con los contenidos recogidos en la normativa mercantil vigente y siguiendo los estándares GRI en su versión esencial, así como aquellos otros criterios descritos de acuerdo a lo mencionado para cada materia en la "Tabla GRI y Contenidos de la Ley 11/2018" incluida en el apartado 3.2 del Estado de Información no Financiera adjunto.

Esta responsabilidad incluye asimismo el diseño, la implantación y el mantenimiento del control interno que se considere necesario para permitir que el EINF esté libre de incorrección material, debida a fraude o error.

Los administradores de Velatia son también responsables de definir, implantar, adaptar y mantener los sistemas de gestión de los que se obtiene la información necesaria para la preparación del EINF.

Nuestra independencia y control de calidad

Hemos cumplido con los requerimientos de independencia y demás requerimientos de ética del Código de Ética para Profesionales de la Contabilidad emitido por el Consejo de Normas Internacionales de Ética para Profesionales de la Contabilidad (IESBA, por sus siglas en inglés) que está basado en los principios fundamentales de integridad, objetividad, competencia y diligencia profesionales, confidencialidad y comportamiento profesional.

Nuestra firma aplica la Norma Internacional de Control de Calidad 1 (NICC 1) y mantiene, en consecuencia, un sistema global de control de calidad que incluye políticas y procedimientos documentados relativos al cumplimiento de requerimientos de ética, normas profesionales y disposiciones legales y reglamentarias aplicables.

El equipo de trabajo ha estado formado por profesionales expertos en revisiones de Información no Financiera y, específicamente, en información de desempeño económico, social y medioambiental.

Nuestra responsabilidad

Nuestra responsabilidad es expresar nuestras conclusiones en un informe de verificación independiente de seguridad limitada basándonos en el trabajo realizado.

Hemos llevado a cabo nuestro trabajo de acuerdo con los requisitos establecidos en la Norma Internacional de Encargos de Aseguramiento 3000 Revisada en vigor, "Encargos de Aseguramiento distintos de la Auditoría o de la Revisión de Información Financiera Histórica" (NIEA 3000 Revisada) emitida por el Consejo de Normas Internacionales de Auditoría y Aseguramiento (IAASB) de la Federación Internacional de Contadores (IFAC) y con la Guía de Actuación sobre encargos de verificación del Estado de Información No Financiera emitida por el Instituto de Censores Jurados de Cuentas de España.

En un trabajo de seguridad limitada los procedimientos llevados a cabo varían en su naturaleza y momento de realización, y tienen una menor extensión, que los realizados en un trabajo de seguridad razonable y, por lo tanto, la seguridad que se obtiene es sustancialmente menor.

Nuestro trabajo ha consistido en la formulación de preguntas a la Dirección, así como a las diversas unidades de Velatía que han participado en la elaboración del EINF, en la revisión de los procesos para recopilar y validar la información presentada en el EINF y en la aplicación de ciertos procedimientos analíticos y pruebas de revisión por muestreo que se describen a continuación:

- Reuniones con el personal del Grupo para conocer el modelo de negocio, las políticas y los enfoques de gestión aplicados, los principales riesgos relacionados con esas cuestiones y obtener la información necesaria para la revisión externa.
- Análisis del alcance, relevancia e integridad de los contenidos incluidos en el EINF del ejercicio 2019 en función del análisis de materialidad realizado por el Grupo y descrito en el apartado "1.7. La sostenibilidad", considerando contenidos requeridos en la normativa mercantil en vigor.
- Análisis de los procesos para recopilar y validar los datos presentados en el EINF del ejercicio 2019.

- Revisión de la información relativa a los riesgos, las políticas y los enfoques de gestión aplicados en relación a los aspectos materiales presentados en el EINF del ejercicio 2019.
- Comprobación, mediante pruebas, en base a la selección de una muestra, de la información relativa a los contenidos incluidos en el EINF del ejercicio 2019 y su adecuada compilación a partir de los datos suministrados por las fuentes de información.
- Obtención de una carta de manifestaciones de los Administradores y la Dirección.

Conclusión

Basándonos en los procedimientos realizados en nuestra verificación y en las evidencias que hemos obtenido no se ha puesto de manifiesto aspecto adicional alguno que nos haga creer que el EINF del Grupo correspondiente al ejercicio anual finalizado el 31 de diciembre de 2019 no ha sido preparado, en todos sus aspectos significativos, de acuerdo con los contenidos recogidos en la normativa mercantil vigente y siguiendo los criterios de los estándares GRI en su versión esencial, así como aquellos otros criterios descritos de acuerdo a lo mencionado para cada materia la "Tabla GRI y Contenidos de la Ley 11/2018" incluida en el apartado 3.2 del Estado de Información no Financiera adjunto.

Uso y distribución

Este informe ha sido preparado en respuesta al requerimiento establecido en la normativa mercantil vigente en España, por lo que podría no ser adecuado para otros propósitos y jurisdicciones.

DELOITTE, S.L.


Beatriz Galán
29 de mayo de 2020





www.velatia.com