**DURO FELGUERA, S.A.**
**AND SUBSIDIARIES**

Interim Condensed Consolidated
Financial Statements and Management Report
for the six months ended 30 June 2021

**DURO FELGUERA, S.A. AND SUBSIDIARIES**

**Interim condensed consolidated financial statements and management report for the six months ended 30 June 2021 (€ thousand)**

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

**Note**

**Interim condensed consolidated financial statements and management report for the six months ended 30 June 2021 (€ thousand)**

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| ASSETS | Note | At 30 June 2021 (Unaudited) | At 31 December 2020 (Audited) |
|---|---|---|---|
| Property, plant and equipment | 6 | 29,206 | 30,738 |
| Investment properties | 6 | 22,292 | 22,233 |
| Intangible assets | 6 | 6,380 | 11,718 |
| Right-of-use assets | 6 | 248 | 835 |
| Investments in associates | | 20 | 20 |
| Equity instruments | 4-7 | 8,159 | 5,233 |
| Loans and other receivables | | 39 | 225 |
| Deferred tax assets | | - | - |
| **NON-CURRENT ASSETS** | | **66,344** | **71,002** |
| Inventories | | 6,056 | 6,710 |
| Trade and other receivables | 7 | 97,783 | 103,925 |
| Current financial assets | 7 | 35,629 | 39,148 |
| Accruals | | 701 | 792 |
| Cash and cash equivalents | | 39,240 | 24,896 |
| **CURRENT ASSETS** | | **179,409** | **175,471** |
| **TOTAL ASSETS** | | **245,753** | **246,473** |

| EQUITY AND LIABILITIES | Note | At 30 June 2021 (Unaudited) | At 31 December 2020 (Audited) |
|---|---|---|---|
| Share capital | 8 | 4,800 | 4,800 |
| Share premium and reserves | | (109,674) | 63,326 |
| Profit or loss for the period attributable to equity holders of the parent | | (11,134) | (171,643) |
| Other equity instruments | | 8,093 | 8,093 |
| Valuation adjustments | | (52,245) | (51,850) |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | **(160,160)** | **(147,274)** |
| Non-controlling interests | | 511 | 477 |
| **EQUITY** | | **(159,649)** | **(146,797)** |
| **DEFERRED INCOME** | | **3,462** | **3,578** |
| Borrowings | 7-9 | 43,386 | 3,770 |
| Deferred tax liabilities | | 897 | 33 |
| Employee benefits | 10 | 1,333 | 1,355 |
| Provisions for other liabilities and charges | 10 | 6,273 | 5,196 |
| **NON-CURRENT LIABILITIES** | | **51,889** | **10,354** |
| Borrowings | 7-9 | 93,221 | 91,553 |
| Trade and other payables | | 156,682 | 184,226 |
| Current tax liabilities | | 185 | 1,526 |
| Employee benefits | | 4,883 | 4,784 |
| Provisions for other liabilities and charges | 10 | 95,080 | 97,249 |
| **CURRENT LIABILITIES** | | **350,051** | **379,338** |
| **TOTAL EQUITY AND LIABILITIES** | | **245,753** | **246,473** |

*The accompanying notes 1 to 18 are an integral part of the interim condensed consolidated financial statements.*

**Interim condensed consolidated financial statements and management report for the six months ended 30 June 2021 (€ thousand)**

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | | Six months ended 30 June | |
|---|---|---|---|
| | **Note** | **2021 (Unaudited)** | **2020 (*) (Unaudited)** |
| Revenue | 3 | 40,005 | 70,805 |
| Changes in inventories of finished goods and work in progress | | 444 | 382 |
| Cost of sales | | (13,739) | (53,776) |
| **Gross profit** | | **26,710** | **17,411** |
| Employee benefits expense | | (29,730) | (32,809) |
| Amortisation and depreciation | 6 | (2,550) | (2,753) |
| Operating expenses | | (9,747) | (14,759) |
| Losses on, impairment of and changes in trade provisions | | 1,156 | (77,814) |
| Impairment and gains/(losses) on disposal of fixed assets | | 567 | (7,010) |
| Gain/(loss) on loss of control of subsidiaries | | - | 9,142 |
| Other gains/(losses) net | | (192) | (2,499) |
| **Operating profit/(loss)** | | **(13,786)** | **(111,091)** |
| Net finance income/(cost) | | (1,063) | (1,823) |
| Gains/(losses) on disposal of financial instruments | | - | (1) |
| Share of loss/(profit) of associates | | (191) | (147) |
| **Profit/(loss) before tax** | | **(15,040)** | **(113,062)** |
| Income tax expense | 11 | 404 | (568) |
| **Profit/(loss) for the period from continuing operations** | | **(14,636)** | **(113,630)** |
| **Profit/(loss) for the period from discontinued operations** | | **3,536** | **(418)** |
| **Profit/(loss) for the period** | | **(11,100)** | **(114,048)** |
| a) Profit or loss attributable to equity holders of the parent | | (11,134) | (113,887) |
| b) Profit or loss attributable to non-controlling interests | | 34 | (161) |
| **Earnings/(loss) per share** (€ per share) | | | |
| - Basic | | (0.12) | (1.19) |
| - Diluted | | (0.11) | (1.12) |

*(*) Presented solely and exclusively for comparative purposes (Note 2.5).*
*The accompanying notes 1 to 18 are an integral part of the interim condensed consolidated financial statements.*

**Interim condensed consolidated financial statements and management report for the six months ended 30 June 2021 (€ thousand)**

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2021 (Unaudited)** | **2020 (*) (Unaudited)** |
| **Profit/(loss) for the period** | **(11,100)** | **(114,048)** |
| **Other comprehensive income** | | |
| *Items that will not be reclassified to profit or loss* | | |
| Net gain/(loss) on equity instruments at fair value through other comprehensive income | 2,589 | - |
| Currency translation differences | - | (1,345) |
| Income tax relating to items that will not be reclassified | (647) | - |
| *Items that may be reclassified to profit or loss* | | |
| Changes in the fair value of available-for-sale financial assets | - | - |
| Currency translation differences: | | |
| a) Valuation gains/(losses) | 2,622 | 9,401 |
| b) Amounts reclassified to profit or loss | - | (5,546) |
| c) Other reclassifications | (1,237) | |
| Other income and expenses that may be reclassified subsequently to profit or loss: | | |
| a) Valuation gains/(losses) | (4,959) | (6,987) |
| b) Amounts reclassified to profit or loss | - | 6,103 |
| Income tax relating to items that may be reclassified subsequently to profit or loss | - | - |
| **Other comprehensive income for the period, net of tax** | **(1,632)** | **1,626** |
| **Total comprehensive income for the period** | **(12,732)** | **(112,422)** |
| a) Profit or loss attributable to equity holders of the parent | (12,766) | (112,265) |
| b) Profit or loss attributable to non-controlling interests | 34 | (157) |
| | **12,732** | **(112,422)** |

*(*) Presented solely and exclusively for comparative purposes (Note 2.5).*
*The accompanying notes 1 to 18 are an integral part of the interim condensed consolidated financial statements.*

Interim condensed consolidated financial statements and management report for the six months ended 30 June 2021 (€ thousand)

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Equity attributable to equity holders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Capital** | **Share premium and reserves [1]** | **Profit or loss attributable to equity holders of the parent** | **Other equity instruments** | **Valuation adjustments** | **Non-controlling interests** | **Total equity** |
| **Balance at 1 January 2020** | **4,800** | **67,541** | **1,388** | **8,093** | **(49,786)** | **(16,451)** | **15,585** |
| Profit/(loss) for the period | - | - | (113,887) | - | 557 | (161) | (113,491) |
| Other comprehensive income | - | - | - | - | 1,065 | 4 | 1,069 |
| **Total comprehensive income** | **-** | **-** | **(113,887)** | **-** | **1,622** | **(157)** | **(112,422)** |
| Capital increases/(reductions) | - | - | - | - | - | - | - |
| Dividend distribution | - | - | - | - | - | - | - |
| Transfers between equity items | - | 1,388 | (1,388) | - | - | - | - |
| Other changes | - | 2,506 | - | - | (11,007) | 8,519 | 18 |
| **Balance at 30 June 2020 (unaudited)** | **4,800** | **71,435** | **(113,887)** | **8,093** | **(59,171)** | **(8,089)** | **(96,819)** |
| **Balance at 1 January 2021** | **4,800** | **63,326** | **(171,643)** | **8,093** | **(51,850)** | **477** | **(146,797)** |
| Profit/(loss) for the period | - | - | (11,134) | - | - | 34 | (11,100) |
| Other comprehensive income | - | - | - | - | (1,632) | - | (1,632) |
| **Total comprehensive income** | **-** | **-** | **(11,134)** | **-** | **(1,632)** | **34** | **(11,732)** |
| Transfers between equity items | - | (171,643) | 171,643 | - | - | - | - |
| Other changes | - | (1,357) | - | - | 1,237 | - | (120) |
| **Balance at 30 June 2021** | **4,800** | **(109,674)** | **(11,134)** | **8,093** | **(52,245)** | **511** | **(159,649)** |

[1] *For the purposes of this statement, "Share premium and reserves" includes the following equity items on the statement of financial position: Share premium, Reserves, Prior-year profit or loss, Other equity holder contributions, and Interim dividend from the parent company.*

*The accompanying notes 1 to 18 are an integral part of the interim condensed consolidated financial statements.*

**Interim condensed consolidated financial statements and management report for the six months ended 30 June 2021 (€ thousand)**

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended 30 June | |
|---|---|---|
| | **2021 (Unaudited)** | **2020 (Unaudited)** |
| **Cash flows from operating activities** | | |
| Profit/(loss) before tax | (15,040) | (113,621) |
| Adjustments for depreciation and amortisation | 2,550 | 2,997 |
| Other adjustments to profit/(loss): | 1,640 | 77,297 |
| Working capital changes | (15,377) | (18,271) |
| Interest paid | (1,294) | (1,209) |
| Income tax received/(paid) | | (472) |
| **Net cash flows used in operating activities** | **(27,521)** | **(53,279)** |
| **Cash flows from investing activities** | | |
| **Payments for investments** | | |
| Property, plant and equipment, intangible assets and investment properties | (86) | - |
| Other financial assets | (338) | - |
| **Proceeds from sale of investments** | | |
| Property, plant and equipment, intangible assets and investment properties | | 551 |
| Other financial assets | 2,238 | - |
| **Cash flows from investing activities** | | |
| Interest and dividends received | 11 | 281 |
| **Net cash flows from investing activities** | **1,825** | **832** |
| **Cash flows from financing activities** | | |
| **Proceeds from and payments for equity instruments** | | |
| Other movements | - | - |
| **Proceeds from and payments for financial liability instruments** | | |
| Issue | 40,045 | - |
| Redemption and repayment | (5) | (33) |
| **Dividends and interest on other financial instruments paid** | - | - |
| **Other cash flows from financing activities** | | |
| Other proceeds from/(payments for) financing activities | - | 6 |
| **Net cash flows from/(used in) in financing activities** | **40,040** | **(27)** |
| **Net foreign exchange difference** | **-** | **(1,556)** |
| **Impact of Argentina's consideration as a hyperinflation economy. Loss of purchasing power** | **-** | **642** |
| **Net increase/(decrease) in cash and cash equivalents** | **14,344** | **(53,388)** |
| **Cash and cash equivalents at beginning of period** | **24,896** | **122,908** |
| **Cash and cash equivalents at end of period** | **39,240** | **69,520** |
| **Components of cash and cash equivalents at end of period** | | |
| Cash and banks | 38,789 | 31,731 |
| Other financial assets | 451 | 37,789 |
| **Total cash and cash equivalents at end of period** | **39,240** | **69,520** |

*The accompanying notes 1 to 18 are an integral part of the interim condensed consolidated financial statements.*

## EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Nature and activities of the parent company

Duro Felguera, S.A. (the "Company" or the "parent company") and its subsidiaries (collectively the "Duro Felguera Group" or the "Group") were incorporated on 22 April 1900 for an indefinite period as a public limited company (*sociedad anónima*) under the name Sociedad Metalúrgica Duro Felguera, S.A. It changed its name on 25 June 1991 to Grupo Duro Felguera, S.A. and then again on 26 April 2001 to its current name. The parent company's registered office and headquarters are located in Parque Científico Tecnológico, calle Ada Byron 90, Gijón.

Originally designed as an industrial conglomerate that owned and operated various mines, iron and steel plants, docks and power stations, it subsequently underwent an initial transformation, disposing of its facilities, abandoning most of these activities, and shifting its focus towards the construction, manufacture and assembly of capital goods.

Over the last decade it has geared its business towards a variety of activities, the most important of which is the execution, on behalf of customers, of major turnkey industrial projects around the world. Duro Felguera also provides specialised engineering, assembly and heavy industrial machinery and equipment maintenance services. Finally, it has manufacturing facilities for large-scale equipment, although the weight of this business has declined in recent years.

Duro Felguera S.A.'s shares are admitted for listing on the Madrid, Barcelona and Bilbao Stock Exchanges.

The financial years of all Duro Felguera Group companies end on 31 December, except for subsidiary Felguera Grúas India Private Limited, whose financial year ends on 31 March.

Duro Felguera, S.A.'s separate and consolidated annual financial statements for 2020 were authorised for issued by the Board of Directors on 9 April 2021 and were approved at the Annual General Meeting held on 30 June 2021.

The accompanying interim condensed consolidated financial statements of the Duro Felguera Group for the six months ended 30 June 2021 were prepared in accordance with IAS 34 *Interim Financial Reporting* and authorised for issue by the Board of Directors on 30 September 2021.

### 2. Basis of preparation and other information

#### 2.1. Basis of preparation

In accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the laws of a member state of the European Union and whose securities are traded on a regulated market in any European Union country must file consolidated financial statements for periods beginning on or after 1 January 2005 in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Group's 2020 consolidated financial statements were authorised for issue on 9 April 2021 by the parent company's directors in accordance with the International Financial Reporting Standards as adopted by the European Union, applying the consolidation principles, accounting policies and measurement criteria described in Note 2 to those consolidated financial statements, to give a true and fair view of the Group's consolidated equity and financial position at 31 December 2020, and of its consolidated financial performance and the changes in its consolidated equity and consolidated cash flows for the year then ended.

The accompanying interim condensed consolidated financial statements are presented in accordance with IAS 34 *Interim Financial Reporting* and were authorised for issue by the Group's directors on 30 September 2021 in accordance with article 12 of Royal Decree 1362/2007.

**Interim condensed consolidated financial statements and management report for the six months ended 30 June 2021 (€ thousand)**

In accordance with IAS 34, the interim financial report is intended to provide an update on the Group's latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances occurring in the first half of the year, and does not duplicate information previously reported in the consolidated financial statements for 2020. For an appropriate understanding of the information included in these interim condensed consolidated financial statements, they should be read in conjunction with the Group's consolidated financial statements for 2020.

The accounting policies and principles adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the 2020 consolidated financial statements.

## 2.2. Adoption of international financial reporting standards

In 2021, the following mandatory standards and interpretations, already endorsed by the European Union, became effective and, where applicable, were used by the Group in the preparation of the interim condensed consolidated financial statements, but did not have a significant impact:

*New mandatory standards, amendments and interpretations in the period*

| Approved for use in the European Union | | Mandatory for annual reporting periods beginning on or after: |
|---|---|---|
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16<br>Interest Rate Benchmark Reform – Phase 2 | Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to Interest Rate Benchmark Reform - Phase 2 | 1 January 2021 |
| Amendment to IFRS 4<br>Deferral of the application of IFRS 9 | Deferral of the application of IFRS 9 to 2023 | 1 January 2021 |

At the date of preparation of these consolidated financial statements, the following standards and interpretations had been published by the IASB but were not yet effective, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union, are discussed below:

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*New mandatory standards, amendments and interpretations applicable for annual periods after the calendar year beginning 1 January 2021*

| **Approved for use in the European Union** | | **Mandatory for annual reporting periods beginning on or after:** |
|---|---|---|
| Amendment to IFRS 16<br>Leases – *Rent Concessions*. | Amendment to extend the term of the IFRS 16 practical expedient provided for Covid-19-related rent concessions. | 1 April 2021 |
| Amendment to IFRS 3<br>*Reference to the conceptual framework*. | The amendments update IFRS 3 to align the definitions of assets and liabilities recognised in a business combination to the definitions in the conceptual framework. | 1 January 2022 |
| Amendments to IAS 16<br>*Proceeds before Intended Use.* | The amendments prohibit a company from deducting from the cost of property, plant and equipment any proceeds from selling items produced while the company is preparing the asset for its intended use. | 1 January 2022 |
| Amendment to IAS 37<br>Onerous Contracts — Cost of Fulfilling a Contract | The amendment specifies that costs that relate directly to the contract include incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. | 1 January 2022 |
| Improvements to IFRSs 2018-2020 Cycle | Minor amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 | 1 January 2022 |

**Interim condensed consolidated financial statements and management report for the six months ended 30 June 2021 (€ thousand)**

| **Not yet approved for use in the European Union** | | **Mandatory for reporting periods beginning on or after:** |
|---|---|---|
| Amendment to IAS 1 *Classification of Current and Non-Current Liabilities* | Clarifies requirements regarding the classification of liabilities as current or non-current. | 1 January 2023 |
| Amendment to IAS 1 *Disclosure of Accounting Policies* | Amendments to assist entities in adequately identifying information on material accounting policies that should be disclosed in the financial statements. | 1 January 2023 |
| Amendment to IAS 8 *Definition of Accounting Estimates* | Amendments to clarifications of what changes in accounting estimates are. | 1 January 2023 |
| Amendment to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction | Amendments that clarify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. | 1 January 2023 |
| IFRS 17 *Insurance Contracts* and amendments to IFRS 17 | Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. It will supersede IFRS 4 | 1 January 2023 |

For standards that become effective from 2022 and onwards, the Group has performed a preliminary assessment of the potential impacts of their future application once they become effective. As at the reporting date, it considers that the impacts of application of these standards will not be significant.

### 2.3. Estimates

Consolidated profit or loss and the calculation of consolidated equity are sensitive to the accounting principles and policies, measurement bases and estimates used by the parent company's directors in the preparation of the interim condensed consolidated financial statements. The main accounting principles and policies and measurement bases are described in Note 2 to the 2020 consolidated financial statements.

In the interim condensed consolidated financial statements, estimates were made by the directors and senior management of the parent company and consolidated companies to measure certain of the assets, liabilities, revenue, expenses and obligations recognised herein. These estimates, based on the best information available, relate mainly to:

1. Impairment losses on certain intangible assets, property, plant and equipment, and investment properties (Note 6).
2. The useful life of intangible assets and property, plant, and equipment (Note 6).
3. The fair values of certain financial instruments (Note 4.2).
4. The calculation of provisions (Note 10).
5. The calculation of the stage of completion for revenue recognition based on estimated costs of the related projects and their modifications.
6. The assessment of the probability of having future taxable profits for the recovery of deferred tax assets (Note 11) and the recoverability of income taxes from non-residents levied in other countries.
7. The measurement of long-term employee benefit obligations (Note 10).
8. Impairment of receivables and calculation of the estimated loss under IFRS 9 (Note 7).

**Interim condensed consolidated financial statements and management report for the six months ended 30 June 2021 (€ thousand)**

The parent company's directors consider that there are significant contingent assets and liabilities for the Group as at 30 June 2021, as disclosed in note 15. Note 35 to the Group's consolidated financial statements for the year ended 31 December 2020 provides information on guarantee commitments to third parties and contingent liabilities at that date. Significant changes therein occurred in the first six months of 2021.

Although these estimates were made on the basis of the best information available at the reporting date regarding the facts analysed, future events could make it necessary to revise these estimates (upwards or downwards). Any changes in accounting estimates would be applied prospectively in accordance with IAS 8, with the effects of the change in accounting estimates recognised in the consolidated statement of profit or loss of the periods affected. In the six months ended 30 June 2021, there were significant changes in the estimates made at the end of 2020, mainly due to the explanations provided in section 2.11 below.

## 2.4. Basis of consolidation

The principles, criteria and methods of consolidation used in the preparation of the accompanying interim condensed consolidated financial statements are consistent with those used in the Group's 2020 consolidated financial statements.

The first half of 2021 featured the following exclusions from the scope of consolidation:

| | Disposals |
|---|---|
| **GROUP** | |
| | Epicom, S.A. |
| **UTEs** | |
| | - |

As disclosed in the "Events after the reporting period" section of the 2020 consolidated financial statements, on 5 March 2021 Duro Felguera, S.A. signed a notarial act of sale - subject to several conditions that had yet to be satisfied as at the date of authorisation for issue of those consolidated financial statements - to Spain's state-owned industrial holding company (Sociedad Estatal de Participaciones Industriales or "SEPI") of shares representing forty percent (40%) of Epicom, S.A., with an attached call option for the remaining sixty percent (60%) of shares. Subject to authorisation from the syndicated bank lenders, the option is exercisable for the next two years. Later, on 13 May 2021, under a notarial act certifying the fulfilment of the conditions precedent and ratifying the sale of shares and the call option – the "closing deed" – the transaction was perfected by payment of the stipulated price and grant of the call option.

The Model Shareholder Agreement between Duro Felguera and Sociedad Estatal de Participaciones Industriales (SEPI) to govern their relations as shareholders of Epicom, S.A. and regulate the governance and management of the company stipulates that, to transact any business classified as "reserved", the board requires a quorum of five (5) out of six (6) directors. This effectively gives the shareholders joint control of the company, because after its acquisition of 40% SEPI is entitled to two (2) seats on the board. However, the call option under the contract of sale confers further potential rights to the buyer (SEPI). Since the option is "US style", i.e., exercisable at any time, the potential voting rights attaching to it are regarded as substantive, and give SEPI effective control of the company. Therefore, in accordance with IFRS 10, Epicom, S.A. was excluded from the scope of consolidation of Duro Felguera as soon as the contract took effect. The remaining 60% investment is retained as a financial instrument measured at fair value based on the price set by the independent parties in their agreement.

**Interim condensed consolidated financial statements and management report for the six months ended 30 June 2021 (€ thousand)**

Additional changes in the Group's consolidation scope in the first half of 2020 were as follows:

| | Disposals |
|---|---|
| **GROUP** | Duro Felguera Australia Pty Limited |
| **UTEs** | UTE Andasol III |

**2.5. Comparative information**

For comparative purposes, the interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months ended 30 June 2021 contain information for the six months ended 30 June 2020. The interim condensed consolidated statement of financial position contains comparative information as at 31 December 2020.

The exclusion of Epicom, S.A. from the scope of consolidation of the Group - described in Note 2.4 to these interim condensed consolidated financial statements - was treated as a discontinued operation, because the company was a Group component that was sold or otherwise disposed of and it constituted a significant area in its own right that could be regarded as separate from the rest.

To account for transactions of this kind, the Group includes within a single line item of the statement of profit or loss, "Profit or loss for the period from discontinued operations", the profit or loss from the discontinued operation itself along with any gain or loss recognised as a result of measurement at fair value of the retained investment and any gain or loss on disposal of the ownership interest that was sold (Note 2.26 to the consolidated financial statements for 2020).

The impact on profit or loss of the disposal and exclusion from consolidation of this investee was €3.5 million, comprising a €0.3 million loss for the period from the discontinued operation and a sum of €3.8 million that breaks down into the proceeds of sale of a 40% ownership interest and the result of measuring the retained investment of 60% – on which SEPI has a call option – at fair value less costs to sell (Notes 2.4 and 17). To facilitate comparison, the figures shown in the statement of profit or loss for the first half of 2020 are restated to include Epicom, S.A. transactions in the single caption "Profit or loss for the period from discontinued operations".

In 2021, exclusion of this investee from the scope of full consolidation decreased assets by €4,876 thousand, equity by €1,796 thousand and Group profit by €304 thousand with respect to 2020.

**2.6. Seasonality of Group operations**

Given the activities carried out by Group companies, their transactions are not considered to be particularly cyclical or seasonal. Consequently, the accompanying explanatory notes to the interim condensed consolidated financial statements for the six months ended 30 June 2021 do not include specific disclosures.

**2.7. Materiality**

In determining the disclosures of the various items of the financial statements and other matters, the Group, in accordance with IAS 34, assessed materiality in relation to the interim condensed consolidated financial statements.

### 2.8. Corrections of accounting errors

In the preparation of the interim condensed consolidated financial statements for the six months ended 30 June 2021, no errors were uncovered requiring the restatement of the amounts included in the 2020 consolidated financial statements.

### 2.9. Interim condensed consolidated statement of cash flows

The following terms, with the meanings specified, are used in the condensed consolidated statement of cash flows, which was prepared using the indirect method:

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly-liquid investments that are subject to an insignificant risk of changes in value.
2. Operating activities: the principal revenue-producing activities of the companies comprising from the consolidated Group and other activities that are not investing or financing activities.
3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents, provided that they have a direct impact on cash flows.
4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities, provided that they have a direct impact on cash flows.

### 2.10. Events after the reporting period

As at the date of preparation of the accompanying interim condensed consolidated financial statements, no additional event occurred that was not included therein (Note 18).

### 2.11. Going concern principle

The first half of 2021 saw progress in vaccination programmes and government crisis management policies. This led to a gradual recovery in economic activity and mobility, albeit unevenly across different countries.

During the first six months of the year, Duro Felguera's business was hit by project execution delays due to pandemic-related restrictions on the mobility of its own and its subcontractors' people and on the supply of materials. The financial restructuring of the company and full disbursement of temporary government assistance from FASEE, Spain's support fund for strategic businesses, were also delayed. At the date of preparation of the accompanying interim condensed consolidated financial statements, the letter of credit facility was not yet available. This has delayed the flow of incoming orders in the first half of the year, and the workload is thus still low. However, once financial assistance is finally received from FASEE, the company expects the pace of business to recover in the second half, and therefore the full-year volume target for 2021 remains unchanged. For the reasons outlined above, some of the project execution schedules for 2021 were reassessed for a range of scenarios. Even in the worst-case scenario, however, the company's assets and cash position would not be seriously hurt.

Given the above, at 30 June 2021, the parent company had negative equity of €153,554 thousand, while the Group had negative equity of €159,649 thousand. These figures reflect the severe impact of the pandemic on Duro Felguera in 2020, as described in Note 1 of the 2020 consolidated financial statements. Nevertheless, the Group is not currently in a circumstance of dissolution according to Royal Decree Law 16/2020, of 28 April, on procedural and organisational measures to deal with COVID-19 in the scope of the Administration of Justice.

To cushion the negative impact in 2020 on the cash plan and equity, from the onset of the pandemic the Group took all actions possible to improve its cash position. These included continuous negotiations with creditor banks over an agreement to refinance existing debt and obtain new letter of credit facilities; the implementation of measures to reduce overheads, such as the approval of two furloughs (ERTEs in Spanish); the start of a process to attract private investors; or the update of a new Industrial Plan to drive progress towards the renewables sector and digitalisation. However, these measures alone were not enough to ensure that the Group remains viable and that its financial and equity balance will be restored, and its ability to continue as a going concern is uncertain. Therefore, in accordance with eligibility requirements, on 28 August 2020 Duro Felguera applied for an initial €100 million of temporary financial support from FASEE, Spain's government assistance fund for strategic businesses, and an additional €20 million at the end of the year.

After analysing all the documentation submitted, Spain's state-owned industrial holding company (Sociedad Estatal de Participaciones Industriales or "SEPI") concluded that all the eligibility requirements had been met, verifying that FASEE support is essential for maintaining the Group's operations until its activity recovers.

At its meeting held on 9 March 2021, Spain's Cabinet authorised temporary financial aid, to be paid out of the FASEE fund. FASEE's management board had ruled favourably on the case on 3 March 2021.

The amount of temporary government financial aid to be paid by FASEE is €120 million in the form of the following instruments, all of which are provided for in Ministerial Order PCM/679/2020, of 23 July, governing the operation of the Fund:

1. €70 million participating loan.
2. €20 million ordinary subsidised loan.
3. €30 million capital increase and/or a new participating loan.

The financial aid is divided into two phases:

<u>Phase one</u>: Disbursement of €40 million, through a €20 million participating loan and a €20 million ordinary loan, finally paid on 10 May 2021 (Note 9).

<u>Phase two</u>: Disbursement of a €50 million participating loan and a €30 million disbursement through a capital contribution and/or participating loan, initially scheduled for 30 June but postponed to 30 September 2021 at the company's request. On 28 September 2021, the FASEE management board sent the company a statement to certify that, at the company's own request, the board had extended the deadline for execution of the second phase, which is to be completed as soon as practicable and in any event within two months (i.e., by 30 November 2021).

The completion of each restructuring phase is subject to fulfilment of conditions set by FASEE, unless waived. In addition, the contracts underlying the entire restructuring process contain acceleration clauses.

FASEE will contribute less capital than any private industrial partner that, in the event, might take part in the capital increase. The remainder of the disbursement, up to a total of €30 million, will be via a participating loan. If by the time the second phase of temporary government financial support is completed no private industrial partner has acquired a capital stake, the €30 million contribution will be made entirely by means of a participating loan.

The Duro Felguera Group companies benefiting from this aid are: Duro Felguera, S.A., DF Mompresa, S.A. Unipersonal, DF Operaciones y Montajes, S.A. Unipersonal, DFOM Biomasa Huelva, S.L. Unipersonal, Duro Felguera Calderería Pesada, S.A. Unipersonal and Felguera IHI, S.A. Unipersonal.

This temporary government aid is framed under the Group's corporate-wide restructuring process designed to strengthen its financial and equity position. Other key components include refinancing the current €85 million of syndicated debt on certain terms and obtaining an €80 million revolving letter of credit facility, 70% covered by credit insurer CESCE, to cover the guarantees and performance bonds required over the next two years. On 30 April 2021, the Group signed a binding term sheet with its syndicated bank lenders to refinance its borrowings. The key terms of the deal are:

- Repayment of €7.5 million.
- Conversion of €25.5 million into a participating loan.
- Conversion of €52 million into newly issued convertible bonds. The bonds will have a maximum term of 6 years (2027) and will entitle holders to convert the securities into ordinary shares worth 13% of the post-conversion share capital of Duro Felguera, S.A.
- Grant of a new revolving letter of credit facility of up to €80 million, with 70% cover provided by the credit insurer CESCE.

As at the date of preparation of these interim condensed consolidated financial statements, the Group is on the verge of reaching a refinancing agreement with the financial institutions in the bank pool as proposed in the Group's viability plan submitted to FASEE.

The process to attract private investors is still open and the company continues to receive expressions of interest. Given Duro Felguera's strategic importance for the local economy, the regional government of Asturias has stated its intention to contribute €6 million to the company. The specifics are yet to be decided.

The Group expects to sign the financing agreements with FASEE and with the creditor banks as soon as practicable, on the terms set out in the viability plan. The delay in reaching overarching agreements is adversely affecting the business. If there is a further delay in this respect, and if business plan targets continue to be missed – as a result of the pandemic, for instance, coupled with the ongoing processes referred to in Notes 15 and 16 - the Group's ability to settle its present and future obligations may be significantly impaired. Therefore, there remains uncertainty as to whether the going concern principle can be applied.

The directors believe that once a comprehensive financial restructuring on the terms described in the viability plan is arranged – and they expect this to be achieved soon – the Group will be able to restore its financial position to health, so that before the grace period under Royal Decree-Law 16/2020 runs out, eligible equity will be sufficient for statutory dissolution to be avoided. Moreover, the directors are confident that the litigation and arbitration proceedings now in progress will be resolved favourably and the industrial and financial plan showing that the business is viable over the long term will be successfully completed. This will enable the Group to relaunch its business model, underpinned by the company's traditional segments but driving its progress towards renewables and digitalisation. The aim is to remain a strategic company for the regional productive fabric. Therefore, based on this premise, the directors have prepared the consolidated financial statements on a going concern basis.

## 3. Segment information

Note 5 to the Group's consolidated financial statements for the year ended 31 December 2020 sets out the criteria used by the Group to define its operating segments.

The information reviewed by the Board of Directors does not include information on segment assets and liabilities or capital expenditure, as this is not considered relevant for decision-making at segment level. Rather, assets and liabilities are assessed from an overall perspective.

Segment information provided to the Board of Directors for the segments for which financial information is reported at 30 June 2021 and 2020 is as follows:

| | € thousand | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | For the six months ended 30 June 2021 | | | | | | | |
| | **Energy** | **Mining & Handling** | **Oil & Gas** | **Specialised Services** | **Manufacturing** | **Other** | **Inter-group transactions** | **GROUP** |
| Revenue from external customers | 829 | 8,885 | 1,417 | 20,736 | 7,438 | 700 | - | 40,005 |
| Inter-segment revenue | 487 | 344 | 49 | 3,325 | - | 4,325 | (8,530) | - |
| **Total revenue** | **1,316** | **9,229** | **1,466** | **24,061** | **7,438** | **5,025** | **(8,530)** | **40,005** |
| EBITDA | (6,311) | 2,320 | (526) | (2,843) | (733) | (4,931) | - | (13,024) |

| | € thousand | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | For the six months ended 30 June 2020 | | | | | | | |
| | **Energy** | **Mining & Handling** | **Oil & Gas** | **Specialised Services** | **Manufacturing** | **Other** | **Inter-group transactions** | **GROUP** |
| Revenue from external customers | 32,888 | 6,300 | 3,456 | 18,989 | 8,460 | 712 | - | 70,805 |
| Inter-segment revenue | 537 | 246 | - | 1,936 | 180 | 10,575 | (13,474) | - |
| **Total revenue** | **33,425** | **6,546** | **3,456** | **20,925** | **8,640** | **11,287** | **(13,474)** | **70,805** |
| EBITDA | (78,148) | (3,467) | (3,627) | (18,714) | (1,470) | 2,544 | - | (102,882) |

**Interim condensed consolidated financial statements and management report for the six months ended 30 June 2021 (€ thousand)**

The amounts included in "Other" relate to income and/or expenses related to companies not allocated to any business area, mainly corporate activities and engineering and systems integration in civil communications sectors, aeronautics and shipping, security and defence, and industrial, energy and environmental control.

"Inter-group transactions" details inter-segment eliminations and adjustments.

The reconciliation of Group EBITDA to the interim condensed consolidated statement of profit or loss is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | **2020** |
| **Operating profit/(loss)** | (13,786) | (111,091) |
| Amortisation and depreciation | 2,550 | 2,753 |
| Impairment and gains/(losses) on disposal of fixed assets | (567) | 7,010 |
| Exchange differences | (1,221) | (1,556) |
| **EBITDA** | **(13,024)** | **(102,884)** |

The Group operates mostly internationally at present. The following table presents the breakdown of revenue at 30 June 2021 and 2020 by geographical area:

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| **Geographical area** | **2021** | **%** | **2020** | **%** |
| - Spain | 21,191 | 52.97% | 19,320 | 27.29% |
| - Latin America | 743 | 1.86% | 1,802 | 2.54% |
| - Europe | 9,030 | 22.57% | 30,031 | 42.41% |
| - Africa and the Middle East | 6,615 | 16.54% | 13,259 | 18.73% |
| - Asia Pacific | 724 | 1.81% | 2,380 | 3.36% |
| - Other | 1,702 | 4.25% | 4,013 | 5.67% |
| **Total** | **40,005** | **100%** | **70,805** | **100%** |

Through 30 June 2021, segment sales to a single customer representing over 10% of the Group's revenue amounted to €5.6 million in Africa and the Middle East for the Mining & Handling segment (30 June 2020: €16.7 million for the Energy segment in Europe, and €12.4 million in Africa and the Middle East).

Through 30 June 2021, revenue from significant external customers in Algeria and Spain amounted to €5.6 million and €21.2 million, respectively (30 June 2020: €16.7 million, €12.4 million and €20.2 million in Romania, United Arab Emirates and Spain, respectively).

## 4. Financial risk management

### 4.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency, interest rate and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all the information and disclosures on financial risk management required for annual consolidated financial statements, so they should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2020.

There were no changes in the risk management department or in any risk management policy from the end of the previous reporting period.

Liquidity risk:

Key information on liquidity risk is presented in the following table:

| | € thousand | |
|---|---|---|
| | At 30 June 2021 | At 31 December 2020 |
| Borrowings (Note 9) | (136,607) | (95,323) |
| Less: Cash and cash equivalents | 40,430 | 24,896 |
| Net cash/(debt) position | (96,177) | (70,427) |
| Undrawn credit lines | - | - |
| **Total liquidity reserves/(shortfall)** | **(96,177)** | **(70,427)** |

The net cash position decreased in the first six months of 2021 by €25,750 thousand. Over the course of the first half, the company took several actions to enhance liquidity. The company drew up a viability plan through to 2027 as a guiding thread that identifies the business and financing vectors required to ensure the company's long-term success. The measures include:

- Application for temporary government assistance from FASEE, Spain's support fund for strategic businesses, submitted on 28 August 2020 and accepted on 9 March 2021. The Fund granted €120 million, of which €40 million was disbursed on 10 May 2021 and €80 million will be paid out in a second phase, subject to successful completion of the refinancing process facing the syndicate of creditor banks. The aid is in the form of a €20 million ordinary loan, disbursed on 10 May 2021 as mentioned above, a €70 million participating loan, €20 million of which was disbursed on that same date, and a final tranche of €30 million, which will be provided as a capital increase and/or as a participating loan, depending on whether or not a private investor becomes involved. The second phase was originally scheduled to be completed by the end of June 2021. On 29 June 2021, the FASEE management board accepted the company's request to extend the deadline for closing out the second phase of temporary government assistance to 30 September 2021. On 28 September 2021, the FASEE management board sent the company a statement to certify that, at the company's own request, the board had extended the deadline for execution of the second phase, which is to be completed as soon as practicable and in any event within two months (i.e., by 30 November 2021).

- Restructuring of existing borrowings from the syndicate of bank creditors in an amount of €85 million. On 30 April 2021, Duro Felguera and the banks signed a binding term sheet to refinance those borrowings and open a new letter of credit facility. The key terms of the deal are:

- Repayment of €7.5 million.
- Conversion of €25.5 million into a participating loan.
- Conversion of €52 million into newly issued convertible bonds. The bonds will have a maximum term of 6 years (2027) and will entitle holders to convert the securities into ordinary shares worth 13% of the post-conversion share capital of Duro Felguera, S.A.
- Grant of a new revolving letter of credit facility of up to €80 million, with 70% cover provided by the credit insurer CESCE.

At 30 June 2021, a sum of €715 thousand was subject to restrictions because it had been designated as security in litigation with third parties. Such restrictions will remain in place until judgment is rendered or an out-of-court settlement is made (31 December 2020: €1,921 thousand).

The Group also had €25,917 thousand of deposits under "Current financial assets" in the statement of financial position as at 30 June 2021 as security for execution of its projects due to the unavailability of bank guarantees.

### 4.2. Fair value estimation

The table below provides an analysis of financial instruments measured at fair value, classified by measurement method. The various levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market inputs (i.e. unobservable inputs) (Level 3).

The following table presents the Group's assets and liabilities measured at fair value at 30 June 2021:

| | **€ thousand** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | |
| Financial instruments at fair value through other comprehensive income: | | | | |
| - Equity instruments (non-current assets) | 1 | - | 8,159 | 8,160 |
| - Equity instruments (current assets) | - | - | 5,320 | 5,320 |
| **Total assets** | **1** | **-** | **13,479** | **13,480** |

| | **€ thousand** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Liabilities** | | | | |
| Convertible bonds | - | - | - | - |
| **Total liabilities** | **-** | **-** | **-** | **-** |

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2020:

| | € thousand | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | |
| Financial instruments at fair value through other comprehensive income: | | | | |
| - Equity instruments | 1 | - | 5,232 | 5,233 |
| **Total assets** | **1** | **-** | **5,232** | **5,233** |

| | € thousand | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Liabilities** | | | | |
| Convertible bonds | - | - | - | - |
| **Total liabilities** | **-** | **-** | **-** | **-** |

There were no transfers between Level 1 and Level 2 during the period.

The fair value of financial instruments traded in active markets (such as securities available for sale) is based on quoted market prices at the reporting date. The quoted market price used for financial assets is the current bid price. These instruments are included in Level 1.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques (Level 3). At 30 June 2021, the Group's stake in Ausenco was in this category.

The Group has a stake in Ausenco, Ltd, a company over which it has no control. Given the limited amount of updated information available to the Group on this investment, the Group measured the investment based on an assessment of the likely trend in value taking the latest available appraisal carried out in March 2020 by an independent expert based on the performance of comparable listed companies from December 2019 to June 2021.

The Group engaged an independent expert to perform this assessment. A series of listed companies in the same industry operating in the geographical areas of Australia, Canada, the US and Europe were selected. Their revenue, EBITDA and market capitalisations were analysed to determine the market impact of COVID-19 and thus determine an outlook for the trend in Ausenco, Ltd's valuation starting from the valuation made with financial information as at 31 December 2019.

This exercise yielded a range of possible reversal of impairment in fair value of 31.4% to 69.0%. Accordingly, the Group recognised a reversal of impairment of €2,589 thousand using the adjusted valuation method with the range average.

As explained in Note 2.4, the Group classified its retained investment in Epicom, S.A., following the disposal of 40%, as a short-term financial instrument at fair value. Fair value was determined using the price of the call option granted to the third party acquirer as that price was consistent with the price at which 40% of the company was sold in the same financial period.

## 5. Assets and liabilities classified as held for sale

The Group is pressing on with its plan to dispose of non-core assets, mainly office buildings. In 2020, the Group recognised impairment losses of €7,521 thousand on some of its properties to reflect the impact of the pandemic on the office space rentals market. In 2021, the Group reversed that impairment in an amount of €235 thousand, based on an independent expert's appraisal. There were also delays in estimated sales periods, ruling out the possibility of the transactions being completed in the short term; the Group does not intend to embark on an active disposal process until the real estate market rebounds. Therefore, at 30 June 2021, since no agreements had been signed and the requirements in the current accounting framework had not been met, the Group did not have any assets classified as available for sale.

## 6. Intangible assets, property, plant and equipment and investment properties

The changes in these statement of financial position items in the six months ended 30 June 2021 are as follows:

| | € thousand | | |
|---|---|---|---|
| | **Intangible assets** | **Property, plant and equipment** | **Investment properties** |
| **Cost** | | | |
| **Balances at 1 January 2021** | **32,879** | **90,045** | **39,550** |
| Additions - internally developed | - | - | - |
| Additions | - | 86 | - |
| Assets derecognised due to disposal or other means | (7,350) | (1,633) | - |
| Transfers and other movements | - | (27) | - |
| **Balances at 30 June 2021** | **25,529** | **88,471** | **39,550** |
| **Accumulated amortisation/depreciation** | | | |
| **Balances at 1 January 2021** | **(21,161)** | **(55,384)** | **(11,099)** |
| Provisions charged to profit or loss | (1,039) | (1,335) | (176) |
| Elimination of amortisation | 3,051 | 408 | - |
| Transfers and other movements | - | 6 | - |
| **Balances at 30 June 2021** | **(19,149)** | **(56,305)** | **(11,275)** |
| **Impairment** | | | |
| **Balances at 1 January 2021** | **-** | **(3,088)** | **(6,218)** |
| Provisions for impairment | - | 374 | 235 |
| Decreases for derecognition | - | 2 | - |
| **Balances at 30 June 2021** | **-** | **(2,712)** | **(5,983)** |
| **Property, plant and equipment and investment properties, net** | | | |
| **Balances at 1 January 2021** | **11,718** | **31,573** | **22,233** |
| **Balances at 30 June 2021** | **6,380** | **29,454** | **22,292** |

The main changes in the six months ended 30 June 2021 was the sale of shares representing 40% of Epicom, S.A. to SEPI, Spain's state-owned industrial holding company. The sale entailed exclusion of Epicom from the Group's scope of consolidation and derecognition of Epicom assets, including goodwill of €3,286 thousand, capitalised development costs in a net amount of €1,013 thousand, and property, plant and equipment in a net amount of €1,181 thousand (Note 2.5).

As at year-end 2020, there were no commitments to purchase assets at 30 June 2021.

At 30 June 2021, there were investment properties and items of property, plant and equipment with a carrying amount of €15,523 thousand as collateral securing arrangements for suspension of the assessments of VAT, personal income tax withholdings and corporate income tax on related party transactions (2020: €27,656 thousand).

The changes in these statement financial position items in the six months ended 30 June 2020 were as follows:

| | € thousand | | |
|---|---|---|---|
| | **Intangible assets** | **Property, plant and equipment** | **Investment properties** |
| **Cost** | | | |
| **Balances at 1 January 2020** | **33,018** | **88,361** | **45,399** |
| Additions - internally developed | 91 | - | - |
| Additions | - | 90 | - |
| Assets derecognised due to disposal or other means | - | (154) | (5,849) |
| Transfers and other movements | - | (285) | - |
| **Balances at 30 June 2020** | **33,109** | **88,012** | **39,550** |
| **Accumulated amortisation/depreciation** | | | |
| **Balances at 1 January 2020** | **(18,549)** | **(50,985)** | **(15,135)** |
| Provisions charged to profit or loss | (1,294) | (1,470) | (216) |
| Elimination of amortisation/depreciation | - | 149 | 4,411 |
| Transfers and other movements | - | 46 | - |
| **Balances at 30 June 2020** | **(19,843)** | **(52,260)** | **(10,940)** |
| **Impairment** | | | |
| **Balances at 1 January 2020** | **-** | **(245)** | **(2,937)** |
| Provisions for impairment | - | (2,841) | (4,680) |
| Decreases for derecognition | - | - | 1,399 |
| **Balances at 30 June 2020** | **-** | **(3,086)** | **(6,218)** |
| **Property, plant and equipment and investment properties, net** | | | |
| **Balances at 1 January 2020** | **14,469** | **37,131** | **27,327** |
| **Balances at 30 June 2020** | **13,266** | **32,666** | **22,392** |

The main movements in the six months ended 30 June 2020 related to impairment losses on certain real estate assets affected by the fall in property market prices caused by the COVID-19-related health crisis (Note 5). Investment property related to the facilities of the former Felguera Melt with a carrying amount of €39 thousand was derecognised.

## 7. Financial instruments

a) Financial assets

The breakdown of financial assets at 30 June 2021 and 31 December 2020, by nature of the asset and category, is as follows:

| | € thousand | | |
|---|---|---|---|
| **30 June 2021** | **Amortised cost** | **Fair value through OCI** | **TOTAL** |
| **On-balance sheet assets** | | | |
| - Equity instruments | - | 8,159 | 8,159 |
| - Non-current financial assets | 39 | - | 39 |
| - Other non-current assets | - | - | - |
| - Trade and other receivables | 69,586 | - | 69,586 |
| - Deposits | 25,917 | - | 25,917 |
| - Other current assets | 5,093 | 5,320 | 10,413 |
| **Total** | **100,635** | **13,479** | **114,114** |

| | € thousand | | |
|---|---|---|---|
| **31 December 2020** | **Amortised cost** | **Fair value through OCI** | **TOTAL** |
| **On-balance sheet assets** | | | |
| - Equity instruments | - | 5,233 | 5,233 |
| - Non-current financial assets | 225 | - | 225 |
| - Other non-current assets | - | - | - |
| - Trade and other receivables | 76,689 | - | 76,689 |
| - Deposits | 36,704 | - | 36,704 |
| - Other current assets | 3,236 | - | 3,236 |
| **Total** | **116,854** | **5,233** | **122,087** |

The Group had €25,917 thousand of deposits and escrow accounts, of which €16.2 million related to the Iernut project in Romania, deposited as security for execution of its projects due to the unavailability of bank guarantees (Note 15).

The balance of trade and other receivables includes completed work pending certification of €26,903 thousand. The Group did not recognise revenue from contract modifications/claims or disputes that were approved by the customer or that had not been measured, except the variable consideration from the Aconcagua project to the extent that it is highly probable that a significant reversal in the amount will not occur (Note 15).

The Group assesses risk of impairment of receivables on a regular basis, updating it where appropriate on a case-by-case basis and taking into account the risk of default, the risk of impairment in the event of default, and current exposure. At 30 June 2021, the Group engaged an independent expert for assistance. The parent company's directors consider that the recognised amount of trade and other receivables approximates their fair value. An impairment loss of €1,505 thousand was recognised in the six months ended 30 June 2021, bringing cumulative impairment losses to €130,679 thousand.

b) Financial liabilities

The breakdown of financial liabilities at 30 June 2021 and 31 December 2020, by nature of the liability and category, is as follows:

| | € thousand | | |
|---|---|---|---|
| **30 June 2021** | **Fair value through profit or loss** | **Debts and payables (amortised cost)** | **TOTAL** |
| **On-balance sheet liabilities** | | | |
| - Bank borrowings (Note 9) | - | 88,392 | 88,392 |
| - Finance lease liabilities | - | 252 | 252 |
| - Government assistance (Note 9) | | 40,000 | 40,000 |
| - Other financial liabilities | - | 150,045 | 150,045 |
| **Total** | **-** | **278,689** | **278,689** |

| | € thousand | | |
|---|---|---|---|
| **31 December 2020** | **Fair value through profit or loss** | **Debts and payables (amortised cost)** | **TOTAL** |
| **On-balance sheet liabilities** | | | |
| - Bank borrowings | - | 88,830 | 88,830 |
| - Finance lease liabilities | - | 894 | 894 |
| - Other financial liabilities | - | 188,391 | 188,391 |
| **Total** | **-** | **278,115** | **278,115** |

## 8. Equity

a) Capital

Share capital at 30 June 2021 was represented by 96 million fully subscribed and paid shares with a par value of €0.05 each.

All of the shares are admitted for listing on the Madrid, Barcelona and Bilbao Stock Exchanges, and have the same voting and dividend rights.

As at the date of preparation of the accompanying interim condensed consolidated financial statements, the following shareholders held an interest equal to or greater than 3% in the Company's share capital:

| **Shareholder** | **% ownership direct and indirect** | |
|---|---|---|
| | **At 30 June 2021** | **At 31 December 2020** |
| UBS Switzerland AG (*) | 3.97% | 3.94% |
| Morgan Stanley and Co International PLC (*) | 3.13% | 3.66% |
| TSK Electrónica y Electricidad, S.A. | 3.12% | 3.12% |

(*) Custodians of securities beneficially held by others

b) Share premium

The Corporate Enterprises Act (*Ley de Sociedades de Capital*) expressly permits the use of the share premium account balance to increase capital and establishes no specific restrictions as to its use.

After the capital reduction to offset losses carried out in 2019, the share premium was reduced to zero.

c) Treasury shares

At 30 June 2021, the Company did not hold any treasury shares.

d) Dividends

The Company did not distribute any dividends in the six months ended 30 June 2021 and 2020.

The financing agreement that became effective on 27 July 2018 allows the distribution of cash dividends (except for interim dividends), provided all the following conditions are met:

- the Company obtains a profit for the period;
- losses do not exist from previous years that reduce the Company's equity to below share capital;
- the distribution does not reduce the amount of equity to below share capital;
- the amount of cash after the distribution must be greater than zero;
- the gearing ratio is below 3.00x; and
- the Obligors are up to date in compliance with their obligations derived from the Financing Documents, and there has been no default event (nor will occur as a result of the distribution).

In addition, before dividends are distributed to shareholders, the Company must first repay and/or replace early the Syndicated Financing in an amount equal to the dividend to be distributed.

## 9. Borrowings

In the first half of 2020, the Group classified €85,000 thousand related to the syndicated loan as current since it was subject to early repayment and no waiver had been obtained from the financial institutions with which, as explained in Note 2.11, it was attempting to reach a debt refinancing agreement.

As explained in Note 2.11, in May 2021 the Group received €40 million in the form of a €20 million participating loan and a €20 million ordinary loan as part of the first phase of temporary government assistance to be funded by FASEE, Spain's support fund for strategic businesses. This government assistance is subject to a range of acceleration clauses. At 30 June 2021, since none of the acceleration clauses had been triggered, the Group recognised this assistance as borrowings within current liabilities in the statement of financial position.

## 10. Provisions

The breakdown of "Provisions" in the interim condensed consolidated statement of financial position at 30 June 2021 and 31 December 2020 is as follows:

| | € thousand | |
|---|---|---|
| | **At 30 June 2021** | **At 31 December 2020** |
| **Provisions for pensions and similar obligations** | **1,333** | **1,355** |
| Other pension funds | 1,333 | 1,355 |
| **Provisions for contingent liabilities and commitments** | **101,353** | **102,445** |
| Provisions for contingent liabilities | 101,353 | 102,445 |
| | **102,686** | **103,800** |

The movements in the six months ended 30 June 2021 and 2020 in "Provisions" were as follows:

| | € thousand | | | |
|---|---|---|---|---|
| | Pensions and similar obligations | Provisions for completion of works and other trade provisions | Other provisions | Total |
| **Balance at 1 January 2021** | **1,355** | **91,602** | **10,843** | **103,800** |
| **Provisions charged to profit or loss:** | | | | |
| Provisions | 138 | 4,035 | 67 | 4,240 |
| **Reversals credited to profit or loss:** | | | | |
| Reversals | (36) | (3,887) | (3,045) | (6,968) |
| **Payments or amounts used:** | | | | |
| Payments of pensions | (129) | - | - | (129) |
| Other payments | - | (9) | (218) | (227) |
| **Other movements** | 5 | 1,931 | 34 | 1,970 |
| **Balance at 30 June 2021** | **1,333** | **93,672** | **7,681** | **102,686** |

Movements in the first half of 2021 related primarily to provisions for completion of works and other trade provisions, as follows:

- Provisions recognised mainly to cover a shortfall in the Iernut project of €3.1 million (Note 15) and of €0.9 million in other projects.
- Reversals related mainly to the amounts utilised for the provision for losses incurred as the related projects are executed, for €0.4 million, a reversal relating to work completion for €1.5 million, reversal of provisions for performance bonds for €2.0 million, and reversals of provisions for liabilities and charges for €3.0 million.
- "Other movements" related primarily to reclassifications of the current liability related to projects.

| | € thousand | | | |
|---|---|---|---|---|
| | Pensions and similar obligations | Provisions for completion of works and other trade provisions | Other provisions | Total |
| **Balance at 1 January 2020** | **1,328** | **55,968** | **7,391** | **64,687** |
| **Provisions charged to profit or loss:** | | | | |
| Provisions | 69 | 69,776 | 2,541 | 72,386 |
| **Reversals credited to profit or loss:** | | | | |
| Reversals | - | (13,556) | (134) | (13,690) |
| **Payments or amounts used:** | | | | |
| Payments of pensions | (106) | - | - | (106) |
| Other payments | - | (8,643) | (185) | (8,828) |
| **Other movements** | (30) | (16,552) | (158) | (16,740) |
| **Balance at 30 June 2020** | **1,261** | **86,993** | **9,455** | **97,709** |

Movements in the first half of 2020 related primarily to provisions for completion of works and other trade provisions, as follows:

- Provisions recognised related mainly to the reassessment of the Jebel Ali project following termination of the contract, for €47.2 million, and for project losses on the Djelfa project, for €21.9 million.
- Reversals related mainly to the amounts utilised for the provision of losses incurred as the related projects are executed, for €12.1 million, of which €11.4 million related to the Jebel Ali project, and reversals of other project risks, for €1.5 million.
- Other payments included €8.6 million swept from the Group's bank accounts for enforcement of guarantees for the Jebel Ali project.
- Other movements included mainly the amounts of provisions cancelled following the removal from the consolidation scope of subsidiary DF Australia Pty Ltd.

## 11. Public authorities and tax matters

The Group calculated the provision for income tax at 30 June 2021 in accordance with current tax legislation. However, any different tax treatments from those in current regulations arising from tax reforms would be applied immediately in the financial statements presented after approval of the reforms.

The effective tax rate for the six months ended 30 June 2021 was -2.68% (30 June 2020: 0.67%).

The tax group headed by the parent company sustained losses for the first six months of the year. As explained later in this note, the Group does not recognise tax credits in excess of the amount of deferred tax liabilities, so no income was recognised in this connection.

a) Taxes receivable and payable

The main taxes receivable and payable are as follows:

| | € thousand | |
|---|---|---|
| | **At 30 June 2021** | **At 31 December 2020** |
| **Taxes receivable** | | |
| Value added tax | 13,830 | 14,020 |
| Value-added tax (outside Spain) | 11,824 | 11,543 |
| Personal income tax withholdings | - | 1 |
| Prepaid taxes, income tax of other countries and non-resident withholdings | 1,861 | 745 |
| Receivable for refund of prior year's income tax | 35 | - |
| Other | 618 | 927 |
| Current tax assets | 28 | - |
| | **28,196** | **27,236** |
| **Taxes payable** | | |
| Value added tax | (2,520) | (1,929) |
| Value-added tax (outside Spain) | (957) | (1,005) |
| Social Security payables | (1,338) | (1,310) |
| Other | (299) | (324) |
| Personal income tax withholdings | (1,416) | (1,268) |
| Other taxes | (373) | (382) |
| | **(6,903)** | **(6,218)** |

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b) Deferred tax assets

The Group recognised deferred tax assets up to the limit of the deferred tax liability as it considered that the circumstances for offsetting them are met since they relate to the same tax and tax group and can be utilised within the same time window without limitation under current legislation. The Group does not recognise deferred tax assets for tax losses, temporary differences and other remaining tax credits since the parent company's directors consider that their recoverability is not reasonably assured.

Unrecognised deferred tax assets at 30 June 2021 of the tax group are as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Base** | **Tax charge** | **Base** | **Tax charge** |
| **Unused tax losses** | 161,856 | 40,464 | 160,089 | 40,022 |
| **Deductions** | - | | - | |
| R&D and technological innovation | - | 5,803 | - | 4,705 |
| Donations | - | 193 | - | 193 |
| Reversal of temporary measures | - | 75 | - | 75 |
| International double taxation | - | 431 | - | 435 |
| **Losses of foreign operations** | 106,766 | 26,691 | 106,766 | 26,691 |
| **Losses of subsidiaries** | 414,524 | 103,631 | 414,524 | 103,631 |
| **Other** | 93,017 | 23,254 | 96,052 | 24,013 |
| | **776,163** | **200,542** | **777,431** | **199,765** |

There is no time limit in Spain for recognising the carry forward of tax losses or deductible temporary differences.

The deadlines for applying tax credits are 18 years for R&D and technological innovation and 10 years for donations. Double taxation tax credits and tax credits for the reversal of temporary measures are not subject to any time limit.

Breakdown of the main unrecognised tax assets from accumulated tax losses of foreign subsidiaries:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Base** | **Tax charge** | **Base** | **Tax charge** |
| **Peru** | 199 | 59 | 212 | 63 |
| **Brazil** | 3,576 | 1,216 | 3,576 | 1,216 |
| **Argentina** | 27,482 | 8,245 | 30,412 | 9,124 |
| **India** | 0 | 0 | 0 | 0 |
| **Chile** | 19,678 | 5,313 | 19,781 | 5,341 |
| | **50,935** | **14,833** | **53,982** | **15,744** |

The unused tax losses in Argentina may be applied up to 4 years from the year in which they arise. Tax losses from Peru, Brazil and Chile may be applied in any future tax year without limitation, but subject to specified ceilings.

## 12. Related party transactions

In addition to subsidiaries, associates and jointly controlled entities, the Group considers as related parties shareholders with significant influence, key management personnel (i.e. members of the board of directors and executives and their close relatives), and entities over which key management personnel may exercise significant influence or have control or be influenced by them. Specifically, relationships exist in transactions carried out with agents outside the Group, but with which there is a relationship according to the definitions and criteria of the Spanish Ministry of Economy and Finance order EHA 3050/2004, of 15 September, and the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores) Circular 1/2005, of 1 April.

The following table presents the amounts recognised in the interim condensed consolidated statement of financial position at 30 June 2021 and in the consolidated statement of profit or loss for the six months ended 30 June 2021 arising from related party transactions, in accordance with Order EHA/3050/2004, of 15 September.

| | € thousand | | | | |
|---|---|---|---|---|---|
| | **Significant shareholders** | **Directors and executives** | **Associates (*)** | **Other related parties (**)** | **Total** |
| **Income and expenses:** | | | | | |
| Rendering of services | - | - | 153 | 8 | 161 |
| **Total revenue** | **-** | **-** | **153** | **8** | **161** |

| | € thousand | | | | |
|---|---|---|---|---|---|
| | **Significant shareholders** | **Directors and executives** | **Associates (*)** | **Other related parties (**)** | **Total** |
| **Balances:** | | | | | |
| Trade receivables | - | - | 1,936 | 50 | 1,986 |
| Other financial receivables | | | 10,750 | 373 | 11,123 |
| **Total revenue** | **-** | **-** | **12,686** | **423** | **13,109** |

*(*) Dunor Energía, S.A.P.I. de C.V.*
*(**) Epicom, S.A.*

## 13. Compensation and other benefits paid to the board of directors of the parent company and senior management

a) Board of Directors' remuneration:

The breakdown of the remuneration accrued by members of the parent company's Board of Directors for their membership of the Board of Directors, by item, in the six months ended 30 June 2021 and 2020 is as follows:

| | € thousand | |
|---|---|---|
| **Remuneration item:** | **30 June 2021** | **30 June 2020** |
| Fixed remuneration | 264 | 373 |
| Variable remuneration | - | - |
| Attendance fees and other remuneration | - | - |
| | **264** | **373** |

Directors did not receive any other benefits.

In the six months ended 30 June 2021, José Jaime Argüelles Álvarez was appointed as an executive director, and César Hernández Blanco and Miguel Ángel Santiago Mesa were appointed as external directors. José María Orihuela Uzal stepped down from the Board when his term expired.

b) Remuneration of senior executives

For the purposes of these interim condensed consolidated financial statements, senior executives include the 6 employees comprising the Management Committee during the period (2020: 8 employees). Executives are considered to be individuals at the Group who, de facto or de jure, perform senior management duties under the direct supervision of the Group's management body or executive committees, or its chief executive officers. The breakdown of the remuneration accrued by members of senior management, excluding members of the Board of Directors, in the six months ended 30 June 2021 and 2020 is as follows:

| | **At 30 June 2021** | **At 30 June 2020** |
|---|---|---|
| Total remuneration paid to senior executives (€ thousand) | 481 | 772 |
| No. of senior executives at 30 June | 6 | 8 |
| Average remuneration (€ thousand) | 80 | 97 |

## 14. Average number of employees

The distribution of the Group's average headcount in the six months ended 30 June 2021 and 2020 was as follows:

| | **No. of employees** | |
|---|---|---|
| | **At 30 June 2021** | **At 30 June 2020** |
| **Average number of employees** | **1,051** | **1,187** |
| Men | 892 | 991 |
| Women | 159 | 196 |

The Group's average headcount at 30 June 2021 was 744 employees on permanent employment contracts and 371 on temporary employment contracts (30 June 2020: 763 and 424, respectively).

On 7 January 2021, the new furlough scheme based on productive needs under the terms of Royal Decree Law 30/2020 and Royal Decree Law 8/2020 of 17 March, on urgent and extraordinary measures to cope with the economic and social impact of COVID-19, commenced. The plan affects Duro Felguera, S.A. (DFSA), DF Operaciones y Montajes, S.A.U. (DFOM), DF Mompresa, S.A.U. (MOMPRESA), Felguera IHI, S.A.U. (FIHI) and Duro Felguera Oil & Gas, S.A.U. On 31 May 2021, by agreement with union representatives, the furlough was extended.

The furlough has a duration of 10 months (up to 31 October) and affects a total of 778 workers, with an upper limit of 400 workers per month.

The furlough scheme produced savings of €1,145 thousand for the months it was in place.

## 15. Contingencies

The Group has contingent liabilities in respect of bank and other guarantees arising in the ordinary course of business, from which it does not expect any material liabilities to arise.

At 30 June 2021 and 31 December 2020, the Group had extended the following guarantees:

| | € thousand | |
|---|---|---|
| | At 30 June 2021 | At 31 December 2020 |
| Guarantees provided for bids in tenders | 2,522 | - |
| Guarantees provided in sales contracts in progress | 220,046 | 222,679 |
| Other | 1,284 | 1,448 |
| | **223,852** | **224,127** |

In addition, as explained in Notes 6, 7 and 16, the Group has pledged certain assets as collateral to third parties, including its syndicated bank creditors and FASEE, Spain's support fund for strategic businesses, which granted the financing described in Note 4.1. This collateral includes pledges over specific properties, over shares in specified subsidiaries, over potential receivables arising from a range of claims, and over bank accounts. Certain project contracts signed by Group subsidiaries with customers are backed with the corporate guarantee of the Group's parent company to ensure compliance with the commercial terms agreed upon.

Group management considers that the risks of litigation, arbitration and claims are reasonably covered by the provisions recognised in the accompanying interim condensed consolidated financial statements as at 30 June 2021, and does not expect any further significant liabilities to arise.

The Group's main contingencies are summarised as follows:

Prosecution brought by the Special Prosecutor

Regarding the ruling by Central Examining Court no. 2 of Madrid giving leave to proceed to the prosecution brought against Duro Felguera, S.A. and other companies by the Special Prosecutor on charges of corruption and organised crime over an alleged offence of corruption of a foreign authority or public official, in addition to alleged money laundering in relation to payments amounting to approximately USD 80.6 million, and also the matters discussed in the notes to the 2020 financial statements, as at the date of the accompanying interim financial statements no other actions or additional proceedings had occurred other than those discussed below.

The investigative stage of proceedings, which was scheduled to be completed by 28 July 2021, has been extended to 22 January 2022.

As explained in the 2020 consolidated financial statements, the Group considered that the documentation and other actions included in the reports provide sufficient justification or contractual evidence of the payments made, as they are based on contractual obligations assumed by individuals duly authorised to sign ordinary contracts — for the rendering of (advisory and technical assistance) services — and inherent in the activity comprising the Group's objects (given their nature as indivisible from, or at least complementary to, obtaining and executing a major international contract). Moreover, this contractual evidence has enabled its documentary proof, accounting recognition, inclusion in the Group's official and only accounts, its financial statements, and its annual accounts, which are assured by the Group's auditors. In addition, although the Group's outlook and view of the potential impact is positive based on the internal investigation carried out, it considers that, according to the information available to date, it is not possible to determine the probability or extent of the potential consequences, which will depend on the outcome of the criminal proceedings.

In light of the expert report issued by a third party, the evidence contained in the documentation provided in the Prosecutor's investigation and the pre-trial proceedings of the Central Examining Court, as well as information gleaned from testimonies given to the Prosecutor and the court, and, in general, all actions taken as at the date of the proceedings, the Group's defence argues that there is no evidence whatsoever that Duro Felguera S.A., its board or board members, executives, employees or representatives authorised, were aware of and/or consented to payments or granted improper advantages or benefits to authorities or public servants in Venezuela to corrupt them or induce them to misuse their public competences, powers or functions in negotiating, arranging and executing Termocentro's combined cycle plant construction project with C.A. Electricidad de Caracas. Therefore, no liability should be attributed to the Duro Felguera Group for any potential money laundering crimes, since there is no predicate offence, nor any involvement. Finally, it considers that the Group's measures and policies outlined in its non-financial reporting are still appropriate.

The Group has not recognised any provision, since it considers that the conditions for recognition provided in IAS 37.14 b) and c) are not met.

National Markets and Competition Commission (CNMC)

In Case S/DC/612/17 initiated by the CNMC against various companies operating in the industrial assembly and maintenance services market, including DF Operaciones y Montajes, S.A., a ruling was delivered on 1 October 2019 declaring the existence of an infringement and imposing penalties upon 19 companies, including DF Operaciones y Montajes, S.A., such penalty amounting to €1,323 thousand, and prohibiting those companies from dealing with public sector companies for an as-yet unspecified scope and duration.

On 3 December 2019, the Group filed an appeal with the National Court (Audiencia Nacional) against this administrative decision and requested a precautionary suspension of the effectiveness of the sanction.

On 4 March 2020, notification was given of the ruling granting the suspension of payment of penalties contingent on providing sufficient guarantees within a period of two months. This period was suspended by Royal Decree 463/2020, of 14 March, declaring the state of alarm to manage the health crisis caused by COVID-19, and resumed on 5 June 2020 in accordance with Royal Decree-Law 16/2020, of 28 June, on procedural and organisational measures to deal with COVID-19 in the scope of the Administration of Justice.

On Friday 12 February 2021, a notification was submitted to the National High Court with a copy of the mortgage arranged in guarantee of payment of the penalty, stating that an application had been submitted to place the mortgage on record at the corresponding property register.

On 27 July 2021, the National High Court was notified of registration of the mortgages at the corresponding property registers, certificates of registration were provided as supporting documents, and full effectiveness of the suspension was requested.

To cover this risk, the Group recognised a provision, which in the opinion of its internal legal advisors is sufficient.

Contingencies and project claims

As is customary in its industry, the Group is involved in certain legal and arbitration disputes as part of the process of completing projects with customers and suppliers in which it may be the claimant or defendant, often with counter suits for equally material amounts. At the end of each reporting period, the Group assesses the estimated amounts required to settle liabilities for arbitration and/or current, probable or certain litigation in progress, the exact amount of which cannot yet be fully determined or the date of payment of which is uncertain, as it depends on fulfilment of certain conditions, recognising the related provisions, where necessary, unless they cannot be quantified, in which case they are disclosed. It also assesses those that must be disclosed since they are considered contingent liabilities; i.e. possible obligations arising from past events, and whose existence will be confirmed by the occurrence or non-occurrence of one or more events not wholly within the control of the Group.

An updated assessment was performed on project-related claims, after which provisions were recognised at the amounts considered probable (Note 10). In the opinion of the parent company's directors and legal advisors, the potential impact on the Group of the remaining claims would not be material. Therefore, no material liabilities are expected to arise other than those already provisioned that could have a material adverse effect. The main lawsuits by amount which the Group considers probable or possible that a ruling with issued for or against it as plaintiff or defendant are as follows:

1) Vuelta de Obligado project

ICC arbitration instituted by General Electric ("GE") against the Group seeking payment of penalties for late payment assumed by GE with respect to the customer in line with the settlement between GE and the customer, which was disputed by the Group. Now GE is attempting to hold the Group liable for USD 65 million and further claims for financing and services rendered to DF for USD 13.2 million, according to the latest memorial filed by GE in the arbitration proceedings. On 22 January 2021, the Group filed its defence and counter-claim with the arbitration court, seeking payment of cost overruns, contract extension costs, and financial and legal costs amounting to USD 128 million. On 10 September 2021, the Group filed a rejoinder and reply memorial identifying claims for an updated amount of USD 129.6 million.

The Group's main legal argument rests on the illegality of the settlement. It states that GE was estopped from entering into the settlement, because previously it had accorded legitimacy to the Group's entitlement to restore the contract's financial equilibrium. In 2016, GE itself, in defence of the Group's interests, brought an arbitration suit again the customer with the Buenos Aires Stock Exchange. GE subsequently withdrew from the arbitration as directed by the terms of the settlement with the customer, thereby undermining the Group's legitimate right to the contract's rebalancing and to compensation for cost overruns arising from a delay that was not attributable to the Group. GE's failure to comply with its most basic obligations undermined the Group's claims, causing serious damage to the Group, which is the subject of the counter-claim submitted to the ICC International Court of Arbitration.

In accordance with the rules of procedure of the arbitration, the Group submitted its defence and counter-suit memorial. Evidence included several legally qualified expert reports on delay and reasonable amount. In the opinion of the Group's directors and its internal and external legal advisors, these reports lend credibility to, support and strengthen the Group's arguments and claims. They believe there are solid legal grounds defending the Group's position and that it is unlikely that GE's claims will result in any payment by the Group. Nevertheless, given the complexity of this type of proceedings and since the arbitration is still ongoing, there is inherent uncertainty surrounding the final outcome.

As a result of these claims, the Group recognised an impairment loss on this asset in 2018 at its carrying amount of €16,557 thousand as an unrecognised receivable from the customer in the project.

2) Matheu & Lujan

In 2019, the Group submitted an application for arbitration against its customers, Stoneway Capital Corporation and Araucaria Energy, S.A. with the ICC International Court of Arbitration in New York claiming USD 31 million (updated to USD 37 million according to the statement of claim filed in December 2020) of unpaid amounts by the customer on the Matheu and Lujan projects. The Group recognised a receivable in relation to this claim of €4,150 thousand at 30 June 2021 after recognising an impairment loss in application of IFRS 9.

In April 2021, the Stoneway holding company filed for Chapter 11 voluntary insolvency proceedings in New York, which are now ongoing. The Group served notice of its claim in those insolvency proceedings in September.

Araucaria Energy, S.A., Stoneway's Argentine subsidiary, which holds the power generation rights attached to the Matheu & Luján projects, remains in operation and is not involved in the holding company's insolvency proceedings.

In May 2021, Stoneway applied to the arbitral tribunal for an automatic stay of arbitration. The tribunal rejected the request, decided to continue the arbitration against Araucaria, and required Araucaria to file its defence and counterclaim by 6 August 2021. In its memorial, Araucaria sought USD 13.8 million for work not performed by the Group and payments to be reimbursed. The company will file an appropriate reply supported by strong evidence at the next procedural stage scheduled for December. Araucaria thus identifies claims of a lower amount than the Group's claims and well below those announced at the preliminary stage of the arbitration proceedings.

In the opinion of the Group's directors and its internal and external legal advisors, on the face of it the counter-claim appears weak. They see no single element that could affect the assessment of the probability of collecting the amounts invoiced by the Group, although the other party's claims in the counter-claim may succeed. In any event there is uncertainty regarding the outcome of the arbitration since it is still at the early stages.

3) Recope

To date, the Group has two applications for judicial review under way against Recope. The first seeks a declaration of Recope's financial liability and/or the financial imbalance caused to the Group by changes in the scope, substantial modifications, delays and distortion of the two contracts (one for the construction of four spheres and the other for three tanks) being carried out by the Group for this customer. It also sought to overturn the administrative acts by which the customer disputed the claims filed by the Group in administrative proceedings at the time. The second relates to the court's rejection of two extensions to the previous action and their joinder.

The Group's directors and its internal and external legal advisors consider it likely that a ruling partially in favour of the Group will be obtained, but these proceedings generally take 4-5 years on average. The Group did not recognise any amount for its credit claim related to these proceedings in its statement of financial position. The Group's total claim as claimant is USD 45.5 million.

For its part, the customer initiated an administrative proceeding to terminate the contracts. In the opinion of the Group's directors and internal and external legal advisors, this process could result in a final administrative ruling of contract termination. The potential financial impact related to this risk cannot be determined yet because the proceeding is still in the early stages.

4) Jebel Ali power station

In April 2020, the Group requested international arbitration against customer Dubai Electricity & Water Authority (DEWA) seeking to restore the financial equilibrium of the contract. At this cut-off date the amount was valued at USD 61 million, although it was not recognised in the statement of financial position.

After suspending work on the site because of the COVID-19 outbreak, DEWA sent Duro Felguera a notice of default on 9 May 2020, which led to the enforcement of the €47.8 million of advance payment and performance bonds issued by Dubai Islamci Bank and the counter-guarantee secured by the parent company. To do so, Dubai Islamic Bank appropriated the funds held by the Group in its project accounts amounting to €8.7 million and blocked these accounts entirely. On 24 June 2020, DEWA notified termination of the contract with effect from 1 July.

At present, as required for arbitration, mediation proceedings are being conducted before the Legal Affairs Department (LAD), Dubai's public mediation body. The aim is to settle the disputes between DEWA and the Group under this contract amicably.

The customer sued in the Dubai court claiming project completion costs and penalties for delay and loss of profits, among other amounts. The Group replied, disputing the jurisdiction of the Dubai court. Non-jurisdiction of this court was ruled at first instance. In December 2020, DEWA appealed the first-instance ruling, and in July 2021 the appeal was allowed. The case was returned to the court of first instance that had already ruled in favour of Duro Felguera. In September 2021, the Group filed an appeal to a higher court based on the arguments initially upheld by the first-instance court in favour of settling the dispute in international arbitration. At the time of writing, that appeal was still pending.

Both proceedings are still in the early stages and the potential final outcome at the reporting date is uncertain. Nevertheless, the Group's directors, together with its internal and external advisors, made the estimate they considered to be the most reasonable in the more likely scenario of the project being cancelled, based on the circumstances of the project and the negotiations that must take place between the parties. Accordingly, the Group recognised a provision in this connection.

5) Djelfa

The Group has called for a review on a number of occasions and held several meetings with management of Société Algérienne de Production de l'Electricité (SPE) regarding the cost overruns incurred on the project, which were beyond the Group's control, among other issues, since it is entitled to recoup cost overruns caused by the delay in SPE's granting the letter of credit and contractual advances by more than 17.5 months and SPE's late execution of the civil engineering work. The Group claims that these delays resulted in substantially higher contract execution costs.

On 8 July 2020, the Group, exercising its contractual and legal rights, requested arbitration against the Algerian Chamber of Commerce and Industry (CACI) seeking restoration of the commercial balance of the contract entered into between the parties, for an amount equal to more than €200 million. On 25 March 2021, the CACI notified the commencement of arbitration proceedings.

After resuming negotiations, on 19 July 2021 the customer and the Group signed a protocol setting out the initial terms for restarting construction work, thus moving on from the state of confrontation and engaging in talks with a view to settling the claims in the short term.

Moreover, Court of First Instance No. 11 of Oviedo issued a ruling in the Group's favour on 19 June 2020 in response to its request for precautionary protection against enforcement of the bank guarantees. The ruling orders the counter-guarantors to hold off on payment until the arbitration has been resolved. The counter-guarantors submitted statements of opposition to these precautionary measures. On 23 July 2021, the court dismissed the counter-guarantors' motions and kept the precautionary measures in place. The court ruling also requires the Group to keep the court informed on a monthly basis on the state of progress of the CACI arbitration. On 1 September 2021, the court was notified appropriately on the required terms.

6) Aconcagua

The Group is involved in an ICC arbitration against customer ENAP Refinerías, S.A. over breaches of contract and project delays attributed to the customer. On 1 March 2021, the Group filed a claim for an amount equal to €29.6 million.
The customer then filed an answer and counter-claim arguing that the Group had terminated the contract unlawfully and seeking damages for this alleged breach. On 30 September 2021, the Group submitted a new memorial contesting the customer's counter-claim. The proceedings are ongoing.

The Group recognised a receivable of €10.7 million in the consolidated statement of financial position, of which €6 million related to the contractual entitlement to a performance bonus for complying with the performance tests relating to energy production above the guaranteed amounts (Performance Guarantees) described in the contract. As explained in Note 12 to the 2020 consolidated financial statements, the Group's directors and internal and external legal advisors consider it highly probable that there will be no reversal, as this is supported by an independent expert report and, therefore, duly accredited.

No relevant contingent assets were recognised relating to claims submitted by the Group that do not relate to contractually agreed amounts.

7) Iernut

On 2 April 2021, the customer, S.N.G.N. ROMGAZ S.A., sent a notice of termination of the "Construction of a combined cycle plant of up to 430 MW in Iernut (Romania)" contract, which Duro Felguera is carrying out in a consortium with S.C. Romelectro S.A. (the "Consortium"). The notice included its intention of enforcing the amounts withheld from the Consortium and deposited with the Romanian Treasury as a performance bond and alleges failure to meet the contract execution period. In this respect, the Consortium had previously requested restoration of the contract balance and extension of the contractual period due to the occurrence of unforeseeable causes not attributable to the contractor (e.g. the pandemic, legislative changes, increases in the scope of the contract and instructions issued by the customer) that had a material impact on execution of the contract. At the date of notice of contract termination, the Consortium had achieved 94% completion of the project.

On 8 April, ROMGAZ and the Consortium agreed to suspend their respective legal actions for 15 days in the hopes of reaching an amicable agreement to continue with the project. There were extensions of this agreement until June 2021, when, given the parties' failure to reach a settlement, the contract termination became final. On 15 July 2021, the performance bond - in the form of contractual payments withheld from the Consortium and deposited with the Romanian Treasury (€16 million being attributable to DF) - was enforced by the customer. The Contortion appealed against the enforcement. The appeal is now pending.

As at the date of preparation of these notes to the interim condensed consolidated financial statements, the opinion of the Group's external legal advisers is that the outcome of the situation – which is still at a very early stage – remains uncertain. The customer has yet to submit a fully argued claim that could be scrutinised for the purpose of assessing its likelihood of success in court and marshalling arguments for recovery of the performance bond. Faced with incomplete information and high uncertainty, the parent company has decided to continue to recognise its claim as an asset, although liabilities have been recorded for this project to cover any contingency. In any event, the directors are confident that the situation will finally be resolved in favour of the interests of the Group, on the basis that the contract termination was unlawful. In due course, greater clarity will be forthcoming so that the accounting estimates made at this early stage of the process can be adjusted with some confidence.

8) Empalme

Regarding the Empalme II project carried out by that company, pursuant to the agreement signed with the government customer, the Federal Electricity Commission (Comisión Federal de Electricidad or "CFE"), the approach was determined for calculating the financial and indirect cost over-runs caused by extending the period of the CFE's liability, which the customer recognised expressly. The CFE ratified the agreement in a notification dated 20 February 2019. Following ratification of the agreement and the submission of the documentation to the CFE, the consideration was deemed to be highly probable. Therefore, the Group recognised an amount of €12 million corresponding to its share.

In August 2019, the customer charged Dunor penalties for failure to deliver certain spare parts and for non-compliance with certain performance tests. This resulted in a €7 million reduction in the total contract amount. However, the Group did not recognise any impairment allowance on the outstanding amount of the contract since it had a third-party expert report supporting contractual compliance in relation to the spare parts and the correct performance of the plant.

In February 2020, the customer signed a certificate recognising the revenue, in which it recognised €8.8 million in finance cost overruns due to a delay not attributable to Dunor out of the total €24 million claimed by the Group in administrative proceedings. The CFE issued this finance cost assessment to Dunor in 2020.

In a bid to protect the performance bond, Dunor filed for precautionary measures from the 1st District Court in Civil Matters of Mexico City. The aim was to protect Dunor's rights and, until the disputes were resolved, prevent the CFE from:

- Commencing proceedings to obtain a declaration of breach.
- Enforcing the performance bond.

On 19 August, the court notified DUNOR that it had granted these precautionary measures. On 9 October 2020, the CFE lodged a petition for protection against the court's decision to grant the interim measures requested by DUNOR. The petition was allowed in May 2021. On 7 June 2021, Dunor filed an application for review of the protection granted to CFE. Dunor's application is pending a court decision, and the interim measures decreed remain in force.

On 26 August 2020, Dunor filed a request for arbitration against the CFE with the London Court of International Arbitration ("LCIA"). On 5 February 2021, Dunor filed its statement of claim, seeking payment of USD 26.2 million.

On 20 May 2021, the CFE filed its response and counter-claim, challenging DUNOR's claims and counter-claiming for a 2019 power sale (and associated finance costs) of only USD 458 thousand.

In accordance with the procedural timetable of the arbitration, on 23 August 2021, DUNOR filed its response to the counter-claim in due time and form, and raised the amount of its own claim to USD 27.1 million.

9) Other

Lastly, the criminal prosecution in the courts of Gijón of the former chairman and CEO, Ángel Antonio del Valle, was dismissed with final effect by order 131/2021, dated 18 March 2021, of Asturias Provincial Court. No related contingencies will arise from this matter.

## 16. Other disclosures

As disclosed in Note 31 to the 2020 consolidated financial statements, an appeal against the tax assessments for the 2010-2012 period was lodged with the Central Tax Appeals Board (TEAC). The appeal was dismissed in a decision issued 26 April and notified 7 May 2021, except in respect of the value added tax assessments, where the Group's appeal was partly allowed.

On 29 April 2021, the Group applied to the National Court for judicial review of the TEAC decision partly allowing the appeal as to value added tax. The related statement of claim was filed on 21 July 2021.

On 21 June 2021, the Group applied to the National Court for judicial review of the other TEAC decisions dismissing the appeals as to the other taxes. The applications were given leave to proceed.

The Group did not recognise any liability related to these proceedings since in the directors' opinion and based on reports issued by independent third parties in prior years and up to the reporting date, the arguments are sufficiently strong to expect a ruling in the Group's favour. The arguments can be summarised as follows:

- Doctrine of estoppel: the AEAT already inspected 2009, in which UTE TERMOCENTRO took a significant charge for its members that was considered exempt. No amount was adjusted in this connection.

- Substantive arguments accrediting UTE TERMOCENTRO's foreign operations.

- Dilatory proceedings: the proceedings were extended by a year and unjustified delays have been attributed that are questionable. This could result in one, two or even three financial years becoming statute-barred, depending on the delay.

Meanwhile, the Spanish National Court, in a relatively recent decision of 28 December 2019 in relation to a dispute similar to the one facing Duro Felguera, held that a supply arrangement outside Spanish territory for a non-Spanish recipient should always be considered as operating abroad and therefore ruled in favour of the taxpayer on that particular point.

Therefore, the opinion of the directors and internal and external advisors is that the National Court's ruling in that case supports our position in the case at hand.

Regarding the debt liability from the proposal for settlement of income tax, the Company requested suspension of the debt while still within the voluntary payment period, contributing real estate collateral worth €29 million and requesting a partial waiver of the collateral requirement for the remainder of the debt. On 19 May 2021, the Central Tax Appeals Board, TEAC, shelved the application for suspension without rendering a decision on the ground that any such decision would be ineffective, because the administrative proceedings had already reached completion with the TEAC's earlier decision on the merits to dismiss the original appeal.

Alongside its main application to the National Court for judicial review, the Group then sought injunctive relief in the form of suspension of the debt after pledging security to a value of €19.6 million. The National Court granted that relief on the requested terms in its ruling of 16 September 2021 (Note 18).

Regarding the tax assessments for 2013 and 2014, as disclosed in Note 32 to the 2020 consolidated financial statements, an appeal against the assessments for the 2010-2012 period was lodged with the Central Tax Appeals Board (TEAC), for which a ruling by the TEAC has yet to be issued. Since the thrust of the dispute, as with the previous inspection, lies in the Group's application of the exemption for foreign-earned income obtained by the temporary joint ventures operating abroad, and specifically by UTE TERMOCENTRO, the opinion of the directors and the external tax advisors is that the arguments in its defence are sufficiently strong to expect a ruling in its favour. Therefore, no liability was recognised in this connection.

## 17. Discontinued operations

As described in Notes 2.4 and 2.5, in 2021 the Group sold 40% of its subsidiary Epicom, S.A., relinquishing control of the company and discontinuing its smart systems business. In accordance with IFRS 5, the sale of that business was classified as a discontinued operation.

The nature and value of the assets within the scope of the discontinued operation were as follows:

| | € thousand |
|---|---|
| Intangible assets | 4,078 |
| Property, plant and equipment | 1,124 |
| Non-current financial assets | 186 |
| Inventories | 1,699 |
| Trade and other receivables | 629 |
| Other current assets | 164 |
| Cash and cash equivalents | 903 |
| **Total assets** | **8,783** |
| Current provisions | 9 |
| Current financial liabilities | 802 |
| Trade and other payables | 2,845 |
| **Total liabilities** | **3,656** |

The Group recognised a gain of €3.8 million on the sale of the 40% stake and the fair value less costs to sell of the 60% retained investment – on which SEPI has a call option – which was classified as a financial asset at fair value, since the Group does not control the company (Note 2.4).

Revenue, expenses and loss before tax recognised in the consolidated statement of profit or loss were as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2021 (Unaudited)** | **2020 (Unaudited)** |
| Revenue | 1,511 | 897 |
| Changes in inventories of finished goods and work in progress | 285 | 237 |
| Cost of sales | (499) | (280) |
| **Gross profit** | **1,297** | **854** |
| Employee benefits expense | (924) | (907) |
| Amortisation and depreciation | (336) | (244) |
| Operating expenses | (343) | (339) |
| Other gains/(losses) net | 9 | 90 |
| **Operating profit/(loss)** | **(297)** | **(546)** |
| Net finance income/(cost) | (7) | (13) |
| Share of loss/(profit) of associates | - | - |
| **Profit/(loss) before tax** | **(304)** | **(559)** |
| Income tax expense | - | 141 |
| **Profit/(loss) for the period from continuing operations** | **(304)** | **(418)** |
| **Profit/(loss) for the period from discontinued operations** | **-** | **-** |
| **Profit/(loss) for the period** | **(304)** | **(418)** |

The net cash flows attributable to the operating, investing and financing activities of discontinued operations were:

**Cash flows from (used in) discontinued operations**

(€ thousand)

| | 2021 | 2020 |
|---|---|---|
| Cash flows used in operating activities | -1,689 | -1,480 |
| Cash flows used in investing activities | -91 | -125 |
| Cash flows used in financing activities | -2,004 | -195 |

## 18. Events after the reporting period

The following significant events occurred between the closing date of the interim period for the six months ended 30 June 2021 and the date of preparation of the interim condensed consolidated financial statements:

- At its meeting of 28 July 2021, the Board unanimously resolved as follows:

  With effect from 23 July 2021, to acknowledge the resignation of the director Miguel Ángel Santiago Mesa, tendered in a letter to the Chairman, by reason of his departure from Sociedad Estatal de Participaciones Industriales (SEPI), Spain's state-owned industrial holding company. Mr Santiago served as an external director.

  Until the next General Meeting of the shareholders of Duro Felguera, to co-opt María Jesús Álvarez González – who has accepted the appointment – as a director to fill the vacancy arising from Mr Santiago's resignation, at the proposal of, and based on a favourable report submitted by, the Nomination and Remuneration Committee. Ms Álvarez will serve as an external director.

- Duro Felguera was notified of the ruling of the National Court of 16 September 2021 suspending the company's obligation to pay the debt arising from the income tax inspections for the tax years 2010 to 2012, in an amount of €123,388,120.02, and the related penalty, as explained in Note 31 of the 2020 consolidated financial statements.
  This interim relief is subject to the company pledging collateral. Such collateral was provided in the course of the earlier administrative proceedings, so no further collateral is required.
  The company is now unburdened of the obligation to pay any part of the tax debt until after the National Court itself renders a judgment on the application for judicial review of the tax agency's assessment.

- On 28 September 2021, the FASEE management board sent the company a statement to certify that, at the company's own request, the board had extended the deadline for execution of phase II, which is to be completed as soon as practicable and in any event within two months (i.e., by 30 November 2021).

**Interim Consolidated Management Report**
**for the six months ended 30 June 2021**

General performance

| | € thousand | |
|---|---|---|
| | **30 June 2021** | **30 June 2020 (Unaudited)** |
| Revenue | 40,005 | 70,805 |
| EBITDA (1) | (13,024) | (102,884) |
| Profit/(loss) before tax | (15,040) | (113,062) |
| Net financial debt(2) | (96,177) | (23,046) |
| Order intake (3) | 22,144 | 52,377 |
| Order backlog (4) | 234,216 | 360,351 |

(1) EBITDA is earnings before interest, tax, impairment and losses on assets, depreciation and amortisation. Calculation of EBITDA is disclosed in Note 3 to the interim condensed consolidated financial statements.
(2) Net financial debt is the amount of gross debt less cash and cash equivalents. Calculation of net financial debt is disclosed in Note 4 to the interim condensed consolidated financial statements.
(3) Order intake is the total amount of contracts won in the year, calculated by adding the amounts of each contract signed during the year.
(4) Order backlog is the amount of work pending execution of signed contracts held by the Company, calculated by subtracting the amount executed from the total amount of each contract.

During the first six months of the year, Duro Felguera's business was hit by project execution delays due to pandemic-related restrictions on the mobility of its own and its subcontractors' people and on the supply of materials. The financial restructuring of the company and full disbursement of temporary government assistance from FASEE, Spain's fund for supporting strategic businesses, were also delayed. At the date of preparation of the accompanying interim condensed consolidated financial statements, the guarantee facility was not yet available. This has delayed the flow of incoming orders in the first half of the year. However, once financial assistance is finally received from FASEE, the company expects the pace of business to recover in the second half, and therefore the full-year volume target for 2021 remains unchanged.

Sales in the period totalled €40 million, down 43.5% year-on-year.

EBITDA amounted to a negative €13 million, compared to a negative €102.9 million in the first half of last year.

Net attributable loss for the period was €11.1 million.

As a strategic company for the regional productive fabric and in a bid to cushion the impact of the emergency health situation on its statement of financial position, on 28 August 2020 the Group applied for temporary public assistance through the Solvency Support Fund for Strategic Companies ("FASEE"). First it requested €100 million, then recently asked for an additional €20 million.

At its meeting 9 March 2021, the Spanish Cabinet, in line with article 2.6 of Royal Decree-Law 25/2020, of 3 July, on urgent measures to support economic recovery and employment, authorised the Governing Board of the Solvency Support Fund for Strategic Companies (Consejo Rector del Fondo de Apoyo a la Solvencia de Empresas Estratégicas or FASEE) to approve the request for temporary government aid for a total amount of €120 million through the instruments described in Note 4 above.

This temporary government aid is framed under the Group's corporate-wide restructuring process designed to strengthen its financial and equity position. Other key components include refinancing the current €85 million of syndicated debt on certain terms and obtaining an €80 million revolving letter of credit facility, 70% covered by credit insurer CESCE, to cover the guarantees and performance bonds required over the next two years. On 30 April 2021, the Group signed a binding term sheet with its syndicated bank lenders to refinance its borrowings.
The key terms of the deal are:

- Repayment of €7.5 million.
- Conversion of €25.5 million into a participating loan.
- Conversion of €52 million into newly issued convertible bonds. The bonds will have a maximum term of 6 years (2027) and will entitle holders to convert the securities into ordinary shares worth 13% of the post-conversion share capital of Duro Felguera, S.A.
- Grant of a new revolving letter of credit facility of up to €80 million, with 70% cover provided by the credit insurer CESCE.

As at the date of preparation of these interim condensed consolidated financial statements, the Group is on the verge of reaching a refinancing agreement with the financial institutions in the bank pool as proposed in the Group's viability plan submitted to FASEE.

The process to attract private investors is still open and the company continues to receive expressions of interest. Given Duro Felguera's strategic importance for the local economy, the regional government of Asturias has stated its intention to contribute €6 million to the company. The specifics are yet to be decided.

Order intake in the first half totalled €22.1 million, down 58% year-on-year.

The order backlog at the end of the six-month period stood at €234.2 million, of which 91% related to international projects.

The Group had €96.2 million of net financial debt at 30 June 2021, with €136.6 million of gross debt and €40.4 million of cash.

Average headcount for the Group went from 1,173 employees at 31 December 2020 to 1,115 employees at 30 June 2021.

Business outlook

The Group's vision going forward is focused on:

- Strengthening the core businesses of Duro Felguera, which have been historically profitable and stable.
- Growing in "green" and digital intelligence businesses.

1. Strengthening traditional businesses

Duro Felguera operates in a sector that remains strong globally, although the EPC segment is highly competitive, with inherently greater risks and complexity in project execution.

Therefore, Duro Felguera's strategy for traditional businesses is to maintain the focus, ensuring profitability and minimising risks. This requires strengthening relationships with recurring customers, leveraging alliances to build out capacity and growing in stable countries of Latin America and other foreign markets with low country risk and through local partnerships.

The traditional businesses are: Energy, Mining & Handling, Oil & Gas, Services and Manufacturing.

Conventional energy

We undertake EPC projects through all phases of the process for industrial power plants, ranging from gas turbine power facilities to conventional thermal power plants, cogeneration plants, solar thermal plants, photovoltaic plants, biomass plants and waste-to-energy plants.

The Company executes turnkey power generation projects across Europe, Latin America, the Middle East and Africa, with a total installed capacity of more than 23,000 MW.

Mining & Handling

This business unit executes EPC projects for the mining and solid bulk handling industries. With a team of highly qualified professionals and proprietary technology and designs, in its 40 years of industry experience this business unit has built up a wide-ranging list of prestigious references.

Oil & Gas

The business unit executes EPC facilities around the world for the leading multinational petrochemical firms. It is highly specialised in the engineering and construction of storage projects for hydrocarbons, liquefied gases and other petrochemical products thanks to the extensive experience amassed in this field by its subsidiary Felguera IHI.

Assembly, operation and maintenance services

The division provides assembly, commissioning, operation and maintenance services for energy and industrial facilities and has a strong domestic and international presence. The business unit comprises the subsidiaries DF Operaciones y Montajes and DF Mompresa.

Capital goods manufacturing

Through the Group subsidiary DF Calderería Pesada, S.A. (DFCP), this division provides capital goods manufacturing services at its own workshops. The company, which specialises in the manufacture of large pressure vessels for the oil and gas, petrochemical and nuclear sectors, has built a strong brand and offers a comprehensive product range.

2. Growing in green and digital intelligence businesses

Duro Felguera's strategy entails expanding in new fast growing segments, specifically:

a) Renewables: with the creation of DF Green Tech. This new subsidiary is designed exclusively to boost renewable energies, centralising commercial management and coordinating the Group's current capabilities in this type of project.

b) Smart Systems: consolidation of IT capabilities (EPICOM, Logistics Systems and FTI) to boost growth and access to new segments.

a. Renewables

The growth of the renewable energy sector opens up an opportunity for Duro Felguera. The renewable energy market is thriving and the outlook for the next few years is promising. Duro Felguera must become a relevant player with recurring business in the renewable energy sector in Spain and Latin America.

DF Green Tech

Duro Felguera set up DF Green Tech to pool its renewable energy assets and capabilities. This kicks off a new cycle in the renewable energy market in which the focus shifts to developing and promoting photovoltaic farm projects, winning the EPC and O&M contracts, and creating value from strong demand for this type of asset in a market that looks set to grow strongly over the next decade.

Off-shore wind power

Seizing the exceptional manufacturing capabilities of DF Calderería Pesada's workshop ("Tallerón") and in light of the off-shore wind market's heady growth in Europe, Duro Felguera is committed to diversifying its product range, ensuring that the Group's manufacturing line remains sustainable and continues to grow. In line with the trend toward rapid decarbonisation of energy taking place across the world, we will manufacture off-shore wind power support structures, adding more space and equipment to our current capabilities and site in the port of Gijón so the workshop can raise its capacity.

b. Smart systems

Duro Felguera has combined EPICOM, Felguera TI and Logistics Systems into a single area: Smart Systems. The aim is to have a more comprehensive product and service offering in existing segments, while expanding businesses and promoting new growth drivers, including segments and geographies.

Smart Systems' expansion will come through encrypted communication for military and civilian use and, partially, logistics systems:

Encrypted military communications

Growth in this area will come from expanding EPICOM's customer base to include Spanish government bodies and forces, and EU and NATO countries. To achieve this, it will step up sales and technological development capabilities to offer products tailored to the needs of new customers.

Encrypted civilian communications

Duro Felguera aims to penetrate the encrypted communication sector for civilian use by targeting companies that require maximum security in their communications, relying on a strategic partner with a strong track record in the civil sector and with a value proposition backed by Duro Felguera's differentiated product.

Logistics systems

Duro Felguera also intends to pursue growth in heavy-duty warehouse automation projects in the cardboard and dairy product niches, bolstering the specialist sales team in target regions.

Duro Felguera is a strategic group for the regional productive fabric. The industrial and financial plan presented to SEPI shows that it is viable over the medium and long term and relaunches its business model, underpinned by the traditional segments and driving its progress towards the renewables sector and digitalisation.

Main risks and uncertainties

Operational risk

The main risk associated with turnkey projects relates to start-up and execution deadlines (technical risks). Thanks to the experience gained in this type of project, the Group boasts a strong performance track record. The project teams provide company management with regular progress reports.

Independently, the Board monitors situations that could imply a relevant risk.

Market risk

(i) Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk on transactions in foreign currencies, mainly the US dollar (USD) and the Algerian dinar (DZD), and to a lesser extent, local currencies in emerging countries. Foreign currency risk arises on future commercial transactions, recognised assets and recognised liabilities.

To manage the foreign currency risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use various methods.

- Most contracts are arranged in "multi-currency", separating the selling price in the various currencies from the expected costs and maintaining the expected margins in euros.

- Financing of working capital relating to each project is denominated in the currency of payment.

Foreign currency risk arises when future commercial transactions or firm commitments, recognised assets and liabilities and net investments in foreign operations are denominated in a currency that is not the entity's functional currency. The Group's risk management policy is to hedge most of the forecast transactions over the life of each project. However, the operating units are responsible for taking decisions on arranging hedges, using external forward foreign currency contracts, with the involvement of the Group's Treasury Department. Nevertheless, there were no outstanding hedges at 30 June 2021.

(ii) Price risk

Projects that last two or more years initially involve a contract price risk, due to the effect of the increase in costs to be contracted, particularly when operating in the international market in economies with high inflation rates.

At other times, contract or related subcontract prices are denominated in stronger currencies (mainly USD) payable in local currency at the rate ruling on the collection date. These conditions are passed on to subcontractors.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant non-current interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from non-current borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on profit or loss at 30 June 2021 of a 10 basis point shift would be an increase/decrease of +/- €127 thousand (30 June 2020: +/- €80 thousand).

a) Credit risk

The Group manages credit risk by taking into account the following groupings of financial assets:

- Assets arising from derivative financial instruments and sundry balances included in cash and cash equivalents.
- Balances related to trade and other receivables

Derivative financial instruments and transactions with financial institutions included in cash and cash equivalents are arranged with renowned financial institutions. The Group also has policies in place to limit the amount of risk held with respect to any financial institution.

Regarding trade balances and receivables, worth noting is that, given the nature of the business, there is a concentration based on the Group's most important projects. The counterparties are mostly state or multinational corporations, operating primarily in the energy, mining, and oil & gas industries.

Our main customers accounted for 81% of "Trade and other receivables" at 30 June 2021 (2020: 68%), and relate to transactions with the type of companies mentioned previously, with whom the Group believes credit risk to be very low. In addition to the analysis performed before entering into a contract, the overall position of "Trade and other receivables" is monitored on an ongoing basis, while the most significant exposures (including the type of entities mentioned earlier) are monitored individually.

b) Liquidity risk

Prudent liquidity risk entails maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities, and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, an objective of the Group's treasury unit is to maintain flexibility in funding by maintaining availability under committed

credit lines. Management also monitors the forecasts for the Group's liquidity reserves based on estimated cash flows.

Key information on liquidity risk is presented in the following table:

| | **€ thousand** | |
|---|---|---|
| | **At 30 June 2021** | **31 December 2021** |
| Borrowings | (136,607) | (95,323) |
| Less: Cash and cash equivalents | 40,430 | 24,896 |
| Net cash/(debt) position | (96,177) | (70,427) |

As explained in Note 4.1, the Group needs liquidity to cover both the shortfalls caused by trends in operations and repayments of borrowings. Therefore, as at the date of preparation of the accompanying financial statements, it was in negotiations with financial institutions in the bank pool. In addition, on 28 August 2020, the Group applied for temporary public support from the Strategic Business Solvency Fund as disclosed in Note 2.11.

At 30 June 2021, a sum of €1,905 thousand was subject to restrictions because it had been pledged as security in litigation with third parties. Such restrictions will remain in place until judgment is rendered or an out-of-court settlement is made (31 December 2020: €1,921 thousand).

Derivative financial instruments

As at 30 June 2021, the Group had not entered into any derivative financial instruments.

Treasury share transactions

At 30 June 2021 and 2020, the parent company did not hold any treasury shares.

Research and development activities

The Group's business model attaches great importance to technological innovation, with sustained growth through technological development as one of its corporate values.

In the first half of 2021, despite budget constraints, the Group pressed on with R&D+i projects that were already under way at the start of the year, investing a total of €0 thousand (30 June 2020: €91 thousand).

Significant events after the reporting period

The following significant events occurred between the closing date of the interim period for the six months ended 30 June 2021 and the date of preparation of the interim condensed consolidated financial statements:

- At its meeting of 28 July 2021, the Board unanimously resolved as follows:

  With effect from 23 July 2021, to acknowledge the resignation of the director Miguel Ángel Santiago Mesa, tendered in a letter to the Chairman, by reason of his departure from Sociedad Estatal de Participaciones Industriales (SEPI), Spain's state-owned industrial holding company. Mr Santiago served as an external director.

  Until the next General Meeting of the shareholders of Duro Felguera, to co-opt María Jesús Álvarez González – who has accepted the appointment – as a director to fill the vacancy arising from Mr Santiago's resignation, at the proposal of, and based on a favourable report submitted by, the Nomination and Remuneration Committee. Ms Álvarez will serve as an external director.

- Duro Felguera was notified of the ruling of the National Court of 16 September 2021 suspending the company's obligation to pay the debt arising from the income tax inspections for the tax years 2010 to 2012, in an amount of €123,388,120.02, and the related penalty, as explained in Note 31 of the 2020 consolidated financial statements.
  This interim relief is subject to the company pledging collateral. Such collateral was provided in the course of the earlier administrative proceedings, so no further collateral is required.
  The company is now unburdened of the obligation to pay any part of the tax debt until after the National Court itself renders a judgment on the application for judicial review of the tax agency's assessment.

- On 28 September 2021, the FASEE management board sent the company a statement to certify that, at the company's own request, the board had extended the deadline for execution of phase II, which is to be completed as soon as practicable and in any event within two months (i.e., by 30 November 2021).

**DURO FELGUERA, S.A. AND SUBSIDIARIES**

**Condensed consolidated interim financial statements and management report for the six months ended 30 June 2021**

The undersigned, whose positions appear alongside their names, HEREBY STATE, under their responsibility, that the interim condensed consolidated financial statements and interim consolidated management report for the first half of 2021 of DURO FELGUERA, S.A. and Subsidiaries include the accounting records of all Spanish and international investees comprising the scope of consolidation in accordance with applicable company law and accounting regulations, and present, in all material respects, a true and fair value of the Group's equity and financial position at the end of the first half, and the results of its operations and changes in its financial position in the first half of 2020, and contain the necessary and sufficient disclosures for their adequate understanding, in accordance with applicable regulations.

Gijón, 30 September 2021.

Rosa Isabel Aza Conejo
Chairman

Jaime Argüelles Álvarez
Chief Executive Officer

José Julián Massa Gutiérrez del Álamo
Director

Valeriano Gómez Sánchez
Director

Jordi Sevilla Segura
Director

César Hernández Blanco
Director

María Jesús Álvarez González
Director

Certification: For the record, the accompanying interim condensed consolidated financial statements and interim management report for the six months ended 30 June 2021 authorised for issue by the board of directors at its meeting held on 30 September 2021 are those initialled by the Secretary of the Board. The legitimacy of the signatures of all of the Company's directors contained in this document is also hereby certified.

Bernardo Gutiérrez de la Roza

**DURO FELGUERA, S.A. AND SUBSIDIARIES**

**Condensed consolidated interim financial statements and management report for the six months ended 30 June 2021**

Secretary of the Board

**STATEMENT OF RESPONSIBILITY FOR THE INTERIM FINANCIAL REPORT OF DURO FELGUERA, S.A. FOR THE FIRST HALF OF 2021**

In compliance with art. 11 b) of Royal Decree 1362/2007, of 19 October, implementing Law 24/1988, of 28 July, on the Securities Market, the undersigned directors of the Company state that, to the best of their knowledge, the interim condensed consolidated financial statements for the first half of 2021, prepared in accordance with applicable accounting principles, provide a true and fair view of the equity, financial position and results of DURO FELGUERA, S.A. and consolidated companies taken as a whole, and that the interim consolidated management report provides an accurate analysis of the information required.

The interim condensed consolidated financial statements for the first half of 2021 of DURO FELGUERA, S.A. and Subsidiaries and the interim consolidated management report were signed by all the directors.

Gijón, 30 September 2021.

Rosa Isabel Aza Conejo
Chairman

Jaime Argüelles Álvarez
Chief Executive Officer

José Julián Massa Gutiérrez del Álamo
Director

Valeriano Gómez Sánchez
Director

Jordi Sevilla Segura
Director

César Hernández Blanco
Director

María Jesús Álvarez González
Director